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(for P/L)

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S DISCUSSION WITH DENG XIAOPING
SUMMARY

1. THE SECRETARY OF STATE HAD 90 MINUTES WITH DENG THIS MORNING. DENG WAS FRIENDLY AND EBULLIENT. ON THE TIMETABLE, HE ACCEPTED THE NEED FOR PARLIAMENT TO HAVE TIME TO CONSIDER THE DRAFT AGREEMENT AND RAISED NO (NO) OBJECTION TO OUR PROPOSALS FOR A PUBLISHED DRAFT AGREEMENT BY SEPTEMBER AND SIGNATURE BY THE END OF THE YEAR. ON THE FORM OF AGREEMENT, HE REPEATED THAT THE AGREEMENT ITSELF SHOULD DEAL WITH MATTERS OF PRINCIPLE, BUT ACCEPTED THAT DETAIL (BUT NOT EXCESSIVE DETAIL) SHOULD BE DEALT WITH IN AN ANNEXE. HE SHOWED CONSIDERABLE ANXIETY ABOUT THE PERIOD UP TO 1997, ARGUING THAT SOME PEOPLE (NOT HMG OR THE HONG KONG GOVERNMENT) MIGHT TRY TO LEAVE THINGS IN A MESS FOR THE INCOMING ADMINISTRATION. A JOINT GROUP SHOULD BE SET UP IN HONG KONG (OR POSSIBLY ROTATE BETWEEN HONG KONG, PEKING AND LONDON) TO DEAL WITH PROBLEMS OF THE TRANSITIONAL PERIOD. SECRETARY OF STATE EMPHASISED THAT WE WOULD DO EVERYTHING POSSIBLE TO HAND OVER A GOING CONCERN. HE ARGUED AGAINST ESTABLISHING A JOINT GROUP IN HONG KONG. AT THE END, DENG RAISED DEFENCE, AND SAID THAT CHINA WOULD SEND A SMALL ARMED FORCE TO HONG KONG IN 1997, SIMILAR IN NATURE TO THE BRITISH GARRISON. THE SECRETARY OF STATE EXPRESSED DISMAY AT THIS INTENTION.

DETAIL

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2. DENG'S INTRODUCTORY REMARKS STRESSED THE FUTURE CONTINUITY OF CHINESE POLICIES. HE WAS LAYING DOWN ECONOMIC POLICIES FOR 20 OR EVEN 30 TO 50 YEARS AHEAD. THE CHINESE ASSURANCE THAT HONG KONG'S SYSTEMS WOULD REMAIN UNCHANGED FOR 50 YEARS SHOULD BE SEEN IN THIS CONTEXT. THE POLICY WAS NOT PERSONAL TO DENG. IF THE PATH WAS CORRECT, IT WOULD LONG OUTLAST HIM.

3. THE SECRETARY OF STATE UNDERLINED OUR DETERMINATION TO REACH AN EARLY AND SATISFACTORY AGREEMENT. VERY GOOD PROGRESS HAD BEEN MADE, BUT IMPORTANT POINTS STILL REMAINED TO BE RESOLVED. WE WERE, HOWEVER, NOW WITHIN REACH OF AN AGREEMENT UNDER WHICH THE CHINESE REQUIREMENT ON SOVEREIGNTY COULD BE MET.

4. DENG AGREED THAT THE NEGOTIATORS HAD WORKED WELL. HE RECALLED TELLING THE PRIME MINISTER IN 1982 THAT HE HOPED THE PROBLEM OF HONG KONG WOULD BE SOLVED IN HER TERM OF OFFICE. HE ASKED THAT HIS BEST WISHES BE PASSED TO THE PRIME MINISTER.

TIMETABLE

5. THE SECRETARY OF STATE SAID THAT HE HAD DISCUSSED WITH OTHER CHINESE LEADERS A TIMETABLE WHICH WOULD PROVIDE WHAT CHINA WANTED: THE TEXT OF AN AGREEMENT TO BE PUBLISHED IN SEPTEMBER. THE AGREEMENT COULD BE SIGNED BY THE END OF THE YEAR.

6. DENG WELCOMED THIS. THE CHINESE UNDERSTOOD THAT HMG HAD TO RESPECT PARLIAMENT AND GIVE THEM TIME TO CONSIDER THE MATTER. HE COMMENTED THAT THE BRITISH PARLIAMENT WAS VERY DIFFERENT FROM THE US CONGRESS. THE SECRETARY OF STATE AGREED, ADDING THAT PARLIAMENT WAS MOST UNLIKELY TO REJECT AN AGREEMENT COMMENDED TO IT BY THE PRIME MINISTER AND HIMSELF. IF THE UK AND CHINA REACHED AN AGREEMENT COVERING ALL THE CENTRAL POINTS, THEN THE PRIME MINISTER AND HE WOULD SO COMMEND IT. DENG COMMENTED 'D'ACCORD'. RATIFICATION WAS NOT RAISED.

FORM OF AGREEMENT

7. THE SECRETARY OF STATE UNDERLINED THE NEED FOR AN AGREEMENT WHICH WOULD CARRY CONVICTION WITH INTERNATIONAL BUSINESSMEN AND INVESTORS, AS WELL AS WITH PARLIAMENT. IT WOULD HAVE TO EXPLAIN CLEARLY THE ARRANGEMENTS FOR HONG KONG AFTER 1997. A GREAT DEAL OF EFFORT HAD BEEN MADE BY THE NEGOTIATORS ON BOTH SIDES TO WORK TOWARDS AN AGREEMENT. THIS EFFORT SHOULD BE REFLECTED AS PART OF THE AGREEMENT ITSELF. EACH SIDE WOULD BE COMMITTING ITSELF TO WHAT IT WOULD DO. THE AGREEMENT SHOULD BE A BALANCED ONE. EACH SIDE COULD THEN COMMEND THE AGREEMENT TO ITS OWN PEOPLE AND JOINTLY TO THE WORLD. DENG MADE TWO POINTS IN REPLY:

(I) THE HONG KONG PROBLEM WAS FOR CHINA AND BRITAIN TO SOLVE. IT WAS NOTHING TO DO WITH OTHERS, ALTHOUGH BRITISH AND FOREIGN BUSINESSMEN WOULD HAVE THEIR OWN IDEAS AND VIEWS (HE REFERRED TO JARDINES). THE THREE-LEGGED STOOL WOULD NOT (NOT) DO.

(II) THE AGREEMENT SHOULD DEAL WITH MATTERS OF PRINCIPLE. IF IT CONTAINED TOO MANY DETAILS, ERRORS MIGHT BE MADE AND IT WOULD NOT BE VERY PRACTICAL. THE COMPETENCE OF THE FUTURE SAR GOVERNMENT WOULD ALSO BE LIMITED. THE CHINESE DRAFT ALREADY INCLUDED MANY

DETAILS AS IT WAS. THE IMPORTANT POINT WAS THAT CHINA HAD DECIDED ON THE PRINCIPLE THAT THERE WOULD BE ONE NATION WITH TWO SYSTEMS. WHEN THEY WORKED OUT THE DETAILS, THEY WOULD CERTAINLY ABIDE BY THIS PRINCIPLE. HE THEN WENT INTO A DIGRESSION TO THE EFFECT THAT MANY OF THE WORLD'S PROBLEMS COULD BE SOLVED BY ADOPTING THE PRINCIPLE OF ONE NATION TWO SYSTEMS (KOREAS, GERMANIES, EVEN ARGENTINA/FALKLANDS). CHINA'S DISPUTE WITH JAPAN OVER THE SENKAKU ISLANDS COULD BE SOLVED IN A SIMILARLY PRAGMATIC WAY: EXPLOITING THE RESOURCES TOGETHER AND LEAVING SOVEREIGNTY ASIDE FOR THE NEXT GENERATION TO SOLVE.

8. THE SECRETARY OF STATE AGREED THAT THE PROBLEM WAS ONE TO BE SETTLED BETWEEN THE UK AND CHINA AND THEN PRESENTED TO THE WORLD SO THAT ALL COULD HAVE CONFIDENCE IN HONG KONG'S FUTURE. IT WAS THEREFORE IMPORTANT, AS PREMIER ZHAO HAD SAID THE PREVIOUS DAY, THAT THE AGREEMENT AND ANNEXES SHOULD REFLECT THE MANY POINTS AGREED IN THE NEGOTIATIONS. DENG REPEATED HIS POINT THAT NOT TOO MUCH DETAIL SHOULD BE INCLUDED. THE SECRETARY OF STATE STRESSED AGAIN THAT THE DETAILS AGREED IN THE NEGOTIATIONS SHOULD BE REFLECTED IN THE AGREEMENT; OTHERWISE THE WORK DONE WOULD HAVE BEEN IN VAIN. DENG ACCEPTED THAT THERE SHOULD BE AN AGREEMENT DEALING WITH MATTERS OF PRINCIPLE AND AN ANNEX IN THE FORM OF AN EXCHANGE OF NOTES WITH THE DETAIL. BUT EXCESSIVE DETAIL WAS NOT GOOD.

PRE-1997 ARRANGEMENTS

9. THE SECRETARY OF STATE UNDERLINED THAT WE AND THE HONG KONG GOVERNMENT WERE DETERMINED TO DO ALL WE COULD TO MAINTAIN STABILITY AND PROSPERITY BEFORE 1997. WE WOULD NOT PURSUE SHORT-SIGHTED POLICIES AND WERE DETERMINED TO HAND OVER A GOING CONCERN. DENG SAID THAT HE HOPED THERE WOULD BE NO TROUBLE. BUT THE CHINESE HAD NOTED SOME SIGNALS: JARDINE'S MOVE, AND INCIDENTS STIRRED UP BY THE KMT. WE COULD NOT TAKE IT FOR GRANTED THAT THE NEXT 13 YEARS WOULD BE PEACEFUL. HE KNEW THAT SOME PEOPLE FROM TAIWAN HAD PLANS TO USE TRIADS (SECRET SOCIETIES) IN HONG KONG TO MAKE TROUBLE. HE ACCEPTED THAT JARDINE'S MOVE HAD NOT BEEN ENCOURAGED BY HMG, BUT IT SHOWED THAT SOME BUSINESSMEN WERE PLAYING A DAMAGING ROLE. DISTURBANCES ON THE MONEY MARKETS SHOWED THE SAME THING. HE HAD BEEN TOLD THAT THERE WERE SOME PEOPLE WHO WERE TRYING TO LEAVE HONG KONG IN A MESS FOR THE FUTURE SAR GOVERNMENT.

10. DENG CONTINUED THAT THE CHINESE HAD NO INFORMATION ABOUT MONETARY POLICIES IN HK, AND VERY LITTLE ABOUT LAND LEASES. IT MIGHT BE THAT WHEN THE SAR TOOK OVER THERE WOULD BE NO LAND LEFT TO LEASE. HK GOVERNMENT EXPENDITURE MIGHT INCREASE GREATLY AND LEAVE A HEAVY BURDEN FOR THE PEOPLE OF HONG KONG AFTER 1997. THESE THINGS COULD BE CONTROLLED, BUT IT WAS POSSIBLE THAT BIG CHANGES MIGHT OCCUR: E.G. THE WHOLESALE FLIGHT OF CAPITAL FROM HK. HE HAD SAID TO THE PRIME MINISTER THAT IN THE CASE OF DISTURBANCES IN HONG KONG HE WOULD BE FORCED TO RECONSIDER THE TIMING OF CHINA'S TAKEOVER OF THE TERRITORY. THE SECRETARY OF STATE HAD EXPLAINED THE BRITISH POSITION. HE BELIEVED THAT NEITHER THE BRITISH NOR CHINESE GOVERNMENTS WOULD DO ANYTHING TO DISTURB THE SITUATION, BUT IT WAS IMPOSSIBLE TO PREDICT WHAT MIGHT HAPPEN IN THE TRANSITIONAL PERIOD. HMG AND THE HKG SHOULD TAKE PREVENTIVE MEASURES.

11. DENG THEN MOVED ON TO PRACTICAL ARRANGEMENTS FOR THE TRANSITION.

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11. DENG THEN MOVED ON TO PRACTICAL ARRANGEMENTS FOR THE TRANSITION. AN ENTIRELY NEW GOVERNMENT IN 1997 WOULD PRODUCE CONFUSION. FUTURE LEADERS WOULD NOT BE SENT FROM PEKING. THEY WOULD BE CHOSEN FROM AMONG HONG KONG PEOPLE. THEY SHOULD KNOW ABOUT MANAGEMENT AND ADMINISTRATION AND SHOULD THEREFORE BE TRAINED BEFOREHAND. THEY SHOULD BE YOUNG, BUT NOT TOO YOUNG. THIS WAS A PRACTICAL QUESTION. IT WAS THEREFORE VITALLY IMPORTANT TO SET UP A JOINT GROUP TO INCREASE CHINA'S KNOWLEDGE AND CREATE CONDITIONS FOR THE HANDOVER. THE AGREEMENT SHOULD CONTAIN A REFERENCE TO SETTING UP THE JOINT GROUP. IN THE REMAINING 13 YEARS (A SHORT TIME), HONG KONG PEOPLE SHOULD PARTICIPATE IN THE ADMINISTRATION. THE BRITISH AND CHINESE SIDES SHOULD CONSULT TOGETHER ON CHOOSING CANDIDATES TO BE FUTURE OFFICIALS. THE ONLY CRITERION WOULD BE THAT THEY SHOULD BE PATRIOTS, I.E. STAND FOR CHINA'S RESUMPTION OF SOVEREIGNTY. IT WOULD NOT MATTER WHETHER THEY BELIEVED IN CAPITALISM, SOCIALISM OR COMMUNISM. NOR WOULD IT MATTER WHAT PASSPORT THEY CARRIED OR WHETHER THEY WERE BRITISH, AUSTRALIAN OR AMERICAN.

12. THE SECRETARY OF STATE RESPONDED THAT THERE WERE CLEARLY A NUMBER OF THINGS TO BE DISCUSSED BEFORE 1997. HE AGREED THAT WE SHOULD EXPLORE HOW TO DO SO ALONG THE LINES DENG HAD SUGGESTED (I.E. A ROTATING GROUP). DENG APPEARED TO TAKE THIS AS ACCEPTING HIS SUGGESTION FOR A JOINT GROUP AND AGREED. THE SECRETARY OF STATE WENT ON TO STRESS THAT A HIGH DEGREE OF AUTONOMY AND CONTINUITY WOULD CREATE CONFIDENCE IN HONG KONG. HE PICKED UP DENG'S POINT ABOUT PREVENTIVE MEASURES WHICH WOULD COMMAND CONFIDENCE. WE WOULD DO ALL IN OUR POWER TO HAND OVER A PROSPEROUS HONG KONG IN WORKING ORDER. THE CHINESE SHOULD GIVE ASSURANCES THAT THE SYSTEM WOULD CONTINUE.

STATIONING OF FORCES

13. IN THE CLOSING MINUTES DENG SAID THAT IN 1997 CHINA WOULD SEND A SMALL ARMED FORCE TO HONG KONG. ITS NATURE WOULD BE THE SAME AS THAT OF THE PRESENT BRITISH GARRISON. EXPENSES WOULD BE BORNE BY THE CENTRAL GOVERNMENT. ITS PRESENCE WOULD BE A SYMBOL OF SOVEREIGNTY AND A FACTOR FOR STABILITY. HE TRIED TO CHOK OFF ANY DISCUSSION. BUT THE SECRETARY OF STATE SAID THAT HE WISHED TO MAKE OUR POSITION CLEAR. WE ACCEPTED THAT WHEN CHINA RESUMED SOVEREIGNTY SHE WOULD HAVE THE RIGHT AND OBLIGATION TO DEFEND HONG KONG. BUT DENG'S REMARKS WERE DISTURBING. CHINESE TROOPS STATIONED IN HONG KONG COULD WELL HAVE AN ADVERSE EFFECT ON CONFIDENCE. INTERNAL SECURITY COULD BE SECURED BY AN INTERNAL SECURITY FORCE. IT WOULD HELP IF CHINA COULD BE PRUDENT AND CIRCUMSPECT AND VOLUNTARILY REFRAIN FROM STATIONING FORCES. DENG SAID THAT THERE WAS NOT TIME TO DISCUSS THIS. IT SHOULD BE LEFT TO THE NEGOTIATORS.

14. THE SECRETARY OF STATE HAD A FEW WORDS WITH ZHOU NAN ON THE WAY TO THE AIRPORT IN WHICH, INTER ALIA, HE CLARIFIED OUR POSITION ON DENG'S PROPOSAL ABOUT A JOINT GROUP. SEE MIFT.

YOUDE