DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

(2)

Prime Minister

Michael Alexander Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

6 May 1980

Dear Michael

You asked on 23 April for an assessment of the prospects of Chinese orders for the four British railway industry firms mentioned in Mr Fowler's report to the Prime Minister of 21 April on his visit to China.

The position is as follows.

GEC Traction report that they are actively interested in establishing a joint venture with the Chinese for the manufacture in China of some electrical parts for supply to China and to third world countries. Since there is so far very little experience of joint ventures of this kind, this would clearly take some time. Meanwhile, GEC have at the Chinese invitation offered to supply parts for a Chinese tender to supply some locomotives to Sri Lanka. The Chinese seem interested in developing co-operation of this kind.

Cowans Sheldon have very special experience in designing heavy railway cranes of a kind that the Chinese are going to need and appear not to have been successful in developing. The firm have put specific proposals to the Chinese for a design contract and for a licensing agreement, which the Chinese are now considering.

Dowty Engineering supply a unique kind of equipment for controlling the movement of wagons in marshalling yards. The Chinese asked them to make a specific proposal, by mid-year, for equipping a small yard as a trial. There is a clear prospect here of a starting order, which would not be large (well under £1m) but Dowty are having to consider the copying point mentioned in my Minister's report.

In all three cases the Chinese followed up promptly after their visit here, they have identified things in which British firms have something special to offer, and there seem to be reasonable prospects of good orders though not very big ones. The firms are well aware of the need not to let our technology go too cheaply. It is too early to make an assessment of the prospects for Brush, since they have not yet been to China, but the experience with the other three firms suggests that the Chinese will have identified some special interest which they will want to follow up.

Mr Fowler thinks that the Prime Minister will also be interested to know that following his Permanent Secretary's visit to China last autumn we have been able to develop some ideas for Chinese leasing of equipment via Hong Kong, and have succeeded in interesting Lloyds Bank in this possibility, which is now being followed up by the Department of Trade.

I am sending copies of this letter to Roderick Lyne (FCO), Ian Ellison (DoI), Stuart Hampson (DoT) and David Wright (Cabinet Office).

Yours

Gene

MRS E C FLANAGAN
Private Secretary

Prime Minister

Prime Minister

Prime Minister

As you know I spent last week in China, visiting Peking and Canton, as the guest of their Minister of Railways, Guo Weicheng. I also had three days in Hongkong as the guest of the Governor, Sir Murray MacLehose.

The Chinese visit was I think successful in terms of improving relations between the two countries and paving the way for orders for British firms. The Minister of Railways had obviously been impressed by his reception here last year and he and his Ministry were friendly and helpful throughout. The Minister himself accompanied me on several of the visits and his Vice-Minister, Mr Liao, came specially to Canton to see me, at some inconvenience to his arrangements. I was also received by Wang Chen, the Vice-Premier who visited Britain in 1978, and who talked in enthusiastic terms of the importance they attached to developing closer ties with America and Western Europe, particularly the United Kingdom.

The main purpose of my visit was to assess the market for railway equipment and expertise in China and to see what could be done to help British manufacturers and consultants with their efforts in this field. My general conclusion is that there are real opportunities for British exports here. The competition will be fierce, and China's

period of reassessment means that any progress will be slow. The Japanese already have a way into the market through their low interest loans tied to railways. Railways is also a field where the Chinese will be able to provide much of what they need themselves. Nevertheless railways are bound to be a substantial priority in the modernisation of the Chinese economy and our experience of modernising an existing railway system is particularly relevant to Chinese needs. They also seem unlikely to be able to provide for themselves the advanced technology they will need.

It was encouraging that the Chinese seemed to be treating the Arrangement for Scientific and Technical Co-operation which I signed with the Minister of Railways last year as a framework for developing possible trade contacts. Three British rail firms - GEC Traction, Cowans-Sheldon and Dowty Engineering - have already visited China under the Arrangement and put proposals to the Chinese for supplying equipment. A fourth, Brush Electric, will be going out to China fairly soon and the prospects for at least some business look fairly good. I also established that the Chinese will be inviting Transmark, British Rail's overseas operation, who are project managers on the electrification of the rail line from Hongkong to the Chinese border, to advise on the electrification of the line on the Chinese side as far as Canton. The only worrying point is that one of the firms, Dowty Engineering, were shown quite openly by the Chinese a piece of equipment which had been copied from Dowty patents.

Any orders?

Dowty has a licensing agreement with Japan and this appears to have been the source. Clearly this is - and Dowtys recognise this - a wider issue affecting trade with China which we need to consider carefully.

The other major area I covered was exchanges of information and experts. We made good progress on this with both the Minister of Railways and the Minister of Communications, whom I called on briefly. A number of Chinese engineers will be coming to Britain later this year on both the road and rail sides and I shall be sending one of my traffic control experts to Peking. I took the opportunity when I saw the Minister of Communications to repeat my invitation to him to visit Britain. There seems unfortunately little prospect of his making an early visit because he is clearly a sick man, but his area of responsibility - ports, roads and traffic communications - is I am sure one with potential for us and I think exchanges and visits can only be useful.

My visit to Hongkong was necessarily short but I had time for talks with the Governor and some of the senior members of the Hongkong Government. There are strains in relations at present - notably over the Civil Aviation Authority's decision to grant British Caledonian rather than Cathay Pacific a licence on the Hongkong-London route - and I have spoken to John Nott about this. During my visit I offered to second a road safety expert and a traffic management adviser to the Hongkong Government to help them with some of their considerable traffic problems and this offer was much

appreciated. I did not discuss any particular current export effort but Hongkong is obviously an established market for us and British firms already have a good reputation in the transport field - the most recent example being the new mass transit system. Hongkong is also well placed for showing off what British firms can do to neighbouring countries. There do therefore seem to be continuing opportunities on the transport side here - in civil engineering and in traffic communications, and there are now good opportunities for substantial orders for our bus manufacturers. But the message that comes across very strongly was that success lies in responding flexibly to Hongkong's needs.

I am copying this minute to Peter Carrington, Keith Joseph and John Nott and to Sir Robert Armstrong.

NORMAN FOWLER

21 April 1980

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# 10 DOWNING STREET

*From the Private Secretary*

23 April 1980

B/F 30.4.80

The Prime Minister has read with interest your Minister's minute of 21 April about his visit to China. She would be grateful to have an assessment of the prospects for the four British rail firms mentioned in your letter receiving orders from the Chinese.

I am sending copies of this letter to Roderic Lyne (FCO), Ian Ellison (Department of Industry), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Mrs. E.C. Flanagan,
Department of Transport.

cc