

PRIME MINISTER'S VISIT TO CHINA AND HONG KONG: 18-21 DECEMBER 1984

CHINA

THE FUTURE OF HONG KONG

BACKGROUND

CHINESE ATTITUDE TO THE AGREEMENT SINCE INITIALLING

1. The Chinese attitude towards Hong Kong since the initialling of the agreement has been characterised by a desire to reassure. They have resisted temptation to treat the agreement publicly as a triumph. They have been careful not to alarm Hong Kong opinion by any act or statement that could be construed as interference. The leadership has issued strict instructions to their supporters in Hong Kong not to alarm opinion in the territory.
2. In particular the highest Chinese leaders have made reassuring public statements which concede, at least implicitly, that there is suspicion in Hong Kong of their intention to stick to the agreement:
 - (i) Deng Xiaoping was reported in the People's Daily during October as saying that China would not change its policy on Hong Kong, and that "our word is our bond".
 - (ii) Zhao Ziyang told a Hong Kong Government delegation that China would implement the Joint Declaration to the letter, and invited the delegation to publicise his statement.
 - (iii) The Chinese Foreign Minister told the Standing Committee of the National People's Congress in November that the agreement is legally binding.

3. Inside the country the Chinese leadership has been making an effort to explain and sell the agreement. They are clearly anxious to protect themselves against criticism for not having taken a hard enough line with us in the negotiations or even for agreeing to negotiate on what are seen as internal matters.

CHAIRMAN DENG XIAOPING

4. Deng has clearly maintained a close interest in Hong Kong both throughout and since the negotiations. He is the Chinese leader who has the ultimate say in decisions on Hong Kong's future. He did not follow all the detail of the negotiations (and probably does not have all the detail of the agreement at his fingertips): but appears to have intervened decisively, and not always helpfully, on a number of key points.

5. Deng's particular anxiety appears to be that the United Kingdom will not administer Hong Kong effectively up to 1 July 1997. He seems to fear that HMG could syphon off funds from Hong Kong, and that the Hong Kong Government will not be able to prevent disturbances in the territory. Deng told Sir Geoffrey Howe on 31 July 1984 that he was very concerned about the period up to 1997:

- (a) nothing should be done to affect the value of the Hong Kong Dollar.
- (b) the income from land sales should be used for land development and capital construction and not for current expenditure.
- (c) the Hong Kong Government should not increase the size of the public service before 1997, nor substantially increase their salaries or pensions, which might face the SAR Government with a major burden.
- (d) the Hong Kong Government should not seek to impose their preferred personnel on the future SAR Government.
- (e) he hoped Hong Kong would discourage a wholesale flight of capital. He hoped the Government could reassure the Hong Kong and Shanghai Bank not to move its base from the territory as Jardines had done.

6. Deng has revealed in public his worries that there will be

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disorder in Hong Kong in the next 13 years. Both to Sir Geoffrey Howe in April and to a Hong Kong and Macau delegation on 3 October he said that "If some people want to damage the prosperity of Hong Kong, Peking will intervene."

7. Deng has taken a particularly strong stand on the basing of PLA troops in Hong Kong. During the negotiations he publicly slapped down two other leaders who had suggested that the PLA might not be based in Hong Kong. The issue is obviously of considerable sensitivity to him. During the negotiations it was also apparent that he was strongly and personally committed to the concept of the Joint Liaison Group and its basing in Hong Kong.

8. Deng is reported to have told a Japanese delegation in October that the Basic Law might contain less detail than the agreement itself.

PREMIER ZHAO ZIYANG

9. Zhao Ziyang also followed the negotiations closely. He sometimes appeared to show greater flexibility than Deng in his discussions with Sir Geoffrey Howe, but remained ultimately answerable to Deng.

10. Zhao received a Hong Kong Government delegation invited to Peking for the 35th anniversary celebrations in October. He emphasised repeatedly to them that China would faithfully implement the agreement both in the spirit and the letter. The transitional period was very important, and the British and Hong Kong Governments and "people from various circles in Hong Kong" should cooperate to assist with implementation of the agreement. When the time came to draft the Basic Law, the Chinese Government would solicit opinion from a wide range of people in Hong Kong through appropriate channels.

OUTSTANDING POINTS

11. There are a number of outstanding points that will in due course need to be discussed with the Chinese. Some are sensitive and are better not raised at the highest level in order to avoid the risk of a rebuff at that level which would block further progress.

The Prime Minister's speaking notes cover the following aspects of future co-operation with the Chinese Government as follows:

- (a) Implementation of the agreement. Chinese leaders have made reassuring statements on China's commitments. The Prime Minister may be able to prompt further such statements. It would be helpful if these were in a form which could be quoted in Hong Kong.
- (b) Joint Liaison Group. In the first part of next year we shall be discussing with the Chinese the detailed working procedures for the Group and its agenda. We need to convince the Chinese that we mean business in the Joint Liaison Group.
- (c) Drafting of the Basic Law. We accept that the drafting of the Basic Law is a matter for the Chinese Government. We wish to impress on them, however, the need to consult a representative cross section of Hong Kong opinion. The Chinese have expressed readiness to consult Hong Kong people, but they have made conflicting statements on the form that this consultation should take. We also hope that we should be able to influence the drafting of the Basic Law more directly, through the Joint Liaison Group.
- (d) Chinese fears of disruption in Hong Kong during the transitional period. We may need to reassure Chinese leaders, and in particular Deng, that we will administer Hong Kong soundly and that we have no intention of either encouraging or benefiting from a flight of capital.
- (e) Constitutional development. We have kept the Chinese informed of the proposals in the Hong Kong Government Green and White papers on Constitutional development, but have not consulted them. The Chinese have maintained a non-committal position. They do not feel bound by the changes that we are introducing but have not opposed them. They appear to suspect that

we are aiming to leave a "pro-British" administration in place in 1997. They probably want to see how they develop in Hong Kong before making any decisions of their own on government structure after 1997.

12. There are a number of points either outstanding from the agreement or which have emerged since. For the reasons given above we do not think the Prime Minister should raise these at the level of Deng or Zhao. We hope that it may be possible for the Foreign and Commonwealth Secretary to raise them informally in a very restricted session with Wu Xueqian.

- (a) Changes in our Nationality law, and title of the new nationality status. This is a delicate subject. We need to have Chinese acquiescence in the title which is proposed for the new nationality status for ex BDTs (British National: Hong Kong). This will not be easy.
- (b) Defence. The stationing of PLA troops in Hong Kong is a sensitive subject, particularly for Deng, and we should avoid further pronouncements from him. It would nevertheless be useful if we could get over informally the idea that the Chinese might make some helpful statement on this and more particularly on the question of conscription of Hong Kong people after 1997.
- (c) Registration of the agreement at the United Nations. We need to approach the Chinese to propose joint registration of the agreement at the United Nations. This is not normally their practice and there could be difficulties.
- (d) Participation of Hong Kong officials in the Joint Liaison Group: There were indications during the talks that the Chinese might oppose the participation of officials from the Hong Kong Government in the Joint Liaison Group. We are publicly committed to appointing such officials to the Group. We need to try to preempt possible Chinese objections. We shall be able to make use in this

connection of the considerable pressure in Hong Kong for unofficial participation in the Group which we see as impracticable and which the Chinese would certainly reject.

Hong Kong Department

11 December 1984