

copy filed as 1) Chris May &
went to Chris May
2) May/roy fly &
went to May/roy May

file - LB



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).

AL COLES

D. B. Omand, Esq.,
Ministry of Defence.

288

copy filed on 1) china May 82
Visit to China Brief
2) Hong Kong July 82
Visit to Hong Kong Brief



10 DOWNING STREET

THE PRIME MINISTER

26 July 1982

Mr & Mrs 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.



copy filed on 1) China May 82
sent to China Office
2) Hong Kong July 82
sent to Hong Kong Office

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 SBAC 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. Bremridge, 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 ever,

Thatcher

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