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PREM 19/670

322

PART I

MT

CONFIDENTIAL FILINGS

P.M.'s Visit to China

September 1982

Power

CHINA

MAY 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>15.6.82</del>							
30.6.82							
<del>1.7.82</del>							
<del>20.7.82</del>							
28.7.82							
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<del>4.8.82</del>							
18.8.82							
<del>26.8.82</del>							
<del>31.8.82</del>							
17.9.82							
PREM 19/6/80							
Part 1 ends							

● PART 1 ends:-

hard stephand 10 PM 13/9

PART 2 begins:-

RTAERO 14/9

PRIME MINISTER'S VISIT TO THE FAR EAST

LIST OF BRIEFS

PMVW(82) B1-B23  
brief preserved in CAB/33.  
This set ∴ destroyed.  
Raman  
10.8.11

CHINA

1. STEERING BRIEF (WITH PROGRAMMES & PERSONALITY NOTES)

BILATERAL MATTERS

2. FUTURE OF HONG KONG
3. GUANG DONG NUCLEAR PROJECT
4. OTHER COMMERCIAL ISSUES (e.g. INVOLVEMENT IN MODERNISATION OF CHINESE COAL INDUSTRY AND PORTS, TELECOMMUNICATIONS AND AGRICULTURAL COOPERATION)
5. DEFENCE RELATIONS AND SALES
6. AID
7. SCIENTIFIC AND TECHNOLOGICAL COOPERATION AND EDUCATIONAL EXCHANGES
8. AIR SERVICES
9. CONSULAR AGREEMENT (INCLUDING OPENING OF CONSULATE AT SHANGHAI)
10. CLAIMS
11. TRAVEL RESTRICTIONS

INTERNATIONAL MATTERS

12. EAST AND SOUTH EAST ASIA
13. CHINA AND SOUTH ASIA
14. EAST-WEST RELATIONS (INCLUDING POLAND AND AFGHANISTAN)
15. DEFENCE AND FORCES
16. MIDDLE EAST
17. ARMS CONTROL
18. COCOM

BACKGROUND BRIEFS

19. CHINESE FOREIGN POLICY (INCLUDING SINO/US AND SINO/SOVIET RELATIONS)
20. ANGLO-CHINESE POLITICAL RELATIONS
21. CHINESE INTERNAL POLICIES
22. CHINESE ECONOMY (INCLUDING MODERNISATION)
23. TAIWAN



End  
c. fuo

10 DOWNING STREET

*From the Private Secretary*

13 September 1982

Thank you for your letter of 31 August to the Prime Minister and for your good wishes for the success of her visit to China.

Your views on China's relations with the US and Soviet Union, on China's attitude to the future of Hong Kong, and on how to strengthen Britain's share of the Chinese market are all of great interest, firmly based as they are in your long experience of the Chinese. We agree that any radical change in China's view of US foreign policy would have serious strategic implications, but as you imply all the public indications are that despite doubts over the foreign policy of President Reagan's Administration the Chinese still see the primary threat as coming from Soviet expansionism. The Prime Minister will certainly wish to explore further Chinese views when she is in Peking; your observations provide useful background for this. We also take note of what you say about Hong Kong and the Chinese internal scene.

Your analysis of the prospects for the Chinese market over the next few years concludes that Britain's share will continue to decline unless there is a fundamental change in our approach. It is true that our recent performance in exporting to China does not equal that of some of our competitors, but it seems unlikely that the problem could be solved by the government-appointed executive groups which you propose, which in any event would be difficult to reconcile with the Government's free-enterprise economic philosophy. The Government does of course recognise the value of co-operative export activities by trade associations and similar groups, and through the British Overseas Trade Board has supported a good many co-operative ventures in relation to China including UK inward and outward missions, and participation in exhibitions in China. The Government also accepts that China is a particularly difficult market for British companies. But it is not clear that the differences between China and other markets are so fundamental as to justify the unique degree of attention which your proposals would imply. The Prime Minister naturally hopes that her visit to China will help to encourage our trade with China - and particularly our exports - but you will appreciate that even in 1980, one of the best years for our exports to China, it was a relatively minor UK export market, accounting for only about one-third of a per cent of our total exports.

A. J. COLES

J. Perry, Esq.

VB

**THE CHINA ORDER IN COUNCIL 1943.****1943 No. 386.**

At the Court at Buckingham Palace, the 22nd day of March, 1943.

Present,

The King's Most Excellent Majesty in Council.

WHEREAS by Treaty, grant, usage, sufferance and other lawful means His Majesty The King has jurisdiction within the dominions of the Republic of China:

AND WHEREAS by a Treaty signed at Chungking on the 11th day of January, 1943, His Majesty has undertaken to surrender the jurisdiction aforesaid, and it is expedient to provide for the termination of the said jurisdiction as from the date on which the said Treaty comes into force and such other matters as arise in connexion with the said termination:

AND WHEREAS the Governments of Canada, the Commonwealth of Australia, New Zealand, the Union of South Africa and of India have requested and consented to the making of this Order as regards those interests with which they are respectively concerned:

NOW, THEREFORE, His Majesty, by virtue and in exercise of the powers in this behalf by the Foreign Jurisdiction Acts 1890 and 1913 (53 & 54 Vict. c. 37, and 3 & 4 Geo. V. c. 16) and the Merchant Shipping Act 1894 (57 & 58 Vict. c. 60) or otherwise in His Majesty vested, is pleased, by and with the advice of His Privy Council to order, and it is hereby ordered, as follows—

**ARTICLE 1.**

(1) This Order may be cited as the China Order in Council 1943. The limits of this Order are the dominions of the Republic of China including places within the limits of the China Kashgar Order in Council 1920.

(2) This Order shall take effect on the date of the exchange of ratifications of the Treaty signed on behalf of His Majesty at Chungking on the 11th day of January, 1943. The Secretary of State shall cause a Notice of this date to be published in the London Gazette.

(3) Printed Copies of this Order shall be affixed and exhibited in the offices of every Consulate of His Majesty at present established in China for a period of six months from the date of the coming into force of this Order.

## ARTICLE 2.

(1) The following Orders and all Regulations made thereunder are repealed—

The China Order in Council 1925(a) (hereinafter referred to as the principal Order);

The China (Whangpoo River Conservancy) Order in Council 1902(b);

The China and Corea (Shipping Registry) Order in Council 1904(c);

The China and Corea (Consular Fees) Order in Council 1909(d);

The China (Control of Shipbuilding) Order in Council 1918(e);

The China (Treaty of Peace) Order in Council 1919(f);

The China (Kashgar) Order in Council 1920(g);

The China (Kashgar) Amendment Order in Council 1922(h);

The China (Treaty of Peace) (Austria) Order in Council 1924(i);

The China (Treaty of Peace) (Hungary) Order in Council 1924(j);

The China (Amendment) Order in Council 1927(k);

The Companies Consolidation (China) Order in Council 1929(l);

The Wei-hai-wei Order in Council 1930(m);

The China (Amendment) Order in Council 1933(n);

The China (Registration Fees Amendment) Order in Council 1933(o);

The China (Amendment) Order in Council 1936(p);

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(a) S.R. & O. 1925 (No. 603) p. 379.

(b) S.R. & O. Rev. 1904, V, Foreign Jurisdiction, p. 278 (1902 No. 207).

(c) S.R. & O. 1904 (No. 1370) p. 559.

(d) S.R. & O. 1909 (No. 751) p. 206.

(e) S.R. & O. 1918 (No. 157) I, p. 424.

(f) S.R. & O. 1919 (No. 2024) II, p. 225.

(g) S.R. & O. 1920 (No. 568), I, p. 722.

(h) S.R. & O. 1922 (No. 949) p. 317.

(i) S.R. & O. 1924 (No. 1184) p. 1434.

(j) S.R. & O. 1924 (No. 1185) p. 1437.

(k) S.R. & O. 1927 (No. 714) p. 475.

(l) S.R. & O. 1929 (No. 563) p. 481.

(m) S.R. & O. 1930 (No. 1144) p. 536.

(n) S.R. & O. 1933 (No. 356) p. 833.

(o) S.R. & O. 1933 (No. 1214) p. 834.

(p) S.R. & O. 1936 (No. 708) I, p. 949.

The China (Kashgar Amendment) Order in Council 1936(q);  
The China (Amendment) Order in Council 1937(r);  
The China Emergency Order in Council 1939(s);  
The China (Japanese Military Occupation) Order in Council 1942(t);

(2) The following Orders and all Regulations, Rules and Orders made thereunder are repealed so far as their application to the dominions of the Republic of China is concerned—

The Foreign Jurisdiction (Neutrality) Order in Council 1904(u);  
The Foreign Jurisdiction (Admiralty) Order in Council 1910(v);  
The Foreign Jurisdiction (Military Forces) Order in Council 1927(w);  
The Foreign Jurisdiction (Probates) Order in Council 1935(x);  
The Merchant Shipping (Helm Orders) Order in Council 1935(y);

(3) Nothing in the previous paragraphs of this article is to be deemed to prejudice the validity of anything done or suffered under the Orders in Council, Regulations, Rules or Orders repealed by those paragraphs.

#### ARTICLE 3.

(1) All courts established under the principal Order shall be closed on the date of the coming into force of this Order and the appointment of the Judge, Assistant Judge, Acting Judge and all officers of the said courts shall terminate on the same date.

(2) The Government of the Republic of China having agreed by an exchange of Notes which is to be considered as integral part of the Treaty signed at Chungking on the 11th January, 1943, that the Orders, decrees, judgments and other Acts of any of His Majesty's courts in China shall be considered as *res judicata* and shall when necessary be enforced by the Chinese authorities and that any cases pending before any of His Majesty's courts in China at the time of the coming into force of the Treaty shall, if the plaintiff or petitioner so desires, be remitted to the appro-

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(q) S.R. & O. 1936 (No. 802) I, p. 950.  
(r) S.R. & O. 1937 (No. 293) p. 757.  
(s) S.R. & O. 1939 (No. 1190) I, p. 1472.  
(t) S.R. & O. 1942 (No. 481) I, p. 212.  
(u) S.R. & O. 1904 (No. 1654) p. 174.  
(v) S.R. & O. 1910 (No. 1183) p. 131.  
(w) S.R. & O. 1927 (No. 359) p. 478.  
(x) S.R. & O. 1935 (No. 896) p. 522.  
(y) S.R. & O. 1935 (No. 837) p. 1183.



private courts of the Government of the Republic of China, which shall proceed to dispose of them as expeditiously as possible and in so doing shall, so far as practicable, apply the law which the court of His Majesty "would have applied", the records of the said courts shall be retained in China for not less than ten years after the date on which the Order takes effect and certified copies thereof shall, on the application of any interested party or of the Government of the Republic of China or any Chinese court having jurisdiction in the matter, be supplied in accordance with such instructions as may be issued for this purpose by the Secretary of State.

(3) Nothing in this article shall be deemed to prevent the performance by Consular Officers of His Majesty in China, in accordance with the instructions of the Secretary of State, of such duties and services in connexion with the administration of estates of deceased persons as are permissible under the laws of the Republic of China.

#### ARTICLE 4.

1. Every "China Company" as defined in Article 3 of the Principal Order which has not, at the date specified in paragraph 2 of this Article, been registered in some territory within the dominions of His Majesty, in accordance with the law of that territory and the "The Defence (China Companies Temporary Transfer of Registered Office) Regulation, 1941," made under the Principal Order, and remained so registered or been registered by the Registrar of Companies for England or for Scotland, in accordance with the provisions of the Colonial Companies (Transfer Order in Council, 1942(a), and Regulation 5 of the Defence (Companies) Regulations, 1940(b) (or elsewhere within the dominions of His Majesty in accordance with the provisions of any Act or Order amending or substituted for the said Order in Council or Regulation), shall, within six months of the said date, be registered with the Registrar of Companies at Hong Kong and shall thereupon cease to have its registered office in China.
2. The date referred to in paragraph 1 of this Article shall be such date as the Secretary of State shall specify for this purpose by a notice issued in London Gazette. The date so specified shall be a date after the occupation of Shanghai by the military forces of the Emperor of Japan has been terminated and a Consulate of His Majesty has been re-established at Shanghai, and after such provision as is necessary has been made by the law of the Colony of Hong Kong for the registration there of China companies, and

(a) S.R. & O. 1942 (No. 510) I, p. 209.

(b) S.R. & O. 1940 (No. 1213) II, p. 187; see also S.R. & O. 1941 (No. 1210) II, p. 156 and 1942 Nos. 505 and 803.

for the application to such companies of the Companies Ordinances of the Colony.

3. Every China company which is required to register at Hong Kong in accordance with the provisions of paragraph 1 of this Article and fails to do so shall cease to exist as a company at the end of the aforesaid period of six months.

4. The provisions of paragraph 3 of this Article in no way prejudice the liquidation of any such company under any provision of the law of the Colony of Hong Kong under which it may be liquidated.

5. A notice setting out the provisions of this Article and the date specified by the Secretary of State shall be kept posted in His Majesty's Consulate at Shanghai until the aforesaid period of six months has expired, but a failure to post or keep posted such notice shall in no manner affect the operation of the previous paragraphs of this Article.

6. The Secretary of State shall, upon the request of the Government of the Colony of Hong Kong, take steps to transfer to the Government of Hong Kong the records of the Registrar of Companies at Shanghai, or copies thereof or extracts therefrom, so far as the said records are available.

7. Save as provided in paragraph 3 of this Article, nothing in this Order shall be deemed to affect the continuance of any "China company" or its power to carry on business.

#### ARTICLE 5.

(1) Shanghai shall cease to be a port of registry under the Merchant Shipping Act 1894.

(2) Any British ship, being a ship which at the date of the coming into force of this Order is registered at Shanghai under the China and Corea (Shipping Registry) Order in Council 1904, shall so long as (1) the ship has not been registered as a British ship at some other port of registry, or (2) the registry thereof is not to be considered as closed under Section 21 of the Merchant Shipping Act 1894 be deemed to have continued to be registered at a British port of registry until the expiration of nine months after the date specified in paragraph (2) of Article 4 of this Order.

(3) The Minister of War Transport may make such Regulations as he may deem necessary for giving effect to the provisions of paragraph 2 of this Article and in particular with regard to the certificates of registry of ships which by virtue of the said paragraphs are to be deemed to be registered at a British port of registry.

(4) The Secretary of State shall place at the disposal of the Minister of War Transport the records of the Registry of Shipping at Shanghai so far as the said reports are or may become available, and the Minister of War Transport may provide for the disposal of such records in such manner as he thinks fit.

(5) A notice setting out the provisions of this Article and the date specified under paragraph (2) of Article 4 of this Order shall be kept posted in His Majesty's Consulate at Shanghai until the aforesaid period of nine months has expired, but a failure to post or keep posted such notice shall in no manner affect the operation of the previous paragraphs of this Article.

#### ARTICLE 6.

(1) Where at the date of taking effect of this Order decrees nisi had been granted in matrimonial suits by His Britannic Majesty's Supreme Court for China but no application for decrees absolute had been determined, the proceedings shall be deemed to have been concluded by the grant of decrees absolute on the date of the taking effect of this Order.

(2) The Secretary of State shall cause to be published a list of the causes to which the previous paragraph of this Article applies as soon as the records of the Courts are available for this purpose.

AND the Right Honourable Anthony Eden, one of His Majesty's Principal Secretaries of State, is to give the necessary directions herein.

E. C. E. LEADBITTER.

*cc Japan  
Hong Kong Policy*

PRIME MINISTER'S BRIEFING MEETING FOR VISIT TO THE FAR EAST ON  
16-29 SEPTEMBER 1982  
TO BE HELD ON TUESDAY 14 SEPTEMBER  
at 3.00 pm

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The following will attend:

Foreign and Commonwealth Secretary

Chief Secretary, Treasury

Minister of State, Department of Industry (Mr Baker)

Minister of State, Department of Trade (Dr Vaughan)

Mr M D M Franklin, Department of Trade

Sir Kenneth Couzens, Treasury

Mr G S R Giffard, Foreign and Commonwealth Office

Mr A E Donald, Foreign and Commonwealth Office

Mr K P Jeffs, Ministry of Defence

Mr J Gill, Department of Industry

Mr A G Manzie, Department of Industry

Sir Robert Armstrong

Mr A D S Goodall

CONFIDENTIAL

*China Policy*

*he 3*



*cc PM's Secy.*

10 DOWNING STREET

From the Private Secretary

10 September 1982

Prime Minister's Visit to the Far East

The Prime Minister asked me this afternoon whether it might not be a good idea for Sir Percy Cradock to come to Tokyo while she is there so that he can be brought up to date by her personally on how she plans to handle her talks in Peking. The Prime Minister believes that these talks will need the most careful planning and that it may be better to do this a few days in advance of her arrival in Peking. It is possible that it would also be easier, from a security point of view, to have a thorough discussion of this in Tokyo. If Sir Percy Cradock sees substantial disadvantages in this idea, you should not hesitate to let me know. I am sure the Prime Minister would attach great weight to his views. Mrs Thatcher well understands, of course, that he would need to return to Peking before she arrived.

I should be grateful if you could investigate this idea and let me have your reactions as soon as possible.

*1  
B/K*

*AJC*

John Holmes Esq.,  
Foreign and Commonwealth Office.

*h*

CONFIDENTIAL



CONFIDENTIAL AND PERSONAL

PRIME MINISTER

The Department of Industry have provided you with a brief (PMVW(82) B3) on the Guangdong nuclear power station project, for the purposes of your visit to China.

2. Paragraph 4 of the background note in that brief gives an account of Sir Walter Marshall's visit to Guangdong at the end of August. I happened to see Sir Walter Marshall at a social function the other day, and as I knew that he had been to Guangdong I asked him how he had got on. His account in some respects amplifies what is said in the brief.

3. His interlocutors in Guangdong made it clear that they were speaking with the full knowledge and authority of the Peking and Guangdong Governments. It was also clear that there was a deliberate decision to bypass the China Light and Power Company (CLP).

4. The outcome of the talks was to the effect that the message which would come from the Chinese Prime Minister to you would be on the following lines:

- (i) China is strongly interested in a United Kingdom/United States package and would welcome a bid accordingly.
- (ii) China is looking for your personal interest in the project.
- (iii) The Chinese Government would like Sir Walter Marshall to organise the project.

5. On the third of these points Sir Walter Marshall said to the Chinese that it would be impossible for him to undertake the organisation of the project unless given a direct instruction to do so by you; he said to the Chinese that he thought you were unlikely to give such an order, because he had recently undertaken large new responsibilities as Chairman of the Central Electricity Generating Board.

6. Sir Walter Marshall went on to tell me what he thought were the reasons why he had been invited and why he had been given the message which he had been given. He said that he thought that the Chinese Government's scientific advisers had now come round to the view which he had expressed to the Chinese two years ago that the United Kingdom/United States package, based on the Westinghouse PWR, was technically preferable to the Anglo-French package with Framatome.



CONFIDENTIAL AND PERSONAL

They thought that CLP were losing interest in the idea of equity participation in the project: Lord Kadoorie had been steadily pulling back on this. They did not want the project to be directed by Mr. Stones of CLP, whom they no longer trusted. On the other hand some form of partnership was essential: Sir Walter Marshall thought that the Peking Government were probably making that a condition of their agreement. The Guangdong Government were therefore looking for direct involvement, including equity participation, by the United Kingdom Government, through the CEGB or the AEA. On the other hand the British would depend crucially on the CLP demand for power; CLP's interest as a customer for power had therefore to be retained.

7. If you wanted to respond positively to the Chinese Prime Minister, you would need to make the points on non-proliferation in paragraph 4 of "Points to Make" in the brief. Sir Walter Marshall thought that you should also state that safeguards inspection would not be required by the British Government and that you hoped the United States Government would agree with that.

8. Sir Walter Marshall went on to say that he thought that, if this project were to go ahead, it would have to be based on a joint venture between the Guangdong Government and either the CEGB or the AEA. Such an agreement would ensure that there would be British operators on the plan up to the A020; this would provide automatically a degree of safeguards inspection. The hardware for the project would be provided by Westinghouse, NNC and GEC, and fuel would be supplied by British Nuclear Fuels Limited. Construction would be undertaken by Bechtel. Sir Walter Marshall recognised that the risks would be very great, including the political risks of a change of regime in China, as the brief makes clear. On the other hand, it could help to "thicken" Anglo-Chinese relations for a long period of time.

9. Sir Walter Marshall made it clear that he believed that, because the Chinese Government had now come to agree with advice which he had given two



years ago and which they then disregarded, he enjoyed the confidence of the Guangdong Government to a higher degree than CLP or than any representative of the British Government.

A handwritten signature in dark ink, consisting of the letters 'R' and 'A' in a stylized, cursive script.

ROBERT ARMSTRONG

10 September 1982

CONQUEROR



9 September 1932

Prime Minister's visit to China: Canton

Thank you for your letter of 9 September. These arrangements seem perfectly acceptable and I should be glad if you would go ahead on that basis.

JOHN COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.

RESTRICTED

*Copy China Policy File*

*Originals on PM Tour - Adm*



Foreign and Commonwealth Office

London SW1A 2AH

9 September 1982

*Dear John,*

Prime Minister's Visit to China: Canton

In your letter of 7 September you said the Prime Minister wished to include Canton in her tour of China as recommended in my letter of 31 August, but wished to do so by leaving Shanghai earlier on 26 September than previously planned so that arrangements in Hong Kong proposed for the afternoon of that day need not be disturbed.

If the Prime Minister were to leave Shanghai at 0800 as you suggested she would arrive in Canton (shortly before 1030) in time to spend the second half of the morning there meeting provincial leaders. As I said in my earlier letter this would be advantageous.

But we believe, and the Embassy agree, that there would be a risk of offending the Chinese if she did not also stay for at least an early lunch. This could be arranged to begin at noon (which would not be unusual in China), and she could leave afterwards directly for the airport with a view to taking off for Hong Kong at around 1400. This in turn would enable her to arrive in Hong Kong at about 1430, with the rest of the afternoon available for her appointments there.

*Yours ever*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

RESTRICTED



*From the Secretary of State*

*Type letter pl.*

*A.F.C. 1/9.*

Timothy Flesher Esq  
Private Secretary  
10 Downing Street  
London SW1

8 September 1982

*Dear Tim,*

Thank you for your letter of 26 August 1982 enclosing a copy of a letter to the Prime Minister from Sir Adrian Swire about Cathay Pacific Airways' interest in air service relations between the UK and China. *attached*

You will be familiar with the background to this letter from the briefing provided for the Prime Minister in preparation for her forthcoming visit to the Far East, and Sir Adrian's letter raises no new points of substance apart from drawing attention to the importance of the matter for CPA. I enclose a draft reply accordingly, which has been agreed with the FCO.

*Yours sincerely*

*John Whitlock*

JOHN WHITLOCK  
Private Secretary

**DRAFT**

**File No.**

Addressed to:

Sir Adrian Swire  
John Swire and Sons Ltd  
Regis House  
43-46 King William Street  
London EC4R 9BE

Copies to:

Originated by:  
(Initials and date)

Seen by:  
(Initials and date)

Enclosures:

Type for signature of

PS/PM

.....  
(Initials and date)

DEPARTMENT OF

*thank you for*  
The Prime Minister has asked me to ~~write in reply~~  
~~to~~ your letter of 25 August concerning Cathay  
Pacific Airways' interest in air service relations  
between the UK and China. She is of course fully  
seized of the importance of CPA to the United Kingdom  
both as a UK-owned airline and as an overseas  
purchaser of UK capital equipment, and she is aware  
of the unbalanced and unsatisfactory character of  
the present air service arrangements between the  
UK and China.

The Prime Minister has taken note of your suggestion  
that she might raise with the Chinese the need for  
a more equitable balance of air traffic rights between  
China and the United Kingdom, as far as routes into  
and out of Hong Kong are concerned, and will bear  
this in mind during her forthcoming visit.



SEP 1982



SEP 1982





c.c. Japan Policy  
Orig on China Policy

Foreign and Commonwealth Office

London SW1A 2AH

7 September 1982

Prime Minister

Content?

A. J. C. 7/9

15/9  
J.E.H.

It may well be that  
do not have our  
Ambassadors - mental -  
Latter with Dep. Have  
we no competent  
interpreter? No - or  
in the P.R.?

Dear John,

Prime Minister's Visit to the Far East: Interpretation

I promised to let you have a note on arrangements for interpretation at the major meetings to be held in Tokyo and Peking during the Prime Minister's forthcoming tour.

Both the Japanese and Chinese Governments will provide interpreters for all formal occasions. We are confident that they will be of high calibre (beyond anything which we could provide from our own resources) and believe that every conversation should be translated faithfully. However senior members of the Embassies who are fluent in the two languages, including in both cases the Ambassadors, will be present at all conversations and will not hesitate to intervene if they detect any inaccuracy on the part of the interpreter.

On the specific point you raised, I am assured that Deng Xiaoping does not speak any particularly inaccessible brand of Chinese; there should be no great difficulty for our Embassy staff in understanding him.

Robin Butler spoke to me about this.

A. J. C. 7/9.

Yours ever

John Holmes

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street



Foreign and Commonwealth Office

London SW1A 2AH

7 September 1982

Type letter pl.

AR 14/9

Dear Willie,

Thank you for your letter of 31 August covering a copy of one to the Prime Minister from Mr Jack Perry, Chairman of London Export Corporation (Holdings) Ltd. Mr Perry is an "old China Hand" who has long experience of trading with China. He has good access there and his views are to be taken seriously. After difficulties in the 1950s and 1960s he now maintains good relations with the Government and the Embassy in Peking. I enclose a draft reply, of which the passage on British commercial prospects in China was prepared by the Department of Trade.

Yours ever

John Holmes

(J E Holmes)  
Private Secretary

W Rickett Esq  
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:  
Private Secretary  
10 Downing Street

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

J Perry Esq  
 Chairman  
 London Export Corporation (Holdings) Ltd  
 21 Portland Place  
 London W1N 3AF

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 31 August to the Prime Minister and for your good wishes for the success of her visit to China.

CAVEAT.....

Your views on China's relations with the US and Soviet Union, on China's attitude to the future of Hong Kong, and on how to strengthen Britain's share of the Chinese market are all of great interest, firmly based as they are in your long experience of the Chinese.

We agree that any radical change in China's view of US foreign policy would have serious strategic implications, but as you imply all the public indications are that despite doubts over the foreign policy of President Reagan's Administration the Chinese still see the primary threat as coming from Soviet expansionism. The Prime Minister will certainly wish to explore further Chinese views when she is in Peking; your observations provide useful background for this.

We also take note of what you say about Hong Kong and the Chinese internal scene.

Enclosures—flag(s).....

/Your



Your analysis of the prospects for the Chinese market over the next few years concludes that Britain's share will continue to decline unless there is a fundamental change in our approach. It is true that our recent performance in exporting to China does not equal that of some of our competitors, but it seems unlikely that the problem could be solved by the government-appointed executive groups which you propose, which in any event would be difficult to reconcile with the Government's free-enterprise economic philosophy. The Government does of course recognise the value of co-operative export activities by trade associations and similar groups, and through the British Overseas Trade Board has supported a good many co-operative ventures in relation to China including UK inward and outward missions, and participation in exhibitions in China. The Government also accepts that China is a particularly difficult market for British companies. But it is not clear that the differences between China and other markets are so fundamental as to justify the unique degree of attention which your proposals would imply. The Prime Minister naturally hopes that her visit to China will help to encourage our trade with China - and particularly our exports - but you will appreciate that even in 1980, one of the best years for our exports to China, it was a relatively minor UK export market, accounting for only about one-third of a per cent of our total exports.

M 14.  
9

**RESTRICTED**

*Full*  
cc to PM Tours  
Admin for For  
East PT2

*Original in China.  
Policy for PM's Visit*

7 September 1982

Prime Minister's Visit to China:  
Possible Visit to Canton

You wrote to Willie Rickett on 31 August.

The Prime Minister would like to add Canton to the programme. She would be prepared to leave Shanghai earlier on Sunday 26 September, e.g. at 0800 or 0830, so that her visit to Canton does not disturb the arrangements for Hong Kong later in the day. I should be grateful if this possibility could be investigated and a revised programme provided in due course.

A. J. COLES

J.E. Holmes, Esq.,  
Foreign and Commonwealth Office.

**RESTRICTED**

Confederation of British Industry  
Centre Point  
103 New Oxford Street  
London WC1A 1DU  
Telephone 01-379 7400  
Telex 21332  
Telegrams Cobustry London WC1

From  
Sir Campbell Fraser  
President



6th September 1982

*Dear Prime Minister,*

In advance of your visit to Japan, China and Hong Kong in the second half of September, I thought you might like to know some of the main pre-occupations of CBI membership over trading relations with these countries, particularly with Japan.

The main concern is readily identifiable: the ever-widening trade gap between this country and Japan. The imbalance in Japan's favour in 1980 was £1.11bn, and that rose, for the first ten months of 1981, to £1.24bn, and for the first six months of 1982 to £990m. Despite the fact that full trade figures for 1981 are still not available, the worsening trend is clear, and it increases further in 1982, when the total gap might well reach £2bn. In the context of trade we consider that the Japanese market has a long way to go before it can genuinely be considered as open to foreign companies, despite the January 1982 measures to promote imports, followed by a second liberalisation package in May. Experience shows that the distribution channels for foreign goods in the Japanese market provide a more effective constraint than quotas or tariffs.

We are also concerned that, despite apparent legal freedoms, there are notable obstacles to be overcome in the acquisition by foreign companies of shareholding in Japanese firms. Allied to this are problems affecting the operations of foreign banks and insurance companies in Japan, which affect British interests among others.

We can and will continue to press the need for changes in the EEC industrial forum in Brussels; it is worth saying that the pressure on Japan for greater liberalisation should be mainly from European sources as opposed to a purely British source. Although you personally are highly regarded in Japan it is desirable to avoid specifically anti-British attitudes being generated in Tokyo. In that context, it was interesting to read in The Times of 18 August, a "vigorous criticism of British management, workers and unions" by Mr. Miyoshi, the Director-General of the Keidanren. The timing of these comments is clearly designed to coincide with your visit, but they are made in the context of a desire to promote measures to strengthen industrial co-operation between Japan and Britain, which will be central to your discussions in Japan. Our own discussions with the Keidanren over the past two years drew some acknowledgement that there was room for more even-handedness in Japanese commercial practices, but as time has passed we have seen little evidence of this. We would agree with the Keidanren, however, that at least some of the hope for improvement lies in the hands of British management.

/ ...

With regard to Japanese imports into the UK market, we are still concerned over the actual and potential threats from Japan's penetration in such sectors as cars and electronics. Not only do existing voluntary restraint agreements need official support from both the British and Japanese Governments, but we need Governmental help, in the shape of specific monitoring by our Embassy staff of developments in Japan which could threaten sectors of British industry. At the same time, we appreciate that British industry itself, via trade associations and companies already operating in Japan, can and must contribute to this process.

As to beneficial inward investment by Japanese companies in the UK, it would be unfortunate if the apparent shelving of the Nissan project discouraged further Japanese investment in Britain, although we of course appreciate that HMG as such can do little directly to influence such decisions by Japanese industry. Once again, the main thrust need be from British management.

I should add that we aired all these matters at a very useful meeting with Lord Cockfield and Mr. Rees on the 16 July, and reached a large measure of agreement on the nature of the problems, even if the solutions are not instantly discernible.

Turning to China, the pre-occupations are on a smaller scale, but nevertheless, they exist. Our exports to China in the first three months of this year have dropped to £21m from a figure of something like £50m in the comparative period in 1981, whereas, over the same period, our imports from China have risen sharply. It is appreciated that the solution to much of this problem lies in the hands of British business, but in spite of a proliferation of inward missions from China, the trading situation from the UK's point of view does not seem to improve.

Two of the complications are: the growing emphasis on counter trade and purchase (i.e. barter); an increasing difficulty in locating the Chinese decision makers, due to reallocation of responsibilities; and, as yet, the undecided roles of such central bodies as the industrial ministries and provincial authorities. Another reason for a diminishing British interest in the market may be a tendency to last minute alterations on the part of the Chinese in project and contract requirements.

But there are bright spots. Within the past few months, Dunlop has signed a contract worth £6.2 m with the Guangzhon Rubber Bureau for the modernisation of a tyre factory near Canton.

You may be interested to know that the Sino-British Trade Council, supported by the CBI, will be paying one of its regular visits to China in November of this year, but should you feel able to discuss in advance of this visit any of the difficulties which British businessmen find in China, this would be very useful.

Finally, no doubt one of your most important preoccupations will be the situation in 15 years' time, when the leased territory in Hong Kong reverts to China. While we realise that this is largely a political matter, British business interests in Hong Kong are so considerable that there cannot be any of them who are not concerned to know what intentions the Chinese authorities may now have in mind.

I have tried in this letter to avoid going into excessive detail in outlining our members' main concerns in this very important part of the world. However, to the extent that you might think it desirable, should your officials wish to go into some of these matters in greater depth, those members of our staff who are involved will be very ready to assist.

*Yours sincerely,  
Campbell Fraser*

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London, SW 1.



FILE RM

Copied to: I. Gow  
(1/9)

FCO.

10 DOWNING STREET

THE PRIME MINISTER

6 September, 1982

cf

Dear Julian.

Thank you for your letter of 19 August about China. I am grateful to you for taking the trouble to write. As far as I know none of the experts briefing me shares your unique experience of having served on Chiang Kai-shek's staff!

Yours ever

Raymond

The Rt Hon Julian Amery, M.P.,

SW



10 DOWNING STREET

*From the Private Secretary*

6 September, 1982

O51 Luda Class Refit: China

Thank you for your letter of 31 August setting out your conclusions on the concession which might be made with regard to the levy in the prices submitted to China for the Luda Refit programme, conditional on a satisfactory outcome of the negotiations on the contracts concerned. The Prime Minister has noted the contents of your letter.

**A. J. COLES**

Miss J. E. Ridley,  
Ministry of Defence

CONFIDENTIAL

A handwritten signature in the bottom right corner of the page, appearing to be 'J. E. Ridley'.

Prime Minister

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RECORD OF A MEETING BETWEEN THE CHANCELLOR AND THE CHINESE FINANCE MINISTER AT 11 AM ON 3 SEPTEMBER 1982 IN THE SHERATON HOTEL, TORONTO

Present:-

Chancellor  
Mr. Frost (ODA)  
Mr. Kerr

H.E. Mr. Wang  
Mr. Fei Lizhi (Ministry of Finance)  
Mr. Chen Hui (Alternate Director,  
IBRD, Washington)  
Mr. Li Miao (Ministry of Finance)

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ANGLO-CHINESE RELATIONS

Mr. Wang said that he had sought a meeting with the Chancellor because Anglo-Chinese relations were good, and because the UK played a particularly important role in IBRD/IMF discussions. The Chancellor said that Anglo-Chinese relations were indeed satisfactory, and should be further strengthened by the Prime Minister's forthcoming visit, to which she greatly looked forward. He himself recalled with great pleasure his own visit in 1978, during which he had been impressed with the scale of the opportunities for greater Anglo-Chinese trade, which would reinforce the ties between the two countries.

2. Mr. Wang said that there were indeed major opportunities for UK firms. By the year 2000 per capita GNP in China should rise from just under \$300 to around \$1,000. (In response to a question he added that population growth was expected to be from 1 billion to 1.2 billion: gross GNP should therefore quadruple.) Up to 1990 the main task would be to correct the consequences of history, readjusting the balance between different sectors of the economy and laying the foundations for more rapid development in the last decade of the century. China would use her own resources for the most part, but she hoped for some outside assistance, and her current per capita GNP gave her a strong claim for favourable treatment, e.g. from IBRD. She also hoped for expanded commercial credit facilities from western



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industrialised countries. There was talk of under-utilisation of existing credit facilities: this was because projects had in the past been inadequately prepared. This mistake would not be repeated. Opportunities for western firms would lie in two areas - major infrastructure projects (e.g. in energy and transport), and the renovation and re-equipment of China's 370,000 industrial enterprises. For the former, assistance from governments might be sought; for the latter, co-operation with fairly small enterprises in the West might be feasible.

3. The Chancellor, thanking Mr. Wang for this exposition, thought that there was indeed no lack of credit facilities for UK trade with China. The full range of such facilities was available, and in addition two-thirds of a special "deposit facility" of \$1.2 billion remained undrawn. He welcomed the idea of links with medium and small firms in the UK. Governments could set the tone and affect the climate of relations; but there was no substitute for direct contacts between individual enterprises. Mr. Wang said that in the past there had been some tax disincentives: he was determined to eliminate them. He hoped that good progress on developing Anglo-Chinese commercial relations would be made during the Prime Minister's forthcoming visit. She would be warmly welcomed.

IBRD Issues

4. Mr. Wang said that China's relations with IBRD had been satisfactory since her IBRD/IMF seat had been restored in May 1980. Having not participated in the IDA 6 negotiations, China's access to IBRD funds had however so far been on an ad hoc basis. It was now clear that IDA 7 would be delayed, and that financial year 1984 would be treated as an independent transitory period. It would be right that China should get a fair share of 1984 funds. And in the negotiations for IDA 7, China would ask for a fair and reasonable allocation, and would hope for support on this from the UK, whose voice counted for much in such discussions.

5. Mr. Wang added that comparisons were being drawn, in the context of IDA 7 shares, between India and China. It was being suggested

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that India had in the past received massive IDA funds, and that China had a rather larger population. Such comparisons were not however sensible. China had no intention of trying to vie with India. He accepted that India's share of IDA 7 would be larger than China's. He wished only to say that the difference should not be unreasonably large, and that China's share should be fair and reasonable. It would be valuable if the UK, as a major donor with a positive record of honouring its commitments in IDA 6, would support China's position on IDA 7.

6. The Chancellor said that this explanation of China's position was most helpful. The claim for a "fair and reasonable" share was fairly put and struck him as eminently reasonable. The UK did indeed have some influence in discussions on these matters - though it was worth noting that our share of contributions to IDA was no longer entirely "fair and reasonable" in relation to our relative economic weight. In discussions on IDA 7, the US position would be crucial. As the history of IDA 6 showed, US opinion required careful handling. Strident funding demands, or calls for major institutional changes, would be counter-productive; but it was clear that this would not be the Chinese approach.

7. Mr. Wang said that he was grateful for the Chancellor's understanding. He suggested that the Chancellor might like to pay a further visit to China before long; and he looked forward to further exchanges during the forthcoming Toronto Meetings.



J.O. KERR

4 September 1982

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Distribution:

In Toronto  
Governor  
Sir K Couzens  
Sir W Ryrrie  
Mr. Anson  
Mr. Lavelle  
Mr. Loehnis  
Mr. Frost

In London  
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PS/Financial Secretary  
Mr. Carey  
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Mr. Bonney  
  
Mr. Coles, No.10  
PS/Secretary of State, FCO  
HM Ambassador, Peking

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PRESENTS FOR THE PRIME MINISTER'S VISIT TO THE FAR EAST

<u>Code</u>	<u>Qty</u>	<u>Country</u>	<u>Recipient</u>	<u>Gift</u>
A	1	China	Prime Minister	Set of Shakespeare Plays
B	1	China	Vice Chairman Deng	Silver Cigarette Box
C	1	Japan	The Emperor	Marine Biology Books
E	1	Japan	Mr Suzuki The Prime Minister	1 Pair Crown Derby Candlesticks
D	1	Japan	Mr Suzuki The Prime Minister	Computer
F	1	Japan	Foreign Minister	Royal Worcester Coffee Set
G	1	Japan	President of Takashimaya	Royal Brierley Chalice
H	1	Japan	Ministers who accompany the Prime Minister	Royal Doulton Decanter
J	1	Japan		Crown Derby Bowl
K	1	Japan		Webb Corbett Decanter

Miscellaneous Gifts

1. 1 Royal Brierley Crystal Bowl
2. 2 Small Crown Derby Bowls
3. 1 Royal Doulton Crystal Decanter
4. 6 Boxes Royal Whisky Glasses
5. 3 Floris Gift Sets
6. 9 Sets of Royal Crown Derby Ashtrays
7. 12 Enamel No 10 Boxes

Books

8. 2 National Trust Books of British Castles
9. 3 Englands
10. 6 Royal Heritages
11. 6 Concise Oxford Dictionaries
12. 2 Above Londons

*Ordered on 21st July  
Gifts for Far East*

Jack PERRY

8/9

31 August 1982

I enclose a copy of a letter the Prime Minister has received from Mr. Jack Perry, Chairman of London Export Corporation (Holdings) Limited.

I should be grateful if you could let me have a draft Private Secretary reply by Wednesday 8 September.

WILLIAM RICKETT

Chris Greenwood, Esq.,  
Foreign and Commonwealth Office.

sub

HL

31 August 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 31 August. This is receiving attention and a reply will be sent to you as soon as possible.

WILLIAM RICKETT

Jack Perry, Esq.

CG (FCO) PS

2

21 Portland Place  
London W1N 3AF  
Tel: 01-580 3020

Telex: 28475  
Cables: Londexcor London W.1.

# LONDON EXPORT CORPORATION (Holdings) LIMITED

倫敦出口公司

Correspondents for China National Import and Export Corporations Since 1952

Your Ref:

Our Ref: JP/SE

31st August, 1982

*M*

The Rt. Hon. Mrs. M. Thatcher, M.P.,  
10 Downing Street,  
LONDON, W.1

*Prime Minister*  
*Some interesting views. He has long experience*  
*of China. I have replied.*  
*AJC 14/82*

Dear Prime Minister, YOUR FORTHCOMING VISIT TO CHINA

The Chinese leadership, after a long period of intensive debate, concludes that the Reagan administration is now bent on making the American fiat the dominant and overwhelming factor in international politics, thus overturning the policy objectives operating during the Nixon, Ford, Carter administrations and seeking to return to the strategic stances of the immediate post-war period.

I have recently returned from my thirtieth visit to China since 1952 where I found an intensity of discussion around foreign policy questions, absent since the Sino/Soviet controversies of the early sixties.

Hence, I wish to convey some of the arguments advanced there whilst combining them with comments on two other questions (1) Hong Kong, and (2) Sino/British trade.

### Chinese views on U.S. foreign policy

Lord Belstead recently said "I do not think the Chinese have changed their mind about Soviet foreign policy at the present time".

The Chinese attitude to the Soviet Union, of course, does not exist in a political vacuum; it is conditioned by the interplay and variations of the strategic triangle - United States, Soviet Union and China. The U.S./China relationship is a vital and decisive element in Chinese and Soviet perceptions of each other; hence, a fundamental change in these relations - not a temporary and inevitable hiccup but a long-term strategic switch - is bound to lead to a reassessment of the second side of the triangle - Soviet/Chinese relations.

The question that now arises is whether the present strains on the Taiwan issue between the U.S. and China is a passing and temporary phase, or a harbinger of much more serious possibilities.

My perception of the atmosphere in Peking, suggests that a fundamental review of the Chinese leadership of U.S. foreign policy has been under way for some time, and conclusions are emerging even if, for tactical reasons, they lack a public voice. There is no doubt whatsoever that decisive sections of the Chinese leadership have reached the conclusion that the Reagan administration has overturned the global policy objectives that existed throughout the last 20 years.

To put it more concretely, they conclude that U.S. foreign policy now seeks to recover the strategic stance of the immediate post-war period; to recapture the theme of the "American century", to make U.S. decisions the dominant and overwhelming factor in international politics; to create such pressures as will render opposition to these policies timid and ineffectual. In other words, this is not a tactical switch, nor just a more aggressive position - but an international outlook that is qualitatively different from its predecessors. The Chinese believe that U.S. tactics will increasingly attempt to bludgeon its allies into a position of weakening inferiority, thus undermining their ability to resist and coalesce. The main card the U.S. will play is their relations with the Soviet Union. In all their international policies - financial, economic, political and military the U.S. will demand complete acceptance of its international strategy and tactics - or else!

It is not clear how far the Chinese leadership - which means about the top thousand in the Party and Government cadre force - have thought this assessment right through. For example, will this strong turnaround in U.S. policy be adjusted should a Democrat win the Presidency in 1984? Recognising the balance of forces in 1982 is very different from 1952; will not Western Europe and Japan refuse to be treated like dependents? Many other questions arise - it is likely, though not certain - that the majority view is that this demand for the decisive exercise of American muscle stretches across the spectrum of both parties and represents substantial forces inside the financial, industrial and military complex. Hence what must be faced is not an administration characterised by temporary aberrations - but a strategy long desired by powerful elements in the U.S. now armed with the power to exercise their intentions.

The question must be asked - is this Chinese reassessment primarily due to the Reagan administration stance on "arms from Taiwan"? Are the Chinese so sensitive on this issue that their overall objectivity is suspect? The Chinese leadership, past and present, have always taken a long term view of the Taiwan problem and understand how it manifests itself in the U.S. domestic scene, thus inhibiting early solutions. Therefore their judgment of the fundamental posture of the U.S. foreign policy is not likely to be prejudiced by subjective feelings about Taiwan.



However, on this issue the Chinese have concluded that the U.S. administration is intent to play the "Taiwan card"; to return to the concept of Taiwan as an unsinkable aircraft carrier; to use Taiwan as a threat constantly dangled over Chinese susceptibilities should they ever be tempted to resist U.S. strategic and political requirements. The Chinese believe that the U.S. administration's use of the Taiwan issue is a warning not only to the Chinese, but others who may misread the new direction of U.S. policy. The recent trenchant and detailed attacks on U.S. Taiwan policy go further than mere protest. It is an emphatic signal that the Chinese deeply distrust the Reagan administration which is now seen as determined to re-assert American global authority irrespective of the views and interests of allies - real or potential.

The very recent agreement concluded between China and U.S. on "Arms for Taiwan" changes nothing. The honeyed words of some U.S. officials are regarded by the Chinese as mere sophistry.

The views here attributed to the Chinese leadership are not yet being articulated publicly, even to friendly diplomats. All the implications of this fundamental reassessment of U.S. objectives probably require more time to study. But if the above analysis is somewhere near the truth, then inevitably policy towards the Soviets is bound to change; the Chinese will not allow themselves to be stranded mid-stream.

This does not mean a return to the pre-Kruschev relationship between the two Communist parties - or the governments. The challenges Mao, Chou, and latterly Teng, have mounted against the Soviet leadership during this past 25 years cannot be swept aside nor discarded into the limbo of history.

They have left a deep chasm which even mutual self-interest cannot bridge. Though some parts of the Chinese leadership have never fully supported the strong anti-Soviet line which has characterised China's foreign policy since the late fifties, few - if any - would feel comfortable at close quarters with the Soviet leadership. But it does mean that hostility will become gradually muted; Soviet actions and policies will not be attacked with the same vehemence as in the past. Whether Lord Belstead's view is right or wrong - a new less combative, less challenging, less critical phase is bound to open up.

### THE FUTURE STATUS OF HONGKONG

Since 1979, expectations have been aroused that negotiations on the future of Hongkong and the New Territories will result in a very satisfactory result from the British standpoint.

Several developments encourage this view:-

1. The constantly growing foreign currency revenues earned by China in supplying food, raw materials and services to Hongkong's domestic economy.
2. Encouragement to overseas Chinese to invest in China.
3. Substantial energy and infrastructural schemes on both sides of the border on a Joint Venture or partnership basis.
4. The creation of the New Economic Zones providing autonomous regions for primarily overseas Chinese capital to utilise Chinese labour and resources for mutual benefit.
5. The very friendly relations developing between the hierarchy of the Chinese government and certain influential Chinese expatriates in Hongkong.

Some suggest that Chinese strategy aims at gradually washing away the border, making mutually advantageous agreements between Britain and China easier to accomplish as physical barriers reduce. How much credence should be given to these expectations?

During 1977, when the Chinese leadership were urgently debating the principles that should govern their future economic development, much attention was focussed on one single element. "What are the prime factors that account for the unprecedented success of certain Asian countries and regions, particularly Japan, South Korea, Hongkong, Taiwan, Singapore, and more recently, Malaysia." They concluded this was primarily due to the combination of high technology and abundant foreign investment, and secondly to concentration on exports.

Observing the enormous economic development of Hongkong they sought to extract from that experience the features that could be applied in China.

Amongst other decisions, they agreed to form "production for export" enclaves designed to attract overseas Chinese capital particularly from Hongkong, and thus create new patterns of export acceleration utilising the skills and experience of their compatriots over the border. This is just one of the policies of the "Liberals" identified with Teng Hsao-ping who have endeavoured to promote new principles and practices covering in part agriculture, industry, finance, foreign trade and the domestic market.

These reforms have only been won in the teeth of considerable minority, if muted, opposition and only with the proviso that they remain experimental until practical experience demonstrates their efficiency or failure.

The New Economic Zones is one of the experiments. It is too soon for final judgment - but as with decentralisation, bonus incentives, factory enterprise autonomy, primacy of market forces and many other reforms fast backtracking is taking place as tough problems emerge. Many voices are now heard criticising the New Economic Zones and the State Council called for the formation of a special investigating group which is due to report shortly. Like most arguments in China today the report will fudge the issue, but in the main will probably provide sufficient ammunition for the "traditionalists" to make the verdict primarily negative.

This does not mean the abandonment of the New Economic Zones - on the contrary they will be lauded to the skies - but in practice their significance is certain to diminish - and no New Economic Zones of this type will be opened up.

A further feature is worth noting. Those elements in the Chinese leadership doubtful about the value of the New Economic Zones have received strong endorsement from recent experiences. These include the introduction of substantial currency speculation still a serious and incalculable problem, the ostentation of those overseas Chinese visiting from Hongkong, the disruption of normal social and economic life in the surrounding province and, most of all, disappointment with actual economic performance.

This has been accompanied by the mushrooming of hundreds of small companies in Hongkong whose owners claim special relationships and family connections with decision makers in China. This has led, Peking believes, to the present and widespread outbreak of bribery and corruption whose source, it is assumed, resides amongst the Chinese "Cowboys" in Hongkong.

The Ministry of Foreign Trade appears to be taking special measures to end this influence by instructing the appropriate organisations to quietly and diplomatically discourage foreign companies from using overseas Chinese intermediaries from Hongkong. All this is tending to undermine the "Hongkong Connection" so far as the "Chinese compatriots" are concerned. Indeed comments about the rapacity of some firms and individuals are now quite common.

All these factors suggest that the Chinese euphoria with Hongkong - like many Chinese enthusiasms - should be treated with considerable reserve. But more important than all these transitory factors is the inability of the Chinese leadership to take lasting and dependable decisions on issues like Hongkong. The leadership is a constantly shifting coalition whose philosophy remains unformed and whose policies are experimental and indecisive.

In my view, the Chinese - on the Hongkong issue - will be affable, encouraging but non-committal. The fact is, I believe, that the present Chinese leadership has no a reed policy on Hongkong - either short or long-term and will make soothing and dove-like noises until a more coherent, united and long-term leadership is constructed which is several years hence.

In the final analysis Chinese policy on Hongkong will, when the time arises, be influenced primarily by its international policy stance rather than by economic calculations. Ten years from now the latter will be less important.

#### BRITISH COMMERCIAL WEAKNESS IN CHINA

The Departments of Trade and Industry are fully aware of the diminishing share of British exports in the Chinese market, particularly in the important engineering sector. This is not due to any lack of enthusiasm or energy but is the consequence of both Britain's weak industrial performance and the absence of a coherent and planned strategy for China.

Can any practical steps be taken not just to arrest this decline - but to strengthen Britain's share of the Chinese market? It is very easy to answer this question with a string of platitudes that ignores practical reality. More difficult, but essential, is to take a realistic view of China's developments and then compose stratagems specifically related to the changing characteristics of the Chinese market and the tough competitiveness that surrounds it. Stripped of both euphoria and pessimism how is the Chinese market likely to develop over the next few years?

1. The Chinese are not yet poised for large scale imports of technology and plant.
2. China's foreign trade over the next 3/4 years will increase at around 10% per annum or thereabouts rising to 15-20% from 1986 onwards. This projection leaves aside China's offshore oil development.
3. The Chinese leadership is now quietly talking about returning to some of the 1977 Four Modernisation projects. Though some negotiations may tentatively begin they will lack seriousness until the future of offshore oil can be more accurately assessed.
4. The present pattern of Chinese imports will be maintained with the important addition of medium scale purchase of special types of plant and equipment for existing factories aimed at solving problems of quality and productivity. The Chinese are likely to spend \$2-3 billions per annum over the next few years and will represent a relatively new field for industrial exporters.
5. The use of foreign loans will gradually be increased but will not be more than a marginal element in import planning. This could change dramatically if expectations on offshore oil were to rise substantially.

6. Though various economic experiments will continue to be tried - central planning and control will be dominant.
7. Japan's influence over China's foreign trade will continue to be very strong - but the Chinese will constantly attempt to broaden their import sources to avoid undue reliance upon the Japanese.
8. Unless British export strategy to China is substantially revised and improved its share will continually decline.

Britain's problems in tackling foreign competition, particularly in the engineering industry are well-known and will not be improved in the short-term. But competitiveness in the Chinese market can be substantially strengthened - providing the right moves are made, all of which require the government to accept prime responsibility for fashioning and administering a cohesive British strategy for the Chinese market.

The problem in China for British industrial companies is how to maintain a continuous dialogue and practical relationship where decision making is extremely cautious and time-consuming, where competition is tough and intensive, and where costs of maintaining teams in China are considerable. The majority of companies become impatient and frustrated very quickly and it becomes difficult to sustain their involvement. The larger companies who have both the resources and the personnel do not represent the mainstream of present demand (with the exception of the oil industry and its engineering supply sector) - and their possibilities will flourish at a later time.

Up to recently the main problem was to identify Chinese purchasing requirements; companies could spend large sums doing nothing more than "throwing bread on the waters". That problem no longer exists - the Chinese make no secret of their requirements. The problem is how to organise British industry to make the most of their strengths.

The British collective effort in China is maintained by Embassy representatives in Peking, a couple of widely-based and experienced organisations, the Sino-British Trade Council and the 48 Group, the China Trade Units at the Department of Trade and the occasional involvement of the British Overseas Trade Board.

All this is inadequate - it lacks muscle - direction - co-ordination and collective purpose. Above all, it lacks strategy and leadership. Information, exhortation, encouragement, advice, low interest loans - all this adds up to very little when faced with competition from Japan, West Germany and France.

Today hundreds of comparatively small British engineering companies can benefit from China's weaknesses in industrial equipment. As never before, the opportunities are there, but they will be lost unless the government accepts responsibility for the formation of strategy, the organisation of company involvement and the continual dialogue with the key Chinese purchasing organisations.

What does the situation demand?

1. The government to nominate a small group of industrialists, civil servants and bankers responsible for:
  - (a) evolving British commercial strategy in China.
  - (b) identifying those areas of China's industrial development where British companies have a realistic possibility of securing business.
  - (c) the formation of executive groups each representing industrial sectors relevant to the Chinese situation - by way of example, textile machinery, automotive components, food processing, electronics, leather and shoemaking equipment, power and energy, railways and building materials, including scientific instruments.
  - (d) each executive group to have the responsibility to weld together, where appropriate, groups of companies into a closely-knit consortium, negotiating with the Chinese as the representatives of industrial sectors and not as individual companies.

Such a concept will attract much opposition from the larger companies who do not like this approach. Perhaps even more some trade associations and bodies may be antagonised because the essence of this proposal is not representation but coordination and continuous action by commercial professionals.

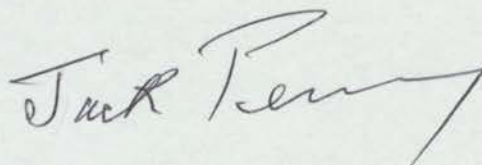
The main qualification for service on these bodies is (a) understanding of the characteristics of the Chinese market, (b) close contact with British industry in an executive capacity, (c) willingness to persuade, push and pressurise companies to work together constructively in this very distinctive and exceptional market place.

Perhaps these proposals are too sweeping to gain support from those who tend to favour traditional doctrines and practices. But one point can be made without apology; the continuation of present attitudes and policies condemn British efforts in China to increasing ineptitude and deterioration.

This, I suggest, is the choice confronting the government.

I trust the above comments will make some contribution to the success of your trip which is sought by all those who perceive practical value in strengthening British and Chinese relations.

Yours sincerely,

A handwritten signature in cursive script that reads "Jack Perry". The signature is written in dark ink and is positioned to the right of the typed name.

Jack Perry  
Chairman

ec Leo

VB



10 DOWNING STREET

THE PRIME MINISTER

31 August, 1982.

Dear Sir Y-k,

Thank you for your letter of 13 August with the copies of the two 'Zheng Ming' articles.

I understand the intense interest in Hong Kong in my visit to China. I am grateful to you for your views on the type of announcement which you hope could be made after my talks and for your advice on the benefit of a senior Hong Kong Government representative accompanying me in Peking. The Governor will in fact join me there. I would however be grateful if you could treat this as in confidence for the moment, as it has not yet been made public.

I appreciate the good wishes for my trip and I too look forward to our meeting in China next month.

Yours sincerely  
Margaret Thatcher

Sir Yue-Kong Pao, C.B.E., LL.D., J.P.

20





GR

Foreign and Commonwealth Office

London SW1A 2AH

31 August 1982

*Dear Willie,*

*Pl type and  
attach this as  
a background note.  
WA  
1/9*

Future of China: Mr Julian Amery MP

Thank you for your letter of 23 August with a copy of one of 19 August from Mr Julian Amery MP to the Prime Minister.

The prospects for China's internal stability will of course be covered in the briefing for the Prime Minister's visit to China. Chinese unity is perhaps less precarious than Mr Amery suggests: the Ming and Ching dynasties to which Mr Amery refers lasted from 1368 to 1911. Moreover the fact that China weathered the storms of the Cultural Revolution leads us to think that the country's unity is now fairly well-established. Finally China is not short of natural resources - it has enormous undeveloped coal and oil reserves as well as many other mineral deposits.

/ I attach a short draft reply to Mr Amery.

*Yours ever*  
*John Holmes*

(J E Holmes)  
Private Secretary

W Rickett Esq  
10 Downing Street

DSR 11 (revised)

**DRAFT:** ~~XXXXX~~ letter/telegram/despatch/note

**TYPE:** Draft/Final 1+

**FROM:**  
Prime Minister

Reference

**DEPARTMENT:**

**TEL. NO:**

**SECURITY CLASSIFICATION**

**TO:**

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

The Rt Hon Julian Amery MP  
112 Eaton Square  
LONDON SW1W 9AA

Copies to:

**PRIVACY MARKING**

**SUBJECT:**

.....In Confidence

**CAVEAT**.....

Thank you for your letter of 19 August about China. I am grateful to you for taking the trouble to write. As far as I know none of the experts briefing me shares your unique experience of having served on Chiang Kai-shek's staff!

Enclosures—flag(s).....

31 AUG 1962





DEPARTMENT OF INDUSTRY  
Ashdown House  
123 Victoria Street  
London SW1E 6RB

wh  
3/9  
Tel: 01 212 6401  
Switchboard 01 212 7676

Mr Flusker

Mr Baker thought you  
might like to be aware  
of this

*With the Compliments of the*

Office of the Minister of State  
for Industry and Information  
Technology

Jane Roberts.

3/9/82

# SYSTIME

2 BF

SYSTIME LIMITED  
Concourse Computer Centre, 432 Dewsbury Road, Leeds LS11 7DF  
Telephone 0532 702211 Telex 556283

To *Mr. Wigglesworth* copies to  
*Mr Macdonald*  
FOR ADVISE (AND  
TRANSITION IF  
NECESSARY)  
1982

JMG/SA

31st August 1982.

Mr. Kenneth Baker, M.P.  
Minister of State for Industry  
and Information Technology,  
Department of Industry,  
Ashdown House,  
123 Victoria Street,  
LONDON.  
SW1E 6RB.

RECEIVED IN  
- 10 SEP 82  
OFFICE OF THE  
MINISTER OF STATE  
KENNETH BAKER

*let-10/10*  
*John*

Dear Mr. Baker,

I thought you might like to know, particularly as Mrs. Thatcher is visiting China shortly, of my recent visit to Beijing.

I visited Beijing with a small party from Systime to discuss with people from the 4th Ministry and Beijing Computer Corporation the possibilities of the supply of equipment and technical colaboration.

We were shown quite openly what progress they had made in designing computer systems and the problems they had encountered. Quite frankly they had achieved little and it is obvious there is an enormous "technical culture gap".

We outlined our developments with our "S" Series range and put together an outline proposal for them to adopt it as a standard and eventually manufacture it.

To that end we were able to get a Heads of Agreement signed involving £2.5M of sale of technical know-how, coupled with a broad agreement to buy systems from us for an initial period of 2 years. We are expecting to return to Beijing in early November with a detailed proposal with a view to commencing trading in February 1983.

Continued/.....

Directors: J. Parkinson, J.M. Gow, I.C. Fallows, G. Thomson, A.M.S. Kaberry,  
L. Collins, I.H. McNeill, S.J. Block, R.H.C. Van Maasdijk

Registered Office: Concourse Computer Centre, 432 Dewsbury Road, Leeds LS11 7DF Reg No. 1137518 England

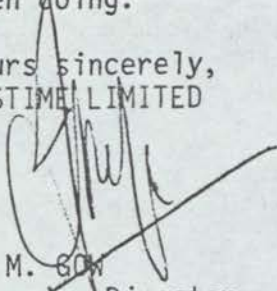
2.

31st August 1982.

Mr. Kenneth Baker, M.P.

If you feel that this sort of information will be of use to Mrs. Thatcher and her team generally then I will leave the matter to your discretion. We did make contact with the Commercial people in The Embassy in Beijing and they are aware in outline of what we have been doing.

Yours sincerely,  
SYSTIME LIMITED

  
J. M. Gow  
Managing Director

**SYSTIME**



Copy to:

PS/Chancellor of the  
Exchequer  
PS/Foreign Secretary  
PS/Trade Secretary

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~9381022~~ 218 2111/3

WR  
1/9

MO 11/14

31st August 1982

MS

Dear John,

051 LUDA CLASS REFIT: CHINA

Your letter of 5th August to the Chinese Ambassador referred to his discussions with the Prime Minister over the inclusion of levy in the prices submitted to China for the Luda Refit Programme. You indicated that the Government was prepared "to consider constructively how in the specialised circumstances of this Project the levy might be reduced or waived in the interests of securing a settlement satisfactory to both parties".

Since your letter we have had further talks about this and have been able to agree on the removal of the levy from the prices and its replacement by a profit sharing agreement between the Government and Industry. Industry has also accepted these proposals. The effect of the decision on prices will depend on the final outcome of the contract discussions between UK Industry and the Chinese Government, but we expect it to lead to a price reduction of some £2.5M in the total programme cost of about £120M.

Although we have always viewed the 051 programme as a single project, two major contracts are involved: one with British Shipbuilders for the supply of Sea Dart, valued at about £70M; and the other with Vosper Thornycroft for the integration of the equipment fit into the Luda Class Destroyers, valued at about £50M. Discussions on both contracts are proceeding with the aim of possibly reaching final agreement in advance of the Prime Minister's visit.

The main outstanding problem concerns the Vosper Thornycroft price where the difference between the two sides is currently about £6M. The Ministry of Defence offered to examine the prices quoted by both British Aerospace and Vosper Thornycroft to see if these are fair and reasonable. This exercise has been done and we are satisfied that the profit margin and charges are fair. Indeed in the case of the Vosper's contract the profit sought by the company is

A J Coles Esq

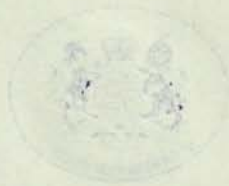


substantially below what the Ministry would expect to allow in a fixed price contract of the same value, despite our view that the contract carries substantial technical and commercial risks. We hope that, with the benefit of these official assurances and the waiver of the levy, the Chinese will be more amenable and that the gap can be bridged. However, because the major benefits of the levy waiver apply to the British Aerospace contract, where price is not a major issue, we are anxious to make the concession on levy conditional on a satisfactory outcome of the negotiations on both contracts. We are informing the Chinese Government, therefore, of our willingness in principle to waive levy at a saving to them of some £2.5M, subject to the successful conclusion of negotiations with both British Aerospace and Vosper Thornycroft. The fact that this has been replaced by a profit sharing arrangement between the Ministry of Defence and the companies concerned should be kept discreet and is not being revealed to the Chinese.

Yours ever,

*Jane Ridley*  
(J E RIDLEY)(MISS)





SEP 1982

12 1  
11 2  
10 3  
9 4  
8 5  
7 6

COMPTON

11

cc China Policy file.

Originated on Par. Terms.

Advised for Far East Tour Pt 2.



10 DOWNING STREET

From the Private Secretary

31 August 1982

Thank you for your letter of 26 August about the possible stopover in Canton on the Prime Minister's visit to China envisaged in Mr. Baker's minute to the Prime Minister of 11 August.

As I told you on the telephone, the Prime Minister doubts whether her schedule on the trip to China will permit her to take up Mr. Baker's suggestion. In particular the Prime Minister is clear that the time spent in Hong Kong should not be reduced.

I should be grateful therefore if you could arrange for further advice on the logistics of a visit to Canton to come forward to enable the Prime Minister to make a final decision. In this context you may also like to see the attached minute from Mr. Baker which extends his original suggestion.

I am sending a copy of this letter to Neil McMillan (Department of Industry).

John Holmes, Esq., Timothy Flesher  
Foreign and Commonwealth Office.

R



PM Seen

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

PRIME MINISTER

VISIT TO CHINA

I wrote to you on 11 August, asking whether you would consider stopping off in Canton for a ceremony to mark the establishment of the microwave network for which Cable and Wireless have won the contract.

I have been speaking this week to Eric Sharp, who told me that following C & W's success on the Guangdong microwave link, they have just pulled off another coup. This is a 3-way partnership with the Guangdong Post and Telecomms and S.China oil exploration authorities to set up communications in the offshore oilfields in the South China sea. This is not yet publicly known.

Cable and Wireless have made great progress in the Chinese market, and represent one of the major successes of privatisation. I therefore do hope you will be able to include Canton in your programme.

*K. B.*

KENNETH BAKER  
27 August 1982

We can leave Shanghai a little earlier - 8 a.m.



rather, Mr Butler  
Shanghai

RESTRICTED

Effectively this means arriving in Hong Kong about 5.30 and would mean either cutting out the hairdresser or talking with the Governor and officials in advance of the dinner.  
Foreign and Commonwealth Office **FERS**  
2.9.

London SW1A 2AH

and just about ~ Prime Minister

fit in this

An extract from your current programme is attached

31 August 1982

kind. I understand at Flag A, showing where

we fly to Hong Kong the FCO and Do I suggest you might fit in a visit and then drive to Canton. It would eat into unfilled time in your programme for Hong Kong. Do you want to fit in back across the Prime Minister's Visit to China: Possible Visit to Canton a visit to Canton?

border - it is

only a few  
Dohy  
under  
below  
and I

Tim Flesher wrote to me on 31 August in reply to my letter of 26 August about the possibility of the Prime Minister stopping over in Canton.

wh  
1/9

can't  
the visit  
would  
be much  
appreciated  
not

If the extra visit to Canton is to be undertaken it can really only be done on 26 September, and this in turn means that we would have to accept a late arrival in Hong Kong. Given the importance of some of the discussions due to be held in Peking, it would not be right to cut short her visit there. As to Shanghai, if the Prime Minister were to spend less than the 24 hours there at present envisaged (1030, 25 to 1000, 26 September), the visit would inevitably focus entirely on the launching of Sir Y-K Pao's ship. Even if this were accepted, and we think it would have presentational disadvantages, it would be difficult for the Prime Minister to get to Canton on the evening of 25 September in time for a suitable function there to mark her visit. If the original proposal is upheld, on the other hand, the consequence of a visit to Canton (from the late morning to the early afternoon of 26 September, and centring on a lunch) would simply be arrival in Hong Kong 2-3 hours later than planned, on an afternoon which is at present unfilled. The Hong Kong Government, as indicated in my earlier letter, have said that nothing would be lost.

In sum, therefore, if the Prime Minister is to add Canton to her tour, and we believe there would be some advantage in this, it is our view that she should only in practice do so on 26 September, arriving in Hong Kong a little later than originally planned.

9 am 1/9

(J E Holmes)  
Private Secretary

??

W Rickett Esq  
10 Downing Street

RESTRICTED

Form and Content of the  
London 1910 Act



ST. MICHAEL'S  
26-5-1910

LABORATORY

Friday 24 September

0600  
am

*Yardieming Carman*

Call on Deng Yingchao;  
Visit rural commune;  
Visit Summer Palace.

Lunch

Summer Palace or Guest House.

pm

Call on Hu Yaobang;  
Visit Peking Cancer Research Institute;  
Second call on Deng Xiaoping;  
Press Conference.

1930-2145

Return banquet.

Saturday 25 September

0700

*Carman Set*

0830

Leave Guest House.

0930-1145

Fly to Shanghai (Chinese VIP aircraft).

1300

Call on Mayor of Shanghai and official lunch.

pm

Visits in Shanghai;  
Ship-launching ceremony.

1800-1845

Reception given by British business community.

1930

Cultural performance.

Sunday 26 September

0900

Leave Guest House.

→ POSSIBLE VISIT TO CANTON

1000-1225

Fly to Hong Kong (VC10).

1225 ARRIVE HONG KONG AIRPORT.

1245 ARRIVE GOVERNMENT HOUSE

1330 PRIVATE LUNCH AT GOVERNMENT HOUSE.

1500 - PRIVATE ENGAGEMENT - SEE M I F T

*Hardnessing*

*Hard + Set*

1630

1700 - DISCUSSIONS WITH GOVERNOR AND OFFICIALS.

1830

2015 DINNER AT GOVERNMENT HOUSE FOR 40 PEOPLE.

MONDAY 27 SEPTEMBER

0800 PRIVATE ENGAGEMENT

*Hardnessing - Carman Rides*

0940 DEPART GH FOR UMELCO OFFICE.

0945 MEETING WITH UMELCO (UNOFFICIAL MEMBERS OF EXECUTIVE AND LEGISLATIVE COUNCILS)

1100 LEAVE UMELCO FOR HQBF.

1105 MEET ARMY, NAVY AND HONG KONG CHINESE SEAMEN PERSONNEL AND FAMILIES.

1130 BY WESSEX HELICOPTER TO STANLEY.

1140 MEET PERSONNEL AND FAMILIES OF 1ST SCOTS GUARDS.

1215 BY WESSEX TO HORB

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister:

*I doubt whether the diary will permit. I must not cut down the time in Hong Kong*

Kenneth Baker's minute (attached) arrived after you went on holiday, so I sought fco advice. As you see, they advise you to take up Mr Baker's suggestion to stop off in Canton to mark the establishment of a microwave network by Cable and Wireless. Agree?

Dear Tim,

26 August, 1982

Prime Minister's Visit to China: Possible Stop-Over in Canton

X

In his letter of 11 August to the Prime Minister, the Minister of State for Industry proposed that Mrs Thatcher should pay a brief visit to Canton on her way from Shanghai to Hong Kong on 26 September, in order to mark the recent agreement on cooperation between Cable and Wireless and the Guangdong Provincial authorities for the development of Guangdong's telecommunications facilities.

We support Mr Baker's proposal. Besides the Cable and Wireless contract, two other significant projects are under negotiation between the Guangdong authorities and British companies. These are:

- (a) modernisation of Canton's telephone exchange (STC); and
- (b) modernisation of a rubber tyre factory in Canton (Dunlop).

Whilst it is true that none of these projects of itself merits the Prime Minister's attention, and indeed in no case is there yet anything for the Prime Minister to see, we think it would be helpful to the prospects for further British project business in Guangdong, one of the focal areas of Chinese economic development, if the Prime Minister were to visit the provincial capital and meet local leaders. It would also be an opportunity for a high-level reiteration of our support for (and the triangular-UK/PRC/Hong Kong - benefit of) the Guangdong nuclear project to the authorities who will be responsible for much of the detailed negotiation.

At such a meeting the Prime Minister could also lend her support to the continuing development of general economic and commercial cooperation between Guangdong and Hong Kong. This would be well received not only by local leaders, but also by the central government.

*Yours ever  
J E Holmes*

(J E Holmes)  
Private Secretary

T Flesher Esq  
10 Downing Street

CONFIDENTIAL



FILE SW

10 DOWNING STREET

*From the Private Secretary*

26 August, 1982

You wrote to me on 24 August enclosing a draft message for the Prime Minister to send to the China Daily for publication in its supplement to mark her visit to China. As you know, the Prime Minister was not entirely happy with the draft and preferred a more direct version. I enclose a draft which the Prime Minister would be prepared to send, provided that it is acceptable to you. Perhaps you could let me know.

BFF  
draft  
as attached  
text

TIMOTHY FLESHER

John Holmes, Esq.,  
Foreign and Commonwealth Office

5



MESSAGE FROM THE PRIME MINISTER TO THE CHINA DAILY SUPPLEMENT

I am delighted to have this opportunity to send greetings to the readers of the China Daily as I begin my visit to China. My visit is the first by a British Prime Minister in office to China. It is a symbol of the increasing links between our two countries. Co-operation in academic, scientific and educational work is increasing. The number of student exchanges between Britain and China has never been greater. We have a useful commercial relationship on which we must now build. We have much to offer each other from our long artistic and literary traditions.

I know I shall see many changes in China since my visit in 1977. I know, for example, that there has been a very large increase in the number of Chinese both young and old studying English. This can only increase the understanding between our countries and I am glad that we in Britain can help with China's efforts in this field. The assistance which the Thomson Organisation gives the China Daily is an example of this new close working relationship.

Britain and China hold similar positions on many international issues. We both see the dangers to the world from aggression and expansionism. By working together we can make an important contribution to world peace. We have made great progress but this is only a beginning. I hope that my visit will help to bring our two countries closer together.

*The disintegration of our relations have made . . . .*



10 DOWNING STREET

*From the Private Secretary*

26 August, 1982

The Prime Minister has now seen the Foreign Secretary's minute of 25 August about aid to China. Mrs. Thatcher has commented that she is worried that the programme of technical cooperation with China envisaged in that minute is so derisory compared with the soft loan of \$1 billion which the Chinese appear to be seeking that it will serve no good purpose.

I am copying this to Jonathan Spencer (Department of Industry), John Gieve (Chief Secretary's Office) and John Rhodes (Department of Trade).

TIMOTHY FLESHER

John Holmes, Esq.,  
Foreign and Commonwealth Office

CONFIDENTIAL

B



CMOD

10 DOWNING STREET

THE PRIME MINISTER

26 August 1982

Dear Admiral Lygo.

Thank you for your letter of 9 August 1982 drawing my attention to the difficulties which British industry faces when trying to sell its products in the Japanese market. This is of course a long-standing problem both for civil and military sales to which I shall be giving attention during my visit in September. I do however appreciate that the difficulties are greater in the market for defence equipment than elsewhere, because of Japan's ambitions for self-sufficiency in arms production, and her need to establish an indigenous Research and Development base rather than increase her reliance on imported technology. The TANSAM missile system is a case in point but I hope that we shall soon see a more flexible approach from the Japanese and increased opportunities for British industry in the defence equipment field.

I share your hopes for the signature of the contracts for Project 051 in China. If successful it will be a milestone in our relations with China, and a great opportunity to establish a firm foothold in this market before our competitors. I look forward to the conclusion of a project

/on which

B

on which British Aerospace and Vosper Thornycroft have worked so hard and so long. I have asked to be kept informed of progress and advised on whether it would be possible to announce the contract during my visit if it has been signed by then.

Yours sincerely

Raymond Fletcher

Admiral Sir Raymond Lygo, KCB.

FILE

da



Sir Adrian SWIRE

(John SWIRE)

Meeting with PM 14/9

9/9

10 DOWNING STREET

From the Private Secretary

26 August 1982

Kay

Yes, thanks

We were answered.

Tim

JH

I think this must have a connection with the papers below. You

I enclose a copy of a letter which the Prime Minister has received from Sir Adrian Swire, Deputy Chairman of John Swire & Sons Ltd.

will see that John Swire's letter was put into the PM - it has not yet come back to GR.

I should be grateful if you could provide a draft Private Secretary reply, to reach us by 9 September.

Timothy Flesher

Kay

27/8.

John Whitlock, Esq.,  
Department of Trade.

BK



Foreign and Commonwealth Office

London SW1A 2AH

26 August, 1982

Dear Tim,

Letter of 13 August 1982 from Sir Y K Pao to the Prime Minister

Thank you for your letter of 17 August with the letter from Sir Y K Pao about the Prime Minister's visit to China next month. I enclose a draft reply.

As you know the Prime Minister has already agreed that the Governor of Hong Kong should accompany her in Peking. This has not yet been made public but there is no harm in telling Sir Y K Pao in confidence. The Governor agrees.

I am returning the enclosures to your letter.

Yours ever

*John Holmes*

(J E Holmes)  
Private Secretary

T Flesher Esq  
Private Secretary  
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO: <sup>PaD</sup> Sir Yoe-Kong CBE LL.D JP  
 World Wide Shipping Group  
 16 th Floor  
 World Shipping Centre  
 Harbour City  
 7 Canton Road  
 Kowloon  
 HONG KONG

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for your letter of 13 August with the copies of the two 'Zheng Ming' articles.

I understand the intense interest in Hong Kong in my visit to China. I am grateful to you for your views on the type of announcement which you hope could be made after my talks and for your advice on the benefit of a senior Hong Kong Government representative accompanying me in Peking. The Governor will in fact join me there. I would however be grateful if you could treat this as in confidence for the moment, as it has not yet been made public.

I appreciate the good wishes for my trip and I too look forward to our meeting in China next month.

Enclosures—flag(s).....



10 DOWNING STREET

*From the Private Secretary*

26 August 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 25 August. This is receiving attention and you will be sent a reply as soon as possible.

Timothy Flesher

Sir Adrian Swire

BK





PM/82/73

PRIME MINISTER

My worry is that this is so derisory compared with what they have asked for (a \$11 billion loan of a \$1 billion Aid to China) - that it will do no good at all.

Prime Minister:  
The Foreign Secretary returns to the issue raised in the ODA letter of 28 July, copy attached, on which you had doubts.

RF 28/8

1. John Coles's letter of 30 July recorded your doubts about the proposal to embark on a broader programme of technical co-operation with China, and invited Neil Marten to reflect further about the proposal.

#### Political Background

2. Our intention in putting forward a proposal of this kind at this time should be seen against the background of your own imminent visit to China. This visit is not only the first by a British Prime Minister in office to the People's Republic of China, but is also of considerable significance in discussion of a number of international and bilateral issues, particularly relating to Hong Kong.

3. The Chinese are sensitive about the attitudes towards China of Western countries, and are prone to make comparisons between their performance in China. Their tactics in commercial dealings, of playing each competitor off against the others, are matched by similar attitudes in the wider political arena. They are keenly aware of the comparative performance of European countries in respect of aid to China. Unfortunately several of our European competitors are at present ahead of us in this respect.

4. We believe that the Chinese will fail to understand a decision on our part to make no gesture towards them in the field of technical co-operation or aid, at the time of a major visit by the Prime Minister. The atmosphere for discussions of considerable strategic importance could be impaired. The relative smallness of the sums proposed at this stage is of less importance than the fact that you would be able to promise something, with the implication that more might be forthcoming when our resources permitted. Moreover by concentrating resources on certain key areas we can hope for a greater impact than the bare figures,



seen against China's vast population, would suggest.

Commercial Benefit

5. There could also be damage to our commercial prospects if nothing were offered, and corresponding advantage if you were able to make some mention of a British offer. The Chinese have recently been showing some signs of greater willingness than for the past two years or so to contemplate significant new industrial investment, particularly in their priority sectors of energy, transport and communications. The use of a substantial part of the proposed TC programme for specifically commercial purposes such as feasibility studies, consultancies and training could significantly improve the chances of British companies winning contracts as new investment goes ahead. On the Guangdong nuclear power station project, for example, part of this budget could be used to fund the provision of site design services and operational training as part of a British package, following the success of this approach on the Castle Peak project. Another possibility, put forward by the Association of British Mining Equipment Companies, would be to arrange training courses for Chinese coal mining experts. Our competitors already provide commercially-oriented technical assistance to China - a recent example is an Italian offer of aid support for a feasibility study on a major coal project in the South West - and British companies understandably argue that without similar British government support they are placed at a disadvantage.

6. It is for these reasons that, despite the pressures on available aid resources, we decided to allocate money for starting up a programme of technical co-operation for China. I hope that you will agree that these arrangements should go ahead.

/7. I am

CONFIDENTIAL



7. I am sending copies of this minute to Leon Brittan,  
Patrick Jenkin and Arthur Cockfield.

*FP*

(FRANCIS PYM)

Foreign and Commonwealth Office  
25 August 1982

CONFIDENTIAL

25 AUG 1982





10 DOWNING STREET

THE PRIME MINISTER

25 August, 1982

Dear Sir Charles.

Thank you for your letter of 16 August, with which you sent me briefs on our aerospace business with China and Japan.

I will certainly use every opportunity of encouraging my hosts to buy British!

Yours sincerely  
Margaret Thatcher

---

Sir Charles Pringle, K.B.E.

RM

PRIME MINISTER

You agreed to send a message to China Daily for publication in its Supplement but you were unhappy with the style of the draft submitted by the Foreign and Commonwealth Office. Attached is a revised version which uses much the same material as that submitted by the Foreign and Commonwealth Office, but which seeks a more simple and direct impact.

---

Are you content with the re-draft?

*Much better - agreed  
ms. JF*

25 August 1982

MESSAGE FROM THE PRIME MINISTER TO THE CHINA DAILY SUPPLEMENT

I am delighted to have this opportunity to send greetings to the readers of the China Daily as I begin my visit to China. My visit is the first by a British Prime Minister in office to China. It is a symbol of the increasing links between our two countries. Co-operation in academic, scientific and educational work is increasing. The number of student exchanges between Britain and China has never been greater. We have a useful commercial relationship on which we must now build. We have much to offer each other from our long artistic and literary traditions.

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Britain and China hold similar positions on many international issues. We both see the dangers to the world from aggression and expansionism. By working together we can make an important contribution to world peace. We have made great progress but this is only a beginning. I hope that my visit will help to bring our two countries closer together.



10 DOWNING STREET

THE PRIME MINISTER

25 August, 1982

Dear Lord Shepherd,

Many thanks for writing to me about your impressions of your recent visit to Hong Kong which I found most useful. I can assure you that I am very much aware of the vital importance of maintaining confidence in Hong Kong and I shall be emphasising this point very strongly to the Chinese.

I am grateful to you for writing in so much detail. I am very well aware of the direction in which the Chinese are thinking. Like you, I doubt whether their objectives to leave Hong Kong in practice as it is - and their formulae are compatible. It is going to be a very difficult visit and I should be grateful to have any more information or views that may come to you.

The Right Honourable Lord Shepherd,

Yours sincerely

D. Thatcher

RM





*Original in Super Policy*

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~2307922~~ 218 2111/3

D/S of S/PS/10

25th August 1982

*Dear Tim,*

*AM signature*  
*PM*  
*D*

You wrote to Derek Piper on 12th August enclosing a letter to the Prime Minister from Sir Raymond Lygo. A draft reply is attached.

As you will see we would generally endorse the points made by Sir Raymond on the Japanese choice of an indigenous air defence missile rather than RAPIER. Although the Japanese expressed considerable interest in RAPIER and sent specialist teams to the UK to evaluate it they continued to develop their own system - TANSAM. TANSAM is much less effective and more expensive than RAPIER but, when it came to a choice of system, the Japanese chose not to include RAPIER in the competition and instead evaluated TANSAM against ROLAND, the French system. We believe that the reason was simply that they realised the superiority of RAPIER and did not wish to be embarrassed by the unfavourable comparison. ROLAND is also better than TANSAM - but not so much so, and comparison of the two just enabled the Japanese Government to choose the indigenous missile without losing too much face.

As to Sir Raymond's reference to negotiations with the Peoples Republic of China on SEA DART, the Prime Minister will be aware of the present state of play following her recent conversation with the Chinese Ambassador. Negotiations on the contract are at a delicate stage and we will, of course, ensure that the outcome is brought to the Prime Minister's attention. The Prime Minister will note that we have taken a cautious line in the draft on the suggestion that she might announce the contract for the sale of SEA DART during her visit as we believe that the Chinese may not be anxious to broadcast the deal. This, and other aspects of sales business, will be covered in the briefing which is being prepared for the Prime Minister's visit to the Far East.

I am sending copies of this letter to Chris Greenwood (FCO), John Rhodes (Trade) and Jonathan Spencer (Industry).

*Yours ever*

*Nick Evans*

(N H R EVANS)

T Flesher Esq



*Handwritten signature*

10 DOWNING STREET

*From the Private Secretary*

25 August 1982

The Prime Minister has asked me to thank you for your letter of 23 August enclosing a report on your visit to China in December 1980. I am sure she will find this interesting in view of her forthcoming visit there.

TIMOTHY FLESHER

J. de Normann, Esq.

*Handwritten mark*

RESTRICTED

of Press



Foreign and Commonwealth Office

London SW1A 2AH

24 August 1982

Prime Minister:

agree to send message  
to China Daily as drafted?

Dear Tim,

JH

24/8

China Daily: Message from the Prime Minister

To mark the occasion of the Prime Minister's visit to China the Peking English-language newspaper the "China Daily" is producing a special 8-page supplement on Anglo/Chinese relations and Britain. Major British firms are placing advertisements in the supplement and through the Embassy we are contributing half of the editorial material, mainly from COI sources.

The "China Daily" would welcome a short message from the Prime Minister at the beginning of the supplement. The French Prime Minister contributed a message to a supplement on France last month. We very much hope that the Prime Minister will feel able to respond to this request. I attach a draft text which has been cleared with the Embassy in Peking. The deadline for copy is 10 September but it would be useful to have your decision as soon as possible so that we can stimulate a corresponding message from the Chinese Premier.

Yours ever

John Holmes

(J E Holmes)  
Private Secretary

T Flesher Esq  
10 Downing Street

RESTRICTED

It could be written  
more simply - and would  
then have more impact.

DSR 11C

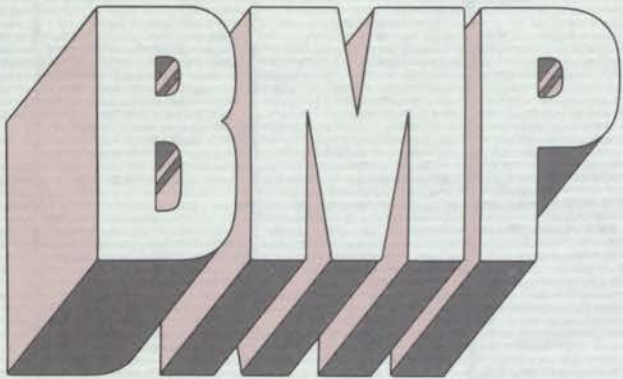
CHINA DAILY SUPPLEMENT: DRAFT MESSAGE FROM THE PRIME MINISTER

I am delighted to have this opportunity to send greetings to the readers of the China Daily as I begin my visit to China. My visit is the first by a British Prime Minister in office to China. It is an <sup>a</sup> appropriate symbol of the ~~growing~~ <sup>increasing</sup> ~~links~~ <sup>links</sup> ~~steady growth in contacts~~ between our two countries. ~~exchanges have been developing particularly rapidly in recent years.~~ <sup>increased</sup> ~~We have expanded co-operation in academic, scientific and educational work:~~ <sup>is increasing.</sup> ~~never before have there~~ <sup>The number of</sup> ~~been so many student exchanges between Britain and China~~ <sup>has never been greater.</sup> We have a useful commercial relationship on which we must build. We have much to offer each other, ~~and much to learn,~~ from our long artistic and literary traditions.

~~These links in turn reflect the very similar positions~~ <sup>with similar positions</sup> ~~that Britain and China have on many international issues.~~ We both see the dangers to the world from aggression and expansion <sup>ism,</sup> and I am confident <sup>by</sup> that by working together we can make an important contribution to world peace.

~~I have been told that I shall see many changes in China since~~ <sup>I know</sup> ~~my previous visit~~ <sup>since</sup> ~~in 1977, when I was leader of the~~ <sup>my visit in 1977</sup> ~~British Opposition.~~ <sup>I know, for example that there has been</sup> I am particularly struck by the very <sup>an example,</sup> ~~large increase in the number of Chinese, both young and old,~~ <sup>increase in the number of Chinese, both young and old,</sup> ~~studying English.~~ <sup>This can only bring our two countries</sup> ~~The study of foreign languages is very~~ <sup>closer together and I am glad we can help with your</sup> ~~important to international understanding, and we in Britain~~ <sup>help</sup> ~~are glad to be able to contribute to China's efforts in this~~ <sup>China's efforts in this</sup> ~~field.~~ <sup>assistance</sup> The advice and expertise which the Thomson Foundation <sup>gives the</sup> ~~is glad to be able to give China Daily is a good example~~ <sup>an</sup> of this new close working relationship. [ We have made great progress. But this is only a beginning. Our ~~friendship~~ <sup>I hope that my visit will help us to</sup> ~~I hope that my visit will help us to~~ <sup>bring our two countries closer together.</sup> ~~bring our two countries closer together.~~

friendship, based on mutual understanding and co-operation  
in many fields, will certainly grow closer and warmer in the  
years ahead, and I hope that <sup>My</sup> visit will contribute to <sup>→ is part of</sup> ~~the~~  
this process.



NATIONAL COUNCIL OF BUILDING MATERIAL PRODUCERS  
33 ALFRED PLACE, LONDON WC1E 7EN  
TELEPHONE: 01 580 3344

as from Ashwell House  
Ashwell  
Herts  
SG7 5NL

23rd August 1982

The Rt Hon Mrs Margaret Thatcher PC MP  
10 Downing Street  
London  
SW1

*Dear Prime Minister*

I understand you are to visit China in September.

I thought you would like to see the summary report of a visit I made in December 1980 on behalf of the British Standards Institution at the request of the Chinese Government.

The purpose of the visit was ostensibly to exchange views on building standards but in fact to promote British building materials and services. The potential in China is large for those companies which are prepared to show a patient and dogged determination to win business in the face of considerable international competition.

Should your staff wish for more detail I can send the reports concerned.

May I wish you the best for your visit.

*yours sincerely*  
*J de Normann*

J de Normann

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SECRETARY: MICHAEL H. F. LORD

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A COMPANY LIMITED BY GUARANTEE

## Visit to People's Republic of China

1-18 December 1980

by J A de Normann, member of the Committee of Management  
of the National Council of Building Material Producers  
on behalf of the British Standards Institution

### SUMMARY

I visited the People's Republic of China from 1-18 December 1980 under the sponsorship of the China Association for Standardization in order to exchange information on standards and codes and practice for building materials, components and construction techniques.

I went to Beijing, Nanjing, Shanghai and Guangzhou giving lectures, taking part in group discussions and visiting research institutes and factories.

Discussion ranged widely over building products, processes, and construction techniques.

There was an opportunity to promote the services of a number of British potential exporters who had been contacted in advance.

The Chinese were keen to have more information from the UK and to establish new contacts. Channels through which this can be done were noted.

The visit was well received. It is recommended that the momentum established should be maintained and that the contacts offered should be taken up.

## SHORT REPORT

### 1. Organization

The visit was organized by the China Association of Standardization in agreement with British Standards Institution. I was a guest of the Chinese Government inside China and they met the expenses of travel and basic living.

### 2. Objectives

I set these for myself as : -

1. to meet the requirements placed on BSI under their agreement with CAS by explaining and expanding in detail British Standards and codes of practice.
2. to promote new contacts in the building materials field between China and the UK.
3. to promote possible opportunities for export to China.
4. to present the UK in a favourable light compared to other overseas competitors.
5. to encourage the Chinese to think British when considering imports of technology and service and to include the UK in any visit programme to Europe.
6. to promote goodwill towards the UK as an essential if early stage of an export programme to China.

### 3. Briefing in the UK before leaving

The CAS sent a list of topics for discussion in advance. I composed my own list in return to bring out as many likely export opportunities as possible. I then briefed myself by discussion and literature. The organizations contacted are attached as an appendix to this report.

I have put a note on literature later in the report.

### 4. Itinerary and programme

This is summarised in an appendix.

### 5. Method of working

This was worked out by CAS and consisted of : -

1. Four group discussions lasting many hours with working groups of technicians drawn from all over China and numbering up to thirty people. The subjects were glass, cement, other building materials and construction generally. They began with a presentation by me lasting several hours, making use of literature and were followed by questions. I tried to ask as many questions about China as they did about the UK.



2. Two broad lectures on the UK construction industry to audiences of about 80 in Beijing and Shanghai. Each lecture lasted two hours and was followed by questions.
3. Visits to the Research Institutes for Building Materials in Beijing and for Glass Fibre in Nanjing. In each case groups were assembled for a question session.
4. Visits to a cement plant in Nanjing and a glass plant in Shanghai.
5. Discussions with CAS staff in Beijing, Nanjing, Shanghai and Guangzhou.

Before I left the UK I briefed myself not only with BSI but with a number of UK organizations which might have products and services likely to interest the Chinese in their present economic difficulty. I took with me 50 lbs of literature in support to cover my promotion. I gave it out as widely as possible and undertook to arrange a considerable programme of follow up from the UK.

For the benefit of future visitors I have noted the contents of my presentations, the discussions which ensued and the follow up actions. These notes have been prepared in four separate parts and sent to those organizations which were promoted or which need to follow up.

#### Literature

I took about 50 lbs of literature with me including a selection of BS and CP documents, an index and a handbook of BS and a number of papers on quality assurance. The index was invaluable and enabled me not only to prepare my presentations in advance but also to answer the bulk of the questions on standards. I presented the BS and CP's as relevant during discussions and the summary papers to CAS (Mr Shu) before leaving.

There was no sign of any of the BS literature which has been sent out already. CAS may have it but the other organizations did not admit to knowing it was there.

I also took with me literature likely to be of immediate interest to the Chinese and provided by those organizations with whom I had discussions before leaving. This I distributed at the time I spoke about the subjects it covered.

This literature was very welcome. The Chinese appear to be starved of the literature on current products and services offered, certainly from the UK. They would welcome more on an organized basis. They say that they will circulate it to all interested parties throughout the nation.

#### 7. China Association for Standardization

The CAS is a somewhat academic body which is closely connected with the Bureau of Standardization, has staff in common and uses their office in Beijing. This organization is repeated through the provinces.

Apart from providing an interpreter and an engineer and organizing my programme CAS took no part in the discussions. The major part was played by the Ministry for Building Material Industries and their Research Institutes together with the Institute of Documentation Service and Standards of Building Materials. Although CAS has signed the exchange it has no information to exchange in return for information provided by BSI. They therefore have to rely on the good-will of other organization for information. This became clear during my visit.

On arrival I dined with Mr Yue who evinced very little interest in us or our programme. After that I met no one from CAS other than the two allotted to me until I insisted on a discussion of the programme before leaving Beijing. Mr Hu, deputy director of the International Liaison department was produced at the last moment since Mr Yue was too busy to see me.

I thanked him for the arrangements and for the kindness of his staff. He emphasised that CAS was an academic body working with the State and Provincial bureaux of Standards as a focal point to bring together the views of all those affected by standardization and to reach agreement on the contents of standards. There were currently 2500 national standards and 15 000 ministry standards.

CAS clearly have an international role as well as a domestic one and their interpreters have travelled to Geneva, Brussels and Paris.

Mr Hu made a special point that China was a planned economy and that there was no competition for construction contracts. I was told otherwise on another occasion; that in Beijing various construction organizations compete for work.

I told Mr Hu that I hoped my visit would lead to further visits by BSI, to return visits by Chinese to the UK and that it would broaden the range of contacts between China and Britain. I said I was hopeful that some information service for UK construction products could be organized in China so that the Chinese could keep up to date with what was available. I also hoped that some training for Chinese technicians could be arranged in Britain.

I had these comments to offer on CAS arrangements : -

1. It would be helpful to have an outline itinerary in advance, say by telex, to help in planning the clothes to be taken for instance. It would also help the family of the visitor to know where he was.
  2. Advance information on group discussions would help; especially the extent, the duration expected and the technical level of the audience. Names of those attending were not important in advance but were vital at the time.
  3. Advance information of a similar nature would help the planning of major lectures.
  4. An organized session at the end of the visit would be appreciated.
- Mr Hu thanked me for these suggestions.

I had the impression that CAS was not very efficiently run. There was grumbling from its staff.

I could not find out much about the other european agreements. West Germany sent their Head of Information Retrieval by Computer from DIN. He spent 20 days in Beijing and 10 more divided between Shanghai and Guangzhou. He spoke English using Mr Wang as interpreter.

The USA sent Mr Forman, an Assistant Secretary of the Department of Commerce. Again Mr Wang interpreted. I could find out nothing about the French who used their own language.

#### 8. Chinese economy and construction

There are signs that the people are beginning to query the sacrifices demanded by the state. The failure of the Cultural Revolution and the Trial has shown them the fallibility of their leadership.

Productivity has dropped; people are not working hard and the army is rather sloppy. To combat the trend the Government has raised wages of both workers and peasants and has increased their purchase price for agricultural produce.

A large budget deficit has resulted. Output has dropped especially in oil and coal and grain has had to be imported. The Chinese have not been able to keep their agreement with Japan to exchange energy for technology and capital goods.

Capital goods imported have not always been satisfactory especially the German steel plant which does not work at expected output.

These factors have combined to cause the State to put a temporary stop on capital construction and the import of capital goods. They are concentrating on the increase of manufacturing efficiency without loss of employment and on the increase in the efficiency of the use of indigenous materials. They aim in this way to raise the standard of living and to free materials for export while reducing imports, especially of foodstuffs. At the same time they are encouraging light industry to try to put more goods in the shops for the people to buy. Population growth worries them and the means taken to reduce it are severe and probably effective.

Building activity is concentrated on the provision of apartment housing in cities, on new hotels for the tourist industry and on civil engineering schemes. Oil search is a high priority especially off shore. Energy saving is of great concern to them.

Opportunities for British exporters in the short term appear to lie in know how and training to achieve the twin aims of increased productivity and better use of indigenous raw materials especially fuel, timber and asbestos.

#### 9. Achievement of objectives and future actions

1. CAS should be pleased with the information they received under their exchange agreement with BSI. They can hold their heads high with their colleagues in other Government departments.

2. Goodwill must certainly have been created if my reception was genuine which I think it was.

3. They told me I was the first construction generalist from Britain to visit China. They hoped I would not be the last and they talked about further visits to keep them up to date.
4. Many areas of exchange that were new to them were brought to their attention. Much will now depend on the response from the UK and we must do all we can to encourage the UK organizations involved.
5. If we could cause a regular information flow to China with widespread dissemination there we would have taken a step forward.
6. Ways and means of training Chinese technicians in the UK should be examined.
7. British industry and other organizations should be pleased with the results of this initiative by BSI.
8. Britain has an advantage with the English language which is widely taught in Chinese schools and which technicians need if they are to read the literature. We should make the best use of it.
9. No other country appears to have provided such a widespread coverage of what they do and what they have to offer in the construction industries. The people I met seemed well pleased with what they have got from the exchange but nevertheless the follow up is vital if we are to retain the initiative. British exporters have several years of work ahead of them if they are to be ready when China's troubles are over.

#### 10. British Embassy

I did not visit the British Embassy in Beijing. I wrote to the Ambassador before leaving but I did not receive an answer. When I got there I telephoned Mr D Coates, the Commercial Secretary and he kindly gave me lunch. I explained the purpose of my visit and he gave me what information he could. They have very little information on the building industry. He is leaving in April.

#### 11. British Trade Commission, Hong Kong

I saw Mr P A B Thomson who speaks Chinese and takes a keen interest in building materials in Southern China in addition to Hong Kong. He was very interested to hear about the potential in China and about the BSI initiative.

He does not believe in general that the commercial gateway to Southern China lies through Hong Kong. He feels that exporters should make their case initially in Beijing and then follow through to appropriate province or municipality.

He advises against the use of an overseas Chinese as an intermediary since it usually muddles the Chinese and may make them suspicious of added costs.

Investment from Hong Kong is however important and here the Bank of China has an important role.

## 12. Notes for future travellers

1. These visits are not for the physically unfit. You will start work at eight in the morning; have an hour and a half off for lunch and finish at six. During that time you will lecture or work in groups on perhaps two different fields. You must remain constantly alert especially if on your own, because you will be helping to form a Chinese view of Britain. In the evening you will need to write up notes and then to prepare for the next day. If you have been entertained you may not be able to start work before 10 p.m.

2. The Chinese will continually ask questions about commercial plants and processes. In any case it was Pilkington Float Glass and glass fibre processes. Keep explaining the difference between the Capitalist and State systems. They understand this perfectly well but they hope you may be overawed into giving something for nothing.

3. Plan your approach and insist on it. When confronted by a group, ask for a list of names and organizations. Ask each man to describe the work of his organization and his own job. Match question for question. Above all do your homework both in the UK and before your meetings. Never pretend to understand if you do not and never fudge an answer. Tell them you will try to get the answer when you return home.

4. Remember you are a 'foreign expert' and will be judged on your own performance. You will get no marks for any position you may hold in the UK, only for your knowledge. You are there to be bled by Chinese experts not to exchange pleasantries with Chinese management who are usually tied up with internal politics or budget finance.

You must not expect more than 70% or perhaps only 40% of what you say to survive interpretation so use aids. Talk to literature, use slides, draw on a blackboard and make use of every would-be English speaker in the room. The audience often correct the interpreter in technical matters and are surprisingly well read. English is taught in schools. Most of them go on working at it. It is to our advantage in export.

5. Do not mind if you do not get time from more senior people in administration. It is largely wasted with platitudes. You are a success however if there are more questions than time.

6. There are however exceptions. I met two senior technical managers who were aged over 50, very knowledgeable and spoke without an interpreter. I would like to have spent hours with them but the anti elitist hang over from the Cultural Revolution demanded that all their staff must have equal opportunity to question me. Talk with such senior people is far more satisfying than answering minutiae about British Standards.

7. The Chinese will accept you at your own valuation. You start at a disadvantage as a 'foreign expert'. They expect you to be a walking dictionary of detail. You need to disabuse them of that idea good, hard, early and repeatedly. After a while they learn your strengths and they modify their questions, and probably the audience accordingly. If only they had read the British Standards before I arrived. They must be locked up in some vault.

8. If possible send two people together. It will make the work easier.

You will be left on your own in the evening except on the infrequent occasions on which you are entertained. It can be lonely. The CAS staff are not allowed to eat with you and they will disappear to another dining room where the food appears to be better and more plentiful since it is usually the hotel staff dining room.

Expect second class hotels. First class is for tourists who pay in foreign currency. It still does no harm however when staying in that open prison in Beijing known as the Friendship Hotel to say from time to time that you hope other hotels will be more cheerful.

9. Take more money than you think you need. The 'foreign expert' guest of the Government is fed the standard five bowls at lunch and dinner. You need to buy wine, chocolate and other food such as fruit to supplement your diet. You need to pay for tax<sup>s</sup> if you want a night out. Good restaurants are very expensive. So are telephones.

10. Do not believe anyone who tells you you do not need to entertain your hosts before you leave. They are buzzing with expectation several days before. Ours chose the best restaurant in Guangzhou and spent 50% more than I suggested. It was delicious however.

12. Be careful with presents. Make them mementos of your visit for wives and children. Sweets; place mats with pictures of London, etc. Bigger people require bigger presents and take them for granted; handing them to an underling as they do in the Middle East. Presents are forbidden however.

13. Visiting cards are scarce. Yours is treasured but do not expect many in return. I collected five on my entire trip. It is a problem to find out to whom one was talking since the Chinese find great difficulty with the new pinyin phonetics.

14. Do not be squeamish about food or you will go hungry (unless of course you go out to eat but time often does not permit). Except for breakfast Government issue for the 'foreign expert' is Chinese and you must adapt to food which is rather different from Chinese restaurants in London.

15. Be prepared for all weathers especially if like me they do not tell you in advance where you are going. On arrival Guangzhou was sub tropical. I flew to Beijing where it snowed and seldom rose above freezing with a biting wind from Inner Mongolia. At Nanjing it froze at night but was sunny by day. It is difficult to arrange clothing for these changes when limited to economy air weight.

16. You carry your own luggage in the People's Republic. My interpreter had more luggage than I had while his colleagues preferred small parcels.

17. Steel yourself not to look when being driven especially at night. However it is astonishing how few accidents there are.

18. However much you write in advance about your private interests, work comes first and they will fit in what they can. I asked for archaeology, museums, botanical gardens and a long train trip. My colleague got the archaeology and long train trip because it matched his work schedule. However locally ask for what you want. They will try to help. The difficulty is to know what is there. If only I had read more before I went!

19. Take care in shopping. You will always be taken to the Friendship Store partly out of courtesy and partly from salesmanship. Prices will average 25% above an ordinary store and perhaps 50% above Hong Kong. But how will you find time to find the ordinary store and will it be in Hong Kong anyway? On balance seize the opportunity for curios and silk; leave clothing for Hong Kong.

CAS staff like the Friendship Stores to buy pens, soap, razor blades, socks and cigarettes. You provide the opportunity.

20. In off-duty conversations no subjects are barred provided you approach them with tact. Be prepared to answer back. They will bombard you with accusations about imperialist behaviour in China and how you failed to help the Czechs and so on. Basically they are not well informed so you can always turn the question with another. At heart they are kindly and have a sense of humour and laughter is infectious. As an example they told me that Elvis Presley was probably murdered by rival pop singers!

J A de Normann

11 February 1981

JA deN/JC

Red River Co Ltd

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01-232 1271

APPENDIX

Contacts involved in pre-visit briefing

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Rushington  
Nottingham NG21 4JH  
Tel: 0182 217644

National Building Agency  
7 Arundel Street  
London W12  
01-434 4188

Tarmac Building Products  
Mary Gate  
17-19 Belgrave Street

JAdM/OM  
13 February 1981

The following were not consulted in advance of the visit

Redland Ltd Redland House Reigate Surrey RH2 OSJ	Mr Colin Corners
Ibstock Overseas Ltd 29 Crawford Street London W1H 1PL	Mr W M F Johnson
Cementation Chemicals Ltd Bentley House Doncaster Tel: 0302 66766	Mr C P Farnon
FEB Ltd Albany House Swinton Hall Road Swinton Manchester Tel: 061 794 7411	Mr P Horne
Phoenix Timber	Mr A Gourvitch Mr Vic Serriahof
Cook Bollinger	
Cement Makers Federation Terminal House 52 Grosvenor Gardens London SW1V OAB	Cmdr Henry Pinnock RN retd
Ready Mixed Concrete Ltd 32 Chesham Place London SW1X 8HB	Mr G S Tyler
Department of Health 194 Euston Road London NW1	Mr Howard Goodman Chief Architect
Yorkshire Imperial Plastics Ltd	Mr Gordon Catterick

JAdM/OM  
13 February 1981

Appendix

ITINERARY AND PROGRAMME

- Saturday 29 November 16 00 hrs. BA 003 Rome, Dubai, Hong Kong
- Monday 1 December Train Kowloon to Guangzhou  
Meet CAS representatives.  
Fly CA Guangzhou to Beijing  
Arrive 11 p.m. Stay Block 4  
Friendship Hotel
- Tuesday 2 December Programme discussion  
Sight seeing  
Dine with CAS
- Wednesday 3 December Group discussion on glass, Negotiation  
Building, New Building Materials  
Corporation.  
  
Visit to Research Institute of Building  
Materials and discussion
- Thursday 4 December Group discussion on glass continued, same  
location.  
Lecture to audience of about 90 technicians  
concerned with building on Construction  
and the use of building materials in the  
UK. State Bureau of Standards Building  
followed by discussion and questions.
- Friday 5 December Group discussion on cement and concrete -  
all day. Negotiation Building, New Building  
Materials Corporation.
- Saturday/Sunday 6/7 December Sight seeing.
- Monday 8 December Group discussion building materials - all day.  
Negotiation Building, New Building Materials  
Corporation.
- Tuesday 9 December Group discussion on construction regulations,  
standards and codes of practice - State  
Bureau of Standards Building.  
Meeting Mr David Coates, First Secretary  
Commercial, British Embassy.
- Wednesday 10 December Group discussion continued.
- Thursday 11 December Fly CA 1507 to Nanjing. Stay Nanjing Hotel  
Meet CAS representatives  
Visit Research and Design Institute for  
the Fibreglass Industry,  
Ministry of Building Materials Industry,  
Chunghwamen near Nanjing.

Friday 12 December	Visit Jiang Nan Cement Factory at Qi Qia Xian followed by discussion Sightseeing.
Saturday 13 December	Lecture to widely drawn audience of about 70 building technicians at Institute of Industrial Chemistry, Nanjing. Sight seeing.
Saturday 14 December	Train 81 to Shanghai Meet CAS representatives Discussion Sight seeing Stay Jin Jiang Hotel
Monday 15 December	Visit to Yao Hua Glass Factory East Shanghai Discussion Sight seeing.
Tuesday 16 December	Sight seeing Fly CA 5301 to Guangzhou Stay Dong Fau Hotel Meet CAS representatives.
Wednesday 17 December	Sight seeing Farewell dinner to CAS.
Thursday 18 December	Train to Kowloon.
Friday 19 December	Discussion with Mr P A B Thomson British Trade Commission Hong Kong.
Saturday/Sunday 20/21 December	Fly to London

File

288

31/8

Julian AMERY, MP

Chased - on its way KD 1/9

23 August 1982

I enclose a copy of a letter to the Prime Minister from Mr. Julian Amery M.P., which expresses some thoughts about the future of China. I am inclined to suggest to the Prime Minister that she simply thanks Mr. Amery for his comments, but perhaps you could let me know if there are any points you would wish to make in the Prime Minister's reply, and if so, let me have a draft by Tuesday 31 August at the latest.

W. F. S. RICKETT

John Holmes, Esq.,  
Foreign and Commonwealth Office.

SW.

file

059

23 August 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 19 August.

I will place your letter before the Prime Minister and a reply will be sent to you as soon as possible.

W. F. S. RICKETT

The Rt. Hon. Julian Amery, M.P.



Mr. Coles

W0546

19 August 1982

TO: MR MACRAE, FCO

FROM: R B NICHOLSON, CABINET OFFICE

DF  
19/8

I am not quite clear what the status of the discussions on China is, following John Coles' minute of 30 July reporting the Prime Minister's views on the subject of technical co-operation. However, reading the minute did remind me that when the Chief Scientist of Hong Kong, Dr John Wright visited Whitehall Departments earlier this year he did stress the value of carrying out a programme of technical co-operation with China via Hong Kong. The Chinese are used to dealing with Hong Kong in various areas of technology - for example, civil engineering and electronics - while Hong Kong has many contacts with United Kingdom institutions of science and technology. Funnelling the small amount of money to China in this way might be much more effective than the original proposal from ODA and could overcome the Prime Minister's objection to that.

I suppose also it might have benefits to the status of Hong Kong itself in Chinese eyes.

I am copying this minute to John Coles and to recipients of his letter of 30 July.

lhw .  
(Dictated by Dr Nicholson  
and initialled in his absence)

19 AUGUST 1959

11 10 9 8 7 6 5 4 3 2 1

cc: lan Jan 23/8



FROM: THE RT. HON. JULIAN AMERY, M.P.

112, EATON SQUARE,  
SWIW 9AA  
TEL: 01-235 1543  
01-235 7409

22/8

19th August, 1982.

Dear Margaret,

I see from the press that you have been carefully briefed by our Chinese experts in preparation for your visit to China.

I don't pretend to be an expert in any way on that sub-continent but having spent 6 months on Chiang Kai Shek's staff during the war and since then made two visits each to Taiwan and later to Communist China I have given some thought to Chinese history. I would therefore venture to make one simple point.

China has enjoyed periods of unity - notably under the Ming (South Chinese) and under the Ching (Manchurian) dynasties. But complete unity has usually been short-lived. The Communist regime in China is predominantly a northern regime. The Gang of Four may well represent a very substantial part of the Communist Party. It is difficult today to imagine Taiwan making a come back, but if there were to be another civil war the Taiwan army, backed by substantial stocks of rice, sugar and dollars might still have a part to play. I would not dream of prophesying beyond suggesting that Chinese unity is precarious. The Soviets will also be working for disruption both from Vietnam and Vladivostok.

The whole Chinese picture may thus look very different in 10 or 15 years time from what it is today. While therefore it may be difficult to avoid discussing the future of Hong Kong, there may be a case for playing for time unless of course solutions are proposed from the Chinese side which are clearly advantageous to us. Given a vastly overpopulated country and one very short of natural resources in a world as deeply divided as ours is today, the odds on China remaining united look fairly long.

Yours,  
Julian Amery

The Rt. Hon. Mrs. Margaret Thatcher, MP



China  
19/8.  
Foreign and Commonwealth Office

London SW1A 2AH

18 August 1982

Dear Tim,

Letter to the Prime Minister from Lord Shepherd: Future of  
Hong Kong

Thank you for your letter of 12 August enclosing a copy of Lord Shepherd's letter of 10 August to the Prime Minister.

Lord Shepherd has in the past written in similar vein to Ministers here. His comments are a useful supplement to other information received on the subject of Hong Kong's future. On this occasion they take a sensible line but contain little that is new. An expression of thanks should be sufficient, together with an assurance that the Prime Minister is of course fully alive to the question of confidence in Hong Kong.

Yours ever

John Holmes

(J E Holmes)  
Private Secretary

T Flesher Esq  
10 Downing Street

Mr Coles

d/r

Keep on file. Take on

crip.

A.J.C. 6/9.



10 DOWNING STREET

17th August 1982

My dear Kenneth,

Intermediate Technology Industrial Services

I am enclosing a copy of a letter dated 6th August which I have received from Mr David Wright, who is General Manager of I.T.I.S.

This sounds very interesting.

Could you write to him direct, please, with a copy to me?

✓ I am handing a copy of this letter and of its enclosure to John Coles, who is the Prime Minister's Foreign Affairs Private Secretary here.

IAN GOW

Kenneth Baker Esq MP

MJ

CF ✓

FCO asked to return attachments  
to YKP's letter with their reply



Sir Y.K. PAO BU 27/8

10 DOWNING STREET

*From the Private Secretary*

17 August 1982

The Prime Minister has received the attached letter from Sir Y.K. Pao which encloses two copies of articles published in the latest issue of "Zheng Ming". As you will see Sir Y.K. Pao also suggests that a senior representative of the Hong Kong Government should accompany the Prime Minister on her visit to China. I should be grateful for a draft reply to Sir Y.K. Pao for the Prime Minister's signature by Friday 27 August.

TIM FLESHER

John Holmes Esq  
Foreign and Commonwealth Office

HU

MFJ

BF ON FRIDAY 27 AUGUST

2

17 August 1982

I enclose a copy of a letter the Prime Minister has received from Sir Charles Pringle enclosing briefs prepared by the Society of British Aerospace Companies for her forthcoming visit to China and Japan. You may like to consider what use can be made of this material in the preparation of briefs for the visit.

I am sending a copy of this to Jonathan Spencer (Department of Industry).

TIM FLESHER

John Holmes Esq  
Foreign and Commonwealth Office.

9

17 August 1982

The Prime Minister, who is out of the country at the moment, has asked me to thank you for your letter of 16 August enclosing briefs produced by the Society of British Aerospace Companies for her forthcoming visit to China and Japan. I shall ensure that the Prime Minister sees these briefs on her return from her holiday; I know she will find them most useful.

TIM FLESHER

Sir Charles Pringle, KBE.



CF. 2

THE SOCIETY OF BRITISH AEROSPACE COMPANIES, LTD.

29, KING STREET, ST. JAMES'S,  
LONDON SW1Y 6RD

DIRECTOR:  
SIR CHARLES PRINGLE, K.B.E., F.Eng., F.R.Ae.S.

TELEPHONE: 01-839 3231 (10 LINES)  
TELEGRAMS: THESBAC, LONDON, S.W.1  
TELEX: 262274

16th August 1982

The Rt. Hon. Margaret Thatcher, MP.,  
10 Downing Street,  
London SW1.

*I am Prime Minister,*

*Prime Minister:  
I have acknowledged on  
your behalf and asked that  
these be taken into account  
in the preparation of your briefing.  
If you wish to reply personally  
a draft is attached.*

CHINA AND JAPAN

I am enclosing herewith briefs prepared by this  
Society on the current state of United Kingdom aerospace  
business with China and Japan.

I hope that these prove useful background information  
to you for your forthcoming visits and will emphasise the  
importance of pressure on both Governments, particularly the  
Japanese, of the advantages of purchasing United Kingdom  
aerospace products.

Should you require any further information on aerospace  
products in this country, I shall be only too happy to  
provide it to your office.

*Y*  
*Barry,*  
*Charles*

Enc.

CNSP/JLH

CHINA - MARKET PROSPECTS FOR THE UNITED KINGDOM AEROSPACE  
INDUSTRY

BRIEF FOR THE PRIME MINISTER BY THE SOCIETY OF BRITISH  
AEROSPACE COMPANIES LIMITED

Introduction

1. Despite the general frustration experienced by British companies in the wake of the severe cutbacks in capital projects made by the Chinese in 1980, very considerable efforts continue to be made by the U.K. aerospace industry to build up a two-way trade with China, satisfactory to both countries.

2. The situation should be viewed against the background of the close relationship which has been established with the Chinese for some two decades, starting with the sale of Viscounts and then Tridents, and followed by the agreement to license the manufacture of Rolls-Royce Spey engines in China. This relationship has been particularly close during the last two years following the SBAC Exhibition and Seminar in Shanghai in 1980, and the visit of several high level Chinese personalities and Chinese Missions to the U.K.

Exhibition and Seminar in Shanghai

3. In March/April 1980 the SBAC mounted a major Exhibition and Seminar in Shanghai, which was opened by Vice Premier Weng Zhen in the presence of Mr. Francis Pym as Secretary of State for Defence. 67 companies participated and 82 lecture presentations were made by 36 companies. The number of Chinese visitors was estimated at 60,000. This SBAC initiative was the first major Briefing on Western aerospace technology given to the Chinese and we know that in the subsequent period they have used the time to evaluate the information provided at the SBAC seminar and also to send technical evaluation teams to the USA, Italy, France and Germany. It is thus apparent that the Chinese are amassing very detailed information on a wide range of subjects both from ourselves and from our competitors. This careful comparison of available systems from all quarters is an essential part of the Chinese procurement process, but there are signs that decisions will now begin to be taken during the next two years.

## Chinese Missions to U.K.

4. The Shanghai Exhibition was followed by the presence of three inward missions from China during and immediately following Farnborough International '80; an Air Force mission, an industrial mission and also a mission from the China Society of Aeronautics and Astronautics. The Chinese industrialists and others were thus enabled to renew their contacts with many of our Member companies who had participated in the Shanghai exhibition. At Farnborough '82 there will again be a high level civil mission from China.

5. The point has been stressed by the Chinese on a number of occasions that the importation of Western equipment and technology will have to be paid for by the exporting of Chinese products. A successful Chinese exhibition of castings, forgings and other metallic products was organised here in London by the China National Aero-Technology Import and Export Corporation (CATIC) in association with the SBAC and the Sino-British Trade Council. It was seen by the Chinese as an important step in implementing their "two-way" policy.

### "Two-Way Street" with China

6. The Chinese have raw materials to sell; they have semi-finished products industries which they wish to develop; and they want to develop higher technologies when they can afford it. In these circumstances, the U.K. will receive most marks from the Chinese if we attempt to carry on our trading with a strategy that embraces these three levels. Joint projects may not be enough in themselves and what may be needed is a long term strategy that has a 'vertical' dimension, i.e. covering raw materials, processing, fabrication, etc., through to total systems.

### Chinese Government Organisation

7. A factor contributing to the relatively slow progress of the Chinese market has been the major re-shaping of their Government organisation. The reduction to two Vice Premiers (Wan Li and Yao Yilin) and the emergence of clearly defined Ministries, each with its own Minister, with specific responsibilities for Avionics (Mo Wenxiang), Electronics (Zhang Ting), Ordnance (Yu Yi) and Space (Zhang Jun), will it is hoped result in a more effective procedure for establishing requirements and implementing them.

### Consultancy Arrangements

8. The idea of a technical consultancy in some areas is still being considered. A major technical assistance project would, however, make heavy demands upon the resources of those involved and, even if the Chinese were prepared to award consultancy contracts, these could fall short of normal commercial criteria. As the Chinese appear to be fully determined to advance their own technology base, such consultancy arrangements may have to be accepted, despite the technical and commercial difficulties they impose, as providing the only way in to the longer term market. If we, as an industry, were to decline to become involved we may damage our long term position. It is hoped that HMG may see its way, for political, strategic, or other reasons, to take a long term view in regarding China as an area of strategic importance and thus be willing to assist in the starting up of joint projects with China.

### The Competition

9. In the context of the detailed mass of information being acquired by the Chinese from our competitors who, in turn, are not slow in attempting to sell to China, it is known that the Chinese have presented a shopping list of defence equipment to the US Authorities during the official visit by the Deputy Chief of Staff of the People's Liberation Army to the USA. No details are available. In addition, the Chinese are now to manufacture French Dauphin helicopters under licence. With the Americans and the French now in the field, competition will be tough and no opportunity should be missed to involve the Chinese in sales drives, exhibition, and seminars, and to exert every effort to keep Britain well to the fore.

### Further Missions and Seminars

10. We intend to consider shortly a mission follow-up to our very successful seminar of March/April 1980. Rolls-Royce recently gave a high level technical symposium in Peking to a wide and senior audience. This greatly appealed to the Chinese who have suggested to other companies that they should follow this example.

### Current and Potential Projects

11. There are a number of current U.K. projects with China - the Trident aircraft operating with CAAC, the Rolls-Royce Spey programme, and the Marconi Avionics contract for the supply of avionics equipment to the F7 fighter aircraft. There are a number

of other prospects for the future, of which the Sea Dart project as part of the Navy modernisation programme is the most immediately significant (see para 3 of Annex).

British Industrial Representation in Peking

12. Peking-based representatives of British companies have, with the support of the British Embassy, formed an Association for British Commerce in China. The Chairman is Air Vice Marshal D.C. Stapleton, Chief Marketing Executive (China) of British Aerospace Dynamics Group.

Conclusion

13. There are many potential opportunities for the U.K. aerospace industry in the Chinese market and we remain hopeful of success, despite difficulties and the protracted negotiations involved in any contract. Clearly, the U.K. aerospace industry would greatly welcome anything that can be done during the Prime Minister's visit to promote our interests.

CNSP/LSM

13th August, 1982

PAST AND CURRENT CHINA PROJECTS OF  
DIRECT INTEREST TO THE U.K. AEROSPACE INDUSTRY

F8 Re-Design Programme

1. The F8 is a Chinese re-design of a Mach 2 aircraft incorporating technology gleaned from the Soviet MiG 23 variable geometry combat aircraft, a few of which were received from Egypt in 1976. The aircraft is at present undergoing development at Shenyang. The interest which the Chinese expressed, and which appeared to be strong, in obtaining U.K. assistance on several specialist equipment and system aspects of the F8 did not materialise, and this has been a disappointment.

Air Force

2. Business potential with the Air Force at present remains unclear. After a successful beginning in 1979, discussion on the Harrier aircraft with the Third Ministry of Machine Building and the Air Force continued through 1980 and 1981. These led to interest being generated in both the Hawk advanced trainer and the Tornado. These interests still exist and contact with the Chinese has included the evaluation of the Tornado and Harrier aircraft in the U.K.

Sea Dart Missiles for Navy Modernisation Programme (British Aerospace Dynamics)

3. The most important defence project now being negotiated with the Chinese is the sale of Sea Dart as part of the modernisation programme for the Chinese Luta Destroyers. The negotiations have been extremely complex and prolonged, and have also involved a separate but associated Chinese contract with Vosper Thornycroft. The latter has run into difficulties, but the Chinese have nevertheless given clear indications that the British Aerospace contract for Sea Darts should be initialled and then signed before the Prime Minister's visit. The value of the initial contract is for £70m for two ship sets of equipment, missile systems hardware and missiles. It should lead to considerable further business for Naval missile systems.

Other Guided Missile Prospects (British Aerospace Dynamics)

4. There are signs of increased Chinese priority for defence and the Chinese have revived the possibility of a proposed consultancy agreement on air to air weapons. There are also other market possibilities if funds are made available for an area air defence system (land based version of Sea Dart and Rapier point defence).

Satellite Communications (British Aerospace Dynamics)

5. Renewed efforts are being made to pursue the market for a satellite communication system. Earlier the Chinese intention had been to build their own system and were therefore only interested in buying technology. Recently there has been an awareness that off-shore procurement must be seriously considered, and the Dynamics Group of British Aerospace would welcome an invitation to visit China for discussions, in the knowledge of the strong USA competition they would have to meet.

Civil Aircraft (British Aerospace)

6. British Aerospace have supplied in the post war years 6 Viscounts and 35 Tridents. These latter aircraft currently form the backbone of the internal airline services. A number of the aircraft are in service with the Air Force providing VIP and staff transportation. BAe have maintained a close relationship with the Civil Aviation Administration of China (CAAC), the National airline of the PRC, and also with the Ministry of Aviation Industry (formerly the Third Ministry of Machine Building). Numerous visits have been made, in both directions, and a team of Chinese engineers have been based at Hatfield for more than two years.

7. Every means are being used to persuade the Chinese to give more serious consideration to the new BAe 146, 80-100 seat jet aircraft, as a modern replacement for the shorter range routes of their internal services. The BAe 146 has the advantage of latest technology, greater fuel efficiency, very low noise and low engineering cost. The aircraft is capable of operating from hot and high altitude airfields and also from short unpaved runways. We believe that there is a strong case for the BAe 146 to replace the ageing and unreliable Russian AN-24 twin turbo-propeller aircraft, and also for it to operate some of the more difficult routes to places like La-Sa in Tibet.

8. British Aerospace have placed a small contract with the Chinese for the manufacture of under-carriage doors for the BAe 146 and also initiated a number of exchanges with third parties, outside China, aimed at creating a base for counter-trade to be associated with the possible acquisition of BAe 146 aircraft.

9. The competition is against Boeing with the 737-200 and McDonnell Douglas with the DC9-80; the 737 is believed to be leading the competition, on offer on very attractive terms. The CAAC have had demonstration flights of these aircraft and also the C-130. The US manufacturers concerned, as well as BAe, now have agreements to place subcontract work with the Chinese aircraft industry.

10. The CAAC have established committees for the evaluation of new aircraft and there is also renewed interest in the Airbus as well as in the smaller short/medium haul jet aircraft. Turbo-prop aircraft do not feature in this aspect of planning as CAAC have many such aircraft. The Chinese intend to develop their own aircraft design and manufacture capability "from small to large". They have recently successfully testflown the 711 T1 agricultural turbo-prop aircraft which they hope to market worldwide.

#### Aero Engines (Rolls-Royce)

11. Rolls-Royce signed an £85m five year contract in December 1975 for the licence and transfer of technical know-how for manufacture of the military Spey 202 engine in China, together with parts and material to support the licence. The Chinese have succeeded in manufacturing and testing Spey 202 engines of the required quality and performance using material supplied from the U.K. Although the Chinese have yet to commence full engine production, some parts are manufactured for Rolls-Royce on a subcontract basis. Prospects exist for joint development of industrial and marine versions of the military Spey engine, including off-shore oil and gas pumping applications.

12. With the negotiations well advanced for the sale of the BAe Sea Dart missile, this would be powered by the Rolls-Royce Odin engine.

13. A team from China has recently visited the USA to evaluate wide-bodied aircraft, with possible prospects for the Rolls-Royce RB211 engine. China is also a potential market for the RB211-535 and Rolls-Royce/Japan RJ 500 engines, for other aircraft types, in



the longer term. Other areas of possible Chinese interest are for Rolls-Royce powered pumping equipment and in the Type 42 destroyer design, which could give Rolls-Royce short term sales prospects.

Helicopters (Westland)

14. Westland have made several attempts to follow up interest generated in military helicopters at the time of the Shanghai exhibition in 1980, but this interest appears to have faded. Prospects are, however, better for sales of the Westland 30 for use in support of off-shore oil exploration and the servicing of rigs.

Hovercraft (British Hovercraft Corporation)

15. British Hovercraft Corporation have offered a Compensation Trading arrangement for their new AP 188 diesel engined hovercraft. The Chinese are now waiting for the prototype trials to be completed before visiting BHC again early next year. Their primary interest in this craft is for the Hong Kong/Canton route and for the support of the off-shore oil industry and, like the helicopter, interest is for civil operations.

Equipment (Marconi Avionics)

16. Marconi Avionics have a contract with CATIC covering development and supply of a range of avionic equipment for installation in the Chinese Type F7 fighter aircraft, including equipment to assist in flight trials; there is an obligation to enter into negotiations with a view to concluding manufacturing licences. The F7 fighter is a Chinese copy of the Russian MiG 21, delivered to China prior to the political break in 1960/61. It is said now to equip two air regiments of the People's Liberation Army. Apart from some early attempts by the Chinese to vary the contract, the first two years have passed relatively smoothly. Flight trials have commenced and the programme is in an important phase. Extended negotiations have taken place regarding licence agreements. In this respect, the Chinese have amended and reduced their requirement from that originally specified in the supply contract and are now also proposing that the licence agreement should be split between the Third and Fifth Ministries (with a possibility that the Fourth Ministry might also be involved). This action by the Chinese has complicated negotiations. Otherwise no changes to the original requirements have been negotiated.

Equipment (Smiths Industries)

17. Smiths Industries continue to provide spares for the Tridents in China and they have several licence Agreements covering engine equipment for the Spey engine. They have also licensed a radar altimeter which is being used together with Marconi Avionics equipment for up-dating the Chinese F7 aircraft. These arrangements are proving very satisfactory for both the Chinese Authorities and the company. Smiths recently had a visit from some of the senior CATIC officials who indicated that a further project would be very much to their liking and it is believed that they are interested in more advanced engines and engine equipment.

18. The company was very disappointed that nothing developed after very prolonged discussions with the Chinese on other aviation equipment for the F8 aircraft, but it is ready to raise this matter again with the Chinese at an appropriate time.

Communications and Radars (Plessey)

19. There are opportunities for communications systems for off-shore oil installations and for air traffic control radars.

Materials (IMI)

20. IMI Titanium have been in prolonged discussions with the Chinese on a technology transfer deal, whereby they would help to improve the quality and management of the Titanium Complex at the Baoji Works. The company has put forward many proposals, offering flexibility on methods of payment for the deal, e.g. by counter-trading in commodities etc., and parties of Chinese have visited the U.K. works, but so far with no definite conclusion.

CNSP/LSM

13th August, 1982

JAPAN - MARKET PROSPECTS FOR THE  
UNITED KINGDOM AEROSPACE INDUSTRY

BRIEF FOR THE PRIME MINISTER  
BY THE SOCIETY OF BRITISH AEROSPACE COMPANIES

Introduction

The United Kingdom aerospace industry has a continuing dialogue with Japan in an attempt to penetrate the Japanese aerospace market. In the past, the UK made a substantial contribution to the Japanese YS-11 turboprop airliner which is powered by Rolls-Royce Dart engines and which gave the Japanese the opportunity to manufacture a number of British equipments under licence. In addition:-

- a) Adour engines which power the Japanese Air Self-Defence Forces' MHI T-2 (training) and F-1 (fighter) aircraft are made under licence from Rolls-Royce.
- b) Rolls-Royce and a consortium of Japanese companies are collaborating on the development of a new engine (RJ 500) for the projected 150 seat airliner. Further details are at Annex A.

Exhibitions and Seminars

The SBAC organised an Exhibition and Seminar in Tokyo in February 1982; this was opened by the UK Secretary of State for Trade. The opportunity was taken for simultaneous discussions between a high level UK aerospace industry Mission and the Japanese Defence Agency and other Ministries. The SBAC also

/intends

intends to support the Japanese Air Show to be held in October 1983. We may also send a further industrial Mission to Japan in the intervening period, following the Royal Navy/Japanese Maritime Self-Defence Forces talks which are due to take place in November this year.

#### Background Information

Following the Mission visit in February 1982, the SBAC has been in constant touch with Sir Hugh Cortazzi, the UK Ambassador to Japan, and had discussions with him in London in July. These discussions have been aimed at deciding how we can best currently tackle the Japanese market.

The United States has dominated, and is likely to continue to dominate, the Japanese Market for imported defence equipment and technology for a number of reasons; among them the US/Japan United Security Treaty, the presence in Japan of US Naval, Army and Air Forces, and the Japanese innate conservatism and reluctance to change long existing loyalties, connections and procedures.

However, there are a number of important points in the UK's favour in pursuing this market. For instance, Britain has the longest historical naval association with Japan. We also share a similar geographical situation, both countries being islands open to the Soviet threat and in very similar strategic positions. Thus our concepts and our equipments are often more suited to Japanese requirements than are those of the United States. Moreover, we have some success in selling to Japan.

/Furthermore,

Furthermore, there are clear indications today that the United States is no longer prepared to release military technology to the Japanese without an adequate degree of recompense. This could well strain Japanese budgetary capabilities and lead them towards taking a more commercial view of possible alternative friendly sources of supply. Thus there is likely to be an increasing commercial competition between the US and other foreign defence manufacturers for a share of the Japanese market and it is certain that the Japanese will try to turn this competition to their own advantage.

However, it should be borne in mind that the Japanese now wish to be self sufficient in defence equipment and, hence, as a rule, prefer to buy technology, or build under licence rather than buy finished products. Moreover, they are clearly determined to acquire an independent design capability.

In our turn our aim must be to achieve direct sales or joint manufacturing ventures. We wish to avoid further licence agreements, whereby technology is passed to Japan without UK industry participation, which is clearly to Japan's long term advantage to the detriment of UK industry. However, a significant obstacle to joint manufacturing on the military side is the Japanese ban on the export of military equipment which in turn severely limits the potential market.

Nevertheless, there is no doubt that the Japanese Defence market - both civil and military - is potentially very profitable -

/although

although this is complicated by the continuing difficulty in identifying market opportunities. Clearly we would prefer to sell to Japan now with a view to collaboration in the future if that could be achieved, but we have to ensure that Japan does not merely take the opportunity of acquiring our technology, developing and selling it to their advantage.

#### Market Opportunities

Taking the above factors into consideration, we believe that our best potential opportunities in Japan are:-

a) Military

- i) The Sea Harrier
- ii) The Westland Lynx
- iii) The Sea Wolf

b) Civil

- i) The BAe 146
- ii) The RJ 500 collaborative engine programme.

Details of these opportunities are outlined in Annex A. However, realisation of these and other opportunities need a change of attitude by the Japanese to show greater preparedness to purchase from the UK.

The BAe 146 is due to visit Japan in November 1982. The demonstration of the aircraft will coincide with the visit of HRH The Duke of Edinburgh to Japan and HRH has accepted British

Aerospace's invitation to fly the aircraft on at least one of his internal visits within Japan. Sir Austin Pearce, Chairman of British Aerospace and President of the SBAC, will be present.

#### Airlines

A note on the current position within the Japanese airlines is attached at Annex B.

#### Conclusion

Despite the obstacles outlined, there are clear opportunities for the UK aerospace industry in Japan. However, it needs to be impressed upon the Japanese that purchases from the UK must be a first step and that the market must be opened to UK aerospace industries. Opening the market could be a valuable step towards reducing our current adverse balance of trade with Japan. Following purchase, there would be greater willingness to enter into Joint Venture manufacturing projects, somewhat on the lines of the RJ 500 engine project. A significant first step would be the purchase of a BAe 146 aircraft.

The industry in general is opposed to the granting of licences without manufacturing participation.

12th August 1982

MARKET OPPORTUNITIES IN JAPAN

Military Aerospace Sales Opportunities

The SBAC sees the following as having the best prospects for sales in the Japanese military market:

- a) The Sea Harrier
- b) The Lynx
- c) Sea Wolf

Sea Harrier. The success of the Sea Harrier in the South Atlantic cannot have escaped the notice of the Japanese. Moreover, the United States Marine Corps has in recent years operated AV-8As off a carrier in Pacific waters with considerable success. We know that the Japanese Maritime Self-Defence Force (MSDF) is keenly aware of the need for organic fixed wing aircraft and would like to acquire four air-capable ships of a size adequate for the operation of V/STOL aircraft. Unfortunately, the MSDF, having already committed its cash to an extensive aircraft and shipbuilding programme, will have little to spare for an aircraft carrier programme until the late 1980s.

Lynx. The Westland Lynx helicopters operated with considerable success in the Falklands operation and this will certainly have been noted by the MSDF. Westland's have given many briefings and presentations to the MSDF. It is known that the Japanese admire the aircraft's technology and are discussing its operational capability. Westland's are having the aircraft's technical specifications translated into Japanese to further promote its

/prospects



prospects. Provided the Japanese respond positively Westlands will invite MSDF representatives to come to the UK for further discussions.

Sea Wolf. The vulnerability of ships of all types to sea-skimming missiles is of serious concern to all modern navies. Sea Wolf provides ships with the best point defence available against such missiles. Again, the recent South Atlantic experience cannot have been lost on the Japanese.

#### Civil Aerospace Sales Opportunities

SBAC sees the following as having the best prospects for sales in the Japanese civil market:

- a) British Aerospace BAe 146 airliner
- b) The RJ 500 aero-engine

#### The BAe 146

The BAe 146 new jet feederliner, due to enter service towards the end of this year is presently being actively marketed world wide. It is seen as having good sales potential in Japan as it offers an excellent replacement for Japan's YS-11 twin turboprop short haul airliners, over 70 in total, presently in service with four of Japan's airlines.

SBAC judges that replacement of the YS-11 must commence in the next two to three years. As a replacement for the YS-11 the BAe 146 offers the following advantages:

- a) It

- a) It can operate out of Japan's many existing 1200 metre runways which aircraft like the DC-9-40 cannot. Hence the Japanese runway development programme can be significantly reduced with consequent benefits.
- b) It meets Japan's very stringent environmental requirements. The BAe 146 noise and engine emission levels are considerably less than those of the YS-11 and well below internationally agreed limits.
- c) The purchase of the BAe 146 would not adversely affect Japan's possible involvement with 150 seat airliner production (YXX programme). The YXX is intended for use out of 1500 metre runways and not from Japan's many short 1200 metre runways.
- d) The purchase of high value capital goods such as aircraft would have a dramatic effect on the trade imbalance between Japan and the UK. At current exchange rates the BAe 146 costs US\$ 11.5 million. The total market in Japan is probably 50 units.

#### The RJ 500

In December 1979 Rolls-Royce entered into a collaboration agreement with Japanese Aero-Engines Ltd. (JAEL) to develop the RJ 500, a new engine suitable for the projected new 150 seat airliners, the Airbus Industries A320, the McDonnell Douglas D-3300-1 and Boeing 7-7. However, development costs exceeded original estimates and Rolls-Royce/JAEL are seeking a US partner.

/Discussions

Discussions are currently proceeding with Pratt & Whitney which could prove successful by the end of the year and result in the three companies forming a new collaboration to develop the engine.

The Japanese airframe industry (CDTC) is still known to be interested both in its own proposed YXX civil aircraft with RJ 500s and in taking a share in a 150 seat aircraft programme and has had collaboration discussions with Airbus, Douglas and Boeing. Clearly, should Japan take a share in one of these aircraft, it would enhance the prospects of the RJ 500 engine being selected for the aircraft.

12th August 1982

THE MAJOR AIRLINES OF JAPAN

All Nippon Airways (ANA). ANA is suffering negative growth and is currently losing money. The airline will continue to operate its Lockheed L1011 aircraft with Rolls-Royce RB 211 engines for the foreseeable future. A small number will be offered for sale as the Boeing 767 enters service.

The proposed stretched version of the B767 is considered as the best aircraft to replace its L1011 fleet. As yet Boeing has given no indication of its intention to produce this version of the B767.

With both Rolls-Royce and General Electric (GE) engines in service with ANA, any future business will be bitterly fought for.

The ANA fleet of YS-11 turboprop aircraft (Dart engines) are due to be replaced.

Toa Domestic Airlines (TDA). The TDA fleet of 39 YS-11 aircraft is overdue for replacement but TDA, like ANA, has been holding back until the YXX programme becomes settled.

TDA now considers the proposed Japanese YXX aircraft powered by RJ 500 engines to be too far behind its re-equipment programme. The airline therefore is considering the Spey powered Fokker F28 and the British Aerospace BAe 146 as its YS-11 replacement.

Commitment to existing Airbus Industries A300 orders and continuing operating losses are acting as a brake upon TDA's procurement plans. The airlines hopes that recently granted increased frequencies will produce the necessary funds to allow its procurement plans to develop.

Japan Air Lines (JAL). JAL is currently making a small profit and is presently engaged in a study of its future equipment requirements.

JAL is examining a number of new aircraft including the DC-10 Super 10, B757 and B767. Close contact is maintained with the airline regarding possible purchase of Rolls-Royce engines for these aircraft.

It is unlikely that Rolls-Royce could unseat Pratt & Whitney (P&W) as supplier of powerplants for JAL's B747 fleet. Rolls-Royce's prospects are more favourable in new aircraft types.

Japan Air Cargo. Formation of this new freight carrier has been a prospect for some time between ANA and four Japanese sea freight companies. Such an event will create a market for the B747F which will be purchased by ANA and leased to the new company. ANA has been kept abreast of RB211-524D4 developments but we must recognise the difficulty in changing ANA to the RB211 as its B747 fleet is GE powered and its corporate plan is to increase this fleet. Selection of a powerplant will follow the granting of operating licences which are likely to be given in the autumn of this year.

12th August 1982

WORLD-WIDE SHIPPING GROUP  
16th Floor, World Shipping Centre  
Harbour City  
7, Canton Road, Kowloon  
Hong Kong  
Tel.: 3-7327333 Telex: HX43247

MS  
ly

13th August, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
London W1  
ENGLAND

Prime Minister:  
To be aware. We  
will give you a draft  
reply.

H.  
24/8

Dear Prime Minister,

For your possible interest and reference, I am pleased to have had translated and enclose copies of two articles published in the latest issue of the Chinese magazine "Zheng Ming". As you will no doubt have been informed, the question of the future of Hong Kong has during the past few weeks become one of the most serious public concerns locally and to a degree is also responsible for the dramatic fall of the Hong Kong stock market. Clearly a number of previous assumptions are now being examined more closely on this issue, and it appears that confidence among the community here is indeed waning. It would, in my personal opinion, be of considerable benefit if a <sup>senior</sup> serious representative of the Hong Kong Government, either H.E. The Governor or the Chief Secretary, be seen to be involved during your visit to China. I of course appreciate the complexities involved in your selection of the personnel who will accompany you but do believe that a presence from Hong Kong would be most opportune.

In light of the intense preoccupation of the people of Hong Kong now with the year 1997, and the importance attached to your visit to Beijing next month, it is very much hoped that the results of your discussions will at least allow an announcement that the United Kingdom and the People's Republic are both agreed on the importance Hong Kong has for both countries, and that they will cooperate in doing everything possible to preserve the economic stability of Hong Kong and to assure its potential for growth, while both Governments continue during the next few years to negotiate the detailed legal and technical questions involved in Hong Kong's future. This might help to alleviate some of the

Cont'd. 2/-

World-Wide Shipping Group  
20/21st Floors, Prince's Building  
Hong Kong

The Rt. Hon. Mrs. Margaret Thatcher, MP  
13th August, 1982  
Page 2

short-term fears now building up which could, if left unchecked, prejudice the ultimate solution that clearly needs more time for negotiation.

The good wishes of the people of Hong Kong will be with you for a successful trip to China, and I am of course very much looking forward to seeing you in Beijing and Shanghai in a few weeks' time.

With kind regards,

*yours sincerely*  
*J. K. Pao*

Encl.

AN ANALYSIS ABOUT HONG KONG'S FUTURE - BY YIM YUAN CHEONG

1. Ownership and Governorship

The future of Hong Kong is of course a complex subject, but I believe it can be boiled down to two central issues : ownership and governorship. An owner can be at the same time the governor. The converse is also true : an owner may not also necessarily be a governor.

It is one thing to have ownership claims; quite another to exercise ownership rights. It is often the case that the owner relinquish his rights to manage or take care of his property and asks that someone else stand in his place and assume management. This is the case when the owner of a house authorizes a caretaker to look after his rental affairs; or when the owner of a car hires a chauffeur to take care of his vehicle.

In my view, in the satisfactory solution to the problem of Hong Kong's future a clue may perhaps be found from recognising this all-important distinction.

2. Who shall assume the task of running Hong Kong?

The question of who will run Hong Kong of course depends on the decision of those who own Hong Kong. On the question of Hong Kong's ownership, there is already a consensus. China had formally or informally made claims to Hong Kong's ownership, a claim to which U. K. had given its tacit consent. In a way, the issue concerning ownership has already been satisfactorily resolved. It is perhaps the more remarkable in that the resolution is achieved without precipitating any overt military confrontation. The same characteristic response of tacit acknowledgement marks the British attitude towards the recent rumour about China's move to regain sovereignty over Hong Kong. One can therefore be confident that this time, like before, the issue will be settled peacefully and without much ado.

3. Regaining Hong Kong's sovereignty is a different issue from regaining Hong Kong.

Not a few of the Hong Kong people will of course be happy to see China making no claim over Hong Kong's sovereignty and letting it remain



the way it is. To them, any changeover will give them forebodings of a major disaster. Such feelings are entirely understandable, if a little naive and claustrophobic.

The root of such fears is to confuse the term ownership with governorship. . . Thus, on hearing the news that China will in time regain Hong Kong's sovereignty, they jump to the conclusion that China will eventually take over Hong Kong. To regain Hong Kong's sovereignty is far from the same thing as to take over Hong Kong. The latter of course involves more than just regaining sovereignty. Hence, Hong Kong people should have nothing to fear if China intends simply to lay claims on Hong Kong's sovereignty. It will be a different story if China's intention is to take back Hong Kong.

4. Keeping perspective and forgoing opportunity

Hong Kong people will have a lot to be thankful for if China merely lays claim over the place's sovereignty with no intention whatsoever of assuming the task of running Hong Kong's day-to-day affairs into her own hands. There are some who are not content with anything less than China doing nothing at all. These people are not being realistic and not keeping matters in perspective. On the one hand, are we ever happy to be citizens of a British colony in perpetuity? On the other, is it not simply good sense and pragmatism on China's part not to forgo the chance of resuming Hong Kong's ownership at a time when the lease over <sup>the</sup> New Territories is about to expire? To regain Hong Kong's sovereignty can thus be seen as a most sensible course of action and should give no cause for anxiety and worries.

5. China to assume ownership; U. K. Governorship

The focal point of the Hong Kong issue, one that is likely to have far-reaching consequences on lives of the average Hong Kong people, is the question of who will assume the task of governing and running Hong Kong after the sovereignty of the place is reverted back to China. In other words, when the question of ownership is settled, by whom will Hong Kong be governed?

Will China assume the task? To forge ahead with the unprecedented task of modernising the nation is already a gargantuan undertaking that taxes heavily on the resources of the Chinese leadership. Moreover, China may not be ideally suited to governing Hong Kong with a political and economic system so very different from the Mainland. Shall Hong Kong be governed by its own people?

Circumstances do not seem to warrant its practicability. In my view, the ideal arrangement is for Hong Kong to be governed by its "old caretaker" who has proven to be so adept at the task through long years of constant practice. To put it straightforwardly, it would be best for the future of Hong Kong to have China as the "owners" and U.K. as the "governor", granted that the friendship between the two countries are as long-lasting as are the benefits to be derived from such arrangements for both parties.

#### 6. Freedom and Equality

China has already made no secret about how Hong Kong should be run in the future by laying-down the principle of "one country; two systems". Hong Kong should do well to develop to the fullest extent the potentials and capabilities of a capitalist system, while at the same time avoid its many pitfalls. It should also learn to adopt some of the merits of a socialist system and sidestep some of its shortcomings.

A major virtue about a capitalist system is the "freedom" it provides for the people and one of its blemishes is the danger of "exploitation"; the greatest merit of a socialist government is the principle of "equality", while its most regrettable fault is "autocracy". The future management of Hong Kong should be based on the principles of "Freedom" and "Equality", and a minimum of "exploitation" and autocracy".

To look ahead, the future new Hong Kong should make its reputation not just as a "free port" but also as a place where the principles of "freedom" and "equality" are vindicated and upheld. From there, it may set a shining example to the world about what a new political system Hong Kong is able to create out of the blending of socialist and capitalist regimes.

If the eventual resolution of the problem about Hong Kong's future usher in such a grand vista, should we not stop fidgetting and set our own hearts at ease instead?

THE RENTAL SYSTEM - A PROPOSED SOLUTION TO HONGKONG'S FUTURE

In the last issue of Zheng Ming, Lo Bing reports on the guidelines the Chinese leadership has laid down for a satisfactory solution of the Hong Kong issue. These guidelines may perhaps be summarised as follow:-

- 1) Hong Kong is part of China and there is no way China will recognise the unequal treaties concerning Hong Kong;
- 2) China will in the not-too-distant future regain its sovereignty over the territory;
- 3) This may take the form of "one-country; two-systems" which means that Hong Kong will still retain its present status as a free port and continue **its existence** as a capitalist city.

There is a high credibility to Lo Bing's report, for it confirms the views divulged by the industry and business leaders as well as left-wing elements who have been invited to Beijing in June for an audience with Premier Deng to discuss the Hong Kong issue.

Regain Hong Kong's sovereignty - no laughing matter

It is no news to hear about China's refusal to recognise the unequal treaties. The Beijing government has already made claims about her sovereignty over HK some time ago, a claim which has been ratified by the United Nations. While no one may perhaps dispute China's territorial rights, the fact is that Hong Kong has remained a British colony administered by the U. K government ever since the days of Communist takeover in China. Hong Kong is governed by the Governor appointed by U. K.; it hoists the British flag, and is run on the basis of ordinances modelled after U. K. laws. The British government in Hong Kong is virtually the landlord of the Hong Kong island, Kowloon and the New Territories and exercises absolute discretion with regard to the allocation of the Reserve Fund. All these show that the Beijing government's claim of sovereignty is purely nominal, and not de facto. However, the present expressed intention by the Chinese leadership to regain the sovereignty of Hong Kong may have far-reaching consequences. It may affect the present as well as the future prosperity of Hong Kong, as well as the way of life for its 5 million population. The subject should engage the serious attention of all concerned.

Factors that have gone into the making of China's recent move

The first question to ask is, why is the Chinese government taking up again the question of sovereignty over a piece of land (over which it has so far exercised no political authority) only after a period of more than thirty years, and after turning down the Portuguese government's suggestion a few years ago to return Macao to China?

As everyone may be well aware, the past reticence of the Chinese government is due mainly to the fears about the economic repercussions any claims of sovereignty may cause on Hong Kong's economy. China fully appreciates the economic value of a prosperous Hong Kong towards China, and is far from being tempted to frighten the goose that lays golden eggs. The same considerations must be behind China's refusal to take back Macao. These basic worries have not disappeared even now, but the Chinese move may be accounted for by the emergence of the following factors in recent years.

One of them is the fast approach of expiry date of the unequal treaties. Despite the traditional refusal by China to recognise them as legally binding, it is incumbent upon the U.K. government to do something, thus obliging the Chinese government to place the Hong Kong /Macao issue on its agenda.

Secondly, China's recent efforts to induce foreign investment may have created the illusion that since capitalists are willing to make investments in a communist economy, by the same token, they may also continue to invest in Hong Kong, provided that the Chinese government gives appropriate guarantee about its interest in the perpetuation of capitalist conditions in Hong Kong.

In a recent rally for unification, Ye Jiangying made a nine-point proposal in which it was suggested that after the unification, Taiwan may still retain its present military, political and economic systems, and be treated as a "Special Administrative Region" of China. The Chinese government may feel that the same principle may also be applied to the Hong Kong situation.

The first point is the crucial factor behind the taking up on the sovereignty issue, while the other two factors may have been instrumental in helping the Chinese government to map out a blue-print for the return of Hong Kong to the Mainland.

A conflict between nationalism and economic interests

The Hong Kong issue is a complex problem full of inherent contradictions.

From the nationalist viewpoint, Hong Kong's existence as a remnant of the British empire is an eyesore to China. On the other hand, the territory is a colony with a difference. Under the British government, Hong Kong has developed into an international financial and commercial centre. The maintenance of such a status hinges very much on investors' confidence in the British rule. The importance of Hong Kong to China hardly needs emphasising - in difficult times, Hong Kong has been the main source support; it is also invaluable to China in helping it to accomplish its modernisation goals. Trade with Hong Kong constitutes forty percent of China foreign earnings. Thus, from the economic point of view, China should do nothing to endanger Hong Kong's prosperity, nor the British government that makes this possible.

Reality is so often a pretty kettle of fish, but essentially, the issue before us is this: should national interests come before economic benefits, or vice versa? The ideal solution is of course that we can keep both considerations in harmony. But reality does not always favour a utopian settlement, and a decision needs to be made in setting up priorities.

The inherent contradictions between achieving the goal of regaining sovereignty while at the same time protecting Hong Kong's continued prosperity have already been observed by Deng Xiaoping in his recent audience with representatives from Hong Kong and Macao, and that is why he invites more public discussions on the issue in the hope that a satisfactory solution to all the concerned parties may finally materialise.

Regaining sovereignty - what form shall it take ?

Let us assume that a decision is made to regain China's sovereignty over Hong Kong and that nationalist sentiments have the upper hand. The question then remains: what form should this take without jeopardising Hong Kong's prosperity ?

From my understanding of international law, sovereignty means that complete autonomy of a nation in exercising its full authority in the conduct of affairs within its national boundaries. Sovereignty is not a term empty of substantive meaning. It can mean perfect autonomy in the allocation and use of land, and the power to rule over its citizens according to its code of law.

Seen from this angle, regaining sovereignty will mean the termination of British rule and an actual political changeover. Regrettably, such move will inevitably prove disastrous to Hong Kong's prosperity.

Another way to accomplish political changeover is for Hong Kong not to revert directly into China, but to be governed, as an interim measure, by the Chinese people in Hong Kong. Should such a new government possess complete autonomy in the conduct of its affairs (i.e. without interferences from Beijing) - the extent of damage may conceivably be less severe. Hong Kong may become "Singapore II"; and may shake off the infamy of its existence under its "colony" status. But conceivably, such an independent government is not likely to be tolerated by the Chinese government who would rather prefer placing Hong Kong under U.K. rule.

In summary, Hong Kong is destined to become either a part of China or a part of the British Commonwealth. There is no middle way. Recently, there has been suggestions for Hong Kong to become a Free City under the administration of United Nations, in the same manner as Gdansk was before the First World War. This may be a viable alternative except that China will unlikely give it consent.

#### China's blueprint for regaining sovereignty

Basically, the Chinese blueprint is for Hong Kong to revert back to China without causing a massive outflow or drainage of local capital. Two methods are devised to forestall such a possibility :-

- 1) to maintain its present capitalist form of economic system without introducing any drastic changes for a period of time. This is the "One country; two systems" proposal.
  - 2) to practise a form of government different from the existing governmental system in China, or what is called "Special Administrative region".
- But until now, no specific details have been revealed for a meaningful assessment to be made.

In a way, all the foregoing steps or methods are evidence of a large measure of open-mindedness and tolerance on part of communist China as well as its eagerness to protect Hong Kong's prosperity. However, they are based on the erroneous assumption that Hong Kong's status quo may be preserved when the territory is not ostensibly run by communists from China. Investor confidence is a fragile, and extremely delicate affair, and hinges very much on whether political power still resides in the hands of the British government.

At this point, it may be necessary to draw a line of demarcation between capitalism under the British flag and under the Chinese flag.

On the surface, capitalism may be just a way of economic life, involving no major differences whatever the flag it happens to be under.

This supposition is a fallacy. Communism in theory or in practice, or communism in its revised version for that matter, is an antinomy to capitalism. The communist insistence for decision-making to rest with a "class society" makes capitalism under a communist government miles apart from the same system under a capitalist society. The natural extension of the communist ideology is for the nationalisation of the economy. If some form of capitalist economy is allowed to exist under a communist regime, they would be permitted only as a stop-gap measure, as an exception rather than the rule, and above all on sufferance.

Will the system of "Special Administrative Region" boost public confidence?

By the same token, the proposal to set up "Special Administrative Region" is also based on the principle of toleration, for communists are experts in the understanding of the psychology of the average entrepreneur and the public in Hong Kong. They are well aware of the harmful effects a straightforward transplant of the communist system into the Hong Kong soil may cause, and therefore they design in advance a system which in their view is able to set the hearts of Hong Kong people at ease.

The nine-point proposal of Ye Jianying for the unification of China stipulates that Taiwan retains its present political system and army. It is however not expected that Hong Kong will be given the same tolerant treatment. Or else, the suggestion to regain sovereignty simply does not make sense.

Conceivably, the suggestion of a "Special Administrative Region" is for Hong Kong to be governed initially by politically neutral elements such as foreign capitalists who will be accepted by the majority of the public after a political changeover.

Whatever the case, the "Special Administrative Region" should not be taken as anything but another propagandistic device by communist China designed to ward off any fears about a totalitarian government. For after this curtain-lifting act, who knows what reality will unveil itself?

We can perhaps ask a fundamental question which may help to clarify the whole complex issue : Does a "Special Administrative Region" fall within the jurisdiction of Communist China ? If the answer is positive, then one may ask whether the Hong Kong public may be required to abide by the four principles (in fact should be five - translator) in the Draft Constitution which Chinese people are obliged to abide. What will be the limits of communist tolerance ? Will it not be wearing thin if Hong Kong people refuse to believe in Leninism or Maoism ? Or, communist leadership ?

In the last analysis, the doubts felt by the public towards "Special Administrative Regions" are not without ground. While they understand that Article 30 of the Draft Constitution stipulates that "The rules and regulations in force in "Special Administrative Regions shall be stipulated by law according to specific conditions," they certainly appreciate that the Preamble of the Draft Constitution \* has an even greater legal prowess.

Hence, it can be seen that there is limited usefulness in allaying the fears of Hong Kong public by means of setting up "Special Administrative Regions". Even less effective will this device be in boosting investor confidence. While the general public may have no other country to flee to in case of a communist takeover, there will definitely be a massive outflow of capital. A communist takeover will mean inheriting an economic wasteland and taking on the burden of feeding Hong Kong's 5 million population.

#### A Rental System that benefits all parties

In the author's personal opinion, the top echelon in the Chinese leadership may not be too wise and may perhaps be a little hasty in divulging its plans about regaining sovereignty, setting up "Special Administrative Regions", and practising the principle of "one country; two systems". The Hong Kong issue is a complex problem, and the best way to tackle it is not to construct any models which offer themselves as satisfactory solutions, but to sound out the opinions of the Hong Kong public as well as the British

\* The relevant paragraph states "China abides by the five principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful coexistence, and develops diplomatic relations and economic and cultural exchange with other countries; China consistently opposes imperialism, hegemonism and colonialism, strengthens unity with people of the other countries in their just struggle for the preservation of their national independence and for national economic development, and strives to safeguard world peace and promote the cause of human progress."



government, and prominent figures in Hong Kong's industrial and commercial communities. Any preconceived models cannot avoid being subjective and therefore impracticable, and when the ill effects are realised only after a model is seen to operate in actual circumstances, any remedies may be too late.

There have already been a welter of opinions concerning how the 1997 issue should be dealt with.

There are some who suggest that a friendly treaty be signed between the Chinese and the British government expressing their mutual interest in the maintenance of Hong Kong's status quo for another fifty or thirty years. Others advocate a formal agreement to allow British presence in Hong Kong with the stipulation that notice needs to be given at least fifteen years in advance should China wish to regain sovereignty. Some suggest that China regain her sovereignty over Hong Kong, but entrust the place to U.K. for government. In summary, all these views are built on one common assumption: Hong Kong can only maintain its status quo under British rule.

Another suggestion is for Hong Kong to be run by the United Nations with a view to avoiding a communist takeover on the one hand and shrugging off the infamy of its existence as a colony on the other.

Still others suggest joint Sino-British rule. Perhaps, those who advocate this idea intend this as measure to fall back on in case China refuses to accept continued British rule in the colony.

Amidst this multitude of opinions, the author would like to venture yet another suggestion which may be termed the Rental System. (Please take care to distinguish this proposal from the Lease System advocated by Lenin). The Rental System may be worked out as follows:

- 1) China to regain sovereignty over Hong Kong
- 2) China is to lease Hong Kong out to U.K. for periods of thirty or fifty years
- 3) U.K. is to pay China rent mutually agreed upon (should the rent amount be denominated in foreign currencies, the conversion rate should be based on the value of gold)
- 4) Notice of termination of lease should be given fifteen years in advance.


The merit of this system is that it achieves the dual purpose of maintaining Hong Kong's status quo while at the same time realising China's intention to regain sovereignty. As for the rental payments, I believe both the

British government and the Hong Kong people will be perfectly willing to fulfil their obligations. Moreover, this rental payment will also give the much-needed foreign earnings necessary for China to forge ahead with her modernisation programmes, and appears to be a much more reasonable arrangement than is the present position where Hong Kong is on lease to the U.K. without any monetary compensations at all.

I wonder what the Chinese government and the Hong Kong public may feel towards this proposal.

27 AUG 1982





10 DOWNING STREET

12 August 1982

*From the Private Secretary*

*Dear Lord Shepherd,*

I am writing on behalf of the Prime Minister, who is at present out of the country, to thank you for your letter of 10 August about Hong Kong. I will ensure that Mrs. Thatcher sees your letter on her return from her holiday in Switzerland; I know she will find it useful.

*Yours sincerely,*

*T. Flesher*

Timothy Flesher

The Rt. Hon. The Lord Shepherd

Lord SHEPHERD

FILE

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26/8

Alan  
for

CF

China visit  
file?



10 DOWNING STREET

Kay 13/8

From the Private Secretary

12 August 1982

Dear Stephen,

I attach a copy of a letter the Prime Minister has received from Lord Shepherd, which I have acknowledged. I assume that Lord Shepherd has written his letter essentially as a contribution to the Prime Minister's briefing for her visit to China and Hong Kong and does not expect therefore a substantive reply. If, however, you think that more is needed than an expression of thanks by the Prime Minister, I should be grateful if you could let me have a draft by 26 August.

B/P 23/81

Yours ever,

Timothy Flesher

Stephen Lamport, Esq.,  
Foreign and Commonwealth Office.

LOT



FILE

SW

Copy to Hong Kong Policy for  
P. H. ...

10 DOWNING STREET

*From the Private Secretary*

11 August, 1982

The Prime Minister did not have an opportunity to see Mr. Baker's minute proposing that she should visit Guangdong for a ceremony to mark the establishment of the Cable and Wireless microwave network during the course of her forthcoming visit to China. As I mentioned on the telephone, she will no doubt have an opportunity to consider Mr. Baker's suggestion in the light of the advice of the Foreign and Commonwealth Office on her return from holiday. I am sending a copy of this to Stephen Lamport (Foreign and Commonwealth Office).

TIMOTHY FLESHER

Neil McMillan, Esq.,  
Department of Industry



PM Seen

CONFIDENTIAL

PRIME MINISTER

CABLE AND WIRELESS: GUANGDONG

You will wish to know that Cable and Wireless, in partnership with the Guangdong Posts and Telecommunications Administrative Bureau, have won the contract to install a microwave network in Guangdong running east and west of the Province through Guangzhou. I enclose a background note on the project.

This is a victory for Britain. It has been achieved without Government subsidy. The amount of equipment involved will be small but the contract has tremendous significance in opening the door for further UK involvement in an area of rapid industrial growth. It is a major achievement and the political and economic implications of this partnership venture for Anglo-Chinese relations and for Hong Kong's position as a communications centre in the Far East are significant.

There will be a signing ceremony in London, early in September, which Patrick or I will attend, but in view of the contract's importance Eric Sharp, the Chairman of Cable and Wireless, has asked if you would consider stopping off in Canton for a ceremony to mark the establishment of the microwave network.

I know that the planning for your visit is well advanced but I wonder whether there is any possibility of fitting this in.

I am copying this to Francis Pym.

kb.

KENNETH BAKER  
(1) August 1982

Cable and Wireless plc is embarking on a major new initiative in Guangdong, the Chinese province with over 60 million population which has been selected by the Government in Beijing as an area where dynamic industrial growth will be accelerated in the immediate future.

An agreement in principle between Cable and Wireless and the Guangdong Posts and Telecommunications Administrative Bureau (GPTB) for collaboration in the construction of a 960-channel microwave radio system already exists. The formal contract will be signed in London in early September by Mr Eric Sharp, Chairman of Cable and Wireless and Mr Li Qingwan, Director of the GPTB.

The microwave system will stretch nearly 1,000 km along the entire length of the province from Shantou in the east to the island of Hainan in the west (see map attached).

Opportunities are certain to arise for manufacturers and it is the intention of Cable and Wireless, if possible, to bring a team of about eight senior Chinese engineers involved in the project to fly to the UK and visit interested companies (GEC, Lucas, STC, etc.).

Although the microwave system is the biggest project in which Cable and Wireless has so far been involved in mainland China, it is hoped that it will be only the first of a number of joint schemes in which the company will be involved in Guangdong and the neighbouring province of Fujian. The Guangdong microwave system will provide a telecommunication backbone system for the entire province and, judging by past experience, its construction will be a powerful stimulus to further development. The backbone will link the key centres of the South China Sea offshore oil fields (Shenzhen, Mo Ming, Guangzhou and Chi Wan) as well as the new Special Economic Zones. The latter will depend on good communications with industrial and commercial entrepreneurs in Hong Kong, Macau and elsewhere who will provide funding for a series of joint ventures which are at the heart of plans for very rapid economic development of the province.



Cable and Wireless is already involved in a major microwave link between Guangzhou and Hong Kong through which external traffic from the proposed internal backbone system will flow. This Guangzhou-Hong Kong microwave link is one of the largest capacity microwave systems in the world which, when it is completed by the middle of next year, will provide 2,700 voice channels between Guangzhou and Hong Kong.

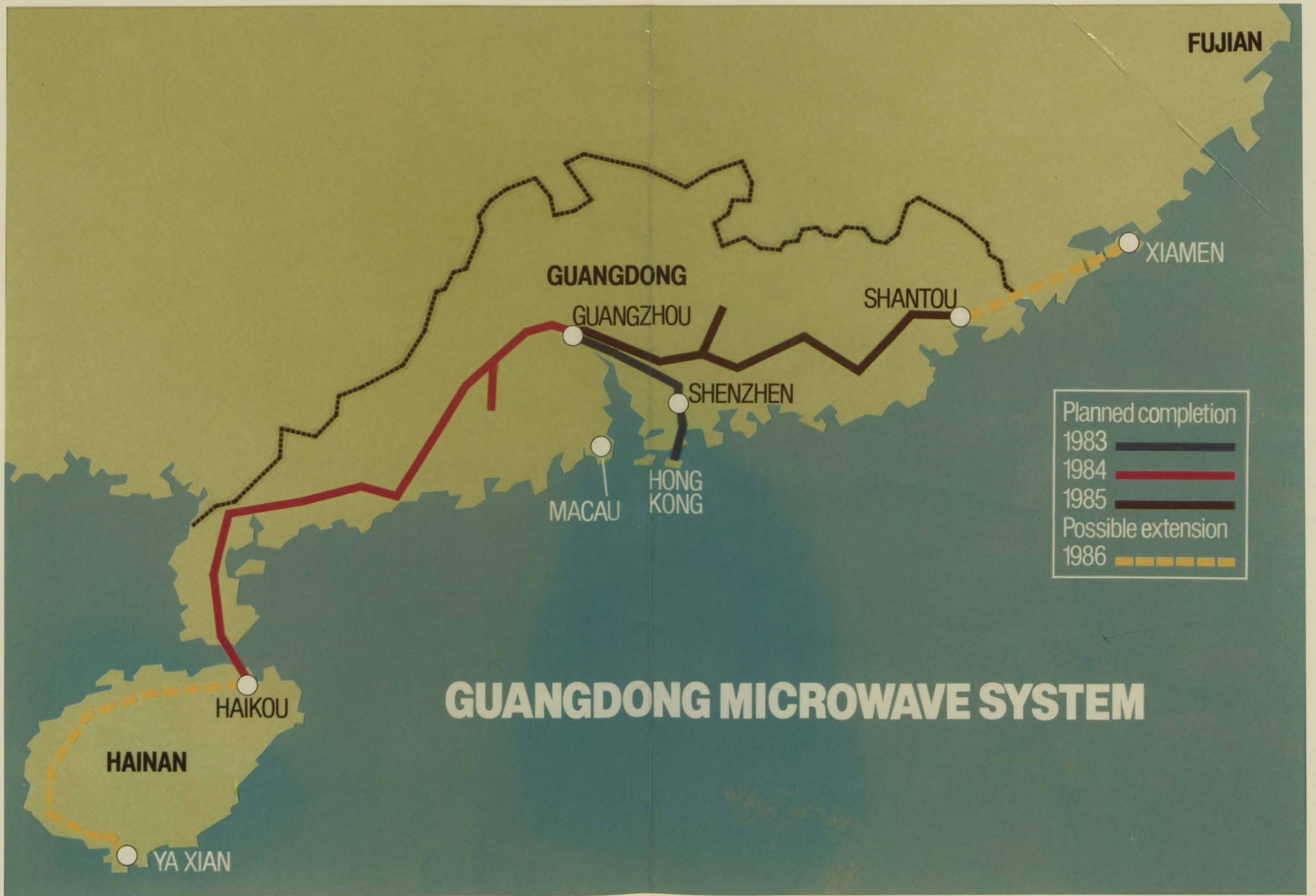
(NOTE: The above information must not be released without prior reference to:

Mr E Sharp  
Chairman and Chief Executive  
Cable & Wireless plc)

-----

11.1 AUG 1987





CONFIDENTIAL

Bf to JC on return  
Miss Stephens. es. 12/8

Cab off 1st  
thru 2nd time.  
cc to Hong Kong &  
Japan Policy Files

Ref. A09289

MR. COLES

JH  
11/8

Prime Minister's Briefing Meeting for Visit to the Far East:  
16th-29th September 1982

I should be grateful for your agreement to the following Ministers being invited to attend the Prime Minister's briefing meeting at 3.00 pm on Tuesday 14th September:

- Chancellor of the Exchequer
- Foreign and Commonwealth Secretary
- Secretary of State for Industry
- Secretary of State for Trade

2. The following officials should also attend:

- |   |                        |
|---|------------------------|
| Sir Kenneth Couzens                           | Treasury               |
| Sir Antony Acland )                           |                        |
| Mr. G.S.R. Giffard )                          | FCO                    |
| Mr. A.E. Donald )                             |                        |
| (who will be accompanying the Prime Minister) |                        |
| Mr. M.D.M. Franklin                           | Department of Trade    |
| Mr. J. Gill                                   | Department of Industry |
| Mr. K.P. Jeffs                                | MOD                    |
| Sir Robert Armstrong)                         |                        |
| Mr. A.D.S. Goodall }                          | Cabinet Office         |

3. Lord Belstead, the Minister of State, Foreign and Commonwealth Office, responsible inter alia for Asian affairs, would make a useful contribution to the meeting.

4. The Prime Minister had discussions about the visit with both Sir Hugh Cortazzi and Sir Percy Cradock during their recent visits to London. We would not see therefore the need to recall them for this meeting.

*Lindsay McGraffin*

LINDSAY MCGRAFFIN

11th August, 1982

CONFIDENTIAL

from: The Rt Hon Lord Shepherd PC



R1218

House of Lords · Westminster

Copied to Henry Kings  
Future of Hong Kong  
&  
Henry Kings: Policy  
for PM's Trip Sept  
12

The Rt Hon Margaret Thatcher MP  
Prime Minister  
House of Commons  
London SW1A 0AA

10 August 1982

Prime Minister :

*Dear Prime Minister*

I have acknowledged Lord  
Shepherd's letter on your behalf:  
*do you wish to reply personally?*  
a draft is attached. JF

I feel duty-bound since I have just returned from Hongkong, 24/8, to write this letter to you regarding your coming visit to China. I am sure you are adequately briefed by Ministers and Officials in the Foreign & Commonwealth Office in preparation for the visit, however, the following paragraphs may give you additional information and insight into the Hongkong lease question which, by all accounts, will be a subject raised by the Chinese at some point during your visit.

In my capacity as adviser to one of the leading Banking/Real Estate/Trading/Broking groups in Hongkong, I have been in constant contact, through frequent visits to the colony, with a dozen or so leading Chinese businessmen each of them in control of companies with assets in excess of 500 million pounds. Typically, these people are publicity shy and therefore largely unrepresented in the formal government consultative machinery.

The question of the lease (of the New Territories expiring in 1997) has always been in the back of people's minds in Hongkong, but came to the fore earlier as a result of the British Nationality Amendment Act which inter-alias, changed the status of Hongkong citizens from British Subjects to citizens of British Dependent Territories. Many in Hongkong saw this as a step taken by HMG to disclaim responsibility for the two million plus who were born or naturalised as British Subjects in the colony. The economic barometers in Hongkong, i e the stock market and the strength of the Hongkong Dollar, both fell dramatically last October when the Nationality issue was hotly debated. Admittedly world economic situation also had a bearing. There has been noticeable increase in outflow of capital from Hongkong

cont'd....



*House of Lords · Westminster*

-2-

mainly to North America, (one estimate by the Americans puts it at around \$25 billion US over the next five years). Both the governments of Taiwan and Singapore are making overtures to Hongkong investors to take shelter in their respective countries. The fact that confidence was largely maintained is due to the trust people of Hongkong have in the good sense and well intention of both Beijing and London in seeing that the prosperity of Hongkong should continue. This confidence is fragile, it was shaken again in recent weeks when Mr Peng Zhen, Vice Chairman of the Standing Committee of the National People's Congress, when commenting on the draft constitutional amendments, asked people of Taiwan, Hongkong and Macau to study Clause 30, which refers to the setting up of special administration regions. These regions can have a non-socialist economic system but would nonetheless be under Chinese sovereignty. The stock market and the Hongkong dollar again reacted strongly during the past few weeks since that statement was made.

In the meantime, expectation is being built up that discussion during your coming visit will result in a positive statement on the future of Hongkong. Public opinion, as expressed in the local press and various seminars conducted on the subject recently, showed a definite preference for status quo (ie British rule) to continue. A drastic decline of the economy is predicted if the system is to change in any material way.

Much has been said about Hongkong's economic value to China, so much so that it has put up with colonialism at its doorstep for so long. The Chinese official pronouncement on the fate of Hongkong has evolved from "to settle when the time is ripe" (Zhou En-lai 1952) to "investors should put their heart at ease" (Deng Xiaoping 1980). In the past four months, however, according to my Chinese friends who were invited to meet with Vice Chairman Deng Xiaoping and Premier Zhao Ziyang and were given a message, it is quite clear that (a) the Chinese hosts intend to raise the topic of their own volition, (b) the issue of sovereignty was not negotiable. There is therefore no possibility for the lease to be extended and Hongkong island which is ceded territory

cont'd....



*House of Lords · Westminster*

-3-

according to the former treaty will not be exempt from the sovereignty reversion, (c) the Chinese officials have apparently given thought to the possible format of government to replace the current system. The term self-administered special zone or autonomous region has been consistently mentioned to all those invited to receive the message which found its way to the Financial Times, (d) within the limits of sovereignty, there was due concern for the prosperity of Hongkong to continue, the same people were assured that to the extent possible British civil service and legal system will be retained, the Hongkong dollar will continue to be an independent currency fully backed by the exchange fund. But apparently whether all these are compatible with the formula of sovereignty that China will eventually come up with is not clear.

With only 15 years before the expiry of the New Territories Lease, it is natural that not only Hongkong people but investors from abroad will be increasingly anxious to know what the future holds. The recent events have caused anxiety to rise to the pitch that a solution is expected within this year. The view expressed is that though none could challenge China on the question of sovereignty over Hongkong and, in fact, if sovereignty is in name only while everything remains practically unchanged this will not jeopardise investments or Hongkong's economic well-being, Britain does have some bargaining power in that China realises some form of British presence is essential for Hongkong's continued stability and prosperity in the foreseeable future.

The people of Hongkong and, indeed, the world will watch closely your China visit in the context of any progress on the Hongkong lease question. It is appreciated that a perfect solution to such a complex problem may take longer to finalise but the urgency of the situation calls for a joint statement between you and the Chinese Premier. In the opinion of my Chinese friends, the assurance given will have to go beyond generalities to maintain public confidence in the future of Hongkong.

cont'd....



House of Lords · Westminster

-4-

If there is any further information that I could obtain on the developing Chinese thoughts I will send them to you. Needless to say these senior business people in Hongkong would fly immediately if you wished to see them.

*Yours sincerely  
The Earl of Shelburne*



 **British Aerospace**  
PUBLIC LIMITED COMPANY

ADMIRAL SIR RAYMOND LYGO, KCB  
*Chairman and Chief Executive*

rl/cd

9th August 1982

The Rt Hon Margaret Thatcher, MP  
Prime Minister  
No. 10 Downing Street  
London SW1

*Dear Prime Minister,*

Japan

I am prompted by Mr. Michael Marshall's report of his visit to the Far East to remind you of the situation which exists in relation to the procurement by the Japanese Defence Forces of U.K. equipment. For some years British Aerospace tried to promote the highly successful Rapier system in Japan. The Japanese went through the process of an apparent selection between contending systems which included an indigenous development of a system called TANSAM. They had never developed such a weapon system before and it was bound to be more expensive than the purchase of a system such as Rapier from the United Kingdom. Rapier, the most likely winner of the competition, was ruled out right at the beginning so that the competition could be run between the Franco-German Roland, already too expensive even for the Americans to afford, and their own system. It will come as no surprise to you to know that their own system won.

I was not a little miffed by this. I expressed my concern to the Japanese Ambassador in London in the following terms. We allow your products to flood into our markets quite freely because we believe that if you can produce things which are better, more reliable and are

cont.

*Original on Japan Policy*  
**Dynamics Group**  
Group Headquarters  
P.O. Box 19, Six Hills Way  
Stevenage  
Hertfordshire SG1 2DA  
Telephone: Stevenage (0438) 2422  
Telegrams: Britair Stevenage  
Telex: 825125/6

Rt Hon Margaret Thatcher MP

9.8.82

Continuation Sheet 2

preferred by the public to indigenous products, in the interest of free trade we allow you free access to our markets. I would expect the same to apply when you have no comparable product in your country and we can supply it at what must be extremely competitive rates. Of course, all this was politely refuted.

I am quite certain the point I am making will not be lost on you. I write merely to suggest you keep it in mind in any conversations you may have in Japan which relate to the balance of trade and, in particular, to the great difficulty we face in penetrating the Japanese market for defence equipment.

We are also in discussion with the Nippon Electronics Company to collaborate on the manufacture of ground terminal equipment for satellite communications. This could help to put British Aerospace in the forefront of this new technology. In addition, we have been approached by NTT, the Japanese Posts and Telecommunications Authority, in connection with possible collaboration on our satellites. International collaboration in international telecommunications is important if one is to be successful in bidding. The Japanese are large contributors to international networks and therefore collaboration with them has its attraction. However, it will probably bring us into conflict with some national and European suppliers.

#### China

We have been engaged in negotiations with the Chinese over the supply of air-to-air weapons and a naval Medium Surface to Air Missile System (Sea Dart) for some four years. The former opportunity proved fruitless. The latter, Sea Dart, is now showing distinct signs of possible success, particularly since its success in the Falklands. After much patient negotiation, we have got to a point where the difference between the two sides is just over £3M in a £75M contract. It really does begin to look as if this might be the breakthrough we have been looking for. If successful, we will be the first defence contractors to have won a substantial contract in China and I am sure it will provide an opportunity for us to expand this foothold in the years to come. I would hope that it might be possible to have all the arrangements completed by your visit so that the contract could be announced as part of the visit. Whatever the situation, your help would be invaluable.

Have a good trip.

Yours sincerely,  
R Lygo

China  
John Cokes

Five

From: Geoffrey Pattie, M.P.



House of Commons,  
LONDON, SW1A 0AA.

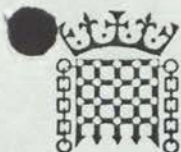
5<sup>th</sup> August 1982

Dear Jan

The Prime Minister asked  
for a note on China which I  
enclose.

Yours

John Cokes



### China - defence equipment

Some years ago, China inspired an almost Klondyke frenzy of interest on the part of those countries prepared to sell military equipment. In those heady days, the Chinese were apparently ready to buy all manner of systems including Harriers.

More recently the climate has changed drastically. The Chinese realised that although they had a tremendous amount to do in order to modernise their armed forces, they did not have adequate financial resources to make this possible and, in any case, they had decided that defence should take its turn behind certain other more pressing domestic requirements.

Modernisation of existing equipment has become the name of the game and in the aftermath of the Klondyke only those countries and companies who are prepared to be patient and stay the course remain on the scene.

The war with Vietnam revealed serious weaknesses in Chinese command and control systems as well as major shortcomings in guidance systems and a lack of modern avionics. Chinese defence technology is basically that of the 1950s. The Chinese are well aware of this but they are less sure how they should tackle the colossal task of modernisation.

Understandably the Chinese have an unquenchable thirst for western technology - particularly if they can obtain it at little cost to themselves. They admire much that Britain has to offer but they frequently complain that our prices are too high. Relations between Chinese Chiefs of Staff and our own are cordial and teams from the Air Force Flying Training School and their RAF opposite numbers have successfully exchanged visits.

#### Specific equipment projects

1. Marconi Avionics have a £40 million contract to refit 140 Chinese F7 aircraft. The refit involves head up displays, communications equipment, air data computers and ranging radars. The programme is proceeding according to plan and the trials at Xian are described as .../

as 'satisfactory'. Marconi hope to gain further orders either for more F7s or possibly to work on a new aircraft - plans for which have been rumoured for some time.

The work is being carried out in China under the supervision of a Marconi team and the project is an excellent example of putting new wine in old bottles without any adverse consequences.

2. 'A new aircraft'. In this context it is worth recalling that the Rolls Royce Spey engine was produced at a special factory also at Xian and these engines, numbering about fifty, are mothballed because the Chinese have not yet developed an aircraft to carry them.

3. Project 051 - refit of two Luda destroyers. This is the project currently causing problems because the Chinese object to the price quoted by Vosper Thornycroft for their part of the package. British Aerospace are also involved with weapon systems such as Sea Dart and the Chinese seem keener on them than they are on Vospers.

Attempts are being made to produce a new formula that will enable the commercial levy to be reduced while satisfying the criteria laid down by the Treasury. Even so, total elimination of this levy would not close what the Chinese see as the gap but, tactically (if it can be done) the gesture of cancelling the levy could be a very good 'best and final' offer to the Chinese which, although they would not particularly like, would leave them admiring the British negotiating firmness.

The underlying problem is that the Chinese show signs of wanting to split the package and have British weapons fitted in Italian yards. This would break up the package which has COCOM approval and might necessitate a resubmission to COCOM at a time when US attitudes to technology transfer are hardening.

The Chinese probably are keen on Sea Dart and feel that they can save money on the relatively more straightforward part of the package namely the hull. The key question for Britain is how important is it for Vospers to get the business. As their work loading has become weighted very heavily towards export orders of any sort, the Chinese order will be of considerable importance. Of all the UK ship yards, Vosper Thornycroft is the one with the largest number of Government held marginal seats in its hinterland.

5 August 1982

DLW/ZAC

6th August, 1982.

Mr. I. Gow,  
10 Downing Street,  
London.

Dear Ian,

I had been meaning to write to you for many months following your appointment as Parliamentary Private Secretary to Mrs. Thatcher. After about a year had passed however I felt that I had lost my opportunity. Since then of course I have seen your name and face often in the media. You are certainly right at the heart of things, and despite the incredibly hard work involved must be thoroughly enjoying yourself. I hope that occasionally you manage to see your family, even get a holiday.

I am prompted to write by the coincidence of Mrs. Thatcher's visit to China in September and a visit by a team from my organisation, the Intermediate Technology Development Group (ITDG) at the same time. Perhaps I should briefly explain a little about ITDG and Intermediate Technology Industrial Services (ITIS). ITDG was set up in 1965 by Dr. Fritz Shumacher of "Small is Beautiful" fame. ITIS, which is a division of the Group, was set up in early 1978 following an initiative by the Ministry of Overseas Development during Judith Hart's time as Minister. In fact ITIS is fully funded by a grant to ITDG from ODA. Our function is to provide technical and financial assistance to meet the needs of developing countries for new technologies in the small industries sector.

For some time now we have been putting quite an effort into technologies for micro-hydro electricity generating systems. Using ODA funds we have financed the development of a new design of electronic load controller which significantly enhances the economic viability and technical reliability of micro-hydro systems. The actual development of the controller has very largely been undertaken by two small companies in the West country, and ITIS is supporting demonstration projects in Sri Lanka, Colombia, Thailand and Nepal.

Continued .....

Many more developing countries have expressed an interest in this technology, not least the Chinese. After various contacts and much correspondence a team of six people - with yours truly as team leader - are going to China from September 5th to 20th at the independent invitation of two different Chinese institutions, namely the Regional (Asia and Pacific) Research and Training Centre for Small Hydro Power, Hangzhou, which comes under the Ministry of Water Conservancy and Electric Power, and the Tianjin Electro Driving Design and Research Institute which is responsible for hydro electric equipment design in China under the First Ministry of Machine Building.

The purpose of our visit is three-fold. We will be taking out a controller and setting it up for demonstration purposes; secondly, we will be participating in a seminar on micro-hydro systems; and thirdly, we will be negotiating with the Chinese to purchase the know-how for the electronic load controller so that it can be locally manufactured in China. We believe there is the prospect here of a very fruitful long term association with the Chinese since we can provide not only hardware but technical know-how on a number of aspects of micro-hydro systems and at the same time may be able to purchase equipment from Chinese manufacturers for other developing countries at far lower cost than can be obtained elsewhere.

I apologise for going into this detail but it occurred to me that what we are doing might be of real interest to Mrs. Thatcher as an example of the kind of input that Britain can make to China. There are also clear benefits to British industry even on the very small level at which we operate.

I am away on holiday next week but will be back in the office on 16th August. - If you felt it would be useful I would be very happy to give you more information.

Yours sincerely,



David L. Wright,  
General Manager

PS.

I passed your old house in Kingston Vale three weeks ago and was very sad to see your tennis court and lovely gardens covered in new houses.

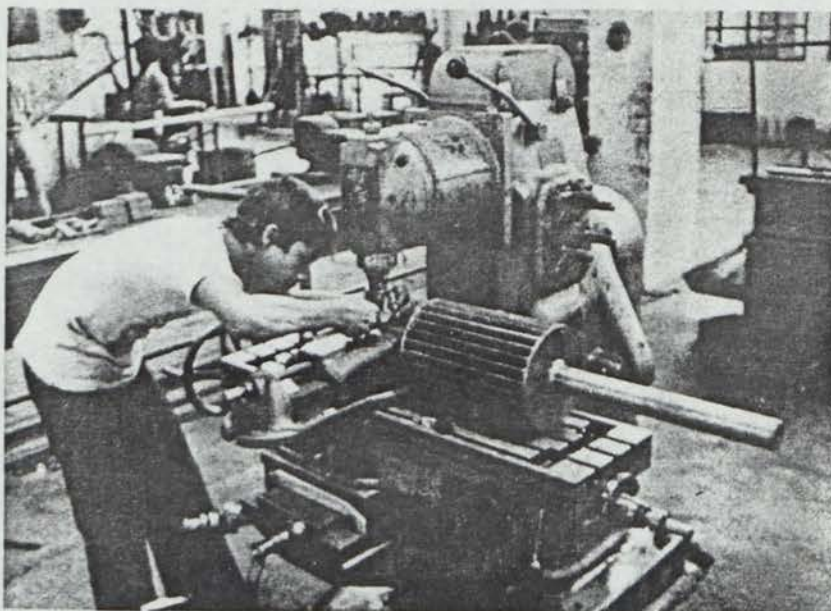
DLW.

RURAL ELECTRIFICATION IN NEPAL

The development of low cost micro hydro-electric systems

ITIS is funding a project in Nepal to develop micro hydro-electric systems in the 5-50 kW range capable of generating and distributing electricity for remote rural communities. The two year programme includes field testing alternative designs of low cost controllers (governors) suitable for local manufacture, investigating appropriate means of electricity distribution and tariff structures, and exploring how the electricity can be used to greatest advantage to meet the needs of mountain villages. The United Mission to Nepal (UMN) put forward the project and is responsible for its execution. A substantial contribution towards the total estimated cost has recently been received from the European Economic Commission.

Nepal has many streams and rivers providing ideal sites for generating hydro-electric power. The uncompromising nature of the mountainous terrain, however, makes the cost of distributing electricity over any distance quite uneconomic. Consequently there is growing interest in the feasibility of developing low cost micro hydro-electric systems capable of supplying enough power to meet the requirements of individual villages in locations far from large-scale generating stations.



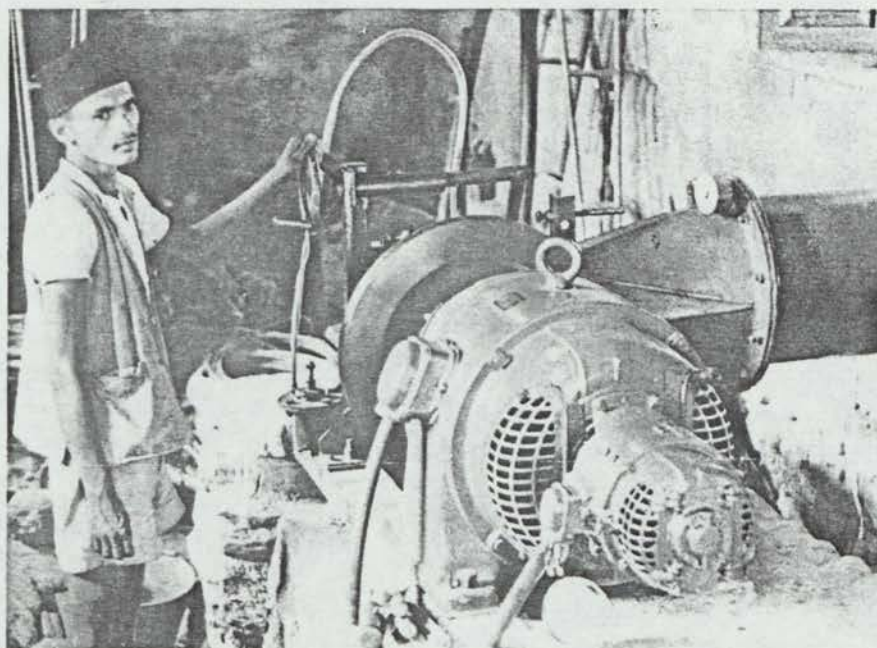
Turbine rotor during manufacture at UMN's engineering works.

UMN has already built some 20 small-scale hydro installations providing mechanical power in the 5-25 HP range. The turbine used is a Banki-Mitchell cross flow design with belt drive to operate a grain mill, rice huller or oil expeller. A new small scale version (200 mm diameter) of the turbine has recently been developed by UMN. This new design is being locally manufactured and tested for its suitability to drive electric generators.



The project is being carried out in two stages. In the first stage, now in progress, a turbine generator set of 33 kW capacity has been installed at Baglung at the site of a future 175 kW plant. This experimental installation uses the canal, penstock, power house and tail-race canal of the larger plant. Initially the turbine is being manually flow controlled; two designs of three phase electronic load controller will be tested shortly.

In the second stage of the project, it is planned to set up a pilot installation in the remote bazaar of Purtighat where there is an existing turbine driving a grain mill. The unit will be modified to drive a generator from the same turbine. This type of combined installation can achieve maximum use of the available power at minimum additional capital cost - full use of mechanical output during the day, with electrical power for lighting and cooking at night. With the present head there is not enough water available to power both the mill and the generator but the system will be expanded later (to 25kW) to provide greater power throughout the day for other applications.



Inside the power house at Baglung.

Problems encountered to date illustrate the sort of unforeseen, often non-technical, difficulties which can arise. At Baglung, silt in the turbine inlet has demonstrated the need for more adequate desilting arrangements at the penstock intake. There have also been problems securing agreement from local landowners unwilling to allow the high tension line across their land. At Purtighat, work was delayed because government procedures require UMN to obtain a licence before surveying a proposed installation, as well as a licence to supply electricity. Another problem area is ownership: some villagers want to set up a co-operative to run the plant.

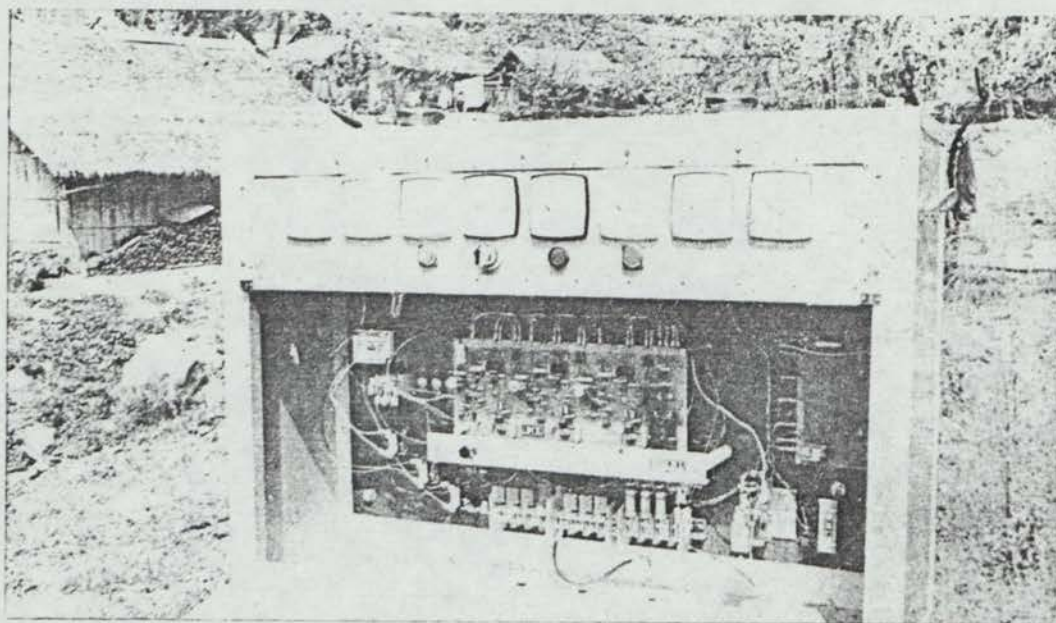
Both the experimental installation at Baglung and that at Purtighat will explore different systems for distributing the electricity from generator to households. UMN also plans to investigate various uses for the power generated including lighting, processing of agricultural products, cottage industries such as weaving, water pumping and most importantly heat storage cookers. These could play a major role in reducing the firewood demand on Nepal's dwindling forest cover. One model adapted from a Norwegian design is under development.

For further information contact: ITIS, Myson House, Railway Terrace, Rugby, UK. (Ref. 75/2/80).

ELECTRONIC LOAD CONTROLLER

Reducing the Cost of Micro Hydro Electric Systems

ITIS has funded the development of an electronic power handling device which dramatically reduces the cost of micro hydro electric installations. The work, undertaken by two small UK firms, is primarily intended to benefit rural communities in developing countries, however, potential applications include any small scale user. The device, suitable for hydro electric systems (single or three phase) up to 100 kW capacity, is simple to operate and capable of local manufacture. Single phase units have already been supplied to a number of countries. A new three phase unit, suitable for industrial loads, has recently been field tested in Thailand and Colombia. New installations, currently in the proposal stage, include systems in India, Sri Lanka and Malaysia.

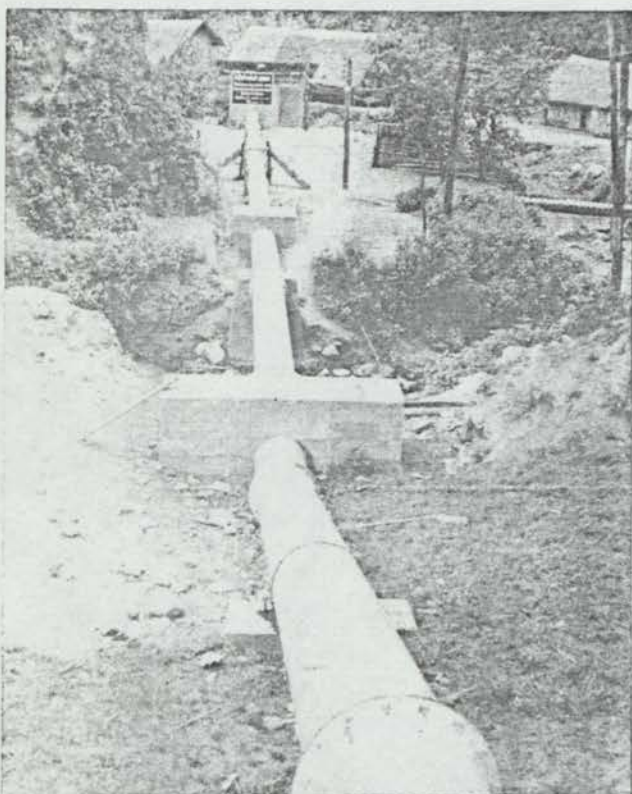


The complete hydro electric control panel, incorporating the Evans/G.P. Electronics controller and necessary protection gear, on site in Kun Krong, Thailand.

The electronic controller is particularly appropriate to the many parts of the world where water is an abundant but under-utilized resource. In such places the primary constraint in exploiting water as an energy source has been the high capital cost of the small hydro electric plant -- one significant component of that cost being the mechanical device which controls the water flow through the turbine to control the speed. (The speed of a turbine must be kept constant regardless of varying electrical demand from the generator.) The electronic controller, which replaces the traditional mechanical flow governor, works on a new principle known as 'load control'. Instead

By varying the water flow to match the electrical power demand, the device adjusts the power demand to match the available water flow. This results in much more accurate speed regulation and allows freedom to use very simple turbine designs with fixed blades, providing another important saving in the capital cost.

This concept was first put into practice by Evans Engineering, and G. P. Electronics for use with small turbines for farms and private houses in the UK. ITIS has funded the further development of the original single phase design into a larger three phase unit. Thailand's National Energy Administration has been provided with a three phase device and funding for installation by UK engineer, Gerry Pope (G. P. Electronics). The unit was installed within hours and after minor adjustment was in full operation.



The controller installed at the Kun Krong Forestry Station. Picture shows pipe for water flow leading downhill to turbine and controller housing. This scheme is part of Thailand's National Energy Administration 10 year micro hydro development programme.

Weir Pumps, UK pump manufacturers, have found that their centrifugal pumps, when run in reverse, have characteristics similar to the Francis type turbine and can achieve efficiencies of over 80%. Recent tests using the electronic controller have demonstrated that with a pump acting as a turbine a highly economic micro hydro system can be created. Weir Pumps is now undertaking a contract to install a trial system in Malaysia.

A project in Sri Lanka, now in the proposal stage, involves substituting a three phase controller for an inactive mechanical governor found too complicated and costly to maintain. This micro hydro installation, like many others in Sri Lanka, provides power for a tea estate. ITIS is supplying the controller on a trial basis to local engineers, Brown & Co., a firm which intends to undertake similar ventures throughout Sri Lanka.

For further information contact: ITIS, Myson House, Railway Terrace, Rugby, U.K. Tel. (0788) 70126, Telex 311208 (ref 26/6/81).

## To whom are these services available?

The services of ITIS are available to private voluntary and commercial organisations as well as government institutions and development agencies. ITIS can assist anyone who is concerned with the establishment of small industries in developing countries. The first point of contact for all enquiries is one of the unit's "Industrial Advisers." These staff members are technical specialists who frequently travel abroad and can make direct contact with an enquirer.

## Why 'Intermediate Technology'?

The phrase 'intermediate technology' is frequently misunderstood. Essentially, it is a technology where the equipment cost per workplace is intermediate between that of the traditional technology in a developing country and the capital intensive technology of an industrialised country.

It is not necessarily labour intensive or small-scale. Nor does it mean by definition an 'inferior' product or an outdated process. It may be 'modern' in both design and operation. What it is, however, is the appropriate technical solution to a specific problem.

## Where is ITIS?

The ITIS office is located at Rugby, between London and the major industrial centres of England. Personal visits to our office are most welcome. London is one hour by train; Birmingham airport is 45 minutes by road.

Intermediate Technology Industrial Services  
Myson House  
Railway Terrace  
Rugby CV21 3HT.  
Tel. Rugby (0788) 70126  
Cables: ITIS RUGBY. Telex: 311208 (MYSON R).



Intermediate  
Technology  
Industrial Services

"The chance to work is the greatest of all needs . . . the primary need is workplaces, literally millions of workplaces."

E. F. Schumacher, *Small is Beautiful*

- \* *ITIS has helped to finance the development of a low-cost roofsheet material made of cement, sand and vegetable fibre. The roofing, capable of manufacture in small local workshops, was developed by the IT Building Materials Workshop. Pilot production units have been set up in Bangladesh, Malawi, Honduras and Zimbabwe, among others.*

#### Energy Systems and Equipment

ITIS is supporting the development and introduction of micro-hydro systems capable of providing decentralised power to rural areas. Projects underway in Nepal, Thailand, Colombia, Kenya and Sri Lanka are primarily concerned with the field testing and demonstration of improved turbines and controllers. Other activities in the energy area include the field testing of solar powered irrigation pumps, a demonstration of passive solar heating and the establishment of commercial production of wind-powered water pumps.

- \* *ITIS has supported the development of a new low cost electronic controller which can replace the conventional mechanical governor, a significant step in increasing the viability of micro-hydro systems (10-100 kW).*
- \* *Field testing is underway in Pakistan of a solar powered irrigation pump designed for small farms where surface water (down to 6 metres) is available but unused. The project which involves the purchasing and shipping of 20 test pumps plus technical assistance on site, is jointly funded by ITIS and national government institutions.*

#### Agro Industries

ITIS increasingly supports industries based on agricultural/forest products and residues which can enhance incomes in rural area. Such activities include small-scale paper-making (1-25 tonnes per day), open pan sulphitation (OPS) sugar processing (100-200 tonnes of cane per day), decentralised wool and cotton spinning, charcoal

production and the development of a portable sawmill.

- \* *In India, support has been given to the development of an improved design of shell furnace for OPS sugar mills designed to burn wet bagasse. A project has been financed in Kenya to demonstrate this improved furnace which eliminates the need for expensive firewood.*
- \* *In Sri Lanka, ITIS has financed the local production of four portable metal kilns to demonstrate the techniques and feasibility of mobile charcoal production. A joint initiative between government and private enterprise is now underway to produce charcoal for local industrial and domestic consumption.*
- \* *ITIS, in collaboration with the Appropriate Technology Development Association, Lucknow, India, is supporting two projects to develop and field test technologies for cottage-based spinning of high quality cotton and wool yarn which can compete with mill spun products.*

#### Agricultural and Transport Equipment

The design and local manufacture of agricultural and transport equipment for low income farmers is an important area of ITIS activity. Projects undertaken to date include an investigation of small engine powered wheat threshers, provision of technical and financial assistance for an improved cycle trailer, establishing local manufacture in Thailand of a bullock-powered chain and washer pump and a programme, undertaken with the Commonwealth Secretariat, to share proven technologies among African countries.

- \* *Working with two small production workshops in India, an ITIS consultant engineer has provided technical advice to establish commercial manufacture of a new tool carrier, the NIKART. This animal drawn device, designed by the Overseas Division*

## What is ITIS?

Intermediate Technology Industrial Services is a unit of the Intermediate Technology Development Group. It has been set up with funds from the UK Overseas Development Administration to provide technical and financial assistance to meet the needs of developing countries for unfamiliar or new technologies, in the small industry sector.

## What is the goal of ITIS?

Our objective is to assist in creating places of work in developing countries through the establishment of production facilities using local resources to meet local needs. To achieve this, ITIS seeks to identify, develop and introduce technological solutions to common problems. The emphasis is on technologies which can be operated using local skills, minimize the use of scarce capital and reduce imports.

## What services are available?

ITIS can support development projects by providing funds for:

- Feasibility studies and market surveys to determine the requirements for a new product or process technology.
- The development of a new technology – or the updating of an existing technology – to meet a specified need.
- The field testing and demonstration of a new technology on-site in developing countries and the establishment of pilot industrial enterprises.

The funds ITIS invests in any one project vary from a few thousand pounds to a sum rarely exceeding £50,000. In all cases projects are undertaken in close collaboration with local organisations, which are expected to make a significant contribution.

ITIS also operates an enquiry answering service which provides information about existing technologies and recommends sources of supply for machinery and equipment.

## What technical areas does ITIS cover?

### Engineering Techniques and Equipment

ITIS has participated in the development of production techniques and equipment for a range of manufacturing activities. Projects undertaken include the introduction of improved casting techniques, the development and field-testing of simple workshop equipment, an investigation of quality galvanising at one tonne per day, and the development of equipment for small scale glassmaking.

- \* *Recent glassware initiatives have resulted in a new design for a 5 tonne per day electric glass melting furnace and the development of suction forming equipment. Feasibility studies have been undertaken in Kenya and Sri Lanka. A pilot plant, utilising the new furnace has been established in Sri Lanka.*
- \* *Another project was undertaken by an ITIS consultant to improve casting techniques at a Ghanaian workshop. Utilising local materials more effectively, he and the staff were able to design and produce equipment previously imported. Due to savings and improved product quality the small workshop has become more competitive and expanded its product line.*

### Building and Cementitious Materials

ITIS is involved in many aspects of low-cost housing technologies from the production of building materials and components to the development of appropriate construction methods. Projects in this sector include a study to determine the feasibility of producing building blocks of lime and pozzolana in Vanuatu, the provision of technical assistance to a similar project in Guatemala, extensive field testing of fibre reinforced cement for roofing sheet material, and a demonstration project to improve methods of producing gypsum plaster for low-cost building in the Cape Verde Islands.

of the National Institute of Agricultural Engineering, can be fitted with a wide range of farming implements or used for transport purposes. The visit resulted in improvements in production quality and a more competitive selling price, which have stimulated NIKART sales to local farmers.

- \* *ITIS is supporting the introduction of a load carrying tricycle into several countries. Initially developed with assistance from Oxfam, the vehicle, the Oxtrike, can carry both goods and passengers. The Oxtrike has been introduced into Tanzania, India, Colombia, Malawi and Ghana; local production has been established in Sri Lanka and Kenya.*

#### Transport and Fishing Boats

Improved designs and construction methods for low-cost transport and fishing boats are an area in which ITIS is actively involved. Interest in new designs of small vessels to replace traditional crafts for coastal fishing and river transport has stimulated ITIS to finance projects in Gambia, Cape Verdi, Sri Lanka, Zaire and India. As a result of several fishing boat projects, ITIS has become involved in related investigations, for example, low-cost insulated boxes and simple net making devices.

- \* *In Zaire a number of private voluntary organisations sought ITIS assistance to develop a new design of boat for river transport. This is to replace the traditional dugout which takes months to build and has limited carrying capacity. ITIS is funding a technical feasibility study and designing a craft to be built from local hardwood.*
- \* *ITIS is funding the introduction of the "stitch and glue" boat building technique into several countries. Appropriate for a wide variety of boat designs, this technique uses marine grade plywood and epoxy resin. Procedures for using this method are being taught at a co-operative boat yard in Muttom*

*in South India, after satisfactory tests in Sri Lanka.*

#### Mining and Mineral Processing

ITIS offers a range of services for the development of small scale mineral deposits which include the establishment of processing operations and the incorporation of the material into downstream industries. Feasibility studies, mineral processing investigations and analyses of suitable equipment for small throughput operations can also be undertaken.

- \* *An ITIS-funded survey of the potential for small-scale mining in Sri Lanka led to projects to develop small operations based on mica waste, graphite and gem stones.*
- \* *Commercially backed projects, underway in Kenya, utilise previously untapped graphite and talc deposits. Both minerals, widely used in Kenyan industry, are currently imported. ITIS is working closely with the Institute of Geological Sciences, London, in evaluating mineral separation and processing techniques.*

#### Medical and Educational Equipment

There is widespread interest in the development of medical and educational equipment suitable for local manufacture. ITIS supports several projects in this area including: the introduction of labour intensive techniques for producing spectacle frames and lens blanks, designs for wooden educational toys, a survey of the need for locally made dental equipment and the development of a hand-operated machine for making plaster bandages.

- \* *ITIS has provided the Malindi Rural Centre in Malawi with technical and financial assistance for the manufacture of wheelchair and invalid cycle production prototypes. During these tests modifications for improved models have been identified.*



10 DOWNING STREET

From the Private Secretary

5 August 1982

The Prime Minister recalls with pleasure your generous hospitality on 12 July. She much enjoyed the occasion, both as a prelude to her forthcoming visit to China and as an opportunity to talk with you.

As the Prime Minister explained, she is greatly looking forward to an exchange of views with your Government on current international and bilateral matters. She hopes, in particular, that her programme will be so arranged as to allow serious discussion at the appropriate level on the subject of the future of Hong Kong.

You asked about the possibility of a soft loan which Sir Y.K. Pao and others have raised with the British Government. The Government would very much like to increase the British contribution to China's modernisation programmes, but a soft loan poses problems for us at present. Export credits, supported by the Export Credits Guarantee Department, are already offered at concessionary rates of interest in accordance with the OECD consensus. Where particular projects are concerned we can consider matching such lower interest rates as may be offered by our competitors. But it would be difficult for us to envisage the major new commitment in China, not linked in the first instance to specific projects, which has been discussed.

We do of course make a major contribution to the aid programmes pursued in China by multilateral agencies such as the World Bank and UNIDO and we very much welcome their activity. We are also prepared to consider ways of strengthening our bilateral technical and other exchanges.

You also enquired about a Government tax in connection with negotiations for the Luda destroyer refit. It is our practice, where the costs of research and development of equipment have been borne by public funds, to require some payment in respect of these costs when that equipment is sold. This naturally results in a

/higher

China  
MS  
efw.

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higher price. But while negotiations on price must remain a matter between your Government and British industry, the British Government are prepared to consider constructively how, in the special circumstances of this project, the levy might be reduced or waived in the interests of securing a settlement satisfactory to both parties.

The Prime Minister is aware of the importance of this contract, not only commercially, but as a milestone in the relations between our two countries in the defence field. She very much hopes that it will soon be successfully concluded.

Thank you again for a memorable evening.

JOHN COLES

His Excellency Mr. Ke Hua



10 DOWNING STREET

*From the Private Secretary*

*My dear Ambassador,*

The Prime Minister recalls with pleasure your generous hospitality on 12 July. She much enjoyed the occasion, both as a prelude to her forthcoming visit to China and as an opportunity to talk with you.

As the Prime Minister explained, she is greatly looking forward to an exchange of views with your Government on current international and bilateral matters. She hopes, in particular, that her programme will be so arranged as to allow serious discussion at the appropriate level on the subject of the future of Hong Kong.

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The Prime Minister is aware of the importance of this contract, not only commercially, but as a milestone in the relations between our two countries in the defence field. She very much hopes that it will soon be successfully concluded.

Thank you again for a memorable evening.

Yours sincerely

Raymond S. Chester

His Excellency Mr. Ke Hua

*ms*

PRIME MINISTER

Letter to the Chinese Ambassador

In the light of your comments yesterday, I attach a revised version.

It has been cleared with the Treasury and the Ministry of Defence.

The statement in the third paragraph that "we can consider matching" interest rates offered by our competitors is a little cautious, for two reasons:-?

a) Some of our competitors are already prepared to offer the Chinese loans at rates as low as 3 per cent in connection with particular projects and the Treasury would see considerable difficulty in going that far.

b) I understand that China like other Communist countries is at present ineligible for the aid trade provision.

Agree that letter should be sent?

*A.J.C.*

4 August 1982

China



CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

4 August 1982

Submitted to  
Prime Minister as  
amended.

Dear John,

Letter to the Chinese Ambassador

with AJC?

AR 4/8.  
p.c.

Thank you for your letter of 3 August. We have consulted officials in the Treasury and MOD.

Our only real difficulty with the re-draft which you attach relates to the last two sentences of your third paragraph concerning the soft loan proposal. Since some of our competitors are already prepared to offer the Chinese loans at rates as low as 3 per cent in connection with particular projects and since at present China like other Communist countries is still ineligible for the Aid Trade Provision, we cannot be confident that we could meet our competitors on any project. Moreover it is not as a result of any understandings with OECD partners that we are unable to envisage a major new commitment in China not linked to specific projects; any OECD country is free to offer aid loans or grants to China. As our original draft made clear, the problem is one of increasing public expenditure. May I therefore suggest that the two last sentences of the paragraph be again re-drafted as follows:

'Where particular projects are concerned we can consider matching such lower interest rates as may be offered by competitors. But it would be very difficult for us to envisage the major new commitment in China, not linked in the first instance to specific projects, which has been discussed'.

The use of the word 'refund' in your slight re-draft of the passage on defence sales (fifth paragraph) is slightly misleading as the levy is not necessarily used directly to offset research and development costs. 'Payment in respect of' might be preferable.

*F N Richards*  
(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street

*Janis Riddle*

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POSTAGE AND FEES PAID

24 AUG 1982

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10 DOWNING STREET

*From the Private Secretary*

3 August 1982

Letter to the Chinese Ambassador

Thank you for your letter of 27 July. The Prime Minister was not entirely happy with the draft letter which you propose that I should send to the Chinese Ambassador. I enclose with this letter a redraft which I think might meet the Prime Minister's concerns. Could you kindly let me know whether you or any other interested departments see any difficulty in this text. Perhaps I could add that I go on leave on the evening of 4 August. If it were possible to let me have any comments on this draft by lunchtime tomorrow, I would try to submit it for the Prime Minister's approval during the course of the afternoon.

AJC

F.N. Richards, Esq.,  
Foreign and Commonwealth Office.

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VB

SIR ROBERT ARMSTRONG

Prime Minister's Visit to the Far East

Thank you for your minute of 28 July. The Prime Minister is content with the drafts which you attached subject only to the amendment of Objective C3 of Annex A to read:

"Depending on the results of the Chinese visit To confirm that in discussions with the Chinese on Hong Kong's future our aim will be to promote a prosperous and secure future for the people of Hong Kong."

AJC

2 August 1982

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file

B/K

BK

10 DOWNING STREET

From the Private Secretary

30 July 1982

AID TO CHINA

The Prime Minister has seen your letter of 28 July in which you state that Ministers have decided to start a broader programme of technical cooperation with China.

Mrs. Thatcher is doubtful whether the proposed funds will be usefully spent in this way. She considers that the relatively small amount of money involved is unlikely to make much impact in China and doubts whether it will further our commercial interests in any significant way. She believes that the money would be better spent in smaller countries and in that connection mentioned the possibility of using such funds to finance training awards for Malaysians.

Mr. Marten may wish to reflect further about the proposal and let the Prime Minister have his considered views.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office), John Rhodes (Department of Trade) and Terry Mathews (Chief Secretary's Office, HM Treasury).

A. J. COLES

Michael Power, Esq.,  
Overseas Development Administration

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PRIME MINISTER

MEDIA ARRANGEMENTS FOR JAPAN, CHINA AND HONG KONG

May I suggest that you judge the attached recommendations from Bernard against the principal aim of your visit: to strengthen confidence in Hong Kong about the future.

You have authorised Sir Percy Cradock to tell the Chinese Government that our minimum aim for your visit to China is an agreed concluding statement that the two sides have agreed to have serious talks at official level about the future of Hong Kong. We have also asked the Chinese Government to avoid any public statement that would make this aim hard to achieve.

There is a distinct risk that if there is endless press comment between now and your visit (and I am not encouraged by the attached extract from today's Economist) expectations will be so built up that even a commitment to "serious talks" will fall flat.

My own preference would be that you should give no press interviews before you leave. But if you think it impossible to avoid them I hope you would agree that Bernard, who is quite willing to do so, should make it plain to the Japanese journalists that you are prepared to talk to them about Japan but not Hong Kong and that the Chinese journalists should be similarly controlled through the submission of questions in advance.

A. J. COLES

30 July 1982

Ref: A09128



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Prime Minister

Content with objectives? → please  
note in particular C.3 on page

MR. COLES

3.

A.S.C.  $\frac{30}{7}$

*I much prefer your version*  
*of the Hill*  
*document.*

*Attention*  
*agreed*  
*not*

Prime Minister's Visit to the Far East,  
16th-29th September 1982

Sir Antony Acland copied to you his letter of 7th July to me about the Prime Minister's forthcoming visits to Japan, China and Hong Kong. I have not minuted you before about the briefing arrangements for these visits, since I have had to await comments from the other Permanent Secretaries concerned about the proposals contained in that letter and its enclosures.

2. None of the Permanent Secretaries to whom Sir Antony Acland's letter was copied have made any comments on the contents of the letter as far as these concern the background against which the visits will be taking place and also developments in Japan and China. The letter made the point that neither in the political nor in the economic arena has Japan's performance as a member of the club of advanced countries been very satisfactory. As was seen in particular over the Falkland Islands, Japan's sense of political responsibility remains immature. Japan's response to the pressures of the international economic situation has also been inadequate, and her government has sought to forestall or divert criticism about the problems created by Japan's export policies by taking piecemeal or short-term and generally minimal measures in the hope of temporarily placating Japan's critics rather than making the more fundamental policy adjustments which her trading partners would welcome. This approach was evident in the run-up to the recent Versailles Economic Summit, when the Japanese announced a number of minor measures allegedly to encourage imports in an ultimately successful effort to prevent the Summit itself raising Japan's trading policies as a leading agenda item. These considerations have caused the Department of Trade to propose a more pointed British objective for the visit in the area of trade policy.

3. As far as China and Hong Kong are concerned, the combination of the two visits will inevitably mean that one of the principal focuses of attention for the Prime Minister's talks in Peking will be the future of Hong Kong.



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There will similarly be much attention paid in Hong Kong to the implications of the Prime Minister's talks in China for the future of the Colony with all that that involves for the financial and trading interests based there. The Prime Minister has already had the opportunity of discussing these aspects of her visits to Hong Kong and China with Lord Macle hose and she is also to see Sir Percy Cradock later this week to discuss her visit to Peking. (She has also seen Sir Hugh Cortazzi about the visit to Japan.) In the light of these discussions, she will no doubt have her own views on the draft objectives for the visits and on the list of briefs, both of which I attach with this minute.

4. I should be grateful if you could let me know the Prime Minister's views on these drafts so that I can put in hand the commissioning of the briefs by the Cabinet Office. We would aim to arrange for them to reach you by close of play on Friday, 10th September. The Prime Minister's briefing meeting for the Far Eastern visits is currently planned for Monday, 13th September. She will thus have the weekend of 11th and 12th September in which to study the briefs.

Robert Armstrong

28th July 1982

*Confidential*

ANNEX A

PRIME MINISTER'S VISIT TO THE FAR EAST  
16-29 SEPTEMBER 1982

OBJECTIVES

A. JAPAN

BROAD OBJECTIVES (UNITED KINGDOM)

1. To encourage Japan to accept greater responsibility for the international consequences of her economic success, and to adapt her economic and trading policies accordingly.
2. To promote industrial collaboration between the United Kingdom and Japan.
3. To convey the continued importance we attach to collaboration with Japan on political as well as economic issues.
4. To promote specific bilateral economic and commercial objectives.

SPECIFIC OBJECTIVES (UNITED KINGDOM)

ECONOMIC - INTERNATIONAL

5. To bring the Japanese to recognise the need for adjustment of their economic policies so as to prevent continuing large trade surpluses; to avoid export-led growth; to increase import propensity to levels comparable with other OECD countries; to support voluntary restraint arrangements as a means of avoiding direct Government action; and to encourage measures to strengthen the yen.

ECONOMIC - BILATERAL

6. To promote inward investment and scientific and industrial co-operation.

POLITICAL

7. To seek Japanese support for United Kingdom/Western objectives especially in East/West matters and the Middle East; and to exchange views on other international issues, especially Asian questions.

COMMERCIAL

8. To promote aircraft sales (BAe 146); defence sales (especially Sea Harrier); and sales of high technology equipment. To emphasise the need for changes in the structure of Japanese industry and distribution to reduce the propensity for self-sufficiency and to secure easier access for foreign goods. To press for meaningful reductions in tariffs in areas of importance to the United Kingdom.

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#### LIKELY JAPANESE OBJECTIVES

1. To repair the damage to Anglo-Japanese relations caused by Japanese unhelpfulness over the Falklands.
2. Following recent visits to Japan by other European leaders (Pertini, Mitterrand) and contacts eg at Versailles, to strengthen overall political and economic co-operation with Britain.
3. To avoid excessive concentration on bilateral (United Kingdom-Japan and EC-Japan) trade problems; and to convey the importance of recent measures to open the Japanese market.

#### B. CHINA

##### MAIN OBJECTIVES (UNITED KINGDOM)

1. To demonstrate Britain's willingness to develop through exchanges at the top level an enduring and balanced relationship with China. To show our confidence in China's stability and our interest in long-term co-operation, especially in Chinese economic development.
2. To continue a dialogue with the Chinese leadership on international issues. To explain our view particularly of the Soviet threat and of North-South questions. To persuade China of Western unity, realism and determination. To encourage China to play a constructive role in international organisations and debates.
3. Against this background, to obtain further Chinese understanding and co-operation over Hong Kong: this is the dominant objective for the visit. To reaffirm our wish to see a major Hong Kong contribution to China's economic development. To seek agreement on the opening of discussions on the future of the Territory after 1997. To contain public expectations of progress on the issue so that confidence in Hong Kong is not undermined.
4. To take such limited opportunities as may arise to further our commercial interests. To register with the Chinese what we have to offer in terms of technology and experience. To discuss possibilities for future commercial co-operation, including the Guangdong nuclear project.

##### LIKELY CHINESE OBJECTIVES

1. To discourage any weakening of British resolve to resist Soviet expansionism. To persuade Her Majesty's Government to work for greater European and NATO cohesion and to adopt more radical North/South policies aimed at reducing Soviet penetration of the Third World.
2. To persuade Her Majesty's Government of Chinese political stability and of the prospect of continuity for China's current 'open door' economic policy.

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3. To achieve progress towards the re-establishment of Chinese sovereignty over Hong Kong without jeopardising the Territory's prosperity.
4. To secure aid or concessionary finance in support of British involvement in China's economic modernisation.
5. To obtain Her Majesty's Government's support for the further development of economic co-operation between China and Hong Kong.
6. To obtain Her Majesty's Government's support for the maintenance of Democratic Kampuchea's credentials at the United Nations and to secure political support for the recently formed coalition of anti-Vietnamese forces in Cambodia.

## C. HONG KONG

### MAIN OBJECTIVES (UNITED KINGDOM)

1. To reassure the people of Hong Kong that Her Majesty's Government's commitment is as strong as ever.
2. To confirm that the common objective of the United Kingdom and China is to maintain Hong Kong's prosperity and stability.
3. [Depending on the results of the China visit] To confirm that in discussions with the Chinese on Hong Kong's future the interests of the people of Hong Kong will be taken into account.

### LIKELY HONG KONG OBJECTIVES

1. To bring to the Prime Minister's attention certain United Kingdom/Hong Kong issues, notably Hong Kong's unhappiness over the Multi-Fibre Arrangement, the Nationality Act, and students' fees.
2. To obtain firm assurances that Britain is in no way distancing itself from Hong Kong.
3. To encourage Her Majesty's Government to face up to the problem of the future of Hong Kong in the near future and to ensure that in any discussions with the Chinese the wishes of the Hong Kong people are taken into account.

Prime Minister

C 3 above. You may prefer something like:-

3

" To confirm that in discussions with the Chinese on Hong Kong's future we shall be guided by our aim will be to secure a prosperous and secure future for the people of Hong Kong."

*Confidential*

ANNEX B

LIST OF BRIEFS FOR THE PRIME MINISTER'S VISIT TO  
THE FAR EAST - 16-29 SEPTEMBER 1982

<u>LIST OF BRIEFS</u>	<u>Lead Department</u>	<u>In consultation with</u>
<b>A. JAPAN</b>		
1. Steering Brief (together with programmes and personality notes)	FCO(FED)	
<u>Bilateral Matters</u>		
2. Industrial issues (including inward investment and industrial and scientific co-operation)	DOI	FCO(FED/EESD/ TRED)
3. Commercial issues (including BAe 146)	DOT	FCO(FED/TRED)
4. Defence relations and sales	MOD	FCO/FED/Defence)
<u>International Matters</u>		
5. EC/Japan (trade/political co-operation)	FCO (ECD(E))	DOT, DOI, TSY
6. Japanese Economy-International Implications	Treasury	FCO(ECD(E)FED) DOT, DOI
7. East and South East Asia	FCO(FED/ SEAD)	
8. East-West political relations (including Afghanistan)	FCO(EESD)	
9. East-West economic relations	FCO(TRED)	DOT, Treasury
10. Defence (and forces)	MOD	FCO(FED/Defence)
11. North-South dialogue	FCO(ERD)	Treasury
12. Middle East	FCO(NENAD/ MED)	



# Capitular

## LIST OF BRIEFS

Lead  
Department

In consultation  
with

### Background Briefs

- |     |                                    |          |  |
|-----|------------------------------------|----------|--|
| 13. | Japan Foreign Policy               | FCO(FED) |  |
| 14. | Anglo-Japanese political Relations | FCO(FED) |  |
| 15. | Politics in Japan                  | FCO(FED) |  |
| 16. | Northern Islands                   | FCO(FED) |  |

### B. CHINA

- |    |   |          |  |
|----|---|----------|--|
| 1. | Steering Brief (together with programmes and personality notes) | FCO(FED) |  |
|----|---|----------|--|

### Bilateral Matters

- |     |  |                  |                               |
|-----|--|------------------|-------------------------------|
| 2.  | Future of Hong Kong  | FCO(HKGD)        |                               |
| 3.  | Guangdong Nuclear Project  | DOI              | FCO(FED/NED)<br>Treasury, DOT |
| 4.  | Other commercial issues (eg involvement in modernisation of Chinese coal industry and ports, telecommunications and agricultural co-operation) | DOT              | FCO(FED)                      |
| 5.  | Defence Relations and Sales  | MOD              | FCO(FED/TRED)                 |
| 6.  | Aid  | ODA              | FCO(FED/CRD)<br>Treasury, DOT |
| 7.  | Scientific and Technological Co-operation and Educational exchanges  | FCO(CRD)         | DES, ODA                      |
| 8.  | Air Services   | FCO(MAED)        | DOT                           |
| 9.  | Consular agreement (including opening of consulate at Shanghai)  | FCO(FED)         |                               |
| 10. | Claims   | FCO(Claims Dept) | Treasury                      |
| 11. | Travel Restrictions  | FCO(FED)         |                               |

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**LIST OF BRIEFS**

International Matters

	<u>Lead Department</u>	<u>In Consultation with</u>
12. East and South East Asia	FCO(FED/ SEAD)	
13. China and South Asia	FCO(SAD)	
14. East-West Relations (including Poland and Afghanistan)	FCO(EESD)	
15. Defence (and forces)	MOD	Treasury FCO(FED/Defence)
16. Middle East	FCO(NENAD/ MED)	
17. Arms Control	FCO(ACDD)	
18. COCOM	FCO(TRED)	MOD

Background Briefs

19. Chinese Foreign Policy (including Sino/US and Sino/Soviet relations)	FCO(FED)	
20. Anglo-Chinese Political Relations	FCO(FED)	
21. Chinese Internal Policies	FCO(FED)	
22. Chinese Economy (including modernisation)	MOD(D173)	FCO(FED), DOT
23. Taiwan	FCO(FED)	DOT

**C. HONG KONG**

1. Steering Brief (together with programmes and personality notes)	FCO(HKGD)	
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Bilateral Matters

2. UK/Hong Kong issues (eg Nationality Act, Students Fees, MFA, refugees)	FCO(HKGD)	Treasury
3. Defence and Security	FCO(HKGD)	MOD
4. Castle Peak Power Station	DOI	FCO(HKGD), Treasury, DOT

*Confidential*

**LIST OF BRIEFS**

	<u>Lead</u> <u>Department</u>	<u>In consultation</u> <u>with</u>
5. Other Major Commercial Opportunities	DOT	FCO(HKGD) Treasury
6. Meeting with Unofficial Members of the Executive and Legislative Councils (UMELCO)	FCO(HKGD)	
7. Multifibre Agreement in Hong Kong	DQT	FCO(ECD(E))

Background Briefs

8. Hong Kong's Political, Economic and Social Situation	FCO(HKGD)	
9. Hong Kong's Economic Relations with UK, EC, US and Japan	FCO(HKGD)	



OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH

Telephone 01-211 5409

From the Minister

28 July 1982

*I doubt whether this is the best use of the money. not*

*Prime Minister  
Agree that the new technical cooperation programme should be announced during your visit?  
A. S. C. 29/7.*

Dear John,

AID TO CHINA

At a meeting of the Official Committee on Exports last month it was decided that the position on aid for China should be brought to the Prime Minister's attention at an early opportunity in advance of her visit.

The only aid we are giving at present to China is a small educational aid programme administered by the British Council. The cost in 1981/83 is £180,000. Ministers have decided, however, to start a broader programme of technical cooperation with China. The aid framework proposed by the Foreign Secretary to cover the years up to 1985/86 includes the following provision:

	Emillion (cash)		
<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	
1	2	3	

The use of this money will have to be discussed with the Chinese authorities. Depending on their views it would be possible, for instance, to finance about 200 training awards at British universities, to double or treble the British Council's programme of English Language teaching, and to pay for about half-a-dozen of the kind of operations by British Consultants that may open up further opportunities for British firms.

The Prime Minister may like us to keep back the news of this offer so that she can announce it in the course of her visit.

The possibility of starting a programme of capital aid to China has been considered. This would thicken our overall bilateral relationship with China and enhance our commercial prospects there. We should moreover be following the example of a number of other countries which

/are



are seeking to become serious partners in China's economic development. Chinese expectations on this front, however, would be considerable and existing pressures on available aid resources would make it very difficult indeed to find the amounts which would be likely to be required as the minimum politically feasible offer (say at least £4million - £5million).

The Guangdong nuclear power project could be assisted with a grant from the Aid/Trade Provision (ATP) provided that

- a. Ministers were willing to allow an exception to their general rule of excluding Communist countries,
- b. the DOT and DOI were willing to set aside enough of the limited funds available for 1984/85 and subsequent years,
- c. the ODA were satisfied as to the developmental value of the project, and
- d. the Treasury could accept the proposed degree of subsidization.

This project will be the subject of separate submissions. A Sino British Friendship Hospital, a project favoured by the Embassy, could be considered as an alternative possibility for our ATP grant if the nuclear power project fell through.

I should mention that, although he is content with the proposal for an expanded programme of technical cooperation, Mr Marten has expressed some reservations about starting up capital aid. Because of the existing pressures on the aid programme, he thinks we should be extremely careful not to get ourselves into a position where we are pouring money into China's bottomless pit. If some gesture is considered necessary, however, his preference would be the hospital rather than the Guangdong project, not least because of the latter's enormous cost.

I enclose a separate paper, which has been prepared by the Foreign and Commonwealth Office, on Sir Y K Pao's proposal for a soft loan to China.

*Yours ever,  
Mike Power.*

(M A Power)  
Private Secretary

A J Coles Esq  
10 Downing Street  
LONDON SW1

cc PS/Secretary of State  
PS/Secretary of State  
for Trade  
PS/Chief Secretary, Treasury



## SIR Y K PAO'S PROPOSAL FOR A SOFT LOAN FOR CHINA

1. Sir Y K Pao has raised with the Prime Minister, Lord Carrington, the Chancellor of the Exchequer, Sir M Maclehorse and Sir E Youde a proposal that a soft loan (US\$1 billion has been mentioned) might be made available to China, possibly linked to an understanding on the future of Hong Kong. An alternative suggestion put forward by Sir Y K is that funds for such a loan might be found from Hong Kong commercial sources if the Hong Kong Government were prepared to act as guarantor. In his meeting with the Chancellor on 2 April, the last occasion when this was discussed substantively, there was the further suggestion that it would be impossible for the Chinese to accept a loan from what they regard as their own territory and that funds would have to be paid through, and ostensibly by, the United Kingdom.
  
2. The Chancellor explained that it would be very difficult to improve on ECGD's normal export credit terms because we were bound by the OECD consensus; and that budgetary constraints made provision of funds from the aid budget equally difficult. Lord Carrington had already told Sir Y K Pao that the conditions suggested for provision of the loan from Hong Kong would raise great difficulties of precedent for the Hong Kong Government; while the Treasury have expressed concern about the possibility of a contingent liability for HMG.
  
3. For the reasons given by the Chancellor, which are also referred to in the general consideration of capital aid for China in para 6 of the letter, it is difficult to see how a large soft loan could be provided by HMG in present circumstances. The proposal that the Hong Kong Government should underwrite a loan that would be raised privately in Hong Kong, but might be channelled through HMG, is unusual and would also not normally be considered favourably. A loan of this kind might however be tied into a deal on the future of Hong Kong. By itself it would be unlikely to buy such a deal. But a loan or guarantee could be a useful sweetener once the lines of an acceptable deal had emerged. Other economic or financial inducements might also be possible in this context. But the Hong Kong Government could not be committed in any way at this stage. (The Prime Minister might



of course also wish to consider the possibility of a UK loan if the Chinese suggested directly and explicitly that it would secure the future of Hong Kong to our advantage; but the budgetary difficulty would remain).

Foreign and Commonwealth Office

July 1982



Foreign and Commonwealth Office

London SW1A 2AH

27 July 1982

Prime Minister

Content that I should write  
to the Chinese Ambassador in the  
terms attached?

A.J.C.  $\frac{19}{7}$ 

Dear John,

Chinese Ambassador's Dinner for the Prime Minister: Letter on  
Subjects Raised

In your letter of 13 July to John Holmes you described a tete-a-tete conversation the Prime Minister had with the Chinese Ambassador when she dined with him on 12 July. The Ambassador raised three points which the Prime Minister undertook to look into.

- (a) the possibility of a soft loan for China;
- (b) the difficulty of a "tax" imposed on defence sales;
- (c) subjects which the Prime Minister would wish to raise during her visit to Peking in September.

You asked for a draft letter setting out what we were able to say to the Chinese Ambassador on these topics. I attach such a draft, which Sir Antony Acland has suggested would perhaps go better from you than from the Prime Minister herself.

The major question raised by Mr Ke is of course the possibility of a soft loan, proposed by Sir Y K Pao in a number of meetings with Ministers over the last few months. We considered this in March after he had approached Lord Carrington. It was generally concluded that there would be great difficulties whether the money came from Britain or, as Pao has also suggested, Hong Kong. The matter has now been looked at again, in the light of Pao's latest call on the Prime Minister. Our conclusions, with some of the arguments, are contained in an ODA letter you will have received which was commissioned separately and which sets out where we stand on aid to China in more general terms. The conclusions on the soft loan are generally although not entirely negative. In these circumstances we do not think that in replying to the Chinese Ambassador we can go beyond the limited formulation in the attached draft.

/The proposed





/ The proposed reply to the Ambassador on his other two points is self-explanatory. For your own information I attach a background note prepared by the Ministry of Defence on their commercial exploitation levy, the defence sales tax referred to by the Ambassador.

*Yours ever,*

A handwritten signature in dark ink, appearing to read 'Francis Richards', written in a cursive style.

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street

SR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

A J Coles Esq

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

His Excellency Mr Ke Hua  
Ambassador of the People's Republic  
of China  
31 Portland Place  
LONDON WIN 3AG

Secret

Confidential

Restricted

Unclassified

Copies to:

*This letter will do. Clearly we need advice for Trade & will recall with pleasure Mrs J and will need someone with Jan with not*

PRIVACY MARKING

SUBJECT:

.....In Confidence

The Prime Minister has asked me to thank you and

CAVEAT.....

Madame Chang Ming for your generous hospitality on

12 July. She greatly enjoyed the occasion both as a prelude to her forthcoming visit to China, to which she is keenly looking forward, and as an opportunity to talk with you, see old friends and make some new ones.

*Her Majesty's Ambassador in Beijing has been instructed to convey to your government on his return to Beijing certain views about the question of Hong Kong.*

I understand that you asked the Prime Minister about the subjects she hopes to discuss with the Chinese leaders during her visit in September. As she explained, she hopes for an exchange of views on current international and bilateral matters including the future of Hong Kong and our trade relations. As the international situation is changing so rapidly, it is probably best to leave more detailed consideration of the agenda until September, when the matter can again be raised through the diplomatic channel. However, if the Chinese side has any specific proposals to make, we would be happy to consider these at any time.

Enclosures—flag(s).....

I understand that you also raised two particular

questions with the Prime Minister. ~~These have been looked into and she has asked me to write to you to explain the position on each.~~

You asked about the possibility of a 'soft loan' which Sir Y K Pao and others have raised with the British Government. The Government would very much like to increase the British contribution to China's modernisation programmes, but a soft loan poses problems for us at present. Export credits, supported by the Export Credits Guarantee Department (ECGD), are already offered at concessionary rates of interest in accordance with the OECD consensus. Further softening of these could only be financed by an additional claim on public spending and you will know that it is a fundamental principle of the Government's current strategy that public expenditure must be held down. Only in this way can we restore health to the economy, an objective which is not only in our own interests but that of the world economy generally. I regret that this consideration precludes the kind of major new commitment in China that has been envisaged.

I should however add two points which offer some mitigation. First, Britain welcomes the aid programmes which multilateral agencies such as the World Bank and UNIDO are pursuing in co-operation with the Chinese Government. We make major contributions to support these agencies in their work. Second, I do not exclude the possibility of an increase in our programme of technical and cultural exchange with China, which would be a further contribution to the relationship between our two countries.

This would do. - we have a clause which enables us to match other loans - which we are able to do.

/You also

You also enquired about a Government tax in connection with negotiations for the Luda destroyer refit. I believe that you were referring to the commercial exploitation levy which is imposed on sales of equipment where the research and development costs have been borne partly or wholly by public funds. This levy applies to much of the equipment involved in the Luda refit project.

*This seems ridiculous if we want the business the more open to be adjusted to take account of the very serious work.*

While negotiations on price must remain a matter between your Government and British industry, the British Government are prepared to consider constructively how, in the special circumstances of this project, the levy might be reduced or waived in the interests of securing a settlement satisfactory to both parties.

The Prime Minister is aware of the importance of this contract, not only commercially, but as a milestone in the relations between our two countries in the defence field. She very much hopes that it will soon be successfully concluded.

Thank you again for a memorable evening.



Ministry of Defence Note on Commercial Exploitation Levy -  
Project 051

The policy governing the commercial exploitation of equipment developed with HMG funding has been laid down by the House of Commons Committee of Public Accounts. Under this policy sales of such equipment to other countries are liable to a levy, the standard rate for which is 7½% of the sale price.

In the case of Project 051 (refit of two Chinese Luda destroyers), much of the equipment associated with the Sea Dart system is subject to this levy, and prices quoted by British Aerospace include the amount which British Aerospace and their sub-contractors would be required to pay to HMG following successful negotiation of a contract. The other main contractor, Vosper Thornycroft (UK) Ltd is also affected, but only marginally.

The cost of the levy to the Chinese is currently assessed at about £3.5m. We would be prepared, subject to Treasury concurrence, to waive this charge if, as a result, contract prices could be agreed with the Chinese. The gap at present is, however, much wider at some £24.5m of a total quoted by our contractors of £126m.

/The normal



The normal UK practice, where the application of levy is likely to lose UK contracts, is not to grant total waiver but to substitute for the standard rate of levy a profit sharing arrangement under which the return to HMG is dependant on the profit outturn obtained by industry. On this programme UK industry believes it must seek a net return of 10%, a figure with which MOD would not disagree.

We are now seeking to establish that the contractors would accept in principle the profit sharing alternative, after which we would hope to construct a formula which would satisfy their requirements, be acceptable to the Public Accounts Committee, and provide for HMG to share profit, but only if the 10% profit target is exceeded. If this is achieved, it will be possible to reduce the price sought from China by the £3.5m referred to in paragraph 3.

If the contractors refuse to accept profit sharing, the only other course would be abatement or waiver of the levy by the Treasury, but it will be hard to persuade Treasury that industry has played its part in reducing prices if the profit sharing proposals are rejected.

Copy filed on Japan July 1982  
Visit to Japan '82 Policy

file-116



10 DOWNING STREET

From the Private Secretary

26 July 1982

VISIT BY THE PRIME MINISTER TO THE FAR EAST

I enclose a copy of a letter which the Prime Minister has received from Mr. Michael Marshall, M.P. As you will see, it outlines a number of defence sales and other commercial opportunities which Mr. Marshall believes might be pursued during the Prime Minister's visit to the Far East in September.

Mrs. Thatcher has replied, thanking Mr. Marshall for his letter and saying that we shall be looking at all his ideas.

Unless you or other recipients consider that the Prime Minister should receive advice on any of these matters now, perhaps you could ensure that they are covered to the extent necessary in the briefing which is prepared for the visit.

I am copying this letter and enclosure to Francis Richards (Foreign and Commonwealth Office), John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry) and David Wright (Cabinet Office).

D. B. Omand, Esq.,  
Ministry of Defence.

288

Copy filed in Japan July 1982  
Visit to Japan '82  
P. Shing



10 DOWNING STREET

THE PRIME MINISTER

26 July 1982

*Mr Marshall*

Thank you very much indeed for your full and interesting letter of 22 July about defence sales and other commercial opportunities in Japan, Hong Kong and China. We shall be looking at all your ideas, together with the various Ministers involved. Thank you so much for writing.

*Yours ever*

*Raymond*

Michael Marshall, Esq., M.P.



From: Michael Marshall, M.P.

*Original filed a  
Japan July 1982  
Visit to Japan Brief*



22nd July 1982

*Dear Prime Minister,*

Earlier this week I returned from a visit to Japan, Hong Kong and the People's Republic of China, which I undertook both as a member of the Select Committee on Defence and as Parliamentary Adviser to British Aerospace and Cable and Wireless. Having declared my interest in defence sales generally, specifically on behalf of British Aerospace and in wider telecommunication opportunities for Cable and Wireless, I hope that the following comments may be of interest to you in the light of your proposed visit to the Far East in September.

1. Japan.

By way of background, I should mention that the Select Committee had had full discussions in Washington before arriving in Japan where, apart from a real, intense interest in and appreciation of our success in the Falklands, the main thrust of the discussions both with the administration and the Senate Armed Services Committee had been to enlist our support for increased Japanese defence expenditure.

Within the last few days, Prime Minister Suzuki has made it plain that Japan will exceed its current limit of defence expenditure of 1 per cent of GNP this year and there are obvious opportunities for British defence sales in Japan. The Foreign Minister, the Minister for Justice as well as Members of the Diet with special defence interests, all showed a willingness to consider British plans for the sale of equipment such as the Harrier, Rapier, Blow-pipe, Sea Wolf etc.

However, such sales are inhibited by two factors. First, there is the long-standing Japanese inhibition about "going public" on defence procurement and, second, the virtual monopoly of U.S. defence supplies to Japan at the present time. As against this, Japan is clearly sensitive to its trade imbalance with Europe and its special relationship with the United Kingdom as the principal source for its foreign investment designed to capture a share of the European market. Under these circumstances and given the somewhat strident tone adopted by the U.S. administration and Congress in pressing for increased defence expenditure, I believe that there are reasonable prospects in looking for increased Japanese defence expenditure from the United Kingdom, and in meetings with British Aerospace and the SDAC during the next few days I shall be pressing for a concerted effort to provide the maximum industrial impetus to



coincide with your own visit.

## 2. People's Republic of China.

My views after a four-day visit are necessarily limited. Nevertheless, it seems clear that the Chinese Government wish to have some kind of contract which can be agreed in time for your visit. On the other hand, on sales one cannot be over optimistic even with the prior claims for modernisation of industry, agriculture and science and technology. Moreover, Xu Xin, Assistant Chief of General Staff (and very much regarded as the coming Defence man) gave clear indication that his priorities were directed towards the modernisation of the Army first and the Navy second (and no mention was made of the Air Force). He went on to emphasise that the United Kingdom should regard itself as well placed in the league of defence suppliers in relation to its major competitors.

Looking more widely at the prospects for British exports to China, it is hard to see where the grand gesture will come from given the current shortage of foreign exchange. On that score, it may be that some prospects currently lie in the joint venture and increased scope for trading at provincial level. I have particularly in mind the Hong Kong - Guangzhou micro-wave system which is to become operational by early 1983. This is part of a determined effort by Cable and Wireless to build up a direct communications commitment between Hong Kong, the Province of Guangdong and through its other interests in Singapore and Manila, to cover the whole of the Far East.

There are substantial political implications in a joint commitment of this kind so far as the whole future of Hong Kong is concerned.

## 3. Hong Kong

Apart from what might be termed conventional communication links of this kind, there are a number of other opportunities for Hong Kong to strengthen its commercial and industrial links with mainland China. The chief concern remains the uncertainty over the future of the New Territories and its impact on such desirable projects as the possible replacement airport on Lantau Island. Meanwhile, Mr. Brewridge, the Financial Secretary, believes that the Colony must make a firm decision regarding this and other competing claims for the new towns, the house building programme etc. in about 18 months time. Incidentally, he expressed himself well satisfied with the Hong Kong Government's equity stake in Cable and Wireless and the new vigour and drive in the management of that Company.



One other possible Hong Kong project is worthy of mention, particularly as it would seek to draw on substantial private capital and the China connection. This is the proposal for a regional satellite which might provide television and business services along the pattern evolved by British Aerospace, Marconi and BT in this country. In Hong Kong a partnership made up of Cable and Wireless, British Aerospace and other owner/users such as the Hong Kong Shanghai Bank (who have already indicated their initial interest) would certainly strengthen Hong Kong's claim as the communications centre for the Far East as well as strengthening the U.K. space industry.

I have obviously used a good deal of shorthand in this letter and I would only be too pleased to amplify any of the points raised. However, in view of the importance of a number of these Cable & Wireless, British Aerospace projects as they affect your Far Eastern tour, I hope you will not take exception to the provision of further detailed briefing material from both Companies and the S.B.A.C. via the M.O.D. and D.of I.

*Yours,*

*Tim*

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



From the Permanent Secretary  
M. D. M. Franklin, CB CMG

*cc to Japan & Hong Kong Policy  
Origination China Policy*

DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3785  
SWITCHBOARD 01 215 7877

20 July 1982

Sir Robert Armstrong KCB CVO  
Cabinet Office  
Whitehall  
London SW1

A.J.C. <sup>21.</sup>/<sub>7</sub>  
h.a.

*Dear Robert,*

PRIME MINISTER'S VISIT TO THE FAR EAST  
16-29 SEPTEMBER 1982

---

I have no comments on Antony Acland's letter to you of 7 July setting out the background and general objectives to the Prime Minister's visit to the Far East.

As regards Annex A, I would like to suggest:

(a) some rewording of paragraph 5 (Japan) as follows:

"To bring the Japanese to recognise the need for adjustment of their economic policies so as to prevent continuing large trade surpluses; to avoid export-led growth; to increase import propensity to levels comparable with other OECD countries; to support voluntary restraint arrangements as a means of avoiding direct Government action; and to encourage measures to strengthen the yen."

(b) an addition to the "Commercial" objectives in para. 8 (Japan) of

"To press for meaningful reductions in tariffs in areas of importance to the UK."

On the list of briefs at Annex B, I think the Department of Trade should be included among those to be consulted on the Guangdong nuclear and aid briefs (Nos. 3 and 6) for China; and the same applies, brief No. 4, on the Castle Peak power station for Hong Kong. Finally, the Prime Minister will undoubtedly hear a great deal about the Multifibre Agreement in Hong Kong and you may feel that it would be advisable to provide a separate brief on this subject rather than include it in the general brief on UK/Hong Kong issues. We will of course produce it.



I am copying this to Antony Acland and recipients of his letter.

*Yours ever*  
*Michael*

M D M FRANKLIN

cc Sir Antony Acland KCVO CMG  
Foreign & Commonwealth Office

Sir Peter Preston KCB  
ODA

Sir Peter Carey GCB  
Department of Industry

Sir Frank Cooper GCB CMG  
Ministry of Defence

A J Coles Esq  
No. 10

FILE

cc to China. ~~Agrees~~  
by Premier



10 DOWNING STREET

*From the Private Secretary*

20 July, 1982

PRIME MINISTER'S VISIT TO CHINA

Thank you for your letter of 19 July. The Prime Minister agrees in principle to extend, during her visit to China, a return invitation to the Chinese Premier to visit Britain.

I suggest that nothing is said to the Chinese about this matter in advance of the Prime Minister's visit. If the point could be included in the briefs, the Prime Minister will decide how to play the hand when she is in China.

A. J. COLES

B J P Fall, Esq  
Foreign and Commonwealth Office

A

CONFIDENTIAL



Prime Minister

Courtesy probably requires this  
and the prospect of future  
discussion with the Chinese about  
Hong Kong will make it easier  
to control expectations from your  
September visit.

Foreign and Commonwealth Office

London SW1A 2AH

19 July 1982

Agree in principle?

A.J.C. 19/7

Yes not

Dear John,

During the Prime Minister's visit to China in September the Foreign and Commonwealth Secretary hopes that she will feel able to extend a return invitation to the Chinese Premier to visit Britain.

Mr Zhao Ziyang is unlikely to take up such an invitation in the near future. He came to this country on an FCO Sponsored Visit in 1979 while still a provincial leader, and in the same year his predecessor as Premier, Hua Guofeng, paid us an official visit. Nonetheless, it would be normal to extend an invitation and the Chinese might be surprised and disappointed if the subject was not mentioned. If Zhao were to accept an invitation, his visit here would usefully sustain the steady development of Anglo-Chinese relations.

Could you please let me know your views in due course?

Yours ever,  
B

(B J P Fall)  
Private Secretary

A J Coles Esq  
10 Downing Street

ChinaOriginal folder  
Future of Hong Kong

15 July 1982

Prime Minister's visit to Japan, China and Hong Kong

Thank you for your letter of 9 July. I owe you a reply to paragraph 2.

I agree that it would be useful for the meeting on 28 July to be attended by Sir Percy Cradock and by Sir Edward Youde - though I assume that the latter would not be returning to London exclusively for the purposes of this meeting but for consultations more generally. I believe it will be desirable not to have too large a meeting on 28 July. Perhaps we could therefore consult further about which other officials will attend.

JOHN COLES

Brian Fall, Esq.,  
Foreign and Commonwealth Office.



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*the Res (No 10)*  
*A.S.C. 14/7 We spoke.*  
*f.a.*  
*for H... 14/7.*

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TO IMMEDIATE F C O  
TELEGRAM NUMBER 753 OF 14 JULY  
INFO PRIORITY PEKING

PRIME MINISTER'S VISIT TO CHINA

TODAY'S COMMUNIST PRESS CARRIES PROMINENTLY A BRIEF NCNA REPORT THAT THE CHINESE AMBASSADOR IN LONDON GAVE A DINNER ON 12 JULY FOR THE PRIME MINISTER IN CONNECTION WITH MRS. THATCHER'S VISIT TO CHINA THIS AUTUMN. KE HUA AND THE PRIME MINISTER WERE SAID TO HAVE EXCHANGED VIEWS ON A WIDE RANGE OF INTERNATIONAL TOPICS AND ON BILATERAL RELATIONS.

2. UNOFFICIALS ARE BOUND TO ASK QUESTIONS ABOUT WHAT WAS DISCUSSED. WE SHOULD BE GRATEFUL FOR AS FULL AN ACCOUNT AS POSSIBLE BY TELEGRAM.

YOUDE

LIMITED  
FE D  
HK v GD  
PCD  
NEWS. D  
PS  
PS | LORD BELSTEAD  
PS | PUS  
MR GIFFARD  
MR DONALD

CONFIDENTIAL

CONFIDENTIAL

RM.



FILE

cc: - MOD

10 DOWNING STREET

From the Private Secretary

13 July, 1982

BF

CHINA/HONG KONG

After the dinner given by the Chinese Ambassador last night, the Prime Minister had a tete-à-tete conversation with the Ambassador.

The Prime Minister told me this morning that the Ambassador had asked which topics the Prime Minister would wish to raise during her visit to China. She had replied that, while her views were not yet firm, she would wish to discuss a number of current international issues as well as United States/China relations, bilateral trade and the future of Hong Kong. The Ambassador asked whether we should have any particular measures of co-operation to propose. The Prime Minister said that she was not yet aware of the state of preparations for this aspect of the visit.

The Ambassador then said that there were two subjects on which he would be grateful for the Prime Minister's views. He was returning to China in mid-August and would find it helpful to have a response before then. First, he understood that the possibility of a soft loan for China had been raised (it may be no coincidence that Sir Y K Pao was present at the dinner). What was our attitude to this? Secondly, difficulties were being caused by the "tax" which we imposed on the sale of military equipment. The Prime Minister did not understand this reference which may be to the R and D levy which, I understand, can be waived in the case of a sale.

I think it would be helpful if you could let me have fairly soon a draft letter which the Prime Minister, or I on her behalf, could send to the Chinese Ambassador covering these two points and possibly, subject to your views, setting out the issues which the Prime Minister will wish to discuss with her Chinese counterpart.

The Ambassador also made some comments on the question of the future of Hong Kong. These are covered in a separate letter which I shall be sending you about a conversation which Sir Y K Pao had with the Prime Minister this morning.

I am copying this letter to David Omand (Ministry of Defence).

A. L. COLES

John Holmes, Esq  
Foreign and Commonwealth Office

CONFIDENTIAL

66



*file JK*

*CF*

*AM*

*For you to keep? Kay 20/7*

10 DOWNING STREET

THE PRIME MINISTER

13 July 1982

Dear Ambassador,

Thank you very much indeed for a most enjoyable evening last night. It was extremely useful and a most relaxed occasion.

Your hospitality was superb and we all greatly appreciated the wonderful dishes your chefs had prepared for us.

I was very pleased to have the chance to talk with you and shall be reflecting further on the matters we discussed.

With warm regards,

Yours sincerely,

Margaret Thatcher

His Excellency Mr. Ke Hua

LPO

MR. COLES

Dinner with Chinese Ambassador

One of the Counsellors is unable to attend tonight, but the Defence and Air Attache, Mr. Chang Wu Tang will be there with his wife instead.

es.

12 July, 1982

*Copied to Future  
Hong Kong File: Hynkin*

Foreign and Commonwealth Office

London SW1A 2AH

9 July 1982

*Don John*Prime Minister's Visit to Japan, China and Hong Kong

Thank you for your letter of 5 July to John Holmes. We have noted the Prime Minister's wishes on the programme and on the meetings about Hong Kong. We agree that it would be useful for Sir Percy Cradock and Sir Hugh Cortazzi to have separate meetings with the Prime Minister on 28 July.

In addition, it would be helpful to know the Prime Minister's views on which officials should attend the briefing meeting on the future of Hong Kong on 28 July. We suggest that, in addition to the Secretary of State and his FCO advisers, the Prime Minister might find it useful to have the advice of Sir Percy Cradock (who will be in England at the time) and Sir Edward Youde (who could usefully return for consultations at this stage). There should be no undue speculation about this and it would seem perfectly normal for the Prime Minister to get the views of the Governor before such an important visit.

The Prime Minister's dinner with the Chinese Ambassador on 12 July is a gesture of courtesy and is now the custom whenever particularly distinguished British visitors go to China. On such occasions it is not usually the Chinese practice to discuss substantive bilateral business, especially if the issues are contentious. Nor does Mr Pym think that there would be advantage in raising the question of the future of Hong Kong on this occasion. If, rather against the odds, the Ambassador seemed to want to probe our position, the Prime Minister might take the line that she was looking forward to discussing the question, which is obviously complicated, during her visit to Peking and that she hoped to make progress towards an eventual solution which would take account of both Governments' interests and the continuing prosperity of Hong Kong. There would of course be no harm in commenting on the existing helpful cooperation between China and Hong Kong and the excellent state of Sino-British relations.

At the dinner, the Chinese Ambassador is likely to make a short and general speech after the first or second course, in which he will call for a toast to the success of the Prime

/Minister's



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10 DOWNING STREET

Prime Minister


As you know, we have arranged meetings towards the end of July when policy on the future of Hong Kong will be discussed. It will be better to keep off the subject at the Chinese Embassy on Sunday night.

2. For the meeting on 28 July may I say that the Foreign Secretary plus 2 F.I.C.O. officials and Sir Percy Cradock may attend - but that Sir E. Tonde should only come if he has other official reasons for being in the U.K. then (it is a long and expensive journey to make for just one meeting).

A.S.C. 9/7



Minister's visit (or, just conceivably, to The Queen).  
The Prime Minister will be expected to say a few words in  
reply, although as this is a formal exercise of goodwill  
the Chinese will not expect anything of substance. I  
enclose a note giving some points on which Mrs Thatcher  
may like to draw.

*Gans over,*  


(B J P Fall)  
Private Secretary

A J Coles Esq  
10 Downing Street



NOTES FOR SPEECH BY PRIME MINISTER AT DINNER BY CHINESE  
AMBASSADOR

1. Ambassador Ke [pron. Kur] a distinguished member of London Diplomatic Corps. Notable contribution over past four years to Sino-British relations. Generous host.
2. Long history of friendship between British and Chinese peoples: relations never better than today. Close understanding important to both countries and world peace.
3. Looking forward to September visit and to talks with Premier Zhao [Jow, rhymes with 'cow'], Vice-Chairman Deng [Dung] and Chairman Hu Yaobang [Hu Yow Barng].
4. Glad to be able to see China again. Warm memories of visit in April 1977: beautiful country and friendly people. China then just beginning to recover from 'Gang of Four'. Have read of much progress in last five years, now opportunity to see for myself: Chinese proverb 'One Looking is worth 10,000 Hearings'.
5. Propose toast to health of Ambassador and Mme Ke and to continued development of Sino-British friendship. [Toast to Chinese Head of State not necessary as no formal appointment has yet been made.]





*Japan  
Hong Kong } Policy*

Foreign and Commonwealth Office

London SW1A 2AH

7 July 1982

Sir Robert Armstrong KCB CVO  
CABINET OFFICE

*AL 9/7  
p. 2.*

*My dear Robert,*

PRIME MINISTER'S VISIT TO THE FAR EAST, 16-29 SEPTEMBER 1982

1. The Prime Minister is due to visit Japan, China and Hong Kong in September. This will be her first visit to Japan since 1979, when she attended the Tokyo Economic Summit, and to China and Hong Kong since 1977 when she was Leader of the Opposition. No British Prime Minister has visited China while in office. Most other Western heads of government and state have done so.

2. Since 1979 the Liberal Democratic Party Government of Japan, which has increased its majority, has concentrated on administrative reform and efforts to balance the national budget; on a gradual extension of Japanese involvement in international affairs; and, with even greater caution, on the development of a stronger defence posture. During this period the Japanese economy has been characterised by low inflation and unemployment and by an ever-growing external trade surplus, causing increased friction with OECD partners. Neither in the political nor in the economic arena has Japan's performance as a member of the club of advanced countries been entirely satisfactory; her sense of political responsibility is still immature, and her response to the pressures of the international economic situation has been inadequate.

3. Changes in China have been much greater since the Prime Minister's visit to Peking in 1977. Deng Xiaoping, who was beginning then to re-emerge as a major face in Chinese politics, has eased Mao Zedong's designated heir Hua Guofeng out of both the Premiership and the Chairmanship, and put in his own men; China has embarked on a course of economic modernisation which she has had to modify substantially in the light of experience since the programme was launched in 1978; and Sino/US relations have been normalised, although the relationship is at present threatened by disagreement over the supply of US arms to Taiwan.

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4. Hong Kong has continued to prosper throughout the last 5 years under the outstanding governorship of Sir Murray MacLehose, who was succeeded by Sir Edward Youde in May. A growth rate of 8-10% has been sustained despite the world recession, and a number of major development projects, in which the participation of British companies has been prominent, have been undertaken in both the private and public sectors. The influx of refugees from China has been brought under control, but a steady albeit reduced stream of refugees from Vietnam continues. The importance of Hong Kong as a market for British export goods has increased dramatically: at over £500 million the level of British sales makes Hong Kong almost as important in this respect as Japan.

5. By visiting the Far East at this time the Prime Minister will show that Britain as a world power has a role to play in an area of great strategic importance and in relations with two great Asian powers. Bilaterally the visit will enable us to impress on the Japanese that in our view they have so far failed to live up to our expectations of them in the international political and economic fields; it will be an opportunity to continue the development of our relationship with China, and specifically to begin discussion of the future of Hong Kong; and to identify HMG firmly with the interests of Hong Kong.

6. It is evident that the Japanese attach considerable importance to the visit, especially in the light of the uncertainty surrounding French economic policy and the domestic political strength of the West German Government. For the Chinese it will be an opportunity to gauge British thinking on the future of Hong Kong. People in Hong Kong will watch the outcome of the talks in Peking carefully and will look for progress on the problem, in order to sustain the confidence which is critical to their continuing prosperity.

7. I attach at Annex A a list of objectives for the tour, and at Annex B a proposed list of briefs. The list of briefs may appear long, but this is in our view unavoidable given the importance and breadth of interest of the two major countries to be visited, and their very different outlook. We suggest that Departments be asked to have all the briefs circulated by Friday, 10 September, with a view to a briefing meeting with the Prime Minister at the beginning of the following week. Both Sir H Cortazzi and Sir P Cradock (both at present on UK leave) are planning to return to their posts to supervise final preparations for

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the visit before the Prime Minister returns from holiday in September, but she will have had an opportunity to meet the two Ambassadors to discuss the overall shape of the visit before she leaves for her holiday in early August.

*Yours ever*  
*Antony*

Antony Acland

cc: Sir Douglas Wass GCB  
HM TREASURY

Sir Peter Preston KCB  
ODA

M D M Franklin Esq CB CMG  
DEPARTMENT OF TRADE

Sir Peter Carey GCB  
DEPARTMENT OF INDUSTRY

Sir Frank Cooper GCB CMG  
MINISTRY OF DEFENCE

A J Coles Esq  
NUMBER 10



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OBJECTIVES

A) JAPAN

Broad Objectives (UK)

1. To encourage Japan to accept greater responsibility for the international consequences of her economic success, and to adapt her economic and trading policies accordingly.
2. To promote industrial collaboration between the UK and Japan.
3. To convey the continued importance we attach to collaboration with Japan on political as well as economic issues.
4. To promote specific bilateral economic and commercial objectives.

Specific Objectives (UK)

Economic - International

5. To bring the Japanese to recognise the need for adjustment of their economic policies so as to prevent the re-emergence of a large trade surplus; to avoid export-led growth; to increase import propensity; and to encourage action to strengthen the yen.

Economic - Bilateral

To promote inward investment and scientific and industrial cooperation.

Political

7. To seek Japanese support for UK/Western objectives especially in East/West matters and the Middle East; and to exchange views on other international issues, especially Asian questions.

Commercial

8. To promote aircraft sales (BAe 146); defence sales (especially Sea Harrier); and sales of high technology equipment. To emphasise the need for changes in the structure of Japanese industry and distribution to reduce the propensity for self-sufficiency and to secure easier access for foreign goods.

### Likely Japanese Objectives

1. To repair the damage to Anglo-Japanese relations caused by Japanese unhelpfulness over the Falklands.
2. Following recent visits to Japan by other European leaders (Pertini, Mitterrand) and contacts eg at Versailles, to strengthen overall political and economic cooperation with Britain.
3. To avoid excessive concentration on bilateral (UK-Japan and EC-Japan) trade problems; and to convey the importance of recent measures to open the Japanese market.

### B) CHINA

#### Main Objectives (UK)

1. To demonstrate Britain's willingness to develop through exchanges at the top level an enduring and balanced relationship with China. To show our confidence in China's stability and our interest in long-term cooperation, especially in Chinese economic development.
2. To continue a dialogue with the Chinese leadership on international issues. To explain our view particularly of the Soviet threat and of North-South questions. To persuade China of Western unity, realism and determination. To encourage China to play a constructive role in international organisations and debates.
3. Against this background, to obtain further Chinese understanding and cooperation over Hong Kong: this is the dominant objective for the visit. To reaffirm our wish to see a major Hong Kong contribution to China's economic development. To seek agreement on the opening of discussions on the future of the Territory after 1997. To contain public expectations of progress on the issue so that confidence in Hong Kong is not undermined.
4. To take such limited opportunities as may arise to further our commercial interests. To register with the Chinese what we have to offer in terms of technology and experience. To discuss possibilities for future commercial cooperation, including the Guangdong nuclear project.

#### Likely Chinese Objectives

1. To discourage any weakening of British resolve to resist Soviet expansionism. To persuade HMG to work for greater European and NATO cohesion and to adopt more radical North/South policies aimed at reducing Soviet penetration of the Third World.

2. To persuade HMG of Chinese political stability and of the prospect of continuity for China's current 'open door' economic policy.
3. To achieve progress towards the re-establishment of Chinese sovereignty over Hong Kong without jeopardising the Territory's prosperity.
4. To secure aid or concessionary finance in support of British involvement in China's economic modernisation.
5. To obtain HMG's support for the further development of economic cooperation between China and Hong Kong.
6. To obtain HMG's support for the maintenance of Democratic Kampuchea's credentials at the United Nations and to secure political support for the recently formed coalition of anti-Vietnamese forces in Cambodia.

#### C) HONG KONG

##### Main Objectives (UK)

1. To reassure the people of Hong Kong that HMG's commitment is as strong as ever.
2. To confirm that the common objective of the UK and China is to maintain Hong Kong's prosperity and stability.
3. [Depending on the results of the China visit] To confirm that in discussions with the Chinese on Hong Kong's future the interests of the people of Hong Kong will be taken into account.

##### Likely Hong Kong Objectives

1. To bring to the Prime Minister's attention certain UK/Hong Kong issues, notably Hong Kong's unhappiness over the Multi-Fibre Arrangement, the Nationality Act, and students' fees.
2. To obtain firm assurances that Britain is in no way distancing itself from Hong Kong.
3. To encourage HMG to face up to the problem of the future of Hong Kong in the near future and to ensure that in any discussions with the Chinese the wishes of the Hong Kong people are taken into account.

## PRIME MINISTER'S VISIT TO THE FAR EAST, SEPTEMBER 1982

LIST OF BRIEFS	Lead Department	In consultation with
A) JAPAN		
1. Steering Brief (together with programmes and personality notes)	FCO (FED)	
<u>Bilateral Matters</u>		
2. Industrial issues (including inward investment and industrial and scientific cooperation)	DOI	FCO (FED/EESD/TRED)
3. Commercial issues (including BAe 146)	DOT	FCO (FED/TRED)
4. Defence sales	MOD	FCO (FED/DEFENCE)
<u>International Matters</u>		
5. EC/Japan (trade/economic/political cooperation)	FCO (ECD(E))	DOT, DOI, TREASURY
6. East and South East Asia	FCO (FED/SEAD)	
7. East-West political relations (including Afghanistan)	FCO (EESD)	
8. East-West economic relations	FCO (TRED)	DOT, TREASURY
9. North-South dialogue	FCO (ERD)	TREASURY
10. Middle East	FCO (NENAD/MED)	
<u>Background Briefs</u>		
11. Japan foreign policy	FCO (FED)	
12. Anglo-Japanese political relations	FCO (FED)	
13. Politics in Japan	FCO (FED)	
14. Japanese economy	FCO (FED)	TREASURY, DOI, DOT
15. Japanese economic relations with UK and other countries	FCO (ERD)	
16. Northern islands	FCO (FED)	

B) CHINA

1. Steering Brief (together with programmes and personality notes) FCO (FED)

Bilateral Matters

2. Future of Hong Kong FCO (HKGD)
3. Guangdong nuclear project DOI FCO (FED/NED)
4. Other commercial issues (eg involvement in modernisation of Chinese coal industry and ports, telecommunications and agricultural cooperation) DOT FCO (FED)
5. Defence sales MOD FCO (FED/TRED)
6. Aid ODA FCO (FED/CRD)
7. Scientific and Technological Cooperation and Educational exchanges FCO (CRD) DES, ODA
8. Air services FCO (MAED) DOT
9. Consular agreement (including opening of consulate at Shanghai) FCO (FED)
10. Claims FCO (Claims Dept)
11. Travel restrictions FCO (FED)

International Matters

12. East and South East Asia FCO (FED/SEAD)
13. China and South Asia FCO (SAD)
14. East-West relations (including Poland and Afghanistan) FCO (EESD)
15. Middle East FCO (NENAD/MED)
16. Arms control FCO (ACDD)
17. COCOM FCO (TRED) MOD



Background Briefs

- |   |            |                |
|---|------------|----------------|
| 18. Chinese foreign policy<br>(including Sino/US and Sino/<br>Soviet relations) | FCO (FED)  |                |
| 19. Anglo-Chinese political<br>relations  | FCO (FED)  |                |
| 20. Chinese internal policies   | FCO (FED)  |                |
| 21. Chinese economy (including<br>modernisation)                                | MOD (DI73) | FCO (FED), DOT |
| 22. Taiwan  | FCO (FED)  | DOT            |

C) HONG KONG

- |   |            |  |
|---|------------|--|
| 1. <u>Steering Brief</u> (together<br>with programmes and<br>personality notes) | FCO (HKGD) |  |
|---|------------|--|

Bilateral Matters

- |  |            |            |
|--|------------|------------|
| 2. UK/Hong Kong issues<br>(eg Nationality Act,<br>Students Fees, MFA,<br>refugees)             | FCO (HKGD) |            |
| 3. Defence and Security  | FCO (HKGD) | MOD        |
| 4. Castle Peak Power Station   | DOI        | FCO (HKGD) |
| 5. Other major commercial<br>opportunities   | DOT        | FCO (HKGD) |
| 6. Meeting with Unofficial<br>Members of the Executive<br>and Legislative Councils<br>(UMELCO) | FCO (HKGD) |            |

Background Briefs

- |   |            |  |
|---|------------|--|
| 7. Hong Kong's political,<br>economic and social<br>situation     | FCO (HKGD) |  |
| 8. Hong Kong's economic<br>relations with UK, EC, US<br>and Japan | FCO (HKGD) |  |



10 DOWNING STREET

The Private Secretary

5 July 1982

*cc to Policy on PM Tour to China  
Japan  
Future of Hong Kong  
Orig. Jan P. M. Tours  
Adviser for Far East Trip*

PRIME MINISTER'S VISIT TO JAPAN, CHINA AND HONG KONG

I put to the Prime Minister over the weekend the questions raised in your letters of 24 June and 2 July, together with the programme suggested in Hong Kong telegram No. 663 for the Hong Kong part of the tour.

*cc. PM. Tours  
Adviser for Far  
East Trip*

As I explained to you on the telephone earlier today, the Prime Minister would like to postpone decisions on the programme until she has had the opportunity to discuss her visit with Sir Percy Cradock and Sir Hugh Cortazzi. For various reasons, I do not think it will be possible to arrange these calls until towards the end of this month. Unless it causes you difficulty, therefore, I shall aim to let you have the Prime Minister's firm views on the programme for the whole visit before she leaves for her summer holidays.

The Prime Minister has noted that it will be necessary to decide in the next few weeks how the difficult question of the future of Hong Kong should be handled during her Far Eastern tour. The matter will doubtless arise when Sir Murray McLehose pays his farewell call on Mrs. Thatcher on 23 July. Thereafter, we have arranged an informal meeting to discuss the question on 28 July (at 9.30 a.m.). I have it in mind, subject to any comments you may have, to ask Sir Percy Cradock and Sir Hugh Cortazzi to call on the Prime Minister at 1500 and 1530 hours respectively on that day. Perhaps you would kindly consult Brian Fall, with whom I discussed these matters the other day, and let me know if you see any difficulty in these arrangements.

*0*

John Holmes, Esq.,  
Foreign and Commonwealth Office.

NOTE FOR THE FILE

DINNER WITH THE CHINESE AMBASSADOR  
MONDAY 12 JULY

Carolyne

Any news from Marsha?

Yes - it came  
into me via Sherry Kay  
29/6  
- to original Ltr.

The Chinese Embassy rang this morning saying that they had not been successful in getting hold of the people the Prime Minister had recommended should be invited to the dinner. I had a word with John Coles who suggested the following names:

Sir Antony and Lady Acland

Mr. and Mrs. Alan Donald  
(Under Secretary, FCO)

Sir John and Lady Addis

I also rang Marsha at the Foreign Office and asked her to get me some more suggestions which should be rung through today.

*ed.*

25 June 1982

中华人民共和国驻英国大使馆  
Embassy of the People's Republic of China

31 Portland Place, London W1N 3AG  
Telephone: 01-636 9939

30th June, 1982

Dear Miss Caroline Stevens,

Further to our telephone conversation, I am now sending you the guest list and the table plan for the Dinner on Monday, 12th July, 1982 for your reference. If there is any inconvenience, please let me know.

Thank you very much indeed for the kind help and assistance you have provided.

With my very best wishes,

Yours sincerely,

曹爱华  
( Miss Taso )

Private Secretary  
to the Ambassador

Miss Caroline Stevens,  
Private Secretary to the Prime Minister,  
10, Downing Street,  
London SW1

asked for dinner for 2 drivers  
& 2 Detectives. C.

中华人民共和国驻英国大使馆  
Embassy of the People's Republic of China

31 Portland Place, London W1N 3AG  
Telephone: 01-636 5726

Guest of Honour: The Rt. Hon. Margaret Thatcher  
Prime Minister

Guests: Sir Yu Kang Bao

Sir Anthony Acland & Lady Acland  
Permanent Under Secretary

Mr. Allen Donald & Mrs. Donald  
Deputy Under Secretary

Mr. John Coles & Mrs. Coles  
Private Secretary to the Prime Minister

Mrs. Anna Sohmen  
Daughter of Sir Y. K. Bao

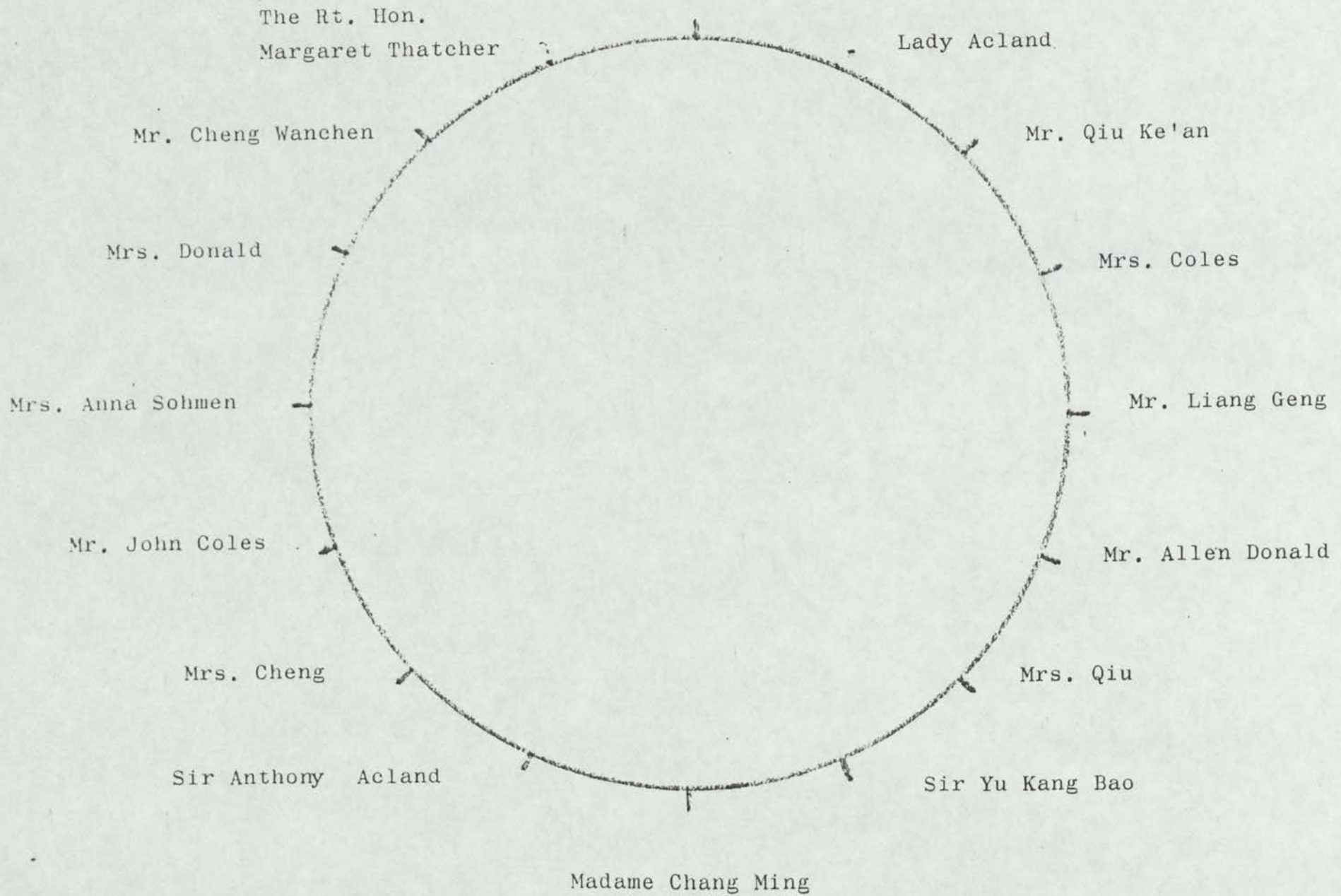
Hosts: H. E. Mr. Ke Hua & Madame Chang Ming  
Ambassador of the People's Republic  
of China

Mr. Liang Geng  
Counsellor

Mr. Qiu Ke'an & Mrs. Qiu  
Counsellor

Mr. Cheng Wanchen & Mrs. Cheng  
2nd Secretary, Interpreter

H. E. Mr. Ke Hua





*filed  
done*

10 DOWNING STREET

*From the Private Secretary*

1 June 1982

PRIME MINISTER'S VISIT TO CHINA

Thank you for your letter of 27 May.  
I see no difficulty about the line you  
propose to take in response to Mr. Miller's  
Question for Oral Answer on 9 June.

A. J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.

*[Handwritten signature]*

File



10 DOWNING STREET

~~CAROLINE~~

~~MR. THATCHER~~

The Prime Minister is  
dining with the Chinese  
Ambassador on **Monday 12 July**.  
Are you able to go?

C.S.

I much regret that  
I have a previous  
23 June 1982  
engagement.

However if it is



Considered  
important for me  
to attend I can  
break my appoint-  
ment but I  
do not want to

S  
27/6

010.



Foreign and Commonwealth Office

London SW1A 2AH

27 May 1982

*I agree*  
*M.P.* *M.P.*  
*I see no difficulty.*

*A.F.C. 27/5*

*Dear John,*

I should draw to your attention a Parliamentary Question which has been put down by Mr Hal Miller MP for oral answer on 9 June by the Foreign and Commonwealth Secretary. Mr Miller asks what preparations are being made for the Prime Minister's visit to China:

We propose that the reply should run as follows:

'It has been agreed in principle that the Prime Minister should visit China in late September. We are discussing the visit with the Chinese Government and are making preliminary administrative arrangements'.

In answer to Supplementaries (if the Question is reached) we shall avoid giving any firm details of the programme or of the composition of the party. Answers on questions of substance, such as Hong Kong, the Chinese attitude to the Falklands crisis, and other bilateral issues will follow standard lines.

I should be grateful if you would let me know if you see any difficulties about our taking this general line.

*Yours*  
*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

27 MAY 1982





200 AH

China

10 DOWNING STREET

From the Principal Private Secretary

10 May 1982

Dear Sir Henry,

U/and  
Ref 14/5

Thank you for your letter of 6 May 1982 about the visit which the Prime Minister is hoping to pay to China later this year.

I will let Mrs Thatcher know that you have recently met Mr Chen Yong-ping. I am sure that she will also be interested to see your paper on the promotion of tourism to China from abroad which you kindly sent with your letter.

Yours sincerely,

Alvi Whinnor.

Sir Henry Marking KCVO CBE MC

AH



4.

# British Tourist Authority

Queen's House 64 St. James's Street London SW1A 1NF England

Telephone: 01-629 9191 Telegrams: Tagbandi Piccy London

Telegrams Overseas: Tagbandi London SW1A 1NF

Telex: 21231 BTAADM G

VAT Regn. No. 238 5259 43

Sir Henry Marking, KCVO, CBE, MC  
Chairman

*MS*

6th May, 1982

Prime Minister.

*To be aware. I have*

*acknowledged.*

*MS*

*WV.*

*Dear Mr Whitmore,*

I understand that the Prime Minister is planning a visit to China in the Autumn. I think it may be useful for you in planning details of Mrs Thatcher's visit to be reminded that when she was in Shanghai some years ago she met a Mr. Chen Yong-Ping. Mr. Chen was then a student at Shanghai University and it was he who gave the speech of welcome to Mrs Thatcher, presumably because he spoke good English.

Mr. Chen is now an interpreter with the China International Travel Service in Shanghai and he remembers Mrs Thatcher with admiration. He seemed to me to be a very bright young man with, I suspect, firmly held left-wing political views.

I met Mr. Chen when I was in China in March as a guest of the China International Travel Service. The Chinese were interested to have advice on promoting tourism to China from abroad - a matter about which their approach is at the moment unbusinesslike and unsophisticated - and I submitted a report to them, a copy of which I attach. I am not sending all the attachments to this report which are somewhat voluminous but they are of course available if you should want to see them.

*Yours sincerely,*

*[Handwritten signature]*

C. A. Whitmore Esq.,  
Principal Private Secretary  
to Prime Minister,  
10 Downing Street,  
London, SW1.

## TOURISM TO CHINA

Notes by Sir Henry Marking following  
his visit with Mr. Gareth James,  
24th March-1st April, 1982

After a short visit of only nine nights to such a vast and diverse country as China, it seems presumptuous to put forward to the China International Travel Service thoughts about development of their country. This Paper is therefore submitted to the Chairman, CITS, firstly because he was good enough to say he would welcome it, and secondly because the experience of the British Tourist Authority is wide and stretches over many years, and so may be of some help to CITS in planning their way ahead.

### Purpose

The purpose of developing tourism to China is twofold: to earn foreign currency and to increase knowledge and understanding of China and goodwill towards China in the Western world.

This Paper does not deal with the problems posed by the Chinese visitors, who numbered nearly 5 million in 1981 including those from Taiwan, Hong Kong and Macao. The Paper deals only with foreign visitors, who in 1981 numbered 170,000 on vacation and 300,000 on business. Most of the Chinese visitors, so we were told, visit friends and relatives and do not use tourist hotels; they do, of course, place an added burden on transportation, although their main season for visits (January and February) does not coincide with the tourism season for foreign visitors.

### Transportation

Distances between the main centres of tourist attraction are great, so much travel is inevitable. Most of it will be by air, but the flights of CAAC are, so it was reported, already very heavily booked, so more flights - and hence more aircraft - would be needed to cope with greater numbers of visitors. The Trident is a good aircraft but is now ageing and expensive to operate, and larger aircraft which can carry more passengers more economically - such as the European Airbus - will be needed for the routes where the traffic is heavy. Smaller and more economic aircraft such as the British Aerospace 146 will be needed for routes with less heavy traffic.

Another transportation problem is that of buses; more buses of modern design and air-conditioned would be needed to operate in and around the main tourism centres if substantially greater numbers of tourists were to visit China.

Purchase of new aircraft and buses calls for heavy investment, but without this investment I do not see how the hoped-for greatly-increased foreign earnings from tourism could be achieved.

### Accommodation

The CITS has recently announced plans to build 31 new hotels for the tourist traffic, a substantial number of them joint ventures with foreign participation.

Great care should be taken in the design of these hotels to emphasise the local character of the buildings and of the furnishings, and these will no doubt vary depending on where in China they are. Visitors do not expect, and do not want, to stay in an hotel which has little or no Chinese atmosphere. They want to feel they are in China!

Hotels need not all be luxurious. Simple hotels with simple furnishings will be needed too, when one remembers that an expanding market will include many visitors who are not rich, and the geographical position of China makes it inevitable that a heavy part of their total expenditure will be accounted for by the air transportation.

#### Cuisine

China is renowned for its cuisine, and hotel restaurants should capture the interest of visitors by explaining in foreign languages on their menus the food they are serving.

#### Guides and Interpreters

A substantial body of interpreters will be needed, fluent in the languages of the major tourism markets; guides must be trained to be knowledgeable about the attractions of particular areas. Those interpreters we met were of very high standard, but if it is necessary to train more interpreters in the English language, there are good language schools in Britain which could be used.

#### Tourist Sites and Attractions

To most visitors China is strange and mysterious - they know little about the country and they would find it more interesting if it could be explained to them, including the economic and social structure. But anything which a visitor could construe as political propaganda would be objectionable and self-defeating: in any event, it would be unnecessary because the facts speak for themselves.



When visitors are taken to see craftsmen working on carpet-making or jade cutting, they should be given short explanations of the work, illustrated lavishly with photographs and with maps showing where the raw materials come from.

Son et Lumière has proved enormously attractive in other places, and could be adapted for some of China's main tourist sites such as the Great Wall, Forbidden City, Summer Palace. But production would need to be very professional.

If it were possible for a representative from CITS to visit Britain, he could see for himself ideas which might be suitable to be applied in China.

#### Marketing

The objective of CITS should be to maintain and increase tourist traffic and to encourage repeat visitors, and this can only be achieved by a long-term marketing strategy.

The international travel trade is highly competitive, and every tourist destination must recognise that its success in attracting visitors will depend upon what it has to offer in terms of facilities and price. However attractive each of us may think what we have to offer is, none of us can afford to leave it to that attractiveness alone to secure the flow of visitors from overseas we hope to see.

For long-term development of the Chinese tourist industry, marketing will be as important as investment in tourist facilities. Although China is at the moment enjoying good tourist business, there is enormous competition from other tourist destinations, particularly 'exotic' areas such as South America, South East Asia, Africa and the South Pacific.

Marketing is a word which in this context includes advertising, attendance at overseas travel trade fairs and exhibitions, and close working with the overseas travel agents, tour operators, air carriers and credit card companies.

Moreover, skillful promotion overseas can help to select the origin and the category of the visitors. The attraction of China as a tourist destination will vary from country to country (Americans and Japanese visitors, for example) and will also vary within each country - affluent, professional people will want a different Chinese experience from that which less wealthy people will want and CITS must evaluate the 'economic benefit' derived from different types of visitor and promote accordingly.

As regards origin of traffic, it is obvious that promotion in a particular overseas country will help to generate tourism from the country. For instance, if there were heavy promotion of China in Denmark, one could expect the numbers of visitors from Denmark to increase. But cleverly-directed promotion can also help to determine whether those visitors are young people, old people, rich people or middle-income people.

It was noticeable that most of the visitors to China, particularly from the USA and Europe, were aged 45 to 65, and all came from the middle-income bracket. I saw no visitors who were obviously rich. It could be that China would wish to direct some of its overseas promotion so as to attract rich visitors from overseas who would be likely to spend more money when in China.

Visitors who are in the upper income brackets would expect higher standards - for example, banquets when they could enjoy fine Chinese specialities - and they would be prepared to pay more for this.

But at whatever market the promotion may be aimed, whether young people without much money or older, wealthy people, the aim must always be to give value for money. That must be the overriding aim. If visitors think they have received value for money, they will come again; if they do not, they will not come again.

Guidance on how promotion can most effectively be undertaken in a particular market must come from specialists in that market. CITS should therefore employ agents overseas for advertising and promotion in foreign countries.

#### Research

To maintain a successful tourist industry, it is essential to undertake research continuously to find out where visitors and potential visitors come from and other details about them. This is for two reasons: firstly, unless one finds out who one's potential visitors are and what they are seeking in a holiday in China, major investment decisions in hotels and tourist facilities may well be wrong. It is crucial to ascertain in advance the type and grade of hotel accommodation which is required in the future. Secondly, without market research, particularly on levels of tourist expenditure, wrong assumptions may be made about the value of the tourist industry which may require a change of direction in the marketing strategy.

Surveys should be conducted among past and potential travellers in the major foreign markets of Japan, North America and Western Europe. As examples, I enclose two Papers (Attachments 1 and 2) prepared by BTA giving an analysis of the Japanese and Dutch tourist markets respectively. These Papers were prepared by the BTA

Market Research Department and are based on information gathered from past and potential visitors who were interviewed either in Britain or in their own countries. This research could be jointly undertaken with the overseas tour operators and they could be persuaded to help finance such projects.

Tour Operators/Travel Trade

As nearly all 'foreign' visitors to China come on organised package tours, the role of the tour operators in foreign countries cannot be underestimated. They are in business to sell their tours, and they can only do this if the tourist product and the price are attractive. They, as businessmen, seek to obtain the best rates in accommodation, transportation, and other tourist facilities, but it is essential that the overseas trade (tour operators, airlines, etc.) be seen as partners rather than necessary adversaries. They need tourism business to China, but they are free to sell other destinations if the package tours they can produce to China are not satisfactory.

Partnership between a state tourist organisation and the tourism trade overseas can take a practical form of shared advertising costs, brochure production, educational visits, etc. So, for example, an advertisement attracting visitors to China could be paid for on a 50/50 basis with a coupon to be completed and sent off for further information. This further information could be the tour operator's brochure and a brochure produced by CITS: the mailing costs could be shared equally between CITS and the tour operator.

As examples, I enclose in a separate folder copies of joint advertisements between BTA and different trade co-operators, namely Pan Am, P & O Ferries, Sealink Ferries, Trusthouse Forte Hotels, British Airways, and an advertisement between BTA and four separate companies (Trusthouse Forte Hotels, Sealink, Olau Line, North Sea Ferries). All

these advertisements include a coupon in the corner which the reader can cut out and send to BTA asking for further information. This enables BTA and its co-operators to assess more accurately the response to the advertisements.

The operator could advise on the likelihood of new tourist packages which would be likely to be popular - perhaps a day trip to the Great Wall of China on a steam train (alleviating road traffic congestion) including tea on the way to the Wall and a full lunch on the return journey to Beijing.

#### Overseas Representation by the CITS

Where the CITS should establish representation overseas will be determined by evaluation of where the visitors to China are coming from. Thus as Japan and the USA are the major markets at present, it would seem right for CITS to have offices there. But it could be that research will show that most of the visitors from the USA come from California rather than from the East Coast of the USA, in which case representation should be sited in San Francisco or Los Angeles rather than in New York.

The task of an overseas office should be:

1. to work closely with the tour promoters in that country in arranging package tours;
2. to use all available promotion methods such as advertising, films and public relations activities;
3. to act as the source of information about China for the trade and the public;
4. to distribute to the trade and the public tourist literature about China.

### Public Relations

Literature, Press articles, films, brochures and posters not only inform, but guide the potential visitor to the experience of a holiday in China.

### Journalists

A most effective way of spreading knowledge about China and the package tours which are available is to bring foreign travel journalists to China to see for themselves, so that they can write articles in foreign newspapers and magazines about what China has to offer to visitors. BTA, for instance, arranges visits to Britain for more than 2,000 foreign journalists each year.

Such visits by journalists should be arranged in conjunction with airlines (both CAAC and foreign airlines) who could no doubt be persuaded to offer free transportation.

The cost to CITS of such visits should be more than compensated by the free publicity obtained abroad.

### Literature

Tourist literature must be related to the country in which it is to be distributed. For instance, it must be in the language of the country where it is to be distributed. It must also concentrate on the parts of China which package tours are to visit and on the attractions to be found in those places.

If a foreigner is to get a true impression of what he will find in China when he gets there, photographs are often more important than words.

Press Releases

The Press - newspapers and travel magazines - are anxious for news about tourism to China, and from time to time CITS should issue Press Releases giving details of developments, such as new tourist attractions.

Main Conclusions

Tourism to China should be developed on the basis of small steady growth, rather than of large sudden expansion. Nothing would be more damaging to the reputation of China as a tourist destination than for the number of tourists to exceed provision of the necessary facilities such as transportation, hotels, guides and interpreters.

But to provide such facilities would require heavy capital expenditure; it would call for a careful calculation of whether the amount of foreign currency to be earned would be sufficient to justify such investment, much of which would inevitably involve expensive foreign imports.

The pace of development will be a matter for determination by the Government of the People's Republic of China. No doubt a factor for Government will be the importance of tourism as a means of increasing understanding and goodwill for China in foreign countries. This is, of course, a factor which cannot be measured in financial terms.

If this Paper has stimulated interest in the work of BTA, on whose experience it is based, the BTA would welcome the opportunity to show to CITS examples of how such ideas are put into practice in Britain. Representatives from CITS will be most welcome in Britain.

The BTA's job does not include undertaking consultancy work, but should CITS wish to use the services of specialist consultants to study and advise on particular aspects of tourism to and in China, the BTA would be glad to suggest names of suitable firms.

14th April, 1982.

22 JUN 1982





