

PREM 19/1503

PRIME MINISTER'S VISIT

TO PEKING, HONG KONG

AND WASHINGTON

Folder B: Hong Kong

PRIME MINISTERS VISIT TO PEKING, HONG KONG + USA: BRIEFING

FOR POL. 11/84)

DUTY CLERK (FM PARTY)

CHINA.

19/20 DEC. 1984

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

How to be A Good Communist – Liu Shao-Chi. Foreign Languages Press, Peking, China. Second revised edition 1952

Cmnd 9352. A Draft Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Future of Hong Kong. Presented to Parliament by the Secretary of State for Foreign and Commonwealth Affairs by Command of Her Majesty September 1984. Published by HMSO - ISBN 0 10 193520 X

Cmnd 9407. HONG KONG. Arrangements for testing the acceptability in Hong Kong of the draft agreement on the future of the Territory. (I) Report of the Assessment Office. (II) Report of the Independent Monitoring Team. Presented to Parliament by the Secretary of State for Foreign and Commonwealth Affairs by Command of Her Majesty November 1984. Published by HMSO - ISBN 0 10 194070 X

Signed _____

J. Gray

Date _____

11/12/13

PREM Records Team

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

HONG KONG

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

PROGRAMME (revised)
THURSDAY 20 DECEMBER

- | | |
|-------------|--|
| 0900 | Leave Peking |
| 1220 | Arrive Hong Kong |
| 1235 | Arrive Government House |
| 1300 - 1410 | Lunch with Unofficial Members of Executive and Legislative Councils (UMELCO) at UMELCO offices |
| 1415 | Return to Government House |
| 1430 - 1545 | District visit to Ap Lei Chau (near Aberdeen) on Hong Kong Island. The Prime Minister will see housing and engineering works, visit a kindergarten and a local arts and culture association, and meet local people including District Board members. |
| 1600 | Arrive at Government House |
| 1640 - 1700 | Meeting with the Lord Kadoorie, Chairman, China Light and Power Company |
| 1700 - 1800 | Reception at Government House for Community and Business Representatives (about 500) |

1830 - 1900 EXCO meeting

1900 Address, to be televised live, to joint meeting of Executive and Legislative Councils

1915 - 1935 Sherry with members of Executive and Legislative Councils

1940 Arrive at Government House

2030 Dinner at Government House for leading members of Hong Kong Community (40)

FRIDAY 21 DECEMBER

0630 Appointment with hairdresser

0730 Pre-press Conference briefing

0800 Press conference

0850 Return to Government House

0935 Depart Government House for Airport

1000 Depart for Washington

GUESTS INVITED TO DINNER AT GOVERNMENT HOUSE
ON THURSDAY 20TH DECEMBER 1984

8.30 P.M. LOUNGE SUIT

The Rt Honourable Margaret Thatcher

The Rt Honourable Sir Geoffrey
and Lady Howe

Sir Percy Cradock

Sir Richard Evans

Mr F E R Butler

Doctor D C Wilson

Mr B Ingham

Mr L V Appleyard

The Honourable Sir Denys Roberts

Chief Justice since 1979;
1950-53 Barrister (London);
1953-59 Crown Counsel,
Nyasaland; 1960-62 Attorney
General (Gibraltar); 1962-
1966 Solicitor General
(Hong Kong; 1966-73 Attorne
General; 1973-78 Chief
Secretary

The Honourable Sir Philip Haddon-Cave

Chief Secretary

Major General the Honourable D Boorman

Commander British Forces

The Honourable Sir John Bremridge

Financial Secretary

The Honourable M D Thomas

Attorney General

The Honourable Sir S Y Chung

Senior Unofficial Member
Executive Council;
Managing Director, Sonca
Industries

The Honourable R H Lobo	Senior Unofficial Member Legislative Council; Chairman, P J Lobo and Company Limited
The Honourable Q W Lee	Chairman of the Education Commission; Unofficial Member of the Executive Council; Chairman and General Manager, Hang Seng Bank Limited
The Honourable M G R Sandberg	Chairman, Hongkong and Shanghai Banking Corporation; Unofficial Member of the Executive Council
The Honourable Lydia Dunn	Chairman, Hong Kong Trade Development Council; Unofficial Member of the Executive Council
The Honourable Mr Justice Li	Member of the Monitoring Team; Justice of Appeal; 1953-65 Crown Counsel, Attorney General's Chambers; 1957-66 Magistrate; 1966- 1971 District Judge; 1971- 1980 High Court Judge
The Lord Kadoorie	Chairman, China Light and Power Company Limited; Chairman, Sir Elly Kadoorie Continuation Limited; Leading Hong Kong business- man and public benefactor
Mr Hilton Cheong-leen	Chairman of the Urban Council (Elected) Director, H Cheong-Leen and Company; Chairman, Hong Kong Civic Association, one of the two political parties in Hong Kong; Deputy Chairman, Hong Kong Academy for Performing Arts; Member of the Hong Kong Housing Authority and Fight Crime Committee

Mr Xu Jiatusun	Director, New China News Agency (Hong Kong)
A N Other	Interpreter
Mr J C Tang	Chairman, Hong Kong General Chamber of Commerce; Chairman, Honjak Investment Company Limited; Member of Trade Development Council; Chairman, South Sea Textile Manufacturing Company Limited
Mr Dennis Ting Hok-shou	Chairman, Federation of Hong Kong Industries; Managing Director, Kader Industrial Company Limited, one of the largest toy manufacturers in Hong Kong
Mr Woo Hon-fai	Chairman, Hong Kong Stock Exchange; Chairman, Chinese Gold and Silver Exchange Society; Managing Director, Lee Hing Investment Company Limited
Mr Ngai Shiu-kit	President of the Chinese Manufacturers' Association of Hong Kong; Member, Rehabilitation Development Co-ordinating Committee, Vocational Training Council, Hong Kong Trade Development Council and Industry Development Board
Mr C H Tung	Chairman, Orient Overseas (Holdings) Limited; Inherited his father's shipping company which is comparable to World Wide Shipping; Council Member, Hong Kong Management Association

Mr S Keswick	Chairman and Managing Director, Jardine Matheson and Company (Hong Kong) Limited Took over chairmanship 1982; General committee member, Hong Kong General Chamber of Commerce
Mr H M P Miles	Chairman, John Swire and Sons; Chairman, Hong Kong Tourist Association; Member of the Aviation Advisory Board and Court of Hong Kong University
Mr R G Hutcheon	Editor, South China Morning Post; 1947-53 Sydney Morning Herald; 1953-62 China Mail (Editor - 57-62); 1962-67 Associate Editor, South China Morning Post
Mr Louis L Y Cha	President, Ming Pao; Formerly a reporter with a local left-wing newspaper; Novelist
Doctor Cheung Sau-ching	Elected District Board Member, Tsuen Wan; Dentist in private practice, Member, Area Committee, Tsuen Wan East; Member, Criminal and Law Enforcement Injuries Compensation Board
Mr Vincent Ko Hon-chiu	Elected District Board Member, Central and Western; Solicitor; Past Director, Tung Wah Group of Hospitals; Member, Court of Hong Kong University
<u>5 GH</u>	
His Excellency the Governor Lady Youde Mr Paul Croft Mr Paul Collier Miss Sheelagh Miller	Aide-de-Camp Aide-de-Camp (Designate) Social Secretary

PRIME MINISTER'S VISIT TO CHINA AND HONG KONG, 18-21 DECEMBER 1984
HONG KONG
BRIEF NO 1 : STEERING BRIEF

INTRODUCTION

1. The Prime Minister visited Hong Kong in September 1982, following her visit to Peking and agreement there to begin talks on the territory's future. There have since been a number of visits to the territory by FCO Ministers in connection with the negotiations: Sir Geoffrey Howe was there in April and July/August 1984, and Mr Richard Luce in September 1983 and July 1984.

OBJECTIVES

2.

- i) To reassure Hong Kong at the highest level of our continued commitment to the territory and to the full implementation of the agreement on its future.
- ii) In particular to reaffirm our determination, through the Hong Kong Government, to administer the territory effectively and responsibly up to 1997.
- iii) To encourage Hong Kong people to have confidence in the agreement and to build their own future.

THEME

3. Given the circumstances of the visit and its brevity, the only theme will be the future. This will be addressed in the Prime Minister's speech to EXCO and LEGCO, which will be the focal point of the visit. It will also of course be the dominating subject of informal discussions and at the press conference. Brief No 2 (The Future of Hong Kong), describes the main concerns felt by Hong Kong people about the future and the agreement. It also contains points to make (including defensive points) in informal conversation.

PROGRAMME

4. The programme is at Annex A. Personality notes are at Annex B.

5. The components of the programme are as follows:

- i) Lunch with UMELCO. There will be no formal speeches. Brief No 2 covers aspects of the future likely to come up in conversation.
- ii) A district visit to Ap Lei Chau. The Prime Minister will see developments in the district, visit a kindergarten and a local arts association; and meet local people including District Board members. Further details of the visit are in Brief No 5 (Background).
- iii) A short meeting with Lord Kadoorie, to discuss the Guangdong Nuclear Project. Brief No 3 contains points to make and background.
- iv) A reception at Government House for about 500 community and business representatives. A guest list is at Annex C.
- v) An address, to be televised live, to a joint meeting of the Executive and Legislative Councils. A draft text has been submitted separately. The address will be preceded by a short, largely formal meeting with the Executive Council, at which the Prime Minister will wish to make a statement on the outcome of the Peking visit. (A more detailed report will already have been made by Sir Geoffrey Howe while the Prime Minister is undertaking her district visit). After the address the Prime Minister is invited to have a glass of sherry with members of the two Councils.
- vi) Dinner at Government House with leading members of the community. There will be no speeches. A guest list is at Annex D.
- vii) A press conference. The Prime Minister's opening statement will be drafted in the light of the Peking visit. Brief No 4 contains full notes for supplementaries.

BACKGROUND

6. Brief No 5 (Background) includes notes on constitutional development in Hong Kong and on the territory's economy and foreign trade.

PRIME MINISTER'S VISIT TO CHINA AND HONG KONG, 18-21 DECEMBER 1984
HONG KONGPROGRAMMETHURSDAY 20 DECEMBER

- 0900 Leave Peking
- 1220 Arrive Hong Kong
- 1300 - 1400 Lunch with Unofficial members of Executive and Legislative Councils (UMELCO) at UMELCO Offices
- 1430 - 1600 District visit to Ap Lei Chau (near Aberdeen) on Hong Kong Island. The Prime Minister will see housing and engineering works, visit a kindergarten and a local arts and culture association, and meet local people including District Board members.
- 1640 - 1700 Meeting with Lord Kadoorie at Government House to discuss the Guangdong Nuclear Project.
- 1700 - 1800 Reception at Government House for Community and Business Representatives (about 500).
- 1830 - 1850 EXCO meeting.
- 1900 Address, to be televised live, to joint meeting of Executive and Legislative councils.
- 1915 - 1935 Sherry with members of Executive and Legislative Councils.

CONFIDENTIAL

2030

Dinner at Government House for
leading Members of Hong Kong
Community (40).

FRIDAY 21 DECEMBER

0830

Press conference

1000

Leave Hong Kong

CONFIDENTIAL

PERSONALITY NOTES

His Excellency the Governor of Hong KongSIR EDWARD YOUDE GCMG MBE

Born 1924. Educated School of Oriental Studies, University of London. RNVF 1943-46. Jointed Foreign Office, 1947. Served in Nanking and Peking 1947-51, Peking 1951-56, 1960-62. Private Secretary to the Prime Minister, 1969-70. Ambassador to China, 1974-78. Deputy Under-Secretary of State and Chief Clerk, FCO 1978-82. Governor of Hong Kong from May 1982. Married to Pamela, two children.

SIR DENYS TUDOR EMIL ROBERTS KBE

Chief Justice

Born in 1923. Educated in UK. Served as Attorney General in Gibraltar in 1960 and appointed as QC in the same year. Joined the Hong Kong Civil Service in 1962 as Solicitor General and became Attorney General in 1966. Appointed Chief Secretary in 1973, holding the post until 1978 when assumed present office. Divorced, two children.

SENIOR GOVERNMENT OFFICIALSMEMBERS OF THE EXECUTIVE COUNCILSIR PHILIP HADDON-CAVE KBE CMG

Chief Secretary

Born Tasmania 1925. Educated in Australia served in Kenya 1953-63. Seychelles 1961-62. Joined Hong Kong Civil Service 1962. Appointed Financial Secretary 1971 and Chief Secretary 1981. Married to Betty, two sons and one daughter.

MAJOR GENERAL DEREK BOORMAN CB

Commander British Forces, Hong Kong

Born in 1931. Educated in UK. Joined North Staffordshire regiment in 1950. Promoted to Brigadier and assumed command of 51 Infantry Brigade in Hong Kong in 1974. Director of Public Relations (Army) 1978. Director of Military Operations 1980-82.

SIR JOHN BREMIDGE KBE

Financial Secretary

Born South Africa 1925. Educated in UK. Army Service 1943-47. Company Executive and Chairman of John Swire and Sons Hong Kong Ltd until 1981. Member of Legislative Council from 1974 and Executive Council from 1977 before becoming Financial Secretary in 1981. Married to Jacqueline, two sons and two daughters.

MICHAEL THOMAS QC

Attorney-General

Born 1933. Educated London School of Economics. National Service in Royal Navy. Called to Middle Temple 1955. Junior counsel to MOD and Treasury in Admiralty matters 1966-73. Appointed to present post in May 1983. Separated from second wife, four children.

DENIS CAMPBELL BRAY CMG CVO

Secretary for Home Affairs

Born in 1926. Educated in UK. Joined Hong Kong Government in 1950. Served in various Government departments before appointed Secretary for Home Affairs in 1973. Posted to London Office as Commissioner between September 1977 and September 1980. Then resumed office as Secretary for Home Affairs. A sailing enthusiast. Speaks fluent Cantonese. Married to Marjorie, four daughters.

DAVID AKERS-JONES CMG

Secretary for District Administration

Born in 1927. Educated in UK. Served in Malayan Civil Service from 1953 to 1957 when joined the Hong Kong Government. Held posts in the New Territories Administration and Government Secretariat before assuming the present post in 1974. Speaks Cantonese and Hakka fluently. Married to Jane, one daughter.

OTHER SENIOR GOVERNMENT OFFICIALS

SELWYN EUGENE ALLEYNE

Deputy Financial Secretary

Born 1930. Joined Hong Kong Government 1956. Director of Social Welfare 1980. Appointed to present post 1983. Married.

John Martin ROWLANDS CBE

Secretary for the Civil Service

Born 1925. Joined Hong Kong Government 1952. Deputy Secretary for Home Affairs 1971. Director of Immigration 1974. Appointed to present post 1979. Married.

PIERS JACOBS OBE

Secretary of Economic Services

Born 1933. Solicitor (Hons) Supreme Court of Judicature, England. Joined Hong Kong Civil Service 1962. Registrar-General 1976. Appointed to present post in 1982. Married.

JAMES NEIL HENDERSON OBE

Secretary for Education and Manpower

Born 1929. Joined Hong Kong Government 1962. Commissioner for Labour and Commissioner for Mines 1978. Appointed to present post 1983. Married.

ERIC PETER HO CBE

Secretary for Trade and Industry

Born 1927. Educated in Hong Kong. Joined Hong Kong Government in 1954. Worked in variety of Departments, particularly Government Secretariat and Commerce and Industry Department. Secretary for Social Services 1977. Appointed to present post in 1982. Married to Grace.

ALAN JAMES SCOTT CBE

Secretary for Transport

Born 1934. Educated UK. Served in Fiji 1958-71. Joined Hong Kong Government 1971. Secretary for Civil Service 1973. Secretary for Housing 1977, Secretary for Information 1980. Appointed to present post in 1982. Married to Joan, five children.

ROBIN JOHN TAYLOR MCLAREN CMG

Political Adviser

Born 1934. Served in Royal Navy 1953-55. Subsequently served in various posts in FCO including Hong Kong, Beijing, Rome and Copenhagen. Was Assistant Political Adviser in Hong Kong from 1968-70. He became Head of the Hong Kong and General Department in

1978 and of the Far Eastern Department in 1979. Has held his present post since October 1981. Married to Sue, three children.

LEWIS 'BIM' DAVIES CMG OBE

Secretary (General Duties)

Born 1922. Served in Gold Coast 1948-56, W Pacific High Commission 1956-70, Bahamas 1970-73. Joined Hong Kong Civil Service 1973. Secretary for Security 1975. Appointed to present post in 1982. Married to Mona.

HENRY CHING CBE

Secretary for Health and Welfare

Born 1933. Joined Hong Kong Government 1961. Deputy Financial Secretary 1978. Appointed to present post 1983. Married.

DONALD LIAO Poon-huai

Secretary for Housing

Born 1929. Joined Hong Kong Government 1960. Commissioner for Housing 1968. Director of Housing 1973. Appointed to present post 1981. Married.

(Nicky) CHAN Nai-Keong

Secretary for Lands and Works

Born 1931. Joined Hong Kong Government as an Engineer 1952. Director of Engineering Development 1980. Appointed to present post 1982. Married.

DOUGLAS WILLIAM ALFRED BLYE CMG OBE

Secretary for Monetary Affairs

Born 1926. Federation of Malaya 1955. Joined Hong Kong Government 1958. Deputy Accountant-General 1966. Accountant-General 1970. Appointed to present post 1979. Married.

DAVID GREGORY JEAFFRESON CBE

Secretary for Security

Born 1931. Educated in UK. Served in Tanganyika 1955-9. Joined Hong Kong Government in 1961. Worked mainly in Government Secretariat. Deputy Financial Secretary 1972, Secretary for Economic services 1976. Appointed to present post in 1982. Married

to Elisabeth.

SIR JOHN NOEL ORMISTON CURLE KCVO CMB

Director of Protocol

Born in 1915. Joined HM Diplomatic Service in 1939, retired 1975 and assumed present post in Hong Kong in 1976. Married to Pauline, five children.

CHARLES CHRISTIAN WILFRED ADAMS

Senior British Trade Commissioner. Born 1939. Served in various posts including Rio de Janeiro, BMG Berlin. Appointed to present post in 1982. Married, three sons and one daughter.

UNOFFICIAL MEMBERS OF THE EXECUTIVE COUNCIL

SIR SZE-YUENCHUNG CBE

Senior Unofficial member of the Executive Council. Born 1927. Educated University of Hong Kong and University of Sheffield. Chairman of Sonca Industries Ltd. (Manufacturer of Electronic Equipment) and Grindlays - Dao Heng Bank. Member of the Legislative Council from 1968-1974. Member of the Executive Council since 1972 and Senior Unofficial Member since September 1980. Widower, three children.

OSWALD VICTOR CHEUNG CBE QC

Born 1922. Educated in Hong Kong and Oxford. A barrister and Queens Counsel. Member of Legislative Council from 1978-81. Member of Executive Council since 1974. Married to Pauline, one son.

ROGERIO HYNDMAN LOBO CBE

Senior Unofficial Member of the Legislative Council. Born 1923, Macao. Educated in Macao and Hong Kong. A businessman. A member of Legislative Council since 1972 and of Executive Council since 1978. Married to Margaret Mary, ten children.

LI FOOK WO CBE

Born 1916. Educated in Hong Kong and USA. A banker. Chairman of Barclays Asia Ltd. Member of Legislative Council 1973-81 and of Executive Council since 1978. Married to Laura, five children.

MICHAEL GRAHAM RUDDOCK SANDBERG OBE

Born 1927. Educated in Oxford. A former Army Officer, has served with the Hong Kong and Shanghai Banking Corporation since 1949 (now Chairman). Member of Executive Council since 1978. Married to Carmel, four children.

LO TAK SHING CBE

Born 1935. Educated in Hong Kong and UK. A solicitor. partner of Lo and Lo solicitors. Member of Legislative Council since 1974 and member of Executive Council since 1980. Chairman, Transport Advisory Committee and UMEICO Police Group. Married to Tierney, three children.

LYDIA DUNN CBE (MISS)

Born 1940. Educated in Hong Kong and the University of California, Berkeley. Director of John Swire and Sons Ltd. Member of the Legislative Council since 1976 and of Executive Council since 1982. Chairman, Hong Kong Trade Development Council. Single.

LEE QUO-WEI CBE

Born Macau 1918. Educated in Hong Kong. Chairman and Chief Executive of Hang Seng Bank. Former member of Executive and Legislative Council, from which he retired in 1978 because of ill health. Reappointed to Executive Council in 1983. Former Chairman of Board of Education. Married.

CHEN SHOU-LUM CBE

Born 1925. Educated in UK. Director of Hong Kong Electric Co Ltd and Cable and Wireless (HK) Ltd. Member of Legislative Council since 1976. Appointed to Executive Council 1983. Chairman of Hong Kong Productivity Council. Married to Doris, two children.

MARIA TAM WAI-CHU (MISS)

Born 1945. Educated in Hong Kong and UK. Barrister. Member of Legislative Council since 1981. Appointed to Executive Council 1983. Elected Urban Councillor and District Board Member. Involved in number of social welfare organisations. Single.

UNOFFICIAL MEMBERS OF THE LEGISLATIVE COUNCIL

ROGER HYNDMAN LOBO CBE - Also member of Executive Council - see previous list for details.

DR HARRY SIN-YANG FANG CBE

Born 1923. Educated in Hong Kong. A medical practitioner in orthopaedic surgery. Member of the Legislative Council since 1974, and of Executive Council 1978-83. Worldwide reputation in field of rehabilitation of disabled. Married to Laura, six children.

LO TAK SHING CBE - Also member of Executive council - see previous list for details.

FRANCIS TIEN YUAN-HAO OBE

Born 1915. Member of the Legislative council since 1974. Founder, Chairman and Managing Director of Manhattan Garments Ltd. Chairman of Hong Kong Training Council. Married to Grace, two children.

ALEX WU SHU-CHI CBE

Born 1920. Educated in China. Businessman. Member of Legislative Council since 1975. Vice Chairman, Hong Kong Training Council. Former Vice Chairman, Hong Kong Trade Development Council. Married to Ida, six children.

CHEN SHOU LUM CBE - Also member of Executive council - see previous list for details.

LYDIA DUNN OBE (MISS) - Also member of Executive council - see previous list for details.

PETER C WONG OBE

Born and educated Hong Kong. Solicitor. Member of Legislative council since 1976. Former President of Law Society of Hong Kong. Married to Anna, no children.

WONG LAM OBE

Born 1919. Educated in Hong Kong. Member of the Legislative council since 1976. Operations Officer with the Kowloon Motor Bus

Co (1933) Ltd. Married to Lee Po-Chun, four children.

DR HO KAM-FAI OBE

Born 1933. Educated in Hong Kong and USA. Lecturer in social work at Chinese University of Hong Kong. Member of Legislative Council since 1978. Member of Social Welfare Advisory Committee and Medical Development Advisory Committee. Married to Christine, one child.

ALLEN LEE PENG-FEI OBE

Born 1940. Educated in USA. Managing Director Amplex World Operations SA Hong Kong. Member of Legislative Council since 1978. Chairman, Hong Kong Industrial Design Council. Married to Maria, 3 children.

ANDREW SO KWOK-WING OBE

Born 1939. Educated in Hong Kong. Former teacher and credit union organiser. Member of Legislative Council since 1978. Married to Dora, two children.

HU FA-KUANG

Born 1924. Educated in China. Chairman, Ryoden Electric Engineering Co Ltd and Ryoden Machinery Co Ltd. Member of Legislative Council since 1979. Appointed member of Urban Council. Officer of several sports associations. Married to Rose, two children.

WONG PO-YAN OBE

Born 1923. Educated in China. Businessman. Member of Legislative Council since 1979. Vice Chairman, Chinese Manufacturers Association. Married to Lai-ying, six children.

WILLIAM CHARLES LANGDON BROWN

Member of the Legislative Council since September 1980. Born in 1931. Educated in UK. served throughout Asia with the Chartered Bank since 1954. Now Asia General Manager. Married to Nachiko, three children.

CHAN KAM-CHIEN

Born 1925. Educated in Hong Kong and UK. Building Services Manager, Cable and Wireless Ltd. Member of the Legislative Council since 1980. Closely involved with Cable and Wireless Staff Associations. Married to Sau-chun, three children.

JJ SWAINE OBE QC

Born 1932. Educated in Hong Kong and Cambridge. Barrister. Member of Legislative Council since 1980. Former Administrative Officer in Hong Kong Government. Married to Gwendoline, five children.

STEPHEN CHEONG KAM-CHUEN

Born 1941. Educated in Hong Kong and UK. Managing Director, Cheong's Textile Co Ltd and Lee Wah weaving factory Ltd. Member of Legislative Council since 1980. Married to Joan, 4 children.

BENTON CHEUNG YAN LUNG MBE

Member of Legislative Council since 1981. Born 1923. A merchant and businessman from New Territories. Married to Angela, thirteen children.

MRS SELINA CHOW LIANG SHUK-YEE

Born 1945. Educated in Hong Kong. Chairman Brainchild Productions Ltd and Record Films Ltd. Member of Legislative Council since 1981. Appointed member of Urban Council. Married to Joseph, two children.

MARIA TAM WAI-CHU - Also member of Executive council - see previous list for details.

DR HENRIETTA IP MAN-HING

Born 1946. Educated in Hong Kong and UK. Paediatrician. Member of Legislative Council since 1982. Chairman of Association for mentally retarded. Single.

PETER POON WING-CHEUNG MBE

Born 1934. Accountant. Appointed to Legislative Council 1983.

YEUNG PO-KWAN CPM

Born 1939. Principal of an aided secondary school. Appointed to

Legislative Council 1983.

MRS PAULINE NG CHOW MAY-LIN

Born 1947. Secondary school teacher. Elected District Board member. Appointed to Legislative Council 1983.

MRS RITA FAN HSU LAI-TAI

Born 1945. Educational psychologist. Appointed to Legislative Council 1983.

CHAN YING-LUN

Born 1951. Assistant public relations manager. Elected District Board member. Appointed to Legislative Council 1983.

KEITH LAM HON-KEUNG

Aged 44. Businessman and stockbroker. Elected member of the Southern District Board. Appointed to Legislative Council 1984.

CARL TONG KA WING

Aged 34. Chartered Accountant. Elected member of the Central and Western District Board. Member of the Transport Advisory Committee. Appointed to Legislative Council 1984.

DR KIM CHAM YAU-SUM

Aged 38. Chartered Accountant. Chairman of the Board of Hong Kong Commodity Exchange. An appointed member of the Urban Council since 1976. Member of the Standing Commission on Civil Service Salaries and Conditions of Service. Appointed to Legislative Council 1984.

PRIME MINISTER'S VISIT TO CHINA AND HONG KONG, 18-21 DECEMBER 1984
HONG KONG
BRIEF NO 2: THE FUTURE OF HONG KONG

POINTS TO MAKE IN INFORMAL CONVERSATION

A. WITH UMELCO MEMBERS

VISIT TO PEKING

1. Had fully in mind points you put to me and Sir Geoffrey Howe in London. [Some useful assurances from Chinese leaders.] Not appropriate to raise all points with Chinese leaders, but will continue to take them into account in later contacts with Chinese.

GRATITUDE TO UNOFFICIALS

2. Emphasise gratitude to Unofficials for support during negotiations. Realise difficulty of your position and heavy responsibility you have. Your advice was invaluable.

FORM OF LEGISLATION [WITH EXCO ONLY]

3. Draft Bill will be put to you shortly. Deals with termination of sovereignty in the body of the Bill. Also contains enabling provisions on nationality and modification of laws, and provides privileges and immunities for Chinese members of Joint Liaison Group in London.

B. IN GENERAL CONVERSATION
IMPLEMENTATION OF AGREEMENT

4. Natural that Hong Kong people should feel anxiety. There can be no absolute guarantee of the future. However Chinese leaders have gone out of their way to express their good faith. [They assured me in Peking of their determination to implement agreement.]

5. Good reasons for thinking they will observe agreement:
- they recognise agreement as legally binding. China has good record of observance of international agreements.
 - observance is in China's interests for economic reasons and for cause of reunification.
6. Britain has the right to raise any breaches with China after 1997. We would not hesitate to do so.

BRITISH COMMITMENT TO HONG KONG

7. Britain will maintain sound and effective administration up to 1997. Committed to maintaining stability and prosperity of Hong Kong. Certain that Parliament will continue to follow Hong Kong's future with the closest interest. Some form of regular accountability to Parliament could be appropriate. Not much in favour of set annual debate which could easily become stereotyped.

DRAFTING OF BASIC LAW

8. Understand importance of Basic Law for Hong Kong. Shall want to satisfy ourselves that Basic Law incorporates letter and spirit of agreement.
9. Chinese appear ready to consult Hong Kong about drafting. [Assurances received in Peking.]

HONG KONG REPRESENTATION IN JOINT LIAISON GROUP

10. Joint Liaison Group will be a diplomatic body. Not appropriate for Unofficials to sit on it. But it is our intention that Hong Kong Government Officials should participate. Procedures for regular consultation of EXCO will of course continue to be fully used.

CONSCRIPTION/PLA

11. Believe fears of people of Hong Kong on these points are understood in Peking. These are matters for Chinese Government, but I have no doubt that they will act prudently.

12. Chinese have not stated that they will conscript Hong Kong People.

TRANSMISSIBILITY

13. Understand disappointment in Hong Kong. Fought for it up to last minute of negotiations.

STATELESSNESS

14. No one will be made stateless by agreement. We shall provide in legislation for non-Chinese BDTCs who do not acquire new status by 1997 and children of non-Chinese BDTCs born after 1 July 1997 to have a form of British nationality if they would otherwise be stateless.

PASSPORTS

15. No decisions yet on passport format or timing of changes. Questionable however whether sudden change of passport style in 1997 is best way of ensuring acceptance by foreign governments.

CONSTITUTIONAL DEVELOPMENT

16. Understand concern of Hong Kong people that change should not be too rapid or destabilising. There will need to be evolution if by 1997 there is to be a firmly-based, representative government in local hands. But fully agree that approach must be step-by-step.

INCOMPATIBILITY BETWEEN BASIC LAW AND CHINESE CONSTITUTION

17. Do not think concerns on this point justified. Article 31 of Chinese Constitution clearly drafted to allow exceptions for SAR from general norms of Constitution. Agreement states that socialist policies practised on mainland will not be applied in Hong Kong.

Hong Kong Department

12 December 1984

PRIME MINISTER'S VISIT TO CHINA AND HONG KONG : 18-21 DECEMBER
HONG KONG
BRIEF NO 2 : THE FUTURE OF HONG KONG

BACKGROUND
CONCERNS FELT IN HONG KONG

A. UMELCO

1. UMELCO set out their main concerns in their statement of 29 November (Annex A) and in Sir S Y Chung's speaking note for the meeting with the Prime Minister on 5 December (Annex B). They will meet the Prime Minister only informally, at lunch on 20 December. The points to make go over the ground in general terms, but it is not expected that UMELCO will revert to matters of detail on that occasion. The most detailed discussion will come when the Secretary of State sees EXCO on the afternoon of 20 December, during the Prime Minister's district visit. The Prime Minister's later meeting with EXCO will last only 20 minutes, and will be largely formal.

2. Exco has not yet formally discussed the Hong Kong Bill, although members are aware of its general form. Exco will be given an opportunity to discuss the draft Bill shortly. Sir S Y CHUNG is not entirely happy with the procedure of dealing with the termination of sovereignty by a clause in the Bill, rather than by a clause enabling a subsequent Order in Council. Exco as a whole were unable to reach agreement on advice to offer on this point.

B. GENERAL

3. The general response in Hong Kong to the publication of the draft agreement was one of acceptance and some relief. The degree of detail contained in Annex I caused some surprise. Business and stock market sentiment immediately reacted favourably.

4. Hong Kong's reaction was channelled through the Assessment Office established to collect and analyse local opinions. Annex C summarises the reports of the Assessment Office and the independent Team of Monitors. Both reports concluded that the agreement was acceptable to Hong Kong, but noted the "agenda" of concerns and qualifications. The main concerns identified include:

- (a) The need to ensure implementation of the agreement by China.
- (b) The possibility of interference by China in Hong Kong.
- (c) The importance of incorporating the policies set out in the agreement in the Basic Law with clarity and in detail.
- (d) The importance of the participation of Hong Kong people in the drafting of the Basic Law.
- (e) The importance of the participation of Hong Kong people in the Joint Liaison Group.
- (f) Concern at stationing of PLA forces in Hong Kong. The question who would command them and to which law they would be subject.
- (g) Opposition to conscription into the PLA.
- (h) Concern at the loss of transmissibility of British national status.
- (i) Fear that non-Chinese BDTCS would become stateless after 1 July 1997.
- (j) The wish that they new style passports should not be issued until 1997.
- (k) The need to establish "an operation haven" to provide an escape route for those who want to leave before 1997.
- (l) The possibility of conflict between existing law, the Basic Law and the Chinese Constitution. The need to translate the laws of Hong Kong into Chinese.
- (m) The lack of clarity in the agreement about the method of appointment of the Chief Executive of the SAR.
- (n) The need for a Bill of Rights in the Basic Law.

5. The points to make cover all the points most likely to be raised in informal conversation.

Hong Kong Department
12 December 1984

Statement issued by the Unofficial Members of the Hong Kong Executive and Legislative Councils on
29th November 1984

THE FUTURE OF HONG KONG

Introduction

Unofficial Members of the Executive Council and the Legislative Council* (UMELCO) have always been aware of the concern of the people of Hong Kong about their future, and on the arrival of the Governor in May 1982, the Senior Member stressed publicly the importance and urgency to the people of Hong Kong of the satisfactory resolution of this issue.

Since the Sino-British talks on the future of Hong Kong began in late 1982, UMELCO have received many representations about Hong Kong's future up to and beyond 1997.

Before the debates took place in the two Houses of British Parliament in May this year, UMELCO sent a delegation to London and issued a statement to reflect the anxieties and wishes of the people of Hong Kong; there they listed, *inter alia*, the four most important criteria by which the acceptability of the Sino-British Agreement to the people of Hong Kong would be judged.

Briefly, these are, *first*, that the Agreement must contain full details of the proposed administrative, legal, social and economic systems applicable in Hong Kong after 1997; *second*, that it must state that the provisions of the Basic Law will incorporate the relevant provisions of the Agreement; *third*, that it must provide adequate and workable assurances that the terms of the Agreement will be honoured; and *fourthly*, that the rights of Hong Kong British Nationals must be safeguarded.

Following its publication, UMELCO received a large number of representations from a wide cross-section of the community expressing their support. The South China Morning Post commissioned an independent research firm to conduct a survey, which showed that 82% of the community approved fully or in part of the statement. In addition, about 70% of the elected and appointed Unofficial Members of the 18 District Boards gave their support.

Three Unofficial Members went to Beijing in June this year and reflected to the Chinese leaders, including Chairman Deng, the anxieties and wishes of the people of Hong Kong. They also made three major proposals to the Chinese leaders, proposals which they considered would help to enhance the confidence of the people of Hong Kong about their future.

These three major proposals were *first*, that the Sino-British Agreement must be detailed and binding and the Basic Law must be based on the Agreement; *second*, that the people of Hong Kong should participate in the drafting of the Basic Law and those sections relating to Hong Kong's internal

* The Governor consults the Executive Council in the execution of the powers and authorities granted to him by Letters Patent, and acts on its advice. At present, it consists of 4 Ex-officio Members, 2 Official Members and 10 Unofficial Members, appointed by the Governor.

The Legislative Council consists of 3 Ex-officio Members, 13 Official Members and 30 Unofficial Members. It enacts legislation and controls public expenditure.

The Unofficial Members are appointed from a wide spectrum of the community. Through their membership of over 300 boards and committees, including District Boards, the Urban Council and the Heung Yee Kuk, dealing with public affairs, with educational and legal matters, and with all facets of Hong Kong's economic and social life, Unofficial Members are in touch with all sectors of the community.

Apart from their duties in the two Councils, they monitor the effectiveness of the public administration, and consider complaints by members of the public against Government, for handling which they have far wider powers than is possessed by any Ombudsman.

affairs should be drafted in the territory, and not amended except at the initiation of Hong Kong; and *third*, that a committee of Chinese people of international standing should be appointed by China to monitor and advise on the drafting, implementation and subsequent amendments to the Basic Law.

Their trip to Beijing also received overwhelming support from the public. A second poll taken by the same independent research firm showed that eight out of ten agreed with the UMELCO visit to Beijing; 74% supported the *first*, 78% the *second*, and 61% the *third* major proposal.

Acceptability of Joint Declaration

Since its publication on 26 September 1984, all the Unofficial Members, with the exception of two Members in the Legislative Council, have endorsed and commended the Draft Agreement to the people of Hong Kong. The Draft Agreement or Joint Declaration, in their view, does meet substantially the four basic criteria contained in the UMELCO statement made in London in May. Furthermore, there are in the Joint Declaration many positive features which are to be welcomed and it contains much more detail than many people originally expected. It is a mutually binding agreement, freely negotiated and entered into between two sovereign states.

All the 18 District Boards, as well as the Urban Council and the Heung Yee Kuk, have found the draft Joint Declaration generally acceptable. Unofficial Members, in conjunction with some newspapers, commissioned an independent research firm to conduct a territory-wide survey covering 6,000 randomly selected adults above the age of 18. The results of this professional survey indicated that the majority of the people of Hong Kong found the Draft Agreement generally acceptable and that 90% of the respondents preferred the Agreement to no Agreement at all.

Whilst the Draft Agreement is acceptable as a whole to the majority of the community, some concern and points of detail have been raised. In particular, there is anxiety about interference from the Chinese Government; worry about conscription in the Hong Kong Special Administrative Region; uncertainty about the acceptability to third countries of the new form of British passport; doubt about the preservation of existing human rights and personal freedoms; fear about the stationing of PLA troops in Hong Kong; resentment about the termination of transmissibility of British nationality for Hong Kong BDTCs in 1997; reservations about possible incompatibility between the constitution of the People's Republic of China and the future Basic Law of Hong Kong; and concern about the faithful implementation of the Agreement and the policies of future Chinese leaders.

There are also very strong requests that the people of Hong Kong should not only be consulted on, but should actively participate in, the drafting of the Basic Law and that Hong Kong people should also sit on the Sino-British Joint Liaison Group.

The ultimate success of the Joint Declaration depends on people's confidence that it will be implemented faithfully and that matters of concern and questions of detail which have been raised are satisfactorily resolved and clarified by the two signatory Governments. Therefore, in accepting the Agreement, we urge both the British and Chinese Governments to take steps to reassure the people of Hong Kong in these respects.

Move to Representative Government

Given that Hong Kong will be a Special Administrative Region within China after 1997, with an elected legislature enjoying a high degree of autonomy, it is essential that a government structure consisting largely of local people is in place and in proper working order well before 1997. It is therefore necessary to move to a more representative form of government, transferring the powers of the present colonial government to the elected representatives of the people of Hong Kong.

In this respect, UMELCO welcome and support the basic proposals and the progressive approach outlined in both the Green and White Papers on the Further Development of Representative Government in Hong Kong. However, Unofficial Members echo the caution expressed in many quarters against any rapid or radical changes which may put at risk Hong Kong's *raison d'être*, that is, stability and prosperity.

Hong Kong is not an independent state and can never be. Despite the promise of a high degree of autonomy, its subsidiary relationship with the Chinese Central Government must be understood and accepted. Parliamentary government as practised in the West, featuring adversarial politics, is not necessarily suited to Hong Kong, recognising Hong Kong's unique status and the political constraints placed upon it by this status. Hong Kong must, therefore, devise its own unique style of representative government, building on the proven elements which have been responsible for Hong Kong's success.

The Next Twelve Years

Most people in Hong Kong believe that only if stability and prosperity are maintained in the period prior to 1997 can there be any hope that stability and prosperity will be continued for fifty years after 1997. It is therefore generally felt that the next twelve years will be critical and crucial to Hong Kong's continual success beyond 1997. It is essential, therefore, that all concerned, Britain, China and the people of Hong Kong, play their part in furthering Hong Kong's stability and prosperity in the next 12 years.

The main task for Her Majesty's Government in the next twelve years is to ensure a smooth transition, so that 1997 does not represent an abrupt break with the past, but the continuation of a gradual process of evolution. To allay fears of Britain losing interest in Hong Kong, it is important that HMG continue to govern Hong Kong effectively. It must demonstrate its continual determination, resolve and commitment to Hong Kong's stability and prosperity.

The Chinese Government must demonstrate its willingness to listen to the views and wishes of the people of Hong Kong. In particular, given the great significance attached by the people of Hong Kong to the Basic Law, it is hoped that, as was suggested by the Unofficial Members to the Chinese leaders in Beijing in June this year, the people of Hong Kong should be consulted on, and participate in, the drafting of the Basic Law.

As for the people of Hong Kong, they understand that the aim of the draft Agreement is the maintenance of Hong Kong's stability and prosperity, and that stability and prosperity are the product of, among other qualities, their energy, talent, industry and confidence. The Agreement provides a sound basis on which to continue to apply these attributes. The people of Hong Kong are ready and willing to take on the challenge of the new circumstances they face. Given understanding and sensitivity by the two signatory Governments and their firm commitment to implementing the Joint Declaration in both letter and spirit, the people of Hong Kong will succeed in maintaining Hong Kong's stability and prosperity, and in making the draft Agreement work.

UMELCO

Office of Unofficial Members of Executive and Legislative Councils
Swire House, 12th floor, 9-25 Chater Road, Hong Kong. Tel: 5-264027
Telex: 62553 UMELC HX

STATEMENT BY SIR S.Y. CHUNG DURING THE MEETING WITH THE
PRIME MINISTER - 5.12.84

Prime Minister,

Thank you first of all for making yourself available in your busy schedule to see us. My colleagues and I are grateful to you for agreeing to go to Beijing to sign the Agreement and for the personal interest that you have shown throughout the negotiations about the future of Hong Kong. This has been a source of great comfort and reassurance to us. On this important date when the British Parliament will discuss the Draft Agreement, I should like to pay tribute to you, Prime Minister for the determination, commitment and sense of resolve you have demonstrated in the last two years. I would also like to thank Sir Geoffrey Howe whose two visits to China marked the turning points at crucial times during these-difficult negotiations. And of course, we thank the Governor of Hong Kong, Sir Edward Youde, Sir Percy Cradock, your special adviser, Sir Richard Evans, HMG's Ambassador in Beijing Mr. Richard Luce, Dr. David Wilson and all the many members of the British team who have demonstrated such singleness of purpose in reaching a settlement.

You will be aware, Prime Minister, that with the exception of two Members, all the Members of UMELCO have commended the Agreement to the people of Hong Kong. The people of Hong Kong, as usual, have demonstrated their realistic commonsense and have accepted the Agreement as a whole. There is no doubt that the majority of the community consider the Agreement a good one, providing a blueprint for their future, to which they will do their part to keep stable and prosperous.

Move to representative government

We must now look beyond the Agreement. The major task for the British government and the people of Hong Kong is to move to a representative form of government so that eventually a government structure is in the hands of the people of Hong Kong and is in place and in proper working order well before 1997. We, the Members of UMELCO, support this move, but I hope you will agree with us, Prime Minister, that we must not move at a pace and effect such radical changes that would jeopardize the very reason of Hong Kong's existence, that is to say, our social stability and our economic prosperity. To do this would be to put at risk the overriding aim of the Joint Declaration, that is, the maintenance of stability and prosperity of Hong Kong. This point may be self-evident to you, Prime Minister, but many people in Hong Kong fear that pressure may come from Members of the British Parliament who tend to think that the Westminster parliamentary style democracy should be transplanted in total to Hong Kong. And indeed, it should be transplanted quickly.

The political reality in Hong Kong is that it is to become a Special Administrative Region of China. Its relationship with China will be a subsidiary one. What is being promised is a high degree of autonomy, not independence. If Hong Kong embarks on policies which put at risk our prosperity and stability, there would no longer be any justification for China to give Hong Kong this special status. In other words, we cannot afford to run the risk of making mistakes, mistakes which may jeopardize our stability and prosperity and hence our usefulness to China. So, whilst we must clearly move towards representative form of government, we must do this cautiously, gradually, step-by-step, and reviewing progress at every stage. Each stage in this move should be made on the basis of satisfactory progress.

I hope, Prime Minister, that you would sympathize with this view and that HMG will not pressurize Hong Kong to move too quickly and that it will not allow itself to be pressurized by British MPs or the vocal minorities in Hong Kong for Hong Kong to move too quickly and at high risk.

The next 12 years

We all accept that the next 12 years up to 30 June 1997 will bring many changes to life in Hong Kong. We accept that this is inevitable. It is, therefore, more important than ever before in our history that HMG and Hong Kong Government should remain totally committed to governing Hong Kong effectively. There is concern in the community that the United Kingdom's commitment to Hong Kong may gradually diminish for three very important reasons: (1) possible interference from China; (2) the completion of a fully representative government structure and (3) a tendency for Britain to sacrifice the interest of Hong Kong in the wider interest of Sino-British relationship.

You, Prime Minister, have already repeatedly assured Hong Kong of HMG's commitment to govern Hong Kong effectively in the next 12 years. But the people fear that the Chinese presence in Hong Kong, particularly through the Land Commission and the Joint Liaison Group may, in fact, become a shadow government and that the Hong Kong Government would become a lame duck government. We hope, Prime Minister, that HMG would resolutely resist any attempt by the Chinese, intentionally or unintentionally, to interfere in the day-to-day administration of Hong Kong in the lead up to 1997.

People in Hong Kong also fear that once a fully representative form of government has been established, HMG would then wash its hands of Hong Kong as in the normal process of decolonization. I hope to have your assurance,

Prime Minister, that this would not happen, for a fully representative government structure will require time to mature and indeed, shall require assistance and guidance in order to mature. Above all, whilst authority and responsibility may be delegated to a representative government, HMG will still remain accountable in accordance with paragraph 4 of the Joint Declaration to the Chinese Government up to 30 June 1997. It could be used by the Chinese Government as a breach on the part of HMG.

Finally, the people fear that given that Britain will be relinquishing control of Hong Kong in 1997, and given that the broader interest of British-Chinese relationship, HMG may increasingly go for soft options and that the interest of Hong Kong may be sacrificed.

Some specific issues regarding the Joint Declaration

Prime Minister, there are a number of specific issues on which the people of Hong Kong have expressed concern. We have fully explained them to Mr. Lu who has promised us that they would be conveyed to Sir Geoffrey and yourself personally. This way we had the opportunity to discuss them with you and your Foreign Secretary.

Prime Minister, all of us in Hong Kong will do our part to make the Agreement work. The signs in China are good and we hope that the present trends will continue. There are, however, no guarantees in political life. If in the next 12 years there should be a reversal to radical policies in China calling into question her ability to implement the Agreement to the letter and spirit, I hope, Prime Minister, that HMG will undertake to review the situation in that eventuality before transfer of sovereignty. Having said that, and as we said in our paper, we believe that the Agreement provides a sound basis for the people of Hong Kong to continue to apply their energy, talent, industry and

confidence. The people of Hong Kong are ready and willing to take up the challenge of the new circumstances they face.

MFJAHZ

SUMMARY OF WHITE PAPER ON "ARRANGEMENTS FOR TESTING THE
ACCEPTABILITY IN HONG KONG OF THE DRAFT AGREEMENT ON THE FUTURE OF
THE TERRITORY"

1. The White Paper comprises:

- (a) The report of the Assessment Office established on 1 September 1984 to assess the acceptability in Hong Kong of the draft Sino-British agreement on the future of Hong Kong; and
- (b) The report of the independent Monitoring Team appointed to monitor the work of the Assessment Office.

ASSESSMENT OFFICE REPORT

2. The report of the Assessment Office was presented to the Governor of Hong Kong on 23 November.

3. The terms of reference of the Assessment Office were to provide the Governor with an accurate analysis and assessment of opinion in Hong Kong on the draft agreement and on the arrangements for the future of the territory as set out in it. 2.4 million copies of the White Paper containing the agreement were circulated in Hong Kong. The Assessment Office inserted advertisements in the local press encouraging people to express their views on the agreement to the Assessment Office. The Assessment Office took into account views expressed in the Legislative, Executive and Urban Councils, the Heung Yee Kuk and the 18 District Boards consisting of elected and appointed members. It received 679 submissions from organisations, and 1815 from individuals. It took into account the results of 23 opinion surveys of varying sizes, and 273 reports of discussions, debates, seminars, public speeches and interviews, as well as a vast range of comment in the media. The report notes that the reaction to the invitation to comment was much greater than in previous major consultative exercises in Hong Kong, and that the views received from a wide cross-section of the Community provided a credible basis on which to make an assessment.

4. The Assessment Office's judgement is that "After the most careful analysis and consideration of all the information received, the Office has concluded that most of the people of Hong Kong find the draft agreement acceptable." The agreement was endorsed by all the principal representative bodies in Hong Kong, including the Executive, Legislative and Urban Councils, the Heung Yee Kuk and all eighteen District Boards. The overwhelming majority of organisations and groups which expressed their views found the draft agreement acceptable. Of the just over 1,000 individuals who clearly stated their views 677 accepted the agreement and 364 rejected it. The overall picture from reports by and through the media was one of general acceptance. The findings of various independent opinion surveys also indicated general acceptance of the agreement. In an independent survey of 6,124 respondents 81% stated that they thought the agreement was very good or quite good.

5. The report notes that the overall acceptance of the agreement has in many cases been accompanied by expressions of concern and anxiety about its implementation. It summarises the comments made on every aspect of the draft agreement by those who have discussed it. The comments focussed in particular on the drafting of the Basic Law, the question of nationality and defence. The report suggests that these views will be of value to Parliament, and also in the discussions between Britain and China in the Joint Liaison Group on the implementation of the agreement.

REPORT OF THE INDEPENDENT MONITORING TEAM

6. The report of the independent Monitoring Team was presented to the Secretary of State for Foreign and Commonwealth Affairs by Sir Patrick Nairne and Mr Justice Simon Li Fook-sean on 24 November.

7. The terms of reference of the Monitoring Team were to observe the work of the Assessment Office and to report independently of the report of the Office, stating whether it was satisfied that the Assessment Office had properly, accurately and impartially discharged its duties and faithfully followed the procedures prescribed in its terms of reference.

8. The Monitors audited the day to day work of the Assessment Office. They were given full access to the Assessment Office's work, received all submissions addressed to the Assessment Office, and attended selected parts of the consultative process. While acknowledging that since Hong Kong had never before experienced such a massive consultation and assessment exercise some difficulties were to be expected, the Monitors judge that the Assessment Office staff fulfilled their functions conscientiously and with integrity.

9. The Monitors state their satisfaction that the Assessment Office carried out its task impartially, faithfully and accurately. They unreservedly endorse the conclusion of the Assessment Office that "most of the people of Hong Kong found the draft agreement acceptable", while noting that the overwhelming message of acceptance is accompanied by an "agenda" of reservations, qualifications and questions.

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

HONG KONG

BRIEF NO 3 : MEETING WITH LORD KADOORIE CBE JP, CHAIRMAN OF CHINA LIGHT AND POWER COMPANY

1. Greatly appreciate enthusiasm and commitment of CLP and you personally, to nuclear project. [I emphasised to the Chinese Premier when I met him important contribution you have made to bring this project so near to fruition]. Recognise the support you have given to GEC's position.
2. HMG too wishes project to succeed and GEC to obtain major contract. Believe the Hong Kong Agreement provides a helpful background for final negotiations.
3. Recognise difficulties nuclear project has created between CLP and Exxon and your role in resolving these. Hope joint venture agreement will now be signed shortly.
4. Glad to hear good progress still being made at Castle Peak. This reflects great credit on both CLP and UK industry.

DEFENSIVE

1. (If pressed to extend date of present interest rate). Extension would be very difficult. We have already been generous in extending the rate to 15 January.
2. (If pressed on other aspects of financing offer). Our financial offer is already generous. Particular requests for improvement will have to be discussed in final negotiations.

BACKGROUND

CHINA LIGHT AND POWER COMPANY

1. China Light and Power (CLP) is a major customer for the UK and since 1977 has placed orders with the UK for two complete power stations and a high voltage distribution network worth more than £1,200m at current prices.
2. The Prime Minister performed the official opening ceremony for Castle Peak A in September 1982. She last met Lord Kadoorie in May 1984.
3. Lord Kadoorie has been under considerable pressure in recent months as a result of the disagreement between CLP and their largest shareholder, Exxon, over CLP's participation in the Guangdong nuclear project. Although Exxon eventually accepted the terms set out by the Chinese for the off-take of electricity, Lord Kadoorie's standing with the Chinese was somewhat damaged in the process.
4. It would be helpful if the Prime Minister could reassure Lord Kadoorie that we recognise the crucial role he has played in bringing the project so near fruition, and let him know that she had mentioned to the Chinese Premier his own and CLP's commitment to the project, if she has had the opportunity to do this in China.

GUANGDONG NUCLEAR PROJECT

5. A background note on the project is attached.

NATIONALITY

6. On past occasions, including a meeting with Prime Minister in May 1974, Lord Kadoorie has raised the question of the passports to be held by Hong Kong citizens after 1997. His main concern appears to be to retain the loyalty and confidence of senior Hong Kong Chinese employees of CLP. We have said that in general all persons of Chinese race in Hong Kong are considered by the PRC to be Chinese nationals and will therefore be eligible for SAR passports after 1997. But those who are BDTs or 30 June 1997 will be eligible to retain another form of British nationality after that date for the remainder of their lives.

CONFIDENTIAL

This will entitle them to hold British passports and receive consular protection in third countries.

Hong Kong Department
12 December 1984

CONFIDENTIAL

BACKGROUND

GUANGDONG NUCLEAR PROJECT

1. The Prime Minister is familiar with this project to build a 2 x 950 MW Pressurised Water Reactor nuclear power station in Guangdong Province, and the Minister for Trade Mr Channon reported the latest position to her on 20 November before the Anglo-French summit.

JOINT VENTURE AGREEMENT

2. Progress has been delayed on the formation of the joint venture customer by the concern of Exxon Corporation, who have a 60 per cent shareholding in CLP's main power stations, that CLP's agreement to take power from the Guangdong station could prejudice its own investment. In the face of Chinese unwillingness to compromise on the amount of power to be taken, the problem had to be resolved internally between CLP and Exxon. A formula was agreed in early November, since when there has been good progress between CLP and the Chinese towards agreeing the terms of the Joint Venture. But resolution of the dispute with Exxon required considerable effort by Lord Kadoorie in particular, and it would be helpful if the Prime Minister could confirm to the Chinese CLP's commitment to the project.

3. The Chinese at one stage suggested that the Joint Venture agreement might be signed during the Prime Minister's visit. However, there is still considerable detail to be negotiated; moreover the approval of the Executive Council in Hong Kong is required, and EXCO is not due to consider the agreements until 3 January. The Chinese have been told that signature during the visit would be difficult and have said that they would not wish to press the point.

TIMETABLE FOR NEGOTIATIONS/EXPIRY OF FINANCE OFFER

4. In an attempt to hasten negotiations, both we and the French told the Chinese last September that the 9½ per cent interest rate in our offer could not be held beyond 15 January when the Consensus rate is due to be reviewed. But there is no reasonable prospect of

signing contracts by then, nor have the Chinese proposed a clear timetable for future negotiations. We are currently discussing with the French how we can extract maximum leverage from the 15 January deadline, and are due to see a delegation from Bank of China before Christmas. The brief suggests that if the Prime Minister is pressed to extend further the 9½ per cent rate, she should simply take note of the request and make no commitment. It may be necessary to amend this if the position changes as a result of our discussions with the French or Bank of China.

CREDIT PREMIUM

5. The Chinese are aware that the French have recently upgraded China to their best risk category for credit premium purposes. In November ECGD also decided to up-grade China from its category B to category A. The Chinese have previously expressed concern at the size of the (grade B) British premium compared with the French on the Guangdong project. The brief recommends that the Prime Minister inform Premier Zhao of our decision to regrade China, but this should be coupled with a clear statement that there can be no negotiation on premium level for Guangdong beyond this. This caveat is important because even with an A grade premium, the amount of our credit premium will be proportionately higher than that of the French. We wish to resist Chinese pressure in negotiation to match French levels, which could be very costly.

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

BRIEF NO 5 : BACKGROUND

A : DISTRICT VISIT

B : CONSTITUTIONAL DEVELOPMENT

C : HONG KONG'S ECONOMY AND FOREIGN TRADE

PRIME MINISTER'S VISIT TO CHINA AND HONG KONG, 18-21 December 1984
HONG KONG

BRIEF NO 5: BACKGROUND:

A. DISTRICT VISIT, THURSDAY 20 DECEMBER, 2.30 - 4.00 PM

ABERDEEN

1. Aberdeen is one of the oldest settlements and the largest fishing port in Hong Kong. The settlement was named after the British Foreign Secretary, Lord Aberdeen.
2. The Aberdeen harbour provides an anchorage for some 1180 fishing vessels. There are about 7,200 active fishermen and the fishing vessels used by them are mostly trawlers, long-liners, gill-netters and purse-seiners. They represent about 25% of the total fishing fleet in Hong Kong.
3. There are some 600 dwelling boats in the Aberdeen Typhoon Shelter accommodating 700 families with a total population of over 5,000. The dwelling boats are mainly old vessels ranging from small sampans to large junks. Although most boat dwellers are from fishing families, their normal employment is with factories ashore. The boat dwellers will shortly be cleared and resettled ashore as a result of reclamation works.

AP LEI CHAU

4. Ap Lei Chau is an island opposite Aberdeen, linked to it by the recent completion of a bridge spanning Aberdeen Harbour. Before the completion of the Ap Lei Chau Bridge, the population on the island was small. Furthermore, since the area was inaccessible to fire engines, a height restriction was imposed, for safety purposes, on all building development. However, since the completion of the Bridge and the Ap Lei Chau Estate in 1980, development accelerated, and the building height restriction was later lifted.

5. There is a squatter area with a population of over 3,000 people on the northern part of the island. Many of the squatter units are occupied by marine engine workshop and boatyard operators. The squatter area will be cleared from 1986 onwards to make way for reclamation works.
6. Another public housing estate is being constructed on the island, and on full completion by the end of 1986, will provide 4,000 flats.
7. The land and marine population of Aberdeen and Ap Lei Chau combined is about 210,000, of whom 64% are living in public housing accommodation.

PUBLIC RECLAMATION IN ABERDEEN

8. Aberdeen Reclamation Stage I, covering the water front from the west end of Aberdeen West Typhoon Shelter to the Aberdeen Wholesale Fish Market, was completed in 1977. About half of the 6.62 hectares reclaimed land is now occupied by a Sewage Screening Plant, Ice Plant, Fisheries and Marine Licensing Office and the Aberdeen Wholesale Fish Market. The remaining area will be used for open space, Government and industrial development and a future highway interchange. At present a portion of the latter area is being used as a temporary housing area.
9. Aberdeen Reclamation Stage II covers the waterfront on the north and west shores of the Aberdeen Typhoon Shelter. Implementation has been phased over a period of 11 years from October 1976 to early 1987.

DEVELOPMENT OF NORTHERN AP LEI CHAU

10. The development of Northern Ap Lei Chau is dependent mainly on the progress of the reclamation on the northern shore. The reclamation, when completed, would make available about 7 hectares of land for use as open space; coastal highway; public landing area; marketing facilities; industrial site; and other facilities.

11. The reclamation project also provides the opportunity to clear the squatters, dwelling boats, boatyards and marine engine workshops along the northern shore of Ap Lei Chau and thus improve the environment of the Aberdeen - Ap Lei Chau area.

AP LEI CHAU PUBLIC HOUSING ESTATE

12. Ap Lei Chau Estate, covering 14 acres, is the first public housing estate in this part of Hong Kong and is provided with its own essential ancillary facilities for educational, commercial and social activities. The estate provides 4479 flats for nearly 22000 people. Monthly rentals of the flats range from \$370 (£37) to \$950 (£95), depending on the size of accommodation which varies from 28.6m² to 67.9m².

HO YAN KINDERGARTEN

13. The kindergarten, opened in September 1981, is run by Sik Sik Yuen, a buddhist organisation. There are altogether 470 pupils, under the supervision of 11 teachers.

14. Classes are organised in half-day sessions of 3 hours each and are divided into 3 grades. Lower grade is for children aged 3 to 4, middle grade students are 4 to 6 and upper grade students are 5 to 6.

15. Chinese, English and Arithmetic are three major subjects of study, while singing and dancing, physical education, arts and craft lessons are also included. Birthday party is held once every two months and there is a special celebration party at Christmas.

AP LEI CHAU COMMUNITY HALL

16. The Ap Lei Chau Community Hall was opened in 1 November 1982; it is the focal point of community activities for the 22000 people living in the Estate. It is also an important centre for cultural and entertainment activities in the Southern District. The Hall has a seating capacity of 350 persons. There is also a conference room.

17. The day-to-day management of the Community Hall is administered by the Social Welfare Department. A Management Committee, formed by local community leaders and chaired by an Unofficial, performs an advisory function in the planning of hall activities and other general management matters.

18. The Royal Hong Kong Jockey Club recently approved a grant of \$2.5 million for providing air-conditioning and stage and sound equipment for the Community Hall as their contribution towards community and welfare projects in Hong Kong.

AP LEI CHAU ESTATE YIN NGAI SOCIETY (YNS)

19. The main objective of establishing Yin Ngai Societies is to improve the quality of life for women:

- (a) by identifying problems in their personal or family life and organising the appropriate services, support and guidance which would enable them to cope with these problems;
- (b) by organising recreational activities and promoting neighbourliness to alleviate boredom and involuntary isolation;
- (c) by providing an opportunity for women to develop their potentials and self-confidence through the experience of mutual aid.

20. The Ap Lei Chau Estate YNS was formed on 1 March 1984 with the assistance of Southern District Office. It has over 70 members, most of whom are housewives.

LIST OF COMMUNITY LEADERS TO BE INTRODUCED TO THE PRIME MINISTER AT THE COMMUNITY HALL

- 21(a) Mr Chan Ping-kwan. Merchant. Elected Southern District Board member of the Stanley and Shek O Constituency. Aged 69.
- (b) Mr Kwok Wai-ming. General Manager of a travel agency. Elected Southern District Board member of the Pokfulam

constituency. Aged 33.

- (c) Mr Lam Hon-keung. Merchant. Appointed member of the Legislative Council. Elected Southern District Board member of the Wong Chuk Hang and Bays constituency. Aged 44.
- (d) Mr Lam Kwok-kwong, Jasper. Headmaster. Elected Southern District Board member of the Wah Fu constituency. Aged 47.
- (e) Mr Tse Kit-to. Merchant. Elected Southern District Board member of Tin Wan/Shek Pai Wan constituency. Aged 52.
- (f) Mr Yung Check-chow. Factory Manager. Elected Southern District Board member of Aberdeen and Ap Lei Chau constituency. Aged 52.
- (g) Mr Chan Bing-sing. Headmaster. Appointed Southern District Board member. Aged 44.
- (h) Miss Chu Miu-wah. Social worker. Appointed Southern District Board member. Aged 30.
- (i) Mr Ho Chun-tung. Director of Engineering Firm. Appointed Southern District Board member. Aged 50.
- (j) Mr Kam Man-lee. Factory Manager. Appointed Southern District Board member. Aged 34.
- (k) Mr Poon Shun-kwok, Albert. Property Development Surveyor. Appointed Southern District Board member. Aged 33.
- (l) Mr Young Tze-kong. Executive Director and General Manager. Appointed Southern District Board member. Aged 42.
- (m) Mr Lo Tak-cheung, Kenneth. Solicitor. Appointed Urban Council member, Chairman of Recreation Select Committee, Urban Council. Aged 62.

- (n) Mr Chan Yuek-sut, Joseph. School Principal. Elected Urban Council member, Vice Chairman, Libraries. Select Committee, Urban Council. Aged 48.
- (o) Mrs So Chow Yim-ping. Director of Printing Company. Chairman, Southern District Arts and Culture Association, Vice Chairman, Southern District Industrialists Association. Aged 57.

[Brief supplied by the Hong Kong Government]

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

BRIEF NO 5: BACKGROUND

B: CONSTITUTIONAL DEVELOPMENT

1. On 18 July 1984 the Hong Kong Government published a Green Paper on the further development of representative government. The main aims set out in this paper were:

(a) to develop progressively a system of government, the authority of which is clearly rooted in Hong Kong, which is able to represent authoritatively the views of the people of Hong Kong and which is more accountable to the people of Hong Kong;

(b) to build this system on existing institutions which have served Hong Kong well and as far as possible to preserve their best features; and to allow for further development if that should be the wish of the Hong Kong community.

2. Two months were allowed for public comment in Hong Kong on proposals contained in the Green Paper. Public reaction was generally in favour of its aims and of the gradual and progressive nature of the proposals which it made. There was much discussion on the subject of direct elections to Hong Kong's Legislative Council. The Hong Kong Government noted substantial support for direct elections from some sections of the community. However, there was little evidence of general support for any move towards direct elections as early as 1985.

3. The White Paper which was published on 21 November covers only the next stage in the development of representative government in Hong Kong (i.e. the 1985 elections to the Legislative Council). The aims of this White Paper are identical to those of the Green Paper, but the proposals contained in it take account of public comment during the period of consultation. It retains the Green Paper proposals for indirect elections through an electoral college and functional constituencies, but in response to the views expressed by some sections of the community, the number of members to be elected on this basis in 1985 has been doubled.

4. The main points in the White Paper are:

(a) Twelve members (rather than six as proposed in the Green Paper) will be elected to the Legislative Council by an electoral college in 1985. Ten will be elected by District Board members, grouped on a geographical basis, and the other two by members of the Urban Council and the proposed new Regional Council.

(b) Similarly, twelve members (instead of six originally proposed in the Green Paper) will be elected in 1985 by 9 functional constituencies representing various sectors of the community (e.g. commerce, industry, education, social services).

(c) The number of appointed members of the Legislative Council will be reduced in 1985 from the present total of 30 to 22 (instead of the 23 proposed in the Green Paper), and the number of official members from the present 16 to 10 (instead of 13 in the Green Paper).

(d) Thus there will be 24 elected members of the Legislative Council. In total it will have 56 members instead of the present 46 and the 48 originally proposed in the Green Paper.

(e) The White Paper contains a commitment to a further review of progress towards representative government in 1987. Among the subjects that will be covered in this review are direct elections and the position of the Governor as President of the Legislative Council.

(f) Other topics to be considered at a later stage will be the method of appointment to the Executive Council, the possible introduction of a ministerial system and the position and role of the Governor.

5. Elections to the Legislative Council will take place in September 1985. They will be preceded, in March 1985, by elections to the District Boards which for the first time will place elected members in a majority over appointed members.

6. The proposals in the White Paper have been generally welcomed in Hong Kong. However, there is a vocal minority who continue to press for a firm commitment that direct elections to the Legislative Council should be introduced by 1988.

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

HONG KONG

BRIEF NO 5: BACKGROUND

C: HONG KONG'S ECONOMY AND FOREIGN TRADE

1. The Hong Kong economy experienced a second year of export-led growth in 1984, largely due to the strong recovery in the United States (Hong Kong's largest domestic export market) and the improvements in the economies of other markets. Domestic exports to China also increased rapidly, so that China is now the second largest market for domestic exports (in the first nine months of 1984 domestic exports to the United States were Hong Kong \$ 18,230 million (US \$ 2,337 million) or 46 per cent of total domestic exports: to China Hong Kong \$2,957 million (US \$379 million) or 7.5 per cent of the total, and to the UK Hong Kong \$2,889 million (US dollars 370 million) or 7.4 per cent of the total.) Comparing the first nine months of 1984 with the same period last year, domestic exports increased by 22 per cent in real terms, re-exports by 31 per cent, and imports by 17 per cent. Largely as a result of the rapid growth rate of exports, the growth rate of the gross domestic product in 1984 is expected to be about 8 per cent in real terms, implying a GDP of Hong Kong dollars 242.8 billion (US \$31.1 billion) or Hong Kong \$45,292 per head (US \$5,807).

2. Investment in plant and machinery has also picked up since the beginning of this year. The local property sector, on the other hand, has remained weak, except for an improvement in the rate of take-up of finished property, reflecting falling prices and rentals.

3. The recovery of the export sector has created more job opportunities and resulted in higher real earnings for manufacturing workers. In the third quarter the unemployment rate stood at 3.5 per cent and the under employment rate at 1.0 per cent. This combination indicates effective full employment in Hong Kong's circumstances.

4. The rate of inflation (in terms of the Consumer Price Index)

has fallen steadily, from over 12 per cent in January 1984 down to 6.5 per cent in the three months ending October. The strength of the Hong Kong dollar under the linked exchange rate system introduced in October 1983 has been a major contributory factor.

5. Looking ahead to 1985, the Hong Kong economy remains as always vulnerable to external events, and it is likely that the world economy will grow rather less rapidly. The latest statistics on order-book positions and on retained imports of raw materials and semi-manufactures suggest that while the short term prospects for domestic exports remain generally good, there may be a slowing down in the growth rate of domestic exports in the coming months.

6. The assurances of stability and continuity provided by the draft agreement on the future of Hong Kong will improve investment sentiment. As a result higher investment in property and in plant and machinery, by both local and overseas investors, should emerge and investment demand should increase next year.

7. The rate of inflation will probably stabilize slightly over US levels, unless a sharp depreciation of the Hong Kong dollar occurs in 1985 (along with the US dollar under the present linked exchange rate system).

8. It remains the Hong Kong Government's aim to produce a balanced budget in 1986/87.

Hong Kong Department
12 December 1984

VALIDITY OF TREATIES?

Our position has always been that the three treaties are valid. China does not accept that view. In our negotiations we were able to reach an amicable agreement on a text which does not seek to resolve this difference of opinion but sets it on one side. The agreement provides for the restoration of Hong Kong to China with effect from 1 July, 1997, and for the British Government to be responsible for the administration of the territory before that date. Whatever the status of the three treaties may have been prior to that date, it is clear that thereafter they can no longer have any application. They are a part of history. We now look forward to the implementation of the agreement in friendship and partnership with China. We do not want to dwell on the past.



DEFENCE

ROLE OF PLA IN HONG KONG SAR

It is clear that the PRC will be responsible for SAR's defence. Whether troops are stationed there will be a matter for the Central People's Government. The agreement makes clear that public order will be responsibility of the SAR Government and that troops stationed in SAR for the purpose of defence will not interfere in its internal affairs. I am sure that the Chinese Government is well aware of the views expressed by the Hong Kong people on this subject.

RESPONSIBILITY/CONTROL OF ANY PLA TROOPS STATIONED
IN HONG KONG

The agreement makes clear that the Central People's Government will be responsible for defence of Hong Kong SAR. Maintenance of public order will be the responsibility of the SAR Government.

JOINT LIAISON GROUP

HONG KONG OFFICIAL AND UNOFFICIAL REPRESENTATION

It is clear from the text of Annex II that each side will determine the composition of its own delegation. Our delegation will include officials from the Hong Kong Government. Beyond that there will be scope for the views of the people of Hong Kong to be taken fully into account.

[If pressed on Unofficial representation.] The Joint Liaison Group will be a governmental body staffed by officials on both sides. But there will be all the usual ways in which Hong Kong people can be consulted and their views taken into account.

NATIONALITY

INTERNATIONAL RECOGNITION OF SAR AND NEW-STYLE

PASSPORTS?

Both SAR and new-style British passports will contain clear reference to the holder's right of abode in Hong Kong SAR. SAR Government will be assisted or authorised by Central People's Government to conclude visa abolition agreements. HMG will do all they can to secure for holders of new-style British passports the same access to other countries as that enjoyed at present by holders of BDTC passports. Every reason to be confident of international acceptance of these passports.

BASIC LAW

HONG KONG PARTICIPATION IN DRAFTING

Drafting of Basic Law is a matter for the Chinese Government. They have made it clear however that people of Hong Kong will be consulted. I have no doubt that the Chinese Government are aware of the strong views of Hong Kong people on this subject.

YOUR INSISTENCE ON VALIDITY OF TREATIES MADE TALKS
MORE DIFFICULT

It is true that there were differences between the two sides at the outset of the talks, on sovereignty and on other matters. I said in my press conference in September, 1982, that it was best under such circumstances to enter into talks in order to arrive at an agreed solution. That is exactly what has been done in the agreement and the associated memoranda.

IN 1982 YOU SAID YOU HAD A MORAL DUTY TOWARDS HONG KONG. WHAT HAS BECOME OF THAT?

I believe that we have fulfilled our moral duty towards the people of Hong Kong. We have succeeded in concluding an agreement that provides the necessary safeguards for the future of the territory, and does so in the form of a legally-binding international agreement. If we had not entered into negotiations and if we had let Hong Kong revert to China in 1997 without such an agreement, how could that have been consistent with our moral duty? Instead, we have an agreement which is acceptable not only to the Chinese Government and British Parliament, but also to the overwhelming majority of the people of Hong Kong.

IN 1982 YOU SAID THAT IF A COUNTRY WILL NOT STAND BY
ONE TREATY IT WILL NOT STAND BY ANOTHER. WHAT REASON
HAVE YOU GOT TO TRUST THE CHINESE NOW?

I think there are very good reasons for believing that the Chinese Government will implement the agreement which Premier Zhao Ziyang and I signed on 19 December. The Chinese Government have publicly recognised the agreement as legally binding. China has a good record of observance of international agreements. Furthermore, observance is strongly in China's interests for economic reasons and for the cause of national reunification.

IMPLEMENTATION OF AGREEMENT
WHAT WILL BRITAIN DO IF CHINESE DO NOT IMPLEMENT
AGREEMENT?

Breach of a legally binding international agreement would be a most serious matter, in our own eyes and no doubt in those of international community as a whole. We would of course make the strongest possible representations to the Chinese Government in order to seek a remedy.

STATELESSNESS

Provision will be made in relevant legislation for children born after 1 July, 1997, to former Hong Kong BDTs who are not Chinese nationals to acquire another form of British nationality at birth if they would otherwise be stateless. Also for any non-Chinese former BDTs who become stateless on 1 July, 1997, for whatever reason. /IF OTHER CASES RAISED/ The intention is to make provision to cover those who might otherwise become stateless as a result of the provision of the agreement and the UK memorandum. Full details have not yet been worked out.

CONSTITUTIONAL DEVELOPMENT
WHY NOT PROPOSALS FOR DIRECT ELECTIONS TO LEGISLATIVE
COUNCIL?

Public comment on the proposals contained in the Green Paper published in Hong Kong in July showed little evidence of support for any early move towards direct elections. Whilst many people favoured the idea in the abstract, few wanted direct elections in the immediate future. Further consideration will be given to the question of direct elections in the review to be carried out in 1987.

STRUCTURE OF GOVERNMENT AFTER 1997?

The detailed structure of government is a matter for the Basic Law. It would not have been right to attempt to lay down details 13 years in advance. We must allow for development between now and 1997. The agreement however states there will be an elected legislature, an executive accountable to the legislature, and a chief executive.

UNDERTAKINGS BY HMG TO HONG KONG PEOPLE
ADMISSION OF PERSONS AT RISK

Our efforts have been directed towards achieving conditions under which people of Hong Kong will be able to continue living and working in a flourishing community. I believe the agreement does that.

/ONLY IF PRESSED/ In certain very limited cases certain rights of admission will exist under the discretion of the Home Secretary in the United Kingdom but that will be on a very limited basis for people who have been exposed to special considerations and special factors.

PRIME MINISTER'S VISIT
TO PEKING, HONG KONG
AND WASHINGTON

Folder A: Peking

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

CHINA:

LIST OF BRIEFS

Brief No

- 1. Steering Brief
- 2. A&B Talks with Premier Zhao Ziyang: Speaking Notes
- 3. Call on Chairman Deng Xiaoping: Speaking Notes
- 4. Call on General Secretary Hu Yaobang: Speaking Notes

BACKGROUND NOTES

- 5. Hong Kong
- 6. Bilateral Issues
 - a) UK-China Relations: General
 - b) Visits
 - c) Nuclear Cooperation Agreement
 - d) Claims
 - e) Air Services
 - f) UN Law of the Sea Convention
- 7. Trade
- 8. International Issues
 - a) Sino/Soviet Relations
 - b) Indo-China
 - c) Afghanistan
 - d) Korea
 - e) South Asia (India, Pakistan)
- 9. China Internal
- 10. Chinese Foreign Policy
- 11. China: History
- 12. Country Assessment Paper
- 13. Chinese Attitudes and Sensitivities
- 14. Protocol and Courtesy

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

STEERING BRIEF

INTRODUCTION

1. Mrs Thatcher's visit to China will be the second by a serving British Prime Minister, following her visit in September 1982. It will represent the climax of the negotiations over the future of Hong Kong, in which context Sir Geoffrey Howe has already visited Peking twice this year, in April and July. It will also provide a further major impulse to the increasing flow of high level exchanges with China. This year, British Ministers for Energy (Mr Buchanan-Smith), the Armed Forces (Mr Stanley) and Trade (Mr Channon) have visited China; the Chinese Minister for Coal and two provincial governors have visited Britain. The only visit by a Chinese Premier to Britain was in 1979, by Zhao Ziyang's predecessor, Hua Guofeng.
2. The centrepiece of the visit will be the signature of the Joint Declaration on Hong Kong; and presentationally, Hong Kong will be at centre stage throughout. But the visit also provides an important opportunity to raise bilateral relations to a new level. The Chinese have made clear that they see it in such terms and that they are looking forward to full discussion in private on bilateral and international issues, particularly trade.

UK OBJECTIVES

3. A Hong Kong

- i) through the Prime Minister's participation in the signature ceremony, to demonstrate our commitment to the full implementation of the Hong Kong Agreement and to secure a similar degree of commitment on the Chinese side.
- ii) to express our readiness to co-operate with the Chinese Government to put the Agreement into effect; to elicit a similar response on the Chinese side; to prepare the way for influencing

/the

the Drafting of the Basic Law, in particular by obtaining assurances if possible in a form which can be used publicly in Hong Kong, that Hong Kong people will be fully consulted about the Drafting of the Basic Law.

iii) to reassure Chinese leaders that up to 1997 Hong Kong will continue to be administered effectively and prudently.

B Other

i) to develop personal rapport with Chinese leaders, particularly Premier Zhao Ziyang (bearing in mind his visit to Britain planned for 1985).

ii) to demonstrate our desire that bilateral relations, which are already good in theory, should gain in substance; and in particular:

iii) to lay the foundation for a marked increase in Britain's market share of Chinese imports (presented in terms of our stake in Chinese modernisation);

iv) to underline the strategic importance we attach to an outward looking and economically reformist China; and

v) to continue the dialogue on international issues.

LIKELY CHINESE OBJECTIVES

4. A Hong Kong

i) * to reassure us (and through the public aspects of the visit, Hong Kong opinion) of China's commitment to implementation of the agreement.

ii) to prepare the ground for increasing their influence over the administration of Hong Kong while keeping China's own hands free.

iii) to seek reassurance that up to 1997 our administration of Hong Kong will preserve the territory's stability and prosperity.

B Other

i) to emphasize that China is now fully committed to pragmatic domestic policies and that her open door policy on trade and international exchanges will continue;

ii) to express political will for closer and more substantive relations as a direct consequence of the Hong Kong agreement; in particular:

iii) to secure a positive response to the invitation to HM The Queen to visit China; and

iv) to build up political momentum for increased bilateral trade and British investment in China; and

v) to secure aid or concessionary finance, and a more flexible attitude to transfer of sensitive technology from COCOM members to China;

vi) to emphasize Chinese support for a strong and cohesive western Europe, united against the Soviet threat but providing a political counterweight to the superpowers.

PROGRAMME

5. Details are still being discussed with the Chinese authorities. An outline programme (as known so far) and personality notes are at Annexes A and B. Official activity will be restricted to 19 December. In addition to signing the Joint Declaration, the Prime Minister will have one session of formal talks with Premier Zhao Ziyang; there will probably also be calls on Chairman Deng Xiaoping, Communist Party General Secretary Hu Yaobang and lunch

/with

Brief no 1 CHINA - page 3

with President Li Xiannian; the Secretary of State will have a short separate meeting with Foreign Minister Wu Xueqian. There will be a formal welcoming banquet in the evening.

TALKS WITH PREMIER ZHAO

6. These will probably last 2 - 3 hours, of which at least half will be spent on interpretation. No formal agenda has been set; but we have told the Chinese that we expect to cover the subjects at Annex C. Atmosphere will be at least as important as substance.

7. Premier Zhao will probably invite Mrs Thatcher to lead off. The Prime Minister could note that as a result of our increasing Ministerial and high level exchanges, each side is well acquainted with the other's views on most international and bilateral issues. She could suggest that, in view of the limited time available, the talks should begin with discussions of Hong Kong points, followed by brief, concise exchanges on other specific issues in political relations; discussions on prospects for trade and economic relations; and finally brief exchanges on a few international topics.

8. On Hong Kong the Points to Make are relatively general ones. The aim is to establish a climate of trust and goodwill in which the agreement can be put into effect. There is a strong negative aim, to avoid provoking any high level statement from Chinese leaders inimical to our aims, which would then be set in concrete. We have no detailed points to raise formally with Chinese leaders at this stage about the implementation of the agreement. But Zhao is a practical man, and it would be helpful to explain to him in general terms our thinking about the basic law and the administration of Hong Kong up to 1997.

9. Turning to other bilateral issues, the Prime Minister could begin with a brief tour d'horizon of the growth of contacts in recent years, concluding that relations have never been more substantive and that, following the Hong Kong agreement, the way is clear to pursue new opportunities, particularly in the economic field, with redoubled vigour (Brief 6a). She could then convey

acceptance in principle of the invitation to HM The Queen to visit China; and urge Premier Zhao to take up his invitation to Britain as early as possible next year. (Brief 6b). She could [propose to begin negotiations with China on a Nuclear Agreement (Brief 6c);] urge the Chinese to begin early negotiations on British claims (Brief 6d) and press for Chinese concessions on Air Services (Brief 6e). On most of these points, Premier Zhao is likely to say little of substance, beyond suggesting that details be pursued through diplomatic channels.

10. On trade (Brief No 7), the Prime Minister could begin by welcoming and reciprocating recent Chinese expressions of desire to increase bilateral trade. She could refer to the momentum generated by the Hong Kong agreement and the intrinsic scope for British participation in Chinese modernization, outline current activity and express eagerness to explore vigorously all new opportunities. To demonstrate this, she could propose that a senior commercial delegation led by Lord Young visit China early in 1985 (This will already have been put informally to the Chinese). She could express the hope that contract negotiations for the Guangdong Nuclear Project be completed quickly. She could then express support for British efforts in a number of other promising specific projects and sectors and emphasise the importance of a good investment protection and promotion agreement; Defensive and background briefing is provided on technology transfer (COCOM); concessionary finance; China/GATT; EC import restrictions and the possibility of a UK/China Joint Commission.

11. Turning to international issues (Brief No 5), the Prime Minister might wish to begin by giving a brief account of her talks on 16 December with Mr Gorbachev, touching particularly on E-W relations and arms control and inviting Chinese comments (any necessary briefing will be provided following the Gorbachev visit). She could then ask how Premier Zhao sees prospects for Sino-Soviet relations (particularly the forthcoming visit of Deputy Prime Minister Arkhipov) (Brief 8a) and the linkage between these and the situations in Indo-China and Afghanistan (Briefs 8 b and c). If time allows, she could also

invite brief exchanges on Korea (Brief 8d) and South Asia (Brief 8e).

CALLS

12. The calls on Deng Xiaoping and Hu Yaobang (Brief Nos 3 and 4) will necessarily be shorter and far more dependent on atmosphere than substance. But the meeting with Deng will probably be the most important of the whole visit, particularly in the Hong Kong context. Separate briefs are provided for each, distilling the general lines of the briefing for the formal talks. The conversation with Deng will only be partly about Hong Kong. The objective, as with Zhao, is to create a climate of trust. In view of Deng's impatience with detail and latent suspicions of our intentions, our practical concerns could best be touched upon more lightly: the defensive line on our administration of Hong Kong up to 1997 may well be needed. The meeting with Hu (who had little direct involvement in the negotiations and has never before received senior British visitors) could be weighted towards bilateral relations in general and the Chinese internal scene. The lunch with President Li Xiannian, who has also had little direct involvement in UK-China relations will be largely a courtesy occasion; conversation will probably be general.

CONFIDENTIAL

VISIT OF THE PRIME MINISTER TO CHINA: 18 - 20 DECEMBER 1984

PEKING: PROVISIONAL PROGRAMME

MONDAY 17 DECEMBER

1700 Leave London Airport.

TUESDAY 18 DECEMBER

2020 Arrive Peking.

WEDNESDAY 19 DECEMBER

(details of the programme have not yet been given to us by the Chinese Government, but it is likely to contain the following elements).

EARLY MORNING	Welcoming ceremony and review of Honour Guard in Tiananmen Square.
MORNING (probably)	Talks with Premier Zhao Ziyang.
LATE MORNING?	Call on Chairman Deng Xiaoping
LUNCH	Given by "a leader" (probably President Li Xiannian).
AFTERNOON	Signature ceremony. Prime Minister and Zhao Ziyang to sign agreement. Chairman Deng Xiaoping will possibly attend.
LATE AFTERNOON?	Possible call on General Secretary Hu Yaobang.
EVENING	Welcoming banquet, given by Zhao Ziyang.
LATE EVENING	Talk with British press corps.

CONFIDENTIAL

THURSDAY 20 DECEMBER

0900

Leave Peking.

CONFIDENTIAL

1. ZHAO ZIYANG

Member of the Standing Committee of the Politburo. Premier. Minister of the State Commission for the Restructuring of the Economy. Head of the State Council leading group on Science and Technology.

- 1919 Born in Hua County, Henan province.
- 1938 Joined CCP.
- 1938-49 Secretary of CCP Committees in the Hebei-Shandong-Henan areas.
- 1949 Began Party work in Guangdong Province.
- 1955-67 Secretary of Guangdong provincial CCP Committee (from 1965 First Secretary).
- 1971-72 Secretary of Inner Mongolia Revolutionary Committee.
- 1972-75 Vice-Chairman from 1974 Chairman of the Guangdong Revolutionary Committee and Secretary of provincial CCP Committee.
- 1973- Member of the CCP Central Committee.
- 1975-80 First Secretary of Sichuan provincial CCP Committee, Chairman of the provincial Revolutionary Committee, First Political Commissar of Chengdu Military Region.
- 1977-79 Alternate member of the Politburo.
- 1979- Member of the Politburo.
- 1980- Member of the Standing Committee of the Politburo.
- 1980 Vice-Premier .
- 1980- Premier.
- 1981-82 Vice-Chairman of the CCP Central Committee
- 1982 Minister of the State Commission for the Restructuring of the Economy.
- 1983 Head of the State Council leading group on Science and Technology.

Zhao Ziyang replaced Hua Guofeng as Premier in September 1980. He was then a comparative newcomer to national politics having spent the bulk of his career as a provincial administrator. At that level however he had served in the highest position in two of China's most important provinces.

Little is known of his early career. From 1949 until his dismissal in the Cultural Revolution he worked in Guangdong province, and is said to have specialised in agricultural policy, though he clearly went beyond this and by 1965 he had become First Secretary. He reappeared in 1971 and by 1974 he was again First Secretary of Guangdong. He was transferred to Sichuan in 1976, and, after a sticky period in the first part of the year when he was criticised in wall posters for his association with Deng Xiaoping, his career really took off following the overthrow of the "Gang of Four". In 1977 he was elected an alternate member of the Politburo; he was promoted to full membership in December 1978, and in February 1980, on his transfer to Peking, was promoted again to membership of the Politburo's Standing Committee. Shortly after that he was made "Standing Vice Premier" (ie in charge of the day to day work of the government) which led directly to his appointment as Premier. In 1981 he gained a further Party promotion to Vice-Chairman of the Central Committee, ranking fourth in the leadership.

Zhao owes his position to Deng Xiaoping whom he impressed with his successful management of Sichuan province. He arrived in 1976 to find its economy in a mess, having to import grain although traditionally one of China's most prolific agricultural areas. He swiftly reversed the situation. Many of the industrial and agricultural reforms he pioneered there have since become national models. But although he can obviously be counted amongst the reformers in the leadership, he has guided the implementation of reforms with prudence, being aware of the problems to which they give rise as well as the benefits.

Before becoming Premier, Zhao had had very little international experience. He visited Yugoslavia, Romania and Iran in 1978 and led a delegation from Sichuan province to visit Britain, France and West Germany in 1979. Since September 1980 he has taken on a busy programme of meeting high level foreign visitors and has also made regular visits to foreign countries. He has recently made lengthy and well-publicised tours of Africa (1982-3), Australia and New Zealand (1983) and the United States and Canada (1984). He has emerged from these as a strong personality capable of speaking plainly but diplomatically.

He is married to Liang Boqi, who does not appear in public, and has 4 sons, 1 daughter and 3 grandchildren.

Together with Communist Party Secretary General Hu Yaobang, Zhao forms the kernel of the collective leadership that Deng Xiaoping is seeking to establish to ensure the continuity of his policies for China's development. He has grown in stature and authority, and in this respect he compares very favourably with Hu Yaobang. He has shown a particular interest in and grasp of the technological aspects of Chinese development, particularly computers. He has not been as inclined to promote his supporters into key positions as has Hu Yaobang, and this, together with weak links with the military, may be a source of future vulnerability. It remains to be seen how well he will be able to work with Hu Yaobang when Deng Xiaoping departs from the scene.

Approximate pronunciation: Jao rhymes with cow
 Zer rhymes with fur
 Yang rhymes with bang

Form of address: Premier

2. DENG XIAOPING

Member of the Politburo Standing Committee. Chairman of the Military Commission of the Central Committee. Chairman of the Advisory Commission of the CCP Central Committee. Chairman of the State Central Military Commission.

- 1904 Born in Guangau County, Sichuan province.
- 1919-26 In France where he joined the French branch of the CCP. Returned home via the Soviet Union.
- 1927-29 Underground work for the CCP in Shanghai.
- 1929-37 Guerrilla organiser (took part in the Long March).
- 1937-49 Political Commissar of forces commanded by Liu Bocheng with whom he served throughout the War against Japan and the civil war.
- 1945-68 Member of the CCP Central Committee.
- 1949-52 Political Commissar of the 2nd Field Army (Commander Liu Bocheng); First Secretary of the CCP South West Bureau.
- 1952-69 Vice-Premier.
- 1953-54 Minister of Finance.
- 1955-68 Member of the Politburo (from 1956 - also of its Standing Committee).
- 1956-68 General Secretary of the CCP Central Committee.
- 1973-76 Vice-Premier; Member of CCP Central Committee and, after 1974, Politburo.
- 1975-76 Vice-Chairman of the CCP Central Committee and of its Military Commission.
- 1977 - Member of the Politburo Standing Committee.
- 1977-82 Vice-Chairman of the CCP Central Committee.
- 1977-81 Vice-Chairman of the Military Commission of the CCP Central Committee.
- 1977-81 Vice-Premier.
- 1981 - Chairman of the Military Commission of the CCP Central Committee.

/1982

- 1982- Chairman of the Advisory Commission of the CCP Central Committee.
- 1983- Chairman of the State Central Military Commission.

Nominally Deng ranks third in the Party leadership, but he is clearly the single most powerful figure in China. Although he is officially said to be no longer overseeing day-to-day Party and government business, he is the decisive influence on important issues and is the driving force behind present policies.

Deng was the second most prominent official, after the late Liu Shaoqi, to be dismissed in the Cultural Revolution, being General Secretary of the Party at the time of his disgrace. He was rehabilitated in 1973, and reinstated as a Vice-Premier. Thereafter, as the health of the Premier Zhou Enlai deteriorated, Deng gradually took over his work and by 1975 he was in charge of the day to day work of the Government, Chief of the General Staff and a Vice-Chairman of the Party. However, following Zhou's death in January 1976, he was passed over for the Premiership and subsequently dismissed from all his posts and denounced as a "capitalist roader".

After the arrest of the "Gang of Four" in October 1976, and against opposition from the remaining leftists in the Politburo, he was restored to all his posts in July 1977 and subsequently took over the Chairmanship of the Party's Military Commission from Hua Guofeng in 1981. Since then he has steadily consolidated his position by the promotion of his supporters to key positions and by the removal of opponents. He has been the main architect and principal political guarantor of the wide-ranging reform programme which has been pursued especially since the Third Central Committee Plenum in 1978.

Fully aware of the vagaries of Chinese politics, Deng has sought to ensure the continuation of his policies after his demise by the establishment of a collective leadership through institutional

/rearrangement

rearrangement and by placing his younger proteges in the most important positions. One of the reasons for his withdrawal from the day-to-day running of affairs has been to enable his proteges, notably Hu Yaobang and Zhao Ziyang, to acquire greater national and international standing and authority in their own right.

Deng is remarkably vigorous for his age, and his mind remains very sharp. Because of deafness in his right ear he reverses the normal seating patterns of his audiences and puts his guests on his left. He has great authority of manner, and is by far the most forthcoming of China's current leaders. His natural impatience to get things done, sometimes too quickly, has been tempered by the more cautious counsels of the other elder statesmen he has reintroduced into the leadership.

His wife, Zhuo Lin, has a post in the Secretariat of the Military Commission. She was born in Yunnan in 1916. He has a son, Deng Zhifang who has studied as a scientist in the United States, and is now working at the Chinese Embassy in Washington. Another son, Deng Pufang, was badly injured in the Cultural Revolution and has recently been given considerable public prominence as a founder of the China Welfare Fund for the Handicapped (as such, he visited Hong Kong in the autumn of 1984).

Approximate pronunciation: Dung rhymes with hung
 Jiao rhymes with cow
 Ping rhymes with sing

Form of address: Your Excellency

3. HU YAOBANG

Member of the Politburo Standing Committee. General Secretary of the Central Committee Secretariat. Chairman of the Central Commission for Guiding Party Consolidation.

- 1915 Born in Liuyang County, Hunan province.
- 1933 Joined CCP.
- 1934-35 Long March.
- 1937-45 Head of the Organisation Department of the General Political Department of the Military Commission.
- 1945-49 Political Officer in 2nd Field Army (under Liu Bocheng and Deng Xiaoping).
- 1949-52 Secretary of the North Sichuan Regional CCP Committee.
- 1949-52 Chairman of the North Sichuan Regional Administrative Office.
- 1952-67 Secretary of the New Democratic Youth League (from 1957 renamed Communist Youth League).
- 1954-67 Member of the National People's Congress Standing Committee
- 1956-67 Member of the CCP Central Committee.
- 1965 First Secretary of Shaanxi provincial CCP Committee.
- 1972 Rehabilitated and appeared in Peking as member of NPC Standing Committee until 1975
- 1975 Leading member of the Chinese Academy of Sciences.
- 1977- Member of the Central Committee
- 1977-79 Director of the Organisation Department of the Central Committee
- 1978- Member of the Politburo.
- 1978-82 Third Secretary of the Discipline Inspection Committee of the Central Committee.
- 1978-80 Secretary-General of the Central Committee.
- 1979-80 Director of the Propaganda Department of the Central Committee.
- 1980- Member of the Politburo Standing Committee

1980-...

- 1980- General Secretary of the Secretariat of the Central Committee
- 1981-82 Chairman of the CCP Central Committee
- 1983- Chairman of the Central Commission for Guiding the Party Consolidation

Hu is Deng Xiaoping's chosen successor in the Party hierarchy. Their association dates back to at least 1949 when both were working in Sichuan, and Hu's position as Secretary of the Communist Youth League in the fifties and sixties meant that he must have worked closely with Deng who was then General Secretary of the Party. In 1975 Hu was one of Deng's principal advisers and drafted the "Outline report on the Chinese Academy of Sciences" which was one of Deng's basic policy documents.

Hu shared Deng's disgrace in 1976, and his meteoric rise since 1977 owes much to Deng's patronage. Appointed General Secretary of the Central Committee in February 1980, Hu was made responsible for the day-to-day work of the Party. It soon became clear the Deng was grooming Hu for the top Party position in the hope of ensuring the continuity of his policies after he himself had left the scene. Hu duly replaced Hua Guofeng as Party Chairman in June 1981. However, his failure to replace Hua as Chairman of the Party's Military Commission (this post went to Deng) illustrates the fact that he does not enjoy the full confidence of the armed forces. Despite signs in 1984 that he was actively trying to build up support within the military, this remains a notable weakness and although he has held the senior Party post since 1981, and used it to promote his supporters to important positions, his ability to assume effective control after Deng's demise is still far from assured. Attempts to promote a statesman-like image have been confounded by his sometimes eccentric public behaviour as well as by a tendency to make public statements which have subsequently to be corrected. He has the reputation of being one of the most liberal of the members of the Politburo and this in itself might provoke opposition.

/Hu ...

Hu visited Soviet-bloc countries on several occasions in the 1950s and early 1960s. More recently he visited Yugoslavia and Romania in 1983 and in the same year went to Japan, his first trip to a non-socialist country.

Hu's wife is Li Zhao, who has recently visited Hong Kong, retired in 1983 from a job in the textile industry. They have three sons and a daughter, all university graduates in their thirties and forties, and five grandchildren. The daughter works in the Chinese Medical Association and one of the sons is a Deputy Director of the History Museum.

Approximate Pronunciation: Who
Yow rhymes with Cow
Bang

Form of Address. Your Excellency

4. LI XIANNIAN

President of the People's Republic of China. Member of the CCP Politburo Standing Committee.

- 1909 Born in Huang'an County, Hubei province.
- 1930s Served in Eyuwan Soviet Area.
- 1934-37 An army political commissar in forces led by Zhang Guotao and Xu Xiangqian on Long March.
- 1938-45 Guerrilla leader operating in Central China.
- 1944 Commander of the Central China Military Region.
- 1945- Member of the CCP Central Committee.
- 1948 Deputy Commander, 2nd Field Army (under Liu Bocheng).
- 1949 Deputy Commander, 4th Field Army (under Lin Biao).
- 1949-1954 Governor of Hubei.
- 1949-54 First Secretary of Hubei provincial CCP Committee.
- 1954-80 Vice-Premier.
- 1954-67 Minister of Finance.
- 1956- Member of the CCP Politburo.
- 1958-67 Member of the Secretariat of the CCP Central Committee.
- 1962-72 Vice-Minister of the State Planning Commission.
- 1977-82 Vice-Chairman of the CCP Central Committee.
- 1977- Member of the CCP Politburo Standing Committee.
- 1979-81 Vice-Chairman of the State Council's Financial and Economic Commission.
- 1983- President of the People's Republic of China.

For many years, and especially after the administrative chaos of the Cultural Revolution, Li was one of the key economic officials in China. He worked closely with the late Premier Zhou Enlai, and was associated with his pragmatic line on economic

/development.

development. However Li probably has reservations about the direction of present policy and was attacked indirectly through public criticism of the economic failures in the early seventies. He gradually withdrew from economic policy making, a process which received its public recognition in his resignation from the post of Vice-Premier in late 1980 and in the following years he seemed to be gradually eased out of the more crucial areas of decision-making and to be confined to Party matters and the development of the Party's international relations. This withdrawal was compounded by illness, which he himself confirmed in 1983, although he now appears to be in better health.

His appointment as President (a largely honorific post but nonetheless one which could provide a platform for the expression of opposition to current policies), although not expected at the time, pushed Li back into the forefront of the Chinese political scene. Some of his statements since becoming President are open to an anti-reform interpretation but they have not been stridently so and it is still unclear whether his appointment was willingly agreed by the reformists or whether it was as a result of conservative pressure.

As President, he has recently visited Spain, Portugal and Malta.

Approximate pronunciation: Lee rhymes with See
Sien as in Sien (na)
Nyen rhymes with Pen

Form of Address: "Your Excellency"

5. WU XUEQIAN

Minister of Foreign Affairs. A State Councillor. Member of the CCP Central Committee.

- 1921 Born in Shanghai.
- 1939 Joined the CCP.
- 1949-57 Deputy Director of the International Liaison Department of the New Democratic Youth League.
- 1953-58 Director of the International Liaison Department of the All-China Federation of Democratic Youth.
- 1954 Member of the Council of the Chinese People's Association for Cultural Relations with Foreign countries.
- 1957-64 Member of the Standing Committee of the Communist Youth League.
- 1958-62 Vice-Chairman of All-China Youth Federation.
- 1960 Member of the Council of the China-Africa People's Friendship Association.
- 1961 Member of the China Afro-Asian Solidarity Committee.
- 1964 Member of the Council of the People's Institute for Foreign Affairs.
- 1964 Deputy for Anhui to the 3rd National People's Congress.
- 1978-82 Deputy Director of the International Liaison Department of the Communist Party Central Committee.
- 1982 Vice-Minister of Foreign Affairs.
- 1982- Member of the CCP Central Committee.
- 1982- Minister of Foreign Affairs
- 1983- State Councillor.

Wu worked in the urban works office of the Party Central China Bureau until shortly before the end of the anti-Japanese war, when he was transferred to Shanghai, where he began a long association with Hu Yaobang. He worked underground in Nationalist-held areas during the civil war and throughout the Fifties and early Sixties, was a senior official in the youth organisations of which Hu was the Chairman. His duties in international liaison departments required him to travel frequently, mostly as leader of Chinese youth delegations as, for instance, when he attended the

/Communist-

Communist-sponsored World Youth Festivals in 1955 and 1957, which were held in Warsaw and Moscow, respectively. In the early sixties his foreign visits were more often as a member of a Chinese "peace" or "friendship" delegation. By 1964, he had become a leading official of an unknown department under the Party Central Committee. But he made no appearances between 1966 and 1972 and nothing is known of his fate during the Cultural Revolution.

In 1973 Wu re-emerges as a leading member of the Party Central Committee's International Liaison Department and by 1978 was its Deputy Director. His swift promotion in 1982 to be senior Vice-Minister of Foreign Affairs (probably with responsibility for Asia) and to Minister a few months later, in preference to vice-ministers with more ministerial experience can probably be explained to a large degree by his connections with Hu Yaobang. But he does have considerable experience in foreign affairs, particularly in liaison with foreign communist parties. Since becoming Foreign Minister he has accompanied Zhao Ziyang on his tour of Africa, and his visits to New Zealand, Australia, the United States and Canada. He has also accompanied Hu Yaobang to Japan.

In appearance Wu is a cartoon Chinese, with prominent gold teeth and large spectacles, but he is shrewd and has a polished manner. He understands English but is reluctant to use it himself.

Approximate pronunciation: Woo rhymes with too
Hswear rhymes with chair
Chien rhymes with hen

Form of address: Minister

BIOGRAPHICAL NOTE: MR CHEN ZHAOYUAN

Born 1918 in Guangdong province Mr Chen had a University education. He became a member of the West European and African Department of the Ministry of Foreign Affairs in 1951. His Ambassadorial career began in 1971 in Burma, followed by postings to Spain and India (which he knows very well). In 1980 he was appointed Director of the 2nd Asian Department in the MFA. Ambassador to the UK since May 1983.

Mr Chen is married with three children - two sons and one daughter. He has a good command of English; his wife almost none.

TALKS WITH PREMIER ZHAO ZIYANG

Subjects for Discussion (as agreed with Chinese)

1. Hong Kong
2. Bilateral issues, including:
 - Visit to China by HM The Queen
 - Visit to Britain by Premier Zhao
 - Claims
 - Air Services
3. Trade, including:
 - Practical steps to improve trade
 - Visits by high level commercial delegation led by Lord Young
 - Guangdong Nuclear Project
 - Other specific projects
4. International issues, including:
 - East West relations and arms control
 - Sino/Soviet relations
 - Korea
 - South Asia

PRIME MINISTER'S TALKS WITH PREMIER ZHAO ZIYANG: 19 DECEMBER

POINTS TO MAKE

A. HONG KONG

1. Delighted to meet you again. Remember discussions during 1982 visit. At meeting with Chairman Deng Xiaoping then, agreed that our Governments would begin talks on Hong Kong. Very pleased now back in Peking, at end of negotiations, to sign Joint Declaration. Our two signatures on agreement symbolise high importance which both Governments attach to agreement and successful implementation.

2. Believe Hong Kong agreement fully meets interests of both countries. Provides foundation for people of Hong Kong to build still more flourishing community. Can also form basis for closer and more substantial co-operation between Britain and China - over Hong Kong itself and in fields of trade and technology. Look forward to reviewing co-operation later in discussion.

① 3. British Government committed to implementing Joint Declaration in every respect. Appreciate very clear and categorical statements which Chairman Deng Xiaoping and yourself have made to same effect. Have contributed to excellent reception which agreement has had both in international community and Hong Kong.

4. People of Hong Kong have expressed their view. Great majority view agreement positively. Only natural should be some doubts and fears in people's minds: they face momentous and unprecedented change. But Hong Kong people greatly reassured by your statement to Hong Kong Government delegation of China's total commitment to fulfilling agreement.

5. Committed to co-operating very closely with you to put agreement into effect. Joint Liaison Group of great importance as forum for liaison and consultation. Look forward to discussing with you matters for consideration set out in Annex II to Joint Declaration, in order to maintain Hong Kong's position in world trading system; to ensure continued application of international

Zhou Ziyang

1/ New chapter in Sino/British
Co-operation & friendship.

Solves a problem "left over from
the past"

Conforms with interests of British people
and Chinese people in handling

"Hong Kong negotiations"

2/ Implement - China ready to do so.

One ^{country} ~~policy~~ - two systems

← - a policy made by Chinese

form of the very careful consideration

Tradition of Chinese relation to
custom good part

← We always live up to our
international commitment

Britain it is such a good agreement.

No ground for misjudging

China will prove its word by
its deed.

Transitional period. - stability & progress
- otherwise difficulties.
Subjective premises → reality.

rights and obligations affecting Hong Kong; and in due course to help bring about a smooth transition in 1997.

2 6. If the agreement is to be made to work, a task of particular importance will be the drafting of the Basic Law. Considerable part of substance of Basic Law already determined in agreement and its first annex. But there is more. You aware of active concern in Hong Kong about Basic Law and its drafting. Greatly appreciated your statement to Hong Kong Government delegation that when time came to draft Basic Law Chinese Government would solicit opinion from wide range of people in Hong Kong. Basic Law will be as important for maintenance of confidence in Hong Kong as agreement itself. Vital to get it right. Will have to be right for capitalist system which to be maintained there. Courts in Hong Kong will have ^{H-IC} British legal system which, under agreement, to be maintained in the Special Administrative Region. They must be able to understand Basic Law.

7. Agreed that until 1997 Britain will have full responsibility for Hong Kong. Can give you personal assurance that will be administered prudently and with foresight, in best interests of Hong Kong people.

3 8. ~~Know fears have been expressed that~~ stability and prosperity ~~may not~~ ^{must} be maintained during remaining years of British administration in Hong Kong. Can assure you that preserving these features of Hong Kong life our ^{principal} highest aim. The Hong Kong Government well aware of risks of social instability and will guard against them. Financial management will be prudent and cautious as ever. Hong Kong already has full control over budget and exchange fund, as will have after 1997. Land leases will be dealt with in accordance with Joint Declaration, which establishes joint commission of Chinese and British officials to oversee matter.

9. Britain derives no direct revenue from Hong Kong, and has no intention of doing so in next 12 years. Overriding objective is to ensure that Hong Kong can pass through the transition to new status as smoothly as possible without weakening of confidence or flight of

Answer
← 1 if there are provisions
- holders will be created

Forwarded is forwarded
"Be prepared"

3 Problems of Basic Law.

Especially our work - Basic Law
will reflect the agreements.

But not later some time.

← 1st generally special region -
2nd session of 6th Congress.
- a drafting committee will
be set up.

← [In the course of drafting the
text of H-K report will
be submitted on a wide basis
throughout the year 1950.]

4 Constitution = in H-K.

Ch. 53 - method of selection -
- then defined by Basic Law

More mean that people play
a part in it.

capital.

10. On constitutional development you aware of White Paper recently issued by Hong Kong Government. Sets out plans for introduction of indirect elections to some seats on Legislative Council in 1985. These plans entirely consistent with terms of agreement which provides for legislature of Hong Kong SAR constituted by elections. Limited reforms which we envisage are cautious, and not destabilising. If agreement to work, local people in Hong Kong must have sufficient experience to be ready to run their own administration in 1997. Our aim is to give them this experience and assist formation of administration in local hands which is firmly based and effective.

PRIME MINISTER'S TALKS WITH PREMIER ZHAO ZIYANG: 19 DECEMBER

NON-HONG KONG POINTS

POINTS TO MAKE

A. BILATERAL ISSUES

UK-China Relations: General

1. Successful conclusion of negotiations provides excellent opportunities. Close, substantive relations in both our interests. Political dialogue helped by trust built up in Hong Kong negotiations.
2. Contacts growing in many fields. Right to invest effort in framework: Consular and Double Taxation Agreements concluded this year. Must lay groundwork now for lasting cooperation in 21st century.

Visits

- ① 3. HM The Queen accepts Chinese invitation in principle; but visit not possible before 1986
L second half of
- ② 4. Delighted to welcome Premier Zhao to Britain as early as possible in 1985.

Nuclear Cooperation Agreement

- X ③ 5. China's civil nuclear programme offers wide scope for cooperation. Propose we negotiate Nuclear Cooperation Agreement.

Claims

6. Early settlement good for China's commercial image; hope negotiations can begin soon.

Air Services

- ④ 7. Pleased Cathay Pacific to remain leading international airline under Joint Declaration.

8. Seek further extension for arrangements on BA's Hong Kong-Peking service.

9. Seek greater role for Cathay Pacific in Hong Kong-China services.

UN Law of the Sea Convention (defensive only)

10. Did not prevent EC signing; but not helpful internationally to sign Convention with important flaws.

11. Open to us to sign, if improvements.

B. TRADE

1. Welcome Chinese expressions of wish for trade to grow faster.

2. Energy, transport, telecommunications, industrial modernisation, agriculture and defence are good prospects.

3. Momentum of high level visits important. Useful meeting with Governor of Guangdong. Propose mission led by Lord Young.

4. On Guangdong Nuclear:

i) welcome progress towards Joint Venture agreement. Full confidence in Lord Kadoorie and China Light and Power. (Defensive: hope Hong Kong Government will approve shortly.)

ii) Concerned to have contract signed by 15 January: timetable for commercial negotiations? (Defensive: difficult to extend interest rate beyond that date.)

iii) Decision to move China into top ECGC credit premium category. Rate for Guangdong now most favourable possible; but premium not negotiable beyond this.

5. Mention: power generation (additional to Guangdong nuclear); offshore oil; coal mining; aerospace; other projects if time allows.

6. Investment Promotion and Protection Agreement being negotiated. Will help strengthen economic links.

7. Defensive Points:

a) COCOM: Note wish for China's removal from strategic export controls. Changes require agreement of all COCOM members. HMG tries to ensure rapid processing of applications for China.

b) GATT: Any Chinese proposal for full membership will be carefully considered by European Community and GATT as a whole.

c) Import Quotas: Decided By EC. Need to restrict certain products (eg textiles, shoes, pottery, TV sets) to preserve UK industry.

d) Aid/soft credit: Understand wish for attractive financial packages. Constraints on UK aid programme make it difficult to offer bilateral soft credit at present. But UK contributes to international lending agencies eg World Bank, which lend to China.

C. INTERNATIONAL ISSUES

East/West Relations

1. Account of Gorbachev visit to UK.

Sino-Soviet Relations

2. Objectives for Arkhipov visit to China? How far can economic cooperation develop without progress on political issues?

/Indo-China

Indo-China

3. Concerned at renewed Vietnamese offensive near Thai-Cambodian border. Situation on Sino-Vietnamese border? How seriously do you view Soviet military build up in Vietnam?
4. Can Pol Pot be removed without compromising effectiveness of resistance coalition?

Afghanistan

5. Important Pakistan's friends signal support over continuation of supplies to resistance. Not hopeful of progress in UN initiative; need to look beyond.
6. UK will continue to aid Pakistan in coping with Afghan refugees.

Korea

7. Welcome direct inter-Korean talks. Is North Korea able to establish new external policies before succession problems are solved?

South Asia

8. Impressed with performance of Rajiv Gandhi; expect Congress (I) to win election.
9. Prospects for progress on Indo-China border issue? How far can relations improve without its resolution?
10. Concerned at rise in Indo-Pakistan tensions. Expect Zia to win sufficient support in election and referendum to continue in power.

PRIME MINISTER'S CALL ON CHAIRMAN DENG XIAOPING: 19 DECEMBER

POINTS TO MAKE

A. HONG KONG

1. Delighted to meet you again. Greatly valued 1982 discussion, when agreed to begin talks on Hong Kong. Great satisfaction to return to Peking to sign Joint Declaration.
2. Success owes much to your personal vision of "one country, two systems". Imaginative and far sighted. Provides framework for maintenance of Hong Kong's stability and prosperity after 1997 as part of China. [Possible wider international significance in bringing about reunification of divided countries]
3. Believe agreement fully meets interests of both countries. Provides foundation on which the people of Hong Kong can build still more flourishing community. Can also form a basis for closer and more substantial cooperation between Britain and China - over Hong Kong itself and in fields of trade and technology.
4. British Government will stick scrupulously to terms of Joint Declaration. Appreciate very clear and categorical statements which you and Premier Zhao have made to same effect. Have contributed to excellent reception which agreement has had both in international community and in Hong Kong.
5. People of Hong Kong have given clear view on the agreement. Great majority view it positively. ~~Only natural some doubts and fears in people's minds:~~ Fac momentous and unprecedented change, ~~But~~ Hong Kong people greatly reassured by Premier Zhao's statement to Hong Kong Government delegation of China's total commitment to fulfilling agreement.

6. Ready to co-operate very closely with Chinese Government to put agreement into effect. Attach particular importance to Joint Liaison Group as forum for liaison and consultation. Shall work with you within group to maintain Hong Kong's position in world trading system; to ensure continued application of international rights and obligations affecting Hong Kong; to help bring about smooth transfer of government in 1997.

7. Important work ahead. If agreement to work, task of particular importance will be drafting of Basic Law. Will have to be very closely attuned to circumstances of Hong Kong, and command confidence of people who live and invest there.

8. Our Governments agreed that until 1997 Britain will have full responsibility for Hong Kong. Can give you personal assurance, as Sir Geoffrey Howe did in July, that it will be administered prudently and with foresight, in best interests of Hong Kong people.

DEFENSIVE (IF RAISED BY DENG XIAOPING)

Administration of Hong Kong in the transitional period

9. Britain derives no direct revenue from Hong Kong. Has no intention of doing so in next 12 years. Hong Kong's budget and exchange fund will be administered by Hong Kong Government, for benefit of Hong Kong as now. Sound and cautious financial management for which Hong Kong is well known will be maintained. Britain's overriding objective to maintain health of Hong Kong's economy and stability so that it can pass through transition to new status as smoothly as possible, without weakening of confidence or flight of capital.

Constitutional Development

10. Can assure you that what is proposed by Hong Kong Government as move towards more representative government has been thought out very carefully. Cautious and realistic. Do not believe will adversely effect stability and prosperity. Have been careful to ensure takes fully into account terms of Joint Declaration. Aim to develop greater involvement by people of Hong Kong in running own affairs. We both have common aim of making sure that "Hong Kong people running Hong Kong" really will work, and work effectively.

B. NON-HONG KONG POINTS

11. Trust and understanding established in Hong Kong negotiations valuable for wider relationship. Cooperation already increasing in many fields, but now political opportunity for more rapid progress.

12. Want to maintain momentum. HM The Queen accepts invitation in principle, though not possible before 1986. Looking forward to Premier Zhao visit in 1985.
L second half of.

13. Britain has much to contribute to Chinese modernisation. Experienced in your priority areas: energy (coal, oil, power), communications, transport; strong base in science, technology and education; reputation for quality and reliability. Grateful for indications that you wish to step up economic cooperation.

14. Also desire more consultation on international issues. Need to maintain good defences in order to preserve peace. Strong and coherent western Europe a force for global stability, as is China's open door and growing participation in international debate.

15. Watching Chinese modernisation closely, with admiration. Britain also reformist. Prognosis for year 2000?

Brief N° 3
PM's call on Dong Xiaoping

PRIME MINISTER'S CALL ON GENERAL SECRETARY HU YAOBANG:
19 DECEMBER

POINTS TO MAKE

1. Signature of Joint Declaration a landmark in UK-China relations.
2. Time ripe for rapid expansion of cooperation. Political momentum important. Have discussed visits by HM The Queen (1986 likely) and Premier Zhao. (Also delighted to welcome you to Britain) at mutually convenient time. Much scope for greater economic cooperation. British experience matches Chinese priorities (energy, transport, communications).
3. Have followed with interest development of open door policy. Understand need for foreign investment. Glad to see improvement in investment climate. Legal infrastructure and taxation measures particularly important for investors in Special Economic Zones and 14 open coastal cities. Plans to extend similar policies to interior?
4. Foreign enterprises still see difficulties: bureaucratic obstacles; high rents; short life of joint ventures. British companies also alarmed at rocketing costs of maintaining offices in China. Solution of these problems would encourage investment and trade.
5. Admire Chinese economic reforms. My government facing different challenges but also reformist, tackling problems ignored for decades. Specific plans and timing envisaged for price and wage reforms announced by Central Committee in October?
5. Open door also promotes international stability. Welcome emerging Chinese role in world economy. How will this develop? Objectives for balance between trade with eg US, Japan, Western Europe? Welcome wish to increase Western Europe's share.

/ 7. Predictions

7. Predictions for progress on Korean peninsula, and development of Sino-Japanese relations, by year 2000 (two areas where you have been personally very active)?

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

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 BDTCS (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

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

BILATERAL ISSUES: BACKGROUND NOTES

a) UK-China Relations: general

1. Since the early 1970s British Government have sought to establish closer relations with China both to sustain a modus vivendi over Hong Kong and in recognition of China's growing economic, political and strategic importance. Contacts increased to some extent after Ambassadors were exchanged in 1972, and much more so after Mao Tse-tung's death in 1976 and the emergence of Deng Xiaoping's reformist leadership.
2. The Chinese Government have in recent years also worked to foster exchanges in all fields, mainly because of:
 - a) their perception of the Soviet Union as the main threat to China's security and world peace, and the belief that Britain could play a part in discouraging Soviet expansionism;
and
 - b) their need for access to Western, including British, technology and skills as a vital part of their development programme.
3. Since 1982 the relationship has been dominated by the negotiations over the future of Hong Kong. Both sides opted, however, for a "business as usual" approach to exchanges in other fields, and to the presentation of the overall relationship. Now that the negotiations have been concluded, the implementation of the agreement on Hong Kong will continue to be the conditioning factor in UK-China relations for the foreseeable future. Both sides can be expected however to continue to work towards a general thickening of exchanges and, in particular, expansion of trade.
4. So far, relations have been slow to acquire substance compared with those between China and our western competitors. In particular,

/trade

trade and development project cooperation, despite steady growth, remain low in absolute terms. (In 1983, UK exports to China were under £160m). Recent trends are, however, more encouraging.

5. Following the conclusion of the Hong Kong negotiations, the Chinese have given strong indications that they desire a rapid expansion of cooperation, particularly in trade. Within their general aim of increasing the west European market share of Chinese imports from 16% to 20%, they have expressed willingness to give a political fair wind to British projects. Vice Premier Li Peng told the Minister for Energy, Mr Buchanan-Smith, on 4 December that he hoped the Prime Minister's visit would lay the foundations for rapid development of trade.

6. High level visits are also increasing. The Secretary of State has visited Peking twice this year, in April and July, in the context of the Hong Kong negotiations. British Ministers for Energy, Trade (Mr Channon) and the Armed Forces (Mr Stanley) have also visited China this year. The Chinese Minister for Coal, and the Governors of Guangdong (called on the Prime Minister) and Sichuan have visited Britain. In 1985, visits are expected by Premier Zhao, and the Ministers for Space Industry (to sign a cooperation Protocol), Education, the Environment and Textiles.

7. There is also a growing formal framework. Bilateral Double Taxation and Consular Agreements have been concluded this year; the latter provides for an exchange of Consulates-General in Shanghai and Manchester. The Shanghai office already has a consul in place supervising repairs to the building and the Consul-General will take up his appointment early in 1985.

b) Visits

1) Invitation to HM The Queen to visit China

8. An invitation to HM The Queen was extended by then Premier Hua Guofeng during his visit to the UK in 1979 and renewed by Premier Zhao Ziyang during Lord Carrington's visit to China in April 1981.

Brief No 6 CHART - page 2

9. The Prime Minister agreed in November 1982 that we should not pursue the idea of a State visit until negotiations over Hong Kong had progressed sufficiently to make it politically desirable. The possibility was not raised again until July 1984, when Chairman Deng Xiaoping told the Secretary of State in Peking that Her Majesty would be welcome to visit China at a time convenient to her.

10. A formal recommendation from the FCO that The Queen pay a State visit to China and Hong Kong in 1986 will shortly be considered in the course of the routine planning procedure for Royal visits.

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11) Invitation to Premier Zhao Ziyang to visit Britain

11. The Prime Minister extended an oral invitation to Zhao Ziyang during her visit to China in September 1982. This was confirmed by our Embassy in Peking in October 1982. During his meeting with the Secretary of State in July 1984 Chairman Deng Xiaoping said that Zhao looked forward to visiting Britain in 1985.

12. Zhao toured several West European countries including France and FRG this summer but omitted Britain because the Hong Kong negotiations were in progress. There have since been indications that, although eager to visit, he thinks it would be inappropriate to do so before the Joint Declaration is ratified (in June 1985). For us there is no reason in principle why he should not come as soon as mutually convenient dates can be arranged.

c) Nuclear Cooperation Agreement

13. The Chinese have embarked on a large civil nuclear programme of which the Guangdong power station is only a small part. They have expressed much interest in the equipment available from western countries.

14. Although the present Chinese preference is for pressurized water reactors (PWRs) there is a wealth of nuclear expertise available in Britain which will be useful to China as her programme develops, eg fuel cycle services. Premier Zhao told HM Ambassador in February that there was scope for cooperation. The FRG, Italy, France and Brazil have already concluded formal agreements; others, including USA and Japan, hope to do so soon. If we are to gain commercial benefit from the Chinese programme we should not delay in making proposals.

15. The agreement we envisage will provide a framework within which British companies and other organisations involved in the nuclear industry can develop collaboration with their Chinese counterparts. The cooperation will be for peaceful purposes only and the agreement will provide us with assurances on this. A draft text covering these points will be forwarded soon to the Embassy in Peking for presentation.

d) Claims

16. Following Chinese indications of willingness to consider private claims the Foreign Compensation Commission undertook in 1980 the registration of British claims against China. In November 1983 the Embassy in Peking submitted a list of all outstanding claims. This comprises £352m of private claims, £24m of Government claims and £217m of sterling bonds. We hope that the Chinese will soon complete the checking of claims with local authorities and agree to open negotiations. There is every indication however that progress is likely to be extremely slow. The French Government presented claims in June 1982 but are still waiting to begin negotiations.

17. There has recently been growing private and Parliamentary pressure on HMG to seek an early settlement.

18. The Secretary of State raised the issue with Foreign Minister Wu Xueqian in April 1984. Wu said that the claims

/were

were under study but that the Chinese could not entertain any pre-1949 claims. He added that China was preparing a list of counter-claims.

e) Air Services

The Joint Declaration

19. The Joint Declaration provides for Hong Kong to remain a major centre of regional and international air services and for airlines and other civil aviation businesses to continue operating. The Hong Kong SAR will maintain its own aircraft register and be responsible for technical management of air traffic services, the management of airports and similar matters. After 1997, the Hong Kong SAR government will, under delegated authority from Peking, negotiate traffic rights for Hong Kong-based airlines to operate services between Hong Kong and foreign points and for foreign airlines to operate services to Hong Kong. The Chinese government, however, in consultation with the Hong Kong SAR government, will be responsible for arranging for SAR and China-based airlines to provide services between Hong Kong and other points in China; and for negotiating air service agreements with foreign governments where routes serve another point in China as well as Hong Kong.

20. The Hong Kong government regard these provisions as an adequate basis for the maintenance of satisfactory air services to and from Hong Kong after 1997. Cathay Pacific believe they will enable it to maintain its position as the Hong Kong flag carrier.

Air Services Arrangements

21. * The Chinese insisted there be no reference to Hong Kong in the 1979 bilateral air services agreement. This provides for the designated airline of each country to operate services between London and Peking. Provision was also made in confidential memoranda of understanding for British Airways temporarily to serve Hong Kong on its London-Peking service (without being allowed to carry Hong Kong-Peking traffic) and for services between Hong Kong and

/various

various Chinese points to be operated by a Chinese airline and a Hong Kong-based airline (other than one serving London). The Hong Kong-based airline would not be allowed to serve Peking while BA routed its London-Peking services over Hong Kong.

22. The arrangements for Hong Kong-China services are heavily weighted in China's favour and became even more unfavourable to us when Cathay began services to London. The Chinese have allowed Cathay to serve Shanghai twice a week but have refused to let it serve Peking. They have, however, allowed BA to carry Hong Kong-Peking traffic on its weekly London-Peking service. On the other hand, they now operate nearly 50 weekly services between various Chinese points and Hong Kong. They also operate charter flights in fairly large numbers.

23. Following agreement on the future of Hong Kong, it now seems appropriate to seek a more balanced pattern of services. In order to provide continuity of British services between Hong Kong and Peking we have agreed that BA may negotiate a twelve-month extension of their agreement with the Chinese under which they carry Hong Kong-Peking traffic on their London-Peking service. (So far the Chinese have agreed to a two-month extension of BA's rights on the Hong Kong-Peking route and to receive a BA negotiator in January 1985 to discuss future arrangements). During these twelve months, however, we hope that the Chinese will be prepared to discuss arrangements for Cathay to serve Peking (in which case we should be prepared if necessary to require BA to use different intermediate points on its London-Peking service) and to obtain a fairer share of the services between Hong Kong and Chinese points.

f) UN Law of the Sea Convention

The Convention

24. The Convention was opened for signature on 10 December 1982. There are 138 signatories, including four non-state entities. It will come into force one year after 60 ratifications or accessions; there have so far been 14 ratifications. The final date for signature was 9 December 1984. The Convention remains open for

accession by states after that date.

UK Policy

25. HMG accepts that there is much in the Convention which is valuable but cannot accept the regime for the mining of poly-metallic nodules from the deep seabed. We decided not to sign the Convention but did not stand in the way of signature by the Community whose competence is limited as regards the Convention. This was announced in Parliament on 6 December.

China and the Convention

26. China has been a strong supporter of the Convention on general North/South grounds. However it is interested in deep seabed mining and might eventually seek pioneer investor status.



CONFIDENTIAL

BRIEF NO 7

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

CHINA

TRADE : BACKGROUND NOTE

1 Trade

UK trade with China is small:

£ million	1982	1983	1984 (Jan-Oct)
UK exports to China:	103	160	<u>271*</u>
UK imports from China:	193	<u>231</u>	<u>239</u>

*includes an exceptional item: £82 million of silver shipped in June 1984

These are UK trade figures: Chinese trade figures differ widely from those of her western trading partners, eg in 1983 China's customs statistics showed overall UK-China trade about twice as large as the UK figures, with only a small balance in China's favour. Further trade figures at Annex 1.

Main UK exports to China are machinery, chemicals, scientific instruments. Main imports are textiles and clothing, foodstuffs, other agricultural and light industrial products. Japan accounts for about 46% of OECD exports to China and the USA for 18%. The Federal Republic of Germany (FRG) is the most successful European exporter to China with 9% of the OECD total: exports in 1983 were \$1080 million, over four times greater than Britain's.

2 Chinese Economic Plans

China has great natural energy and mineral resources and steadily improving agricultural productivity. However, the development of infrastructure and industry is still backward and average output per head is very low. China has announced the target of quadrupling output from industry and agriculture over the last 20 years of this century. High priority is placed on the development of infrastructure (especially energy, transport and



communications) and on the modernisation of industry, agriculture and defence. These are therefore the areas offering best prospects for increasing UK exports. The search for offshore oil, in which BP and other UK oil companies are taking a leading part, offers opportunities for the UK offshore supply industry.

Economic reforms announced in October 1984 aim at re-invigorating China's urban economy by reducing the extent to which the State attempts to control the economy in detail and by allowing market forces to operate to a greater extent within the framework of the overall economic plan. In international trade, China aims to continue to promote exports while confining imports to essential items of plant and machinery not produced in China. Efforts are being made to attract foreign investment into joint ventures in China and to acquire foreign technology through licensing agreements. Fourteen coastal cities were recently identified as priority centres for foreign investment, but inland areas, and the four coastal 'special economic zones' in South China remain eager to attract foreign capital and know-how. Chinese leaders frequently emphasise China's commitment to maintaining what China calls the 'open door' policy of encouraging contacts with the West. China's foreign exchange reserves have increased very rapidly in the past two years and have been reported to exceed \$20 billion.

3 UK-China Trade Prospects

Despite her healthy foreign exchange position China retains a cautious attitude to borrowing at commercial rates, and in the long term the constraints on the rate of growth of China's exports will limit her ability to finance a rapid growth of imports. China is a difficult and expensive market for the businessman (a point of which it would be useful to remind the Chinese if the opportunity arises). For example it is prohibitively expensive for all but the largest companies to have an office in China and hotel accommodation for the visitor is scarce.

There is room for improvement in the British share of the Chinese market but, for most UK companies, other export markets are likely to prove more rewarding than China.

4 Trade Related Visits to and From China

Mr Alick Buchanan Smith (Minister of State for Energy) visited China in early December for talks about energy related trade and to attend a British offshore oil seminar (see below). Recent visitors from China have included the Governors of Sichuan and Guangdong Provinces and the President of China International Economic Consultants, Mr Jing Shuping. The last two named had meetings with the Prime Minister. The Chinese Minister of



Astronautics, Mr Zhang Jun, is to visit Britain in late January to sign a Memorandum of Understanding on space co-operation with the Minister of State for Industry and Information Technology (Mr Pattie).

5 Proposed Mission Led by Lord Young

Since the time available for trade talks on this visit is limited, the Prime Minister has agreed to put to the Chinese the proposal that Lord Young, Minister without Portfolio, should lead a small, high level mission of businessmen to China early in 1985. If possible, early March would suit us best.

6 Guangdong Nuclear Project

A separate background note is annexed (Annex 2).

7 Priority Trade Sectors

Sectors offering best prospects for increased UK/China trade include:

- (a) Offshore oil and gas. British companies have acquired great expertise in both exploration and development from our own North Sea Oil experience. This experience is relevant to China's plans to develop her own offshore oil and gas supplies. The Minister of State for Energy, Mr Buchanan Smith, recently visited China for talks an important technical seminar given by a number of the leading British companies. The China National Offshore Oil Corporation plans to open an office in London next year. BP and other UK oil companies are continuing to play a leading role in China's offshore exploration programme.
- (b) In coal mining, Shell Coal International are co-operating with China on a major feasibility study on a new coal mine development in Shandong Province: the Jining (pron JEE NING) No 2 mine; while the National Coal Board, with British Government financial support, are carrying out a consultancy on a coal mine modernisation project (the Tangshan mine, in the Kailuan area, in Hebei (pron HER BAY) Province east of Peking).
- (c) Aerospace (NB British Embassy Peking should be asked to advise in latest developments in talks on a possible BAe 146 sale, now in progress in Peking). BAE completed a successful demonstration tour of China by the 146 in August. A BAE negotiating team now in Peking has made a final offer on price, which the Chinese are considering. Order would be



for 10 aircraft, total contract price approximately \$180 million. The 146 is an 82 - seat feeder liner. Airbus. An initial order by the Chinese for 3 A310 Airbus aircraft is being discussed, as is the possibility of co-operation with China in the manufacture of components for the A320. M. Mitterand and Mr Kohl have supported this product on their visits to Peking.

- (d) Thermal power stations. The UK's strength in this area is illustrated by the successful operation of British equipment in the Castle Peak power stations in Hong Kong and in many other places world wide. There should be good prospects for co-operation with China in this sector since coal-fired power generation will play a major part in China's energy plans.
- (e) Discussions are under way about many other projects including aluminium smelters, road, railway and airport developments, defence projects and others. A note on some of the most important of these is attached (Annex 3).
- (f) Float glass. Pilkingtons have asked that the Prime Minister should if possible express support for their joint venture with China to build a float glass factory in Shanghai. They want to ensure that procurement for this is included in the 1985 plan. Otherwise materials will be late and the whole project (very important to China and Britain) could be set back.
- (g) Rolls Royce are discussing a major contract for electricity generating sets and a joint venture for the manufacture of industrial and marine engines, based on the Spey Factory already established at Xi An.
- (h) There are a range of opportunities in telecommunications. Cable and Wireless are already co-operating successfully in telecommunications services in South China. The Prime Minister attended the signature of one of their Joint Venture agreements.

8 COCOM

Exports to China of certain strategically sensitive goods and technologies are subject to control by COCOM countries (NATO, less Iceland and Spain, plus Japan). China has been on the list of proscribed destinations since COCOM was founded. Currently the controls are applied more flexibly to China than before, and the UK is ready and willing to sell a wide range of sophisticated equipment including defence equipment to assist in the modernisation of Chinese industry and armed forces. The list of countries to which COCOM's controls apply and the details of such



controls are kept under regular review but changes require the unanimous agreement of member countries. There is no early prospect of China's removal from the list of proscribed destinations.

9 PL4 Air to air Missile (AAM) Project

The PLA Air Force are extremely keen to acquire a sophisticated AAM (their PL4 programme) and to this end their main procurement organisation - the China National Aero Technology Import and Export Corporation (CATIC) - has made several approaches to UK manufacturers involved in this field.

Security objections preclude the release of the fuze manufactured by Thorn EMI or of any technology relating to its design. CATIC have made several attempts to get the decision on the fuze reversed; including representations to the Minister (Defence Procurement). MOD's view remains that the fuze cannot be released. CATIC have made no secret of their disappointment at this attitude. They have approached French and US sources with a similar mission; reportedly to no better effect. If the Chinese raise this (which we think unlikely, since they have given no warning that they will) the Prime Minister should point out that national security considerations preclude the supply of the fuze for the AAM or of any technology relating to it. British industry is however prepared to consider proposals for the development of a fuze specifically for China. As far as general defence topics are concerned HMG remains keen to assist where possible.

10 China and the GATT

China was granted observer status to GATT in November, and is duly expected to seek full membership. China may seek to re-occupy the seat held by the pre-1949 Government, rather than negotiating new terms. Accession to GATT by a state-trading (and developing) country of China's size could impose significant strains on the open trading system and create an uncomfortable precedent should the Soviet Union seek to join. These disadvantages are not insuperable and there are compelling political reasons in favour. This argues for securing satisfactory new terms of accession properly reflecting China's status as a major non-market economy. Accession is a matter for GATT as a whole. The Community speaks with one voice there and we shall have to concert our position with other Member States.

11 Aid/Soft Credit

A modest technical co-operation programme with China was started in 1983; £2 million a year is currently allocated to this programme and is used to pay for English language teaching,



training of Chinese students in Britain and consultancy advice to the Chinese by British consultants. Britain has no capital aid programme for China. There is a strong case for capital aid to China both on developmental and commercial grounds but there are competing claims on the aid budget. An early capital aid programme would give China a clear signal of HMG's wish to take the political opportunity for closer relations afforded by the Hong Kong agreement and would not only improve the bilateral atmosphere generally and manifest our wish to increase trade but would also provide the best possible background for implementation of the agreement. The options for using perhaps £5M of the small amount of money still unallocated for 1985/86 are to be considered by the Foreign Secretary in January and the relative importance of China will have to be assessed in that context. As a Communist country, China is also - strictly speaking - ineligible for aid-trade provision (ATP) finance. However the possibility of ATP funding for China could be re-considered, subject to Ministerial agreement, if a suitable project were identified.

China is eligible for the full range of normal ECGD credit insurance facilities on Consensus terms (interest rate currently 10.7%). The Chinese say these terms are unattractive and frequently ask about softer credit. They have had soft loans from a number of countries including Japan, which has provided massive loans for the development of energy, transport and industry but also from several European countries including Belgium, The Netherlands, Denmark, Sweden, Italy and (most recently) the Federal Republic of Germany; during Chancellor Kohl's recent visit, the FRG promised China soft loans for capital projects in addition to the successful FRG technical co-operation programme already under way.

On the advice of the Export Guarantees Advisory Council, ECGD has recently re-graded China from Category B to Category A (the lowest risk category for assessing credit insurance premium). This will make a significant difference to the premium payable for the Guangdong nuclear project and improve the competitiveness of the UK bid for that project. The improvement will also apply to other business insured by ECGD.

12 Import Restrictions

Chinese exports to the EEC of textiles are restrained under the EC/China Textile Agreement. Certain other Chinese products are also subject to quotas. The UK has quotas for shoes, hats, gloves, pottery, matches, silk and certain flax items. Other Chinese products such as TV sets are not allowed to be imported into the UK at all. The EC/China Trade and Economic Co-operation Agreement (recently renewed) obliges the EEC to strive to reduce restrictions on imports from China. For 1985 the EEC has decided to increase UK import quotas for Chinese pottery by 5% from



£785,000 to £825,000 and we are also proposing, if the Chinese will agree to implement the necessary administrative procedures, to liberalise imports of a type of silk known as tussah. As regards flax it is proposed to increase household items by $\frac{1}{2}$ tonne (new total of 2.5 tonnes) and various items of clothing by 2 tonnes (new total 8 tonnes).

The Chinese did not request quota increases for other items.

13 UK/China Agreements

- (a) The UK/China Economic Co-operation Agreement (signed in 1979) expires at the end of 1985 and we have undertaken to give China proposals for a new agreement to take its place.
- (b) Under the UK/China Science and Technology Agreement there are regular exchanges of scientific and technical visits.
- (c) A UK/China Double Taxation Agreement was signed in July 1984 and comes into force on 23 December 1984.

14 A Possible UK/China Joint Commission

Most of China's other major Western trading partners have arrangements for a bilateral "Joint Commission" or similar body, meeting regularly, usually once a year, to review trade. Britain does not have a Joint Commission with China but the possibility of proposing one to the Chinese has been considered from time to time in recent years. The conclusion has always been that although the proposal has political attractions, the benefits in commercial terms would not be sufficient to justify the considerable staff, travel and other costs that would be involved particularly for the Department of Trade and Industry. The Prime Minister is therefore advised not to raise this with the Chinese. We would not expect the Chinese to raise it with her, since they have made clear in the past that they think any initiative in this matter should come from the British side. If the Chinese should, unexpectedly, put this proposal forward we would need to consider our response carefully.

15 Defence Sales

There are various prospects in defence sales including a \$30 million defence electronics contract for which RACAL are negotiating, and it would be worth mentioning in a general way our interest in co-operation in this field, but there are no individual projects which the Prime Minister need raise.

CHINA'S FOREIGN TRADE 1979 - 1983

(US Dollars billion)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
TOTAL	29.4	37.6	43.0	40.8	43.9
Exports(fob)	13.7	18.2	21.49	21.9	22.4
Imports(cif)	15.7	19.4	21.5	18.9	21.5
Balance	<u>-2.0</u>	<u>-1.2</u>	<u>-0.01</u>	<u>+3.0</u>	<u>+0.9</u>

Source: State Statistical Bureau

UK/CHINA TRADE FIGURES
£ Million

	<u>Total Trade</u>	<u>UK Exports</u>	<u>UK Imports</u>	<u>Balance</u>
1976	153	68	85	-17
1977	167	63	104	-41
1978	202	91	111	-19
1979	351	213	138	+75
1980	322	169	153	+16
1981	298	120	184	-64
1982	296	103	193	-90
1983	391	160	231	-71
1984 (Jan - Sept)	452	245*	207	+38

FOOTNOTE

*Total includes a "one-off" shipment of silver valued at £82.6 million made in June 1984

GUANGDONG NUCLEAR PROJECT

1. The Prime Minister is familiar with this project to build a 2 x 950 MW Pressurised Water Reactor nuclear power station in Guangdong Province, and the Minister for Trade Mr Channon reported the latest position to her on 20 November before the Anglo-French summit.

Joint Venture agreement

2. Progress has been delayed on the formation of the joint venture customer by the concern of Exxon Corporation, who have a 60 per cent shareholding in CLP's main power stations, that CLP's agreement to take power from the Guangdong station could prejudice its own investment. In the face of Chinese unwillingness to compromise on the amount of power to be taken, the problem had to be sorted out internally between CLP and Exxon. A formula was agreed in early November, since when there has been good progress between CLP and the Chinese towards agreeing the terms of the Joint Venture. But resolution of the dispute with Exxon required considerable effort by Lord Kadoorie in particular, and it would be helpful if the Prime Minister could confirm to the Chinese CLP's commitment to the project.

3. The Chinese at one stage suggested that the Joint Venture agreement might be signed during the Prime Minister's visit. However, there is still considerable detail to be negotiated; moreover the approval of the Executive Council in Hong Kong is required, and EXCO is not due to consider the agreements until 3 January. The Chinese have been told that signature during the visit would be difficult and have said that they would not wish to press the point.

Timetable for Negotiations/Expiry of Finance Offer

4. In an attempt to hasten negotiations, both we and the French told the Chinese last September that the 9½ per cent interest rate in our offer could not be held beyond 15 January when the Consensus rate is due to be reviewed. But there is no reasonable prospect of signing contracts by then, nor have the Chinese proposed a clear timetable for future negotiations. We are currently discussing with the French how we can extract maximum leverage from the 15 January deadline, and are due to see a delegation from Bank of China before Christmas. The brief suggests that if the Prime Minister is pressed to extend further the 9½ per cent rate, she should simply take note of the request and make no commitment. It may be necessary to amend this if the position changes as a result of our discussions with the French or Bank of China.

Credit Premium

5. The Chinese are aware that the French have recently up-graded China to their best risk category for credit premium purposes. In November ECGD also decided to up-grade China from its category B to category A. The Chinese have previously expressed concern at the size of the (grade B) British premium compared with the French on the Guangdong project. The brief recommends that the Prime Minister inform the Chinese Premier of our decision to regrade China, but this should be coupled with a clear statement that there can be no negotiation on premium level for Guangdong beyond this. This caveat is important because even with an A grade premium, the amount of our credit premium will be proportionately higher than that of the French. We wish to resist Chinese pressure in negotiation to match French levels, which could be very costly.

CHINA - TRADE WITH SELECTED COUNTRIES
(£m)

		1978	1979	1980	1981	1982	1983	1984	SOURCES:
AUSTRIA	Exports	29	36	37	23	32	27		Austria Der Außenhandel Österreichs
	Imports	15	15	14	21	17	21		
	Balance	+14	+21	+23	+2	+15	+6		
BELG/LUX	Exports	106	615	45	57	119	141		Belg/Lux Bulletin Mensuel Du Commerce Extérieur
	Imports	232	361	87	85	78	74		
	Balance	-126	+254	-42	-28	+41	+67		
1) CANADA	Exports	230	239	320	414	571	861 *		Canada Imports & Exports by Commodities
	Imports	432	674	56	90	94	131		
	Balance	-202	-435	+264	+324	+477	+730		
2) FRANCE	Exports	103	160	130	135	197	291 *		France OECD Series "A" Statistics of Foreign Trade
	Imports	117	154	201	250	249	284		
	Balance	+14	+6	-71	-115	-52	+7		
3) HONG KONG	Exports	9	57	138	258	1,113	1,633 *		Hong Kong Monthly Trade Statistics
	Imports	1,172	1,422	1,892	2,609	3,107	3,798		
	Balance	-1,163	-1,365	-1,754	-2,351	-1,994	-2,165		
4) ITALY	Exports	98	131	110	159	120	175 *		Italy OECD Series "A" Statistics of Foreign Trade
	Imports	104	186	188	197	243	274		
	Balance	-6	-55	-78	-38	-123	-99		
5) JAPAN	Exports	1,569	1,725	2,169	2,505	2,004	3,244 *		Japan Monthly Return of Foreign Trade. Figures for 1983 OECD Series "A" Statistics of Foreign Trade.
	Imports	1,054	1,390	1,859	2,630	3,049	3,359		
	Balance	+515	+335	+310	-125	1,045	-115		
NETHERLANDS	Exports	68	753	64	47	38	87		Netherlands Handstatistiek Van de Buiten- landse Handel Per Land
	Imports	65	737	118	121	110	118		
	Balance	+3	+16	-54	-74	-72	-31		
SWEDEN	Exports	43	535	35	33	34	75		Sweden Utrikeshandel Manadstatistik
	Imports	29	371	46	49	50	52		
	Balance	+14	+164	-11	-16	-16	+23		
SWITZERLAND	Exports	49	560	60	61	74	82		Switzerland Statistiques Du Commerce Extérieur Du La France (Trimestriels)
	Imports	26	257	33	39	41	49		
	Balance	+23	+303	+27	+22	+33	+33		
UK	Exports	91	213	169	120	130	160		UK Overseas Trade Statistics
	Imports	110	138	153	184	193	231		
	Balance	-19	+75	+16	-64	-63	-71		
6) USA	Exports	429	813	1,614	1,776	1,963	1,443 *		USA US Highlights FT90
	Imports	169	279	455	934	1,304	1,480		
	Balance	+260	+534	+1,159	+842	+659	-47		
7) WEST GERMANY	Exports	516	704	491	501	487	709 *		West Germany OECD Series "A" Statistics of Foreign Trade
	Imports	190	252	347	579	401	506		
	Balance	+326	+452	+144	+122	+86	+203		

* 1) More than half of which is cereal(wheat)

* 2) A third of which consists of food and livestock chiefly for food

* 3) Almost a third of which consists of food and livestock chiefly for food

* 4) Over a third of which are chemicals

* 5) Over a third of which is iron and steel

* 6) Approx a fifth of which is cereal, as is chemicals

* 7) Almost a third of which consists of machinery for specialised industries/
power generation/transport etc.

*Based on the figures for 1983 only

MAJOR PROJECTS - CHINA

BACKGROUND BRIEFING

HONG KONG TO CANTON HIGHWAY

A British group led by Trafalgar House has offered a free (DTI supported) project definition study to Hopewell Holdings (a HK development company), who, together with the Chinese, are jointly funding a project worth HK\$8 billion to construct a super-highway between Hong Kong and Canton. Trafalgar House appear to be well placed for the bridging element in stage II of the project; which is likely to start soon.

SHENZHEN/CANTON RAILWAY (GUANGDONG PROVINCE)

A number of UK companies are interested in the third phase of a project worth £130m (UK content £65m) to upgrade the Shenzhen/Canton rail track. Japanese, French and German competition is strong and a key factor for UK chances will be the extent to which British companies can concert their efforts.

SHENZHEN AIRPORT

The Chinese are proposing to build a new airport within the Shenzhen Special Economic Zone (in Guangdong Province) on the borders of China and Hong Kong. The total cost of the project is estimated at £200m with a potential UK content of £80m. British Airports International (BAI) is pursuing the opportunity on a turnkey basis with a view to entering into a Joint Venture with the Chinese to participate in the design, construction and operation of the airport.

PINGGUO ALUMINIUM PROJECT

Wimpey Major Projects Limited (WMPL) are pursuing a feasibility study for a turnkey contract to build an aluminium complex (worth £484m with a UK content of £185m) at Pingguo in the Province of Guangxi.



CHINAL ALUMINIUM COMPLEX

The London Consortium (comprising Clivia House Ltd, Hawker Siddeley, Balfour Beatty, Seltrust Engineering and Ferrostaal AG), are seeking Chinese approval for a joint venture with a Hong Kong-based company to build a gas fired aluminium smelter/alumina refinery complex on Hainan Island, Province of Guangdong. Estimated cost is £1 billion with UK content £500m.

BEIJING SUBWAY

Chinese officials recently asked Balfour Beatty as representatives of the UK Metrotec group whether they could help in modernising the Beijing Subway. Initially conversion of the present third rail electric system to an overhead system is contemplated. Extensions of the network could follow. Metrotec envisage a design study worth some £3-5 million which may well lead to further UK involvement.

ROYAL MINT

The Royal Mint is currently negotiating with the China Mint Company (a subsidiary of the People's Bank of China) to advise on the construction of a new Mint and for the supply of plated coin blanks or plating technology. Further discussions will be held when the Mint's commercial director visits China in January.



ADDITIONAL ENERGY BRIEFING

Oil and Gas

Offshore:

1. Recognition by Chinese that UK as a result of N Sea experience has most advanced offshore technologies.
2. Exploration: UK companies in China
BP
Shell (in participation with Esso)
Tricentrol
Cluff Oil
3. UK service companies active in exploration
Star Offshore Services Ltd (supply boats)
Houlder Offshore Ltd (drilling)
Racal-Decca Survey Ltd (communications)
BA Helicopters
Bristow Helicopters
Expo Technical Services Ltd
Cable and Wireless (communications)
Jardine Matheson
International Drilling Fluids Ltd
4. A highly successful well attended UK offshore oil seminar has just been held in Peking, Canton and Shanghai. UK Companies participating:
Atlantic Drilling Company Ltd (drilling)
BP Exploration Ltd
Matthew Hall plc (engineering design)
Humphreys and Glasgow Ltd (engineering design)
John Brown Engineers and Constructors ltd (engineering design)
Rolls Royce Ltd
Cleveland Redpath Offshore Ltd (fabrication)
Balfour Kilpatrick Ltd
British Underwater Engineering Ltd

Seminar opened in Peking by Minister of State for Energy who also participated in Canton.
5. The only commercial offshore discovery is of gas (by ARCO, US company) near Hainan Island. Chinese uncertain how to utilise this but considering pipeline to Canton.

British expertise in the design, safety and efficient construction of this and other pipelines second to none. Elsewhere in China British Gas are finalising a contract for the design of a 390km gas pipeline. We must make a real pitch for the Hainan gas work.



Onshore

Possible participation of UK companies suggested to Minister of State during his visit. This a new development worth following. BP very interested - but need to be offered acreage with good prospects.

Coal

1. UK mining equipment operating successfully in China:

Anderson Strathclyde
Gullick Dobson

UK Longwall mining equipment a world leader.
2. Shell Coal International to carry out a £20m full feasibility study into a £200m project to develop the Jining ("Jeening") coal mine in Shangdong Province.
3. NCB undertaking study to improve production at the Tangshan Mine in Kailuan. Strong indication that work on this mine would also be extended to whole field: deserves vigorous support.

Coal Gasifications

1. British Gas have developed a new technology at Westfield in Fife. This had been visited by a number of Chinese, including Minister for Coal in April 1984.
2. British Gas currently carrying out tests at Westfield on Chinese coal.
3. Rolls Royce and British Gas following up enquiry for integrated gasification combined cycle plant for electricity generation.

Power Generation

1. Success of UK equipment at Castle Peak, Hong Kong, GEC and Balfour Beatty (transmission).
2. GEC participation in Guangdong project. Interest also of firms like Balfour Beatty in transmission etc.
3. UK experienced in conventional electricity generation. Drax B - the largest coal fired power station in W Europe (2,000mw) currently under construction, main contractors NEI, supported by GEC and Babcocks.

Energy Efficiency

1. Visit to UK by Vice Chairman of State Planning Commission in September.
2. UK team from Energy Efficiency Office of Department of Energy to visit China early in 1985.
3. Strong interest expressed by Chinese during Minister of State for Energy's visit.



List of Energy Visits to UK

September 1983 Tang Ke, Minister of Petroleum

December 1983 You Dehau, Vice President of China National Offshore Oil Corporation

April 1984 Gao Yangwen, Minister of Coal

September 1984 Zhang Shou, Vice Chairman, State Planning Commission (to study energy conservation)

INDUSTRIAL VISITS IN BRITAIN BY SENIOR CHINESE VISITORS

- November 1982 Li Peng (then Vice-Minister of Water Resources and Electric Power, now Vice-Premier)
Visit to Dinorwic pumped storage plant and other power stations
- March 1983 Li Peng
Visit to Castle Peak power Station, Hong Kong
- March 1983 Mme Chen Muhua (Minister for Foreign Economic Relations and Trade)
Visit to Pilkingtons (float glass manufacture - see Brief No 7, Annex 3)
- September 1983 Tang Ke (Minister for Petroleum)
Visit to Fulmer and Forties production platforms
- April 1984 Gao Yangwen (Minister for Coal Industry)
Visit to British Gas Corporation Westfield Development Centre, Fife (coal gasifier)
Visit to Gullick Dobson Works (mining equipment)
- October 1984 Yang Xizong, Governor of Sichuan Province.
Visit to Thames Barrier
- November 1984 Liang Lingguang, Governor of Guangdong
visit to Sullom Voe oil terminal and Magnus platform.
Visit to British aluminium smelter, Dubai (model for Chinal project, Brief No 7, Annex 3)



Duty Desk Trip
BRIEF NO7

Addendum

PRIME MINISTER'S VISIT TO CHINA: SUPPLEMENT TO BRIEF NO 7: NOTES ON BRITISH INDUSTRIAL ACHIEVEMENTS

(NOTE: ACHIEVEMENTS IN ENERGY SECTOR COVERED SEPARATELY)

AEROSPACE

British Aerospace 146 4-engine airliner. World's quietest jet airliner. Most fuel efficient in its class. Operates from very short runways (eg 1220 metre runway at sea level). 42 aircraft sold already (customers include 4 US airlines) with options on 36 more. Highly successful demonstration tour of China in Summer 1984. Well suited to China's needs. Hope China will buy.

RAILWAYS

British firms were responsible for the construction of and equipment supply for the mass transit railway and Kowloon Canton railway projects in Hong Kong - Metro-Cammell supplied rolling stock. British companies able to cooperate with China in every aspect of railway modernisation eg signalling, electrification, metro construction.

SPACE

An initiative by Lloyds of London lay behind the recent rescue by US astronauts of two wayward satellites. British Aerospace provided the "space pallets" to which the satellites were secured for their safe return to earth. (Note: the actual rescue was much more a US than a British technological achievement). Ferranti provides the inertial navigation system for the European launch vehicle Ariane, steering the satellite into position so efficiently that considerable fuel savings are achieved, thereby extending the satellite's operational life.

GLASS

Pilkington Bros (St Helens) are the recognised world leaders in glass technology and have entered into a joint venture and licensing agreement to build a float glass factory in Shanghai. Madame Chen Muhua, Minister of Foreign Economic Relations and Trade, visited Pilkingtons during her visit to Britain in March 1983. Pilkington's would like the Prime Minister to emphasise the importance of inclusion of procurement for the Shanghai project in China's 1985 plan to avoid possible delay.

ALUMINIUM SMELTERS

British companies built aluminium smelters in Bahrain and Dubai and are interested in 2 aluminium smelter projects in China (Guangxi and Guangdong Provinces). Governor of Guangdong Province visited Dubai smelter on the way back from his recent visit to Britain.

DEPARTMENT OF TRADE AND INDUSTRY

December 1984



PRIME MINISTER'S VISIT TO CHINA: SUPPLEMENT TO BRIEF NO 7: EXAMPLES OF COMPANIES PURSUING BUSINESS IN CHINA

Power Generation and Transmission

GEC	Rolls Royce
NEI	Balfour Beatty

Coal Mining

Shell Coal International	Anderson Strathclyde
National Coal Board	Dowty
Gullick Dobson	NEI

Transport

British Aerospace (BAe 146)
 Trafalgar House (HK-Canton highway)
 British Airports International (study on Shenzhen airport)
 Balfour Beatty (possible Peking metro design study)
 Simon Engineering (port equipment)
 Aveling Barford (sale of dump trucks)
 British Airways (sale of 2nd hand Tridents, co-operation in maintenance etc)

Telecommunications and Information Technology

Cable and Wireless	Racal
STC	Ferranti
	GEC

Industry modernisation

Simon Engineering (eg food processing)
 Pilkington (float glass factory)
 Molins (tobacco machinery)
 Royal Mint (consultancy advice on a new mint)

Offshore and Onshore Oil and Gas

BP	British Gas Corporation	Matthew Hall
Shell	Rolls Royce	John Brown
	Humphreys and Glasgow	Cleveland Redpath

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

CHINA INTERNAL: SUPPLEMENTARY BRIEF ON RECENT DEVELOPMENTS

Extract from Peking Telegram No 2917 of 7 December

A Political

1. Deng Xiaoping is China's unchallenged leader. Together with Hu Yaobang and Zhao Ziyang, he has been successful in moving his supporters into most key party and Government positions at the centre. His policies enjoy widespread popular support. But in the party as a whole he has neutralised rather than removed opposition to the new orientation.
2. Attempts to replace some old conservatives on the Central Committee by younger and more reformist candidates have been thwarted in the past two years. Party rectification, whose avowed aim was to get rid of leftists who rose to power during the Cultural Revolution is going badly. A member's performance since 1978 will be the main criterion for registration, a process all party members are now undergoing. This effectively grants an amnesty to all misdeeds during the Cultural Revolution. Less than 0.1% of party members are in fact likely to lose their registration. While there is no single figure or pole around which the opposition is formed, centres of resistance are in the People's Liberation Army (PLA) (which appears to have successfully resisted Hu Yaobang's replacing Deng Xiaoping as Chairman of the Party Military Commission this summer) and in some provinces (eg Hunan and Guangxi). More generally there is a widespread lack of eagerness among lower-level party members to implement the new policies, which put a premium on knowledge. A great many of them joined the party during the Cultural Revolution and they now fear that their lack of education will put their jobs in jeopardy. Only 4 per cent of party members have been to university.
3. The longer Deng remains, the more likely that his philosophy and policies can root themselves firmly for the future. But it would

/not

not be realistic to expect his successors to enjoy his authority and, once he has gone, there may have to be greater trimming to meet the views of both ideological and bureaucratic opponents. But if the general direction can be maintained, and success in the individual reforms now under way would greatly strengthen this possibility, the Chinese people can look forward to a far more prosperous and stable future than seemed likely six years ago.

B Economic

4. China's National Income (net output value of industry, agriculture, construction, transport and Commerce) grew by 9% in 1983. Premier Zhao has predicted growth of 12.5 % in 1984. Early prediction for this year's grain harvest is for 400 million tonnes. This compared with 300 million tonnes in 1978. Another bumper cotton harvest is also predicted. Gross industrial output value is likely to grow by 12-13%. As in the past, however, growth in the energy and transport sectors is lagging well behind overall growth (these two sectors may record growth of 6-8 %). These remain the priority areas for development.

5. The leadership's agriculture policies have been extremely successful. China can now adequately feed and clothe her people. Land, formerly farmed collectively, is now generally contracted out to individual households for 15 years in the case of crop land and 30-50 years in the case of pastures and forests. Peasants may hire labour and are free to consume or market all of their production surplus to what they contract to produce for the state. Specialised production is now being encouraged, as is the accumulation of land for mechanised farming in the hands of the more successful farmers. While land may not be sold it can be transferred for a proportion of the crops raised during the contract period. With labour thus being released from the land, many rural industries are springing up. The policy of the Government is to absorb this labour in the growing rural towns rather than allowing influxed into China's cities. These agricultural policies are popular and it is hard to see a future leadership being able to reverse them to any significant extent.

6. In industry the situation is more complex. The practice of the "iron rice bowl" (ie a guaranteed job for life, regardless of performance) still persists. Bonuses introduced in the past six years to reward hard work have too often become regular supplements to the pay of all workers in an enterprise. Products are generally backward and imbalances in production and wastage enormous. Other serious problems include lack of skilled knowledge which seriously hinders attempts to modernise plant, and energy shortages which probably mean that on any one day 20% of Chinese industry is lying idle. Urban unemployment is claimed to be only 2-3%, but is probably nearer 10%.

7. The leadership is now in the process of instituting far-ranging reforms in the following areas:

- a) Enterprise Reform. In the past all industrial enterprises have been rigidly controlled in all their operations by government departments rather than by their own managements. Within broad plans set by the departments, managers are now being given responsibility for their own production, for the supply and marketing of products surplus to their plan, and for profits and losses. They may within general guidelines budget their own funds and, once themselves appointed from above, may independently hire and fire labour (although the latter remains mostly in the realm of theory). They can set prices on products they produce which are surplus to their plan within a band of 20% above and below state prices;
- b) Fiscal Reform. Previously all enterprises handed over their entire product to the state. Now a tax system has been introduced. This consists of a basic "income" tax (corporation tax) of 55% and various other national and local taxes. In practice many enterprises retain some 15% of their profits for their own use;
- c) Reform of the Planning System. In October measures were announced by which the number of industrial products for which output targets are set by the state was cut from 120 to 60 and the number of agricultural products from 29 to 10. But these products, which will remain subject to "mandatory" planning, still account for the bulk of the economy. "Guidance" planning with flexible prices for products subject to it will apply to non-main line items. The

free market is still restricted to certain agricultural products and to the repair and service trades. While the partial relaxation of planning controls can only benefit the economy, the Central Committee made clear in its October decision that the economy will "on the whole remain a planned rather than a market economy". Deng, Hu and Zhao probably wanted a greater relaxation, but the views of Chen Yun, the Chief Planner of the 1950s and now a member of the Politburo's Standing Committee, still carry great weight. He is known to favour the "caged bird economy" (ie limited freedom within tight confines).

d) Wage Reform. The October decision contained the statement that in future measures would be taken better to link wages and bonuses with good performance and to raise remuneration for mental work. But it added that demands for consumption in excess of the capacity of production were incorrect. These guidelines remain to be converted into practice.

e) Price Reform. The October decision recognised the present pricing system as irrational and stated that it must be reformed. Approximately 1/3 of government income goes on subsidies (the bulk to agriculture products). The decision announced that the scope of uniform prices set by the state should be gradually reduced and that of floating and free prices proportionately enlarged. But, given the social consequences the decision stated that reform must be conducted in an extremely prudent manner. Reform of the pricing system is recognised as the key to industrial reform and as related to all the other reforms but specific measures of reform, which cannot be put off much longer if urban economic reform as a whole is to succeed, have yet to materialise.

8. The "open door" policy has gone hand in hand with policies to "enliven" the internal economy. China's imports grew by 17.9% in value in 1983 and look likely to grow by a further 12-13 % in 1984. The trend could further accelerate in future years. We know that Premier Zhao has expressed the view that Europe's trade with China, at present 16% of the total, should be increased to some 30%. There is thus great potential for considerable growth in Sino-British trade.

9. At the same time as expanding her foreign trade, China is making considerable efforts to attract foreign investment, principally to her four Special Economic Zones and a further 14 recently opened port cities. While successful in this endeavour in the offshore oil sector she has been far less successful in the joint equity venture field where total investment from 1979-1983 was only 500 million dollars and the foreign partner in 130 out of 190 ventures was from Hong Kong. Disincentives to joint venture investment up to now have been exorbitant ground rents, lack of skilled workers, insufficiently attractive tax regime and lack of legal protection for investment. Little is being done to overcome the first problem and the solution to the second is long term. But new and more attractive tax regulations have just been introduced and China is now drawing up a Host of Economic Laws, as well as negotiating many Investment Protection and Double Taxation Agreements with Western countries, including the UK.

1. THE CHINESE HAVE NOW GIVEN US DETAILS OF THE PRIME
AND SECRETARY OF STATE'S PROGRAMME IN PEKING.
DETAILS ARE AS FOLLOWS:-

TUESDAY 18 DECEMBER

2020 ARRIVE PEKING. FOREIGN MINISTER WU XUEQIAN,
VICE FOREIGN MINISTER ZHOU NAN AND CHINESE AMBASSADOR
CHEN ZHAOYUAN AT AIRPORT TO GREET PRIME MINISTER
AND SECRETARY OF STATE. DIRECTOR OF PROTOCOL,
MFA (TANG LONGBIN) AND I EMBARK VC10 TO GREET
PRIME MINISTER AND SECRETARY OF STATE. PRIME
MINISTER, SECRETARY OF STATE AND LADY HOWE DISEMBARK.
PRESENTATION OF FLOWERS TO PRIME MINISTER AND LADY
HOWE.
LEAVE FOR DIAOYUTAI STATE GUESTHOUSE (CAR ORDER TO
FOLLOW)

2110 ARRIVE GUEST HOUSE VILLAS 11 AND 12
(APPROX)

2130 SUPPER AT DIAOYUTAI (IF REQUIRED) FOR DELEGATION
ONLY. (GRATEFUL FOR DECISION ON REQUIREMENT).

WEDNESDAY 19 DECEMBER

0730 BREAKFAST

0830 MAIN BODY OF DELEGATION LEAVES GUESTHOUSE FOR
GREAT HALL OF THE PEOPLE.

0850 PRIME MINISTER LEAVES GUESTHOUSE FOR GREAT HALL
OF THE PEOPLE.

0900 WELCOMING CEREMONY. (DETAILS PROMISED FOR 17 DECEMBER)

0915 COURTESY CALL ON ZHAO

0930 TALKS WITH ZHAO

1230 LUNCH WITH LI XIANNIAN AT THE DIAOYUTAI FOR 16.

1450 LEAVE GUESTHOUSE FOR ZHONGNANHAI

1500 MEETING WITH HU YAOSANG (NUMBERS TO BE NOTIFIED)

1550 LEAVE ZHONGNANHAI FOR GREAT HALL OF THE PEOPLE

1600 CALL ON DENG XIAOPING

(THE CHINESE HAVE NOT TOLD US HOW LONG THE CALL ON DENG WILL LAST. IF TIME REMAINS BETWEEN END OF CALL, AND SIGNING CEREMONY, PRIME MINISTER AND DELEGATION WILL BE CONDUCTED TO AN ANTE ROOM FOR THE INTERVAL)

1730 SIGNING CEREMONY. (DETAILS PROMISED FOR 17 DECEMBER)

1800 LEAVE GREAT HALL OF THE PEOPLE FOR GUESTHOUSE

1920 LEAVE GUESTHOUSE FOR GREAT HALL OF THE PEOPLE

1930 WELCOMING BANQUET
AFTER BANQUET

MEETING BETWEEN WU XUEQIAN AND SECRETARY OF STATE
(GREAT HALL OF THE PEOPLE)

THURSDAY 20 DECEMBER

0630 LUGGAGE CALL

0700 BREAKFAST

0800 FAREWELL CALL BY ZHAO IN VILLA 12

0815 LEAVE FOR AIRPORT

0900 DEPART PEKING (PARTY PROBABLY SEEN OFF BY WU XUEQIAN
AND ZHOU NAN)

BACKGROUND

I AVIATION DEALS

(a) Airbus

Airbus Industrie (20% BAC) last week signed an MOU with CAAC for five Airbus 310s. Contract negotiations in January. No public announcement yet.

(b) Short Brothers

Shorts also signed an MOU with CAAC last week for around 15 Shorts 360s (36 seater commuter aircraft - £45-50 m) Contract negotiations also in January. Also still unannounced.

(c) British Aerospace

BAe have been negotiating for several weeks to sell 10 BAe 146s (£ 150 m) following successful demonstration tour in July. On 18 December CAAC made clear that, though they still wanted the aircraft (for its special qualities for difficult conditions eg Tibet) the price remained a stumbling block. Negotiations were therefore broken off. BAe are extremely disappointed, after such long negotiations, and after previous cancellation in 1983 of the project for modernising Chinese warships. It is possible that intervention by the Prime Minister could still save the contract.

LINE TO TAKE

Delighted at MOUs for Airbus 310 and for Short Brothers' commuter aircraft.

Very much hope Premier Zhao can give equally good news on BAe 146. BAe long relationship with CAAC (Viscounts and Tridents). Price now offered very competitive, 10 aircraft reserved for early delivery to China. If CAAC delay decision, price certain to rise, delivery to slip.

/II DUMP TRUCKS

II DUMP TRUCKS

Aveling Barford

Major contracts in October/November (US \$ 11 m) for heavy dumptruck sales to Ministry of Railways. Further major technology transfer contract on 18 December for progressive local manufacture of 600 units (US \$ 60 m).

LINE TO TAKE

Delighted at success of this (newly privatised) UK company; good example of UK companies' readiness to transfer technology in right circumstances.

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

INTERNATIONAL ISSUES: BACKGROUND NOTES

a) Sino-Soviet relations

1. The Chinese continue to see the Soviet Union as the major threat to their security. They hold out little hope of early fundamental improvement in relations, but agreed in 1982 to hold regular talks at Deputy Foreign Minister level on normalisation of relations.
2. The fifth round of talks was held in Peking in October. There were no signs of Soviet movement on Chinese conditions for substantially improved relations (Soviet forces in Afghanistan; Vietnamese forces in Cambodia; Soviet troops and missiles near Sino/Soviet border).
3. High level exchanges are nevertheless increasing slowly. Foreign Ministers met at this year's UN General Assembly for the first time in 20 years. No new ground was covered but both sides agreed in principle to further meetings. A visit by First Deputy Prime Minister Arkhipov, originally scheduled for May, will now start on 21 December.
4. Economic and other exchanges are also growing though from a low base. A 60% increase in trade is planned for 1985, to \$1.2 billion. Scientific, cultural and sporting contacts are increasing. Arkhipov's visit should provide indications of how far this can continue without resolution of political differences. Discussions are likely to focus on economic cooperation, including Soviet assistance in modernising Chinese factories built to Soviet designs in the 1950s.

b) Indo-China

5. On 18 November Vietnamese forces in Cambodia attacked a large Cambodian camp, Nong Chan, on the Thai/Cambodian border causing some 20,000 civilians to flee into Thailand. This appeared to

/mark

mark the launching of the dry season offensive. The Secretary of State issued a statement on 23 November (Annex A) expressing great concern and calling on Vietnam to stop such actions.

6. Vietnam maintains some 160,000 troops in Cambodia, claiming this is a necessary security measure to counter the Chinese "threat". Although Peking supported Hanoi during the Vietnam War, relations deteriorated in 1978 when Vietnam expelled over a quarter of a million ethnic Chinese, and China cut off all aid. Vietnam's invasion of Cambodia in December 1978 provided the pretext for China's invading Vietnam in February 1979 as a "lesson". Since the installation of the pro-Vietnamese Heng Samrin regime in Phnom Penh, Peking has been the main backer of the resistance forces, channelling most of her aid through the Khmer Rouge.

7. China has continued to apply pressure on Vietnam's northern border in response to Vietnamese offensives in Cambodia. This year the pressure has been more prolonged and has included the occupation of high points inside Vietnam. But another Chinese invasion seems unlikely.

8. The Soviet Union's continued economic and military aid to Vietnam is estimated at around US\$1.2 billion per year. The Soviets have been granted access to bases in southern Vietnam, particularly at Cam Ranh Bay, where the deployment of Soviet military aircraft provides the Soviet Union with added strategic options in the area.

9. UK policy is to join ASEAN and Western countries in putting pressure on Vietnam to withdraw from Cambodia. In July 1979 the Prime Minister announced the end of British aid to Vietnam. The UK together with the majority of UN members supports the credentials of Democratic Kampuchea. We have co-sponsored ASEAN resolutions on Cambodia calling for a Vietnamese withdrawal and free elections. This year's was endorsed by 110 countries. Like China the UK supports the resistance coalition led by Prince Sihanouk, Son Sann (Khamer People's National Liberation Front) and Khieu Samphan (Khmer Rouge). But Pol Pot's continuing pre-eminence in the Khmer

/Rouge

Rouge is an embarrassment to us and others who otherwise support the coalition. Earlier this year the Chinese indicated that he and others in the Khmer Rouge leadership might be "retired", but more recently they have shown reluctance to make any changes which might make the resistance less effective.

10. This year the Vietnamese Foreign Minister, Co Thach, has put forward various proposals giving the impression that Hanoi's position on Cambodia was softening. These gave no indication that Vietnam intended to withdraw its troops and we see them as designed to distract attention from Vietnam's continuing occupation of Cambodia. China probably shares this view. But the Vietnamese no doubt realise that in the long run they will have to come to terms with China and that any Cambodia settlement would need tacit Chinese support. Hanoi will be aware too that an improvement in Sino-Soviet relations could mean a lessening in Soviet support for Hanoi's policies in Cambodia and Laos.

c) Afghanistan

11. UNGA debated Afghanistan for the 6th time 13-15 November. The resolution, sponsored by Pakistan and 45 other states, was approved by a record 99 majority (119-20-14).

UN Initiative

12. The August round of UN "indirect talks" in Geneva made no real progress beyond agreeing to reconvene in February. Pakistan's forthcoming attitude contrasted with the Afghan non-committal reaction on timetable for withdrawal of Soviet troops. There was no evidence of Soviet flexibility. Soviet diplomatic and military pressure on Pakistan, including cross-border attacks, is intended to influence the Pakistani negotiating position and hamper resistance supply lines.

Situation in Afghanistan

13. Inside Afghanistan, the resistance remain resilient despite

/Soviet

Soviet escalation. They face well over 100,000 Soviet troops. They carry the offensive into Kabul with repeated rocket attacks.

Refugees

14. There are up to 3 million refugees in Pakistan. UK aid since 1980 over £24 million.

China/Afghanistan

15. A long-standing ally of Pakistan, China has given unwavering support, both moral and material (including arms and possibly training) to Afghan resistance. China voted for all six UNGA resolutions.

d) Korea

16. Bilateral inter-Korean trade and economic talks began in November. The second round may take place in the New Year.

17. North and South Korea differ fundamentally in their approach to any talks on the future of the peninsula. The South prefers direct bilateral contacts; North wants tripartite talks including the US. The South would accept 4-sided talks which included China.

18. The Chinese have consistently supported the North Korean position in public. In private they have indicated agreement with the Western view that direct bilateral talks are a necessary preliminary to further progress. They may be adopting a long-term gradualist approach to Korea on the lines of the "one country - two systems" formula. There is evidence that the Chinese are prepared to impress their views on the North Koreans. This may have led to some friction between Pyongyang and Peking. But China remains North Korea's closest partner and historically a profound source of cultural and social values in the peninsula. Kim Il Sung made a "private" visit to China in November when he was no doubt briefed on China's planned industrial reforms (the North recently adopted a Joint Venture law which seemed modelled on Chinese attempts to attract overseas investors).

19. Both Koreas may have a mutual interest in a period of reduced tension. The North is aware that its international standing was gravely affected by 1983 Rangoon bombing (which China privately deplored). The North has severe economic problems. It is already entering the period when Kim Il Sung will be succeeded by his son Kim Chong Il. This could give rise to internal disputes, so far hidden by the regime's closed face to the outside world. As the 1988 Seoul Olympics approach, the South will wish to promote an international image of stability.

e) South Asia

India: Internal

20. On the 24 December general election (postponed in Punjab and Assam for security reasons), Rajiv Gandhi and Congress (I) are expected to win. But after the elections Rajiv will face serious problems: Sikh separatism in Punjab and inter-commercial tensions elsewhere; and in ensuring the cohesion of, and his authority over, Congress (I).

Indo-Chinese Relations

21. After strained relations following the 1962 conflict, China and India exchanged Ambassadors in 1976. The central issue in bilateral relations is the border dispute. Five rounds of talks have been held since 1981, the latest in Peking on 17-23 September when Chinese conceded an Indian demand that the border be considered sector by sector, rather than globally. The way is therefore open for substantive discussions of the issue. However, although both sides are probably anxious to put relations on a more normal footing, neither appears ready for the trading of concessions which would make an early settlement possible.

22. Routine contacts are increasing. However, trade remains insubstantial. Exchanges are largely restricted to culture, commerce and science and technology. Strategic obstacles to a closer relationship are India's concern about China's close relations with her neighbours, particularly Pakistan; and Chinese concern about Soviet influence in India. If anything, the Chinese are now making the running. They have proposed a visit to Peking by the Indian Foreign

Minister. The Indians are unlikely to agree until significant progress is made on the border issue.

China-Pakistan Relations

23. China's excellent relations with Pakistan balance Soviet Union-Indian relations. The Soviet invasion of Afghanistan strengthened the anti-Soviet side of the relationship. The Karakoram Highway, built by Chinese aid, opened in 1982, linking the two countries through Kashmir. China has shown concern at deterioration this year in Indo-Pakistan relations. But she would probably be reluctant to intervene militarily in any new Indo-Pakistan war.

Indo-Pakistan Relations

24. The long-standing tension in Indo-Pakistan relations eased briefly on Mrs Gandhi's death. But Indian suspicions of Pakistan's involvement with Sikh dissidence resulted in a severe down-turn. Substantial improvement is unlikely even after the Indian elections. India is extremely concerned at the prospect of Pakistan developing a nuclear weapons capability.

Pakistan Internal

25. President Zia is pressing ahead with plans for elections by 23 March, 1985. But no date is yet announced, nor any ruling on whether political parties could take part. Indications are they will not: candidates will stand as individuals. Zia has spoken of "sharing" rather than the transfer of power. On 1 December he announced a referendum on 19 December, seeking public endorsement of the Government's Islamization policies. He said a "yes" vote would also signify his election as President for a further five years.

TEXT OF STATEMENT MADE IN NAME OF SIR GEOFFREY HOWE BY SPOKESMAN
AT 23 NOVEMBER 1984 FCO PRESS CONFERENCE:

I am greatly concerned at the renewed Vietnamese military operations along the Thai/Cambodian border. These have resulted in ~~further~~ suffering and hardship among the civilian population there, and constitute a serious violation of the UN Charter. The British Government underline the urgent need for Vietnam to respond positively to the call by the European Community and ASEAN Foreign Ministers in their joint declaration on 16 November for Vietnam to put a stop to actions which serve to increase tension and instability along the border.

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

CHINA INTERNAL: BACKGROUND NOTE

1. The mood of the present Chinese leadership is more self-confident than it has been at almost any time since the foundation of the People's Republic of China in 1949. China's willingness to deal with the outside world over the last few years stands in remarkable contrast to the inward-looking tendencies of the recent past. A new vigour infuses many aspects of Chinese economic life. For the first time in many years modernisation appears to have real chances of success.

2. Much of this new spirit of enterprise is attributable to the dynamic leadership of Deng Xiaoping. It is essentially his vision of the future that the Chinese are now striving to implement. His basic aim is to change China into a modern developed nation in the forefront of the international community. His means include:

a) Political stability. The continuous upheavals of the Cultural Revolution and of Mao's last years placed immense strains on the Chinese society and economy. Deng ended the forced involvement of the population in these campaigns. The public witch-hunts that used to follow the disgrace of political opponents have been replaced by a quieter but no less resolute approach. Deng has thus tackled one of the primary breeding grounds of the factionalism endemic in Chinese politics. At the same time, under his leadership the Party has corrected, or at least acknowledged, many of the injustices it perpetrated in the past. However, distrust of the Party by intellectuals is still strong.

b) Political and institutional reform. To help preserve the system against any recurrence of the Cultural Revolution, which brought near total chaos, Deng has sought to revive and strengthen China's political institutions. Decision-making is no longer concentrated in the hands of the Party, although it remains the final arbiter. The legal system, long in disuse, has been revived.

c) Personnel reform. In the past promotion was determined by political acceptability and length of service. Deng is now actively seeking younger, more technically skilled, officials to take over senior positions. At the central level, China's vast and unwieldy bureaucracy has been significantly pruned and many inept or over-aged leaders have been forced into retirement.

d) Emphasis on economic reform. Deng has made it clear that China's primary task for the foreseeable future is economic development. Managers at all levels are to be judged by their efficiency in carrying this out. Material incentives have replaced political ones through the introduction of incentives in industry and agriculture.

e) Opening to the outside world. A measure of foreign technology and assistance are essential if China is to develop at the rate Deng wishes. However his commitment is long-term. He recently looked forward publicly to a time when it would be 'simply impossible' to forego such dealings because 'China's economic and trade ties with other countries have developed and come closer'.

Deng's reforms have never been intended to result in the abandonment of the Communist Party's domination of China. Since Deng's ascendancy some of the more stringent restrictions on the populace have been relaxed, but in general the Party's grip remains firm. Deng is no liberal. He has shown himself capable of quick and decisive action against any sign of dissidence that could threaten, however remotely, the Party's predominance. Last year's sudden crackdown on crime, with 10,000 reported executions, exemplified this.

3. Since his rehabilitation in 1977, Deng has made remarkable progress. Through a series of astute political manoeuvres, he has gradually neutralised his main opponents. He is now personally

/unavailable.

unassailable. He has established supporters in key positions. Zhao Ziyang (Premier) and Hu Yaobang (General Secretary of the Party) are fairly well placed to continue his policies after he is gone. He has had the main elements of his reform programme unanimously endorsed at formal meetings of the Party. Furthermore, he can now point to a solid record of practical economic success. In agriculture, where the reforms have been going the longest, a record grain harvest has just been achieved for the fifth year running. Between 1978 and 1983, in industry, high rates of growth ^{/expected} have also been achieved: around 12% in 1984. Industrial wages have risen by almost half since 1978 and the new emphasis on light industrial production has allowed more consumer goods onto the market.

4. Some of the more remarkable changes have taken place in foreign economic relations. The four Special Economic Zones established in 1979 have been followed by the opening this year of a further fourteen coastal cities to preferential treatment for foreign investors. Since 1979 China has attracted US\$8bn in foreign investment. China's foreign trade increased annually between 1978 and 1983 by 14.6%; in the first 9 months of this year it rose over 20% to US\$37.37bn, with a favourable trade balance of \$350m. China's foreign exchange reserves stand at \$16.48bn.

5. The Third Plenum of the Central Committee held in October 1984 marked another important stage of reform. Following the acknowledged success in agriculture, the Plenum adopted a general programme for reform in the far more complex urban and industrial side of the economy. Much will depend on the concrete measures to be adopted to implement it. Nonetheless the Plenum document is a devastating indictment of the inefficiency of the industrial planned economy. The remedies it proposes include a limited introduction of market forces. Certain sectors will be taken out of the central planning system altogether. Deng Xiaoping has said that the introduction of "some capitalism" under China's open door policy would be conducive to the development of socialist productive forces. Much greater powers of responsibility, including that to dismiss employees, will be given to enterprise managers. The acknowledged key to the package lies in the centrally controlled pricing structure. The Plenum suggested that this "irrational" /system

system should be gradually replaced by one based more on the "law of value" (still a Marxist concept).

6. Difficulties remain. Inside China (as well as abroad) the reforms have provoked suspicions that China's socialist system was straying onto a capitalist road. These ideological criticisms would gain more weight were the programme to falter. They have already induced obstruction by many middle and lower level officials who see their positions threatened by the new policies.

7. Even at the top, Deng is far from having things his own way. His economic initiatives have been criticized by some older and more conservatively minded senior leaders. He has still been unable satisfactorily to integrate the armed forces' leadership into his plans for the future. They are both suspicious of the new policies on ideological grounds, and have derived little compensatory benefit from them. In the absence of a successor acceptable both to himself and to the military leadership, he has had to remain Chairman of the Military Commissions in charge of the armed forces. In some provinces too, there are signs of opposition. There are also wider and more intractable problems. China's vast population acts as a tremendous brake on any attempt at rapid development. There is a desperate shortage of trained managers, engineers and scientists to administer the new policies. If these are successful rising expectations may outpace the capacity of the economy to deliver. The reforms may also create problems of rising inflation and unemployment.

8. Deng's policies still depend considerably on his authority. The longer he stays, the better are the prospects for his protégés. However his presence has inhibited the expressions of resistance to his ideas. Last year's campaign against "spiritual pollution" (the spread of unhealthy manifestations of Western culture) for a short time appeared to threaten crucial aspects of Deng's policies, showing that the "left" wing of the Party was not dead.

/Even

Even the current rectification campaign, intended to ensure the loyalty of the entire Party membership to Deng's views, has been much watered down. Many of those whose past political activities were anathema to the current leadership may well be allowed to remain members provided they pay lip-service to the reforms.

9. The present leadership has many successes to its credit. Life for the majority of the Chinese people is considerably better than it was before. Deng's mixture of limited political relaxation combined with material appeals has proved an attractive alternative to the chaos of Mao's later years. However the Chinese leadership are now embarked on a course for which they have little or no experience, and which is far from fully worked out. Deng, though apparently fit and active, is now 80. When he passes there may well be a period of political infighting and retrenchment as his successors settle themselves. But the basic trend is likely to be maintained. Deng's achievement is that no credible alternative is available.

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

CHINESE FOREIGN POLICY: BACKGROUND NOTE

1. Chinese foreign policy is founded on the requirements of national security and China's modernisation programme. The latter has led to more pragmatic and outgoing policies than hitherto. China no longer welcomes contention between the super-powers as a factor encouraging world revolution. She now acknowledges world peace as a primary objective, especially to provide the necessary environment for Chinese modernisation.
2. China's principal concern is its relationship with the super-powers, from whom it professes independence. In practice, China's relations with the United States are currently much closer and more substantive than with the Soviet Union. However, the Chinese have shown determination not to be dictated to by either power and especially to avoid being manipulated by one as a means of scoring points off the other. They have consequently backed away from intimations following normalisation with the United States of willingness to participate in an informal alliance to oppose Soviet ambitions.
3. The Soviet Union provides the main physical threat to China. The three Chinese preconditions for normalising relations with the Soviet Union (Soviet troop withdrawals from Afghanistan, from Mongolia and the Sino-Soviet frontier, and ending support for the Vietnamese occupation of Cambodia) partly reflect this. Nonetheless, both sides are prepared to work towards a limited improvement in other practical respects. (See Brief No 8a).
4. China's modernisation programme depends in part on the acquisition of Western technology. This has inspired the current 'open door' policy, which the Chinese have presented as permanent rather than a temporary expedient. There has been a rapid increase in the volume of China's international commerce in the last few years. The lion's share has gone to the United States and Japan, but the

/Chinese

Chinese have clearly indicated that they would like to increase their links with Western Europe. They wish to avoid dependence on a few sources of supply and also to stimulate competition. The Chinese support a strong Europe. Deng Xiaoping recently told the West German Chancellor: "We are convinced that Europe wants peace and we hope to see a united, coordinated and powerful Europe".

5. China's other main concerns are regional. Japan is a special case with its close commercial and political links, despite a residue of suspicion left over from the war. In South East Asia the Chinese seek to oppose Vietnamese ambitions and generally to build up their relations with the countries of ASEAN. Recently China has shown increased willingness to deal with territorial problems with some of her neighbours. Border talks are to be held with India, and have been held with Bhutan and Mongolia.

6. Taiwan and the problem of reunification remains a major Chinese concern, brought further to the fore following the conclusion of negotiations over Hong Kong. Deng Xiaoping has described the recovery of Taiwan as one of the three main tasks for this decade. Chinese overtures to Taiwan presented under the concept of "one country, two systems" have offered even greater autonomy than in the case of Hong Kong (Taiwan would be allowed to retain its armed forces). But these have met with a stony response. American sales of arms to Taiwan remain a constant irritant in China's relationship with the United States. While China sees peaceful negotiations as the way reunification should be achieved, she has not explicitly ruled out the use of force.

7. On the wider stage, China has been playing an increasingly active role in international bodies. Chinese positions on many questions have become more constructive and better informed. On arms control, China's position of principle remains that the super-powers must take the lead in nuclear disarmament: once they have substantially reduced their holdings of these weapons,

/China

China will participate in a global disarmament conference. In practical terms China accepts the need in present circumstances for both Western Europe and Japan to rely for their security on the US nuclear umbrella. While urging both East and West to resume arms reduction talks, the Chinese have expressed their understanding of recent missile deployments in Western Europe. Despite cultivating the European peace movements, China is no advocate of unilateral disarmament.

8. China is also seeking to maintain its influence in the Third World, despite disavowal of aspirations towards leadership of the Third World movement. On the other hand China's overseas aid has declined in recent years; and China is increasingly a competitor with the Third World through its exports of goods and of labour and in the search for credit and aid from the developed nations and international financial institutions.

PRIME MINISTER'S VISIT TO CHINA AND HONG KONG, 18-21 DEC 198
CHINESE HISTORY: BACKGROUND NOTE

1. The Chinese are justly proud of the long and unbroken history of their civilisation and have a highly developed sense of the past. As is the case with many Peoples, China's recorded history is preceded by a mythical period populated by semi-divine figures, such as Shen Nong the inventor of agriculture and Yu restrainer of flood waters. The first dynasty which can be verified through archeological findings is the Shang dynasty which lasted from around 1480 to 1050BC. An extensive area of China was unified for the first time in 221BC, by the first Qin Emperor. By this time Chinese civilisation had made significant advances: cities and commerce had emerged; civil administration was advanced enough to undertake large scale drainage and irrigation projects; agricultural and basic industrial techniques were well developed; and the basis of Chinese thought - Confucianism, Daoism (or Taoism) and Legalism - had been established. The teachings of Confucius who was born in 551BC, with their emphasis on harmony, benevolence, and order built on a rigid hierarchy of relationships and obedience between senior and subordinate have had a great influence on subsequent Chinese thought and practice.

2. The personality of Zheng, the first Qin Emperor, dominates Chinese history. It is his tomb that is guarded by the terracotta army of Xian. He is remembered mainly for having unified China by the ruthless exercise of military power and for the great demands that his building programme (he caused the Great Wall to be built) imposed on the people. He also pursued the policy of "burning of the books and burying of the scholars" in an attempt to eliminate ideological opposition to his authoritarian regime. The succeeding dynasty, the Han, built on the foundations which Zheng had laid and China flourished during the 400 years which it lasted.

The Han period witnessed a burgeoning of Chinese culture and the foundation of the Chinese system of government informed by Confucian values which was later refined in the Tang (618 - 905) and Song (960 - 1126) dynasties and reached its apogee under the Ming (1368 - 1644).

3. These periods were however punctuated by challenges to order and the unity of the state, the most serious of which came from the various nomadic peoples of the North, notably the Mongol invasion at the beginning of the 13th century led by Genghis Khan. The Mongols ruled only Northern China until 1279 when Kublai Khan defeated the Song dynasty in the South and united China under Mongol rule.

4. In 1644 the Ming dynasty, the conqueror of the Mongols, was itself overthrown by the Manchus from north-east China who founded the Qing dynasty. The Manchus had long been in contact with Chinese civilisation and took over the Ming system almost in tact (although leading posts were reserved for Manchus). The Qing extended their rule over the Asian periphery of China, including Tibet so that by the mid-eighteenth century the traditional Chinese Empire was at the height of its strength and prosperity.

5. The Qing however proved incapable of meeting the challenge of the technologically superior West when it was mounted in the middle of the nineteenth century. Following China's defeat in the first 'Opium War' (1839-42), the Qing ceded Hong Kong island to Britain and were forced to open certain ports to foreign trade. Further humiliating concessions were obtained by Britain and other powers, including the establishment of extraterritorial rights in the trading ports. The Qing also proved incapable of meeting challenges from within, notably a series of peasant revolts, most important of which was the Taiping (1855-65), which devastated large parts of central China. Although some half-hearted attempts at reform and adoption of foreign ways and technology were made the advocates of this course were never in a position to overcome entrenched conservatism.

6. The fall of the Qing dynasty brought no respite. China was plunged into an era of warlordism, about which the Nationalist Government under Chiang Kai-shek which predominated from the late 20s could do little. The situation was further complicated by the occupation of Manchuria by the Japanese in 1931 and by a full-scale invasion in 1937. These conditions provided opportunities for the Communists and after a nominal alliance between the Communists and the Nationalists during the war, civil war broke out after Japan's

defeat resulting in the Communist victory in 1949.

7. The People's Republic of China was established on 1 October 1949. The new Government faced the enormous problems of establishing administrative control and restoring an economy ravaged by warfare. Considerable achievements were made in reviving and developing the economy primarily through the collectivisation of agriculture, the nationalisation of private industries and the institution of the First Five Year Plan (1953-1958). This level of success did not satisfy Mao Zedong and he launched an ambitious economic programme known as the 'Great Leap Forward'. This however together with poor harvests and the withdrawal of Soviet aid and technicians in 1960 proved disastrous and resulted in the temporary eclipse of Mao himself and the reversal of his policies.

8. In 1966 Mao made a comeback in the form of the 'Great Proletarian Cultural Revolution' during which many of those officials who Mao considered to have been directing China in a revisionist course including Liu Shaoqi and Deng Xiaoping were disgraced and the Party machine all but destroyed. Despite his great personal authority Mao was unable to control many of the forces which he had unleashed and a semblance of order was only achieved with the intervention of the Army. The last years of Mao's life were marked by an increasingly intense struggle for succession between those leaders who had come to power during the Cultural Revolution (such as his wife Jiang Qing), and the old guard of the Party (personified by Zhou Enlai) many of whom had been rehabilitated after being disgraced in the Cultural Revolution. Amongst these was Deng Xiaoping. A month after Mao's death in 1976 Jiang Qing and her associates (the 'Gang of Four') were arrested and the succession fell to the little known figure of Hua Guofeng.

9. Hua's succession was short-lived. Deng Xiaoping, who had been again disgraced in 1975 was rehabilitated and restored to his former positions in 1977 and from then on increased his power at the expense of Hua. Deng has consolidated his position and that of his supporters and has used his power to reverse many of Mao's policies and to institute a thoroughgoing programme of economic and social reform aimed at modernising the economy, developing closer relations

with the West and implementing a limited and gradual relaxation of Chinese society.

COUNTRY ASSESSMENT PAPER: CHINA

SECTION I

1. China, which contains a quarter of the world's population, is a country of ancient culture, vast size and abundant resources, much still untapped. The erratic course of China's policies under Mao Zedong failed to consolidate the achievements of the early years of the revolution. Under the new leadership, China is committed to an ambitious modernisation programme designed, with the help of Western countries and Japan, to strengthen the country economically and militarily. China is a nuclear power and a permanent member of the UN Security Council. Although in many respects still backward, she is already a major factor in international relations and will grow in importance. Britain has a particular interest in the continued prosperity and stability of Hong Kong.
2. Food production has grown only slightly faster than the population, and China is still a net importer of grains and most Chinese live close to subsistence level. Cultivable land is scarce and technology backward. Many mineral resources (especially oil, coal and certain non-ferrous metals) can probably meet both domestic and export needs, but they await fuller exploitation. The main economic priorities of the present government are to develop energy resources, communications and light industry, while renovating existing industrial installations in an orderly fashion.
3. Chinese domestic policies are centred on an economic modernisation programme the key importance of which is emphasised by the Chinese leadership. The objective is by 2000 to quadruple the 1980 value of agricultural and industrial output. This programme requires large scale imports of advanced technology and greatly increased trade. Japan will continue as China's principal trading partner, but there are significant commercial opportunities for other countries also. China's past record of prompt payment, existing reserves and lack of debt will ensure that she can attract adequate credit for her modernisation programme. However

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if she borrows heavily, as some large projects under consideration (Guangdong Nuclear Power, South West China Energy, Shanxi coal, offshore oil, etc.) imply, she could become a less secure risk for the international banking community. China herself is concerned to avoid becoming over-committed, and will seek to use counter-trade and other cooperative arrangements to conserve foreign exchange where possible. She is also actively seeking bilateral and multilateral development aid in support of her programme of economic modernisation and shows little interest in borrowing at commercial interest rates.

4. China's foreign policy is dominated by concern to contain the spread of Soviet influence and power in Asia and elsewhere. But another key element has been the need to develop closer relations with Western countries in order to carry forward the "four modernisations". In 1978 China concluded a Treaty of Friendship with Japan and normalised relations with the United States: Deng Xiaoping has visited both countries. Chinese leaders have also made visits to Eastern and Western Europe, to ASEAN countries, and Africa. In seeking the reunification of Taiwan with the mainland the Chinese have recently become increasingly committed to peaceful means. Other new policy features that have emerged during the last year or so are emphasis on China's "independence" in foreign relations (probably designed to afford greater freedom of manoeuvre between the super powers) and a perhaps more rhetorical assertion of her Third World identity.

5. Closer contacts with the West may well increase the material expectations of the Chinese people and spread interest in Western concepts of freedom and human rights. Internal political life has reverted to pre-Cultural Revolution norms. But the people continue to be ruled by a highly centralised authoritarian regime under the firm control of the Communist Party with strong military backing. The leadership have already expressed concern about the "corrosive" effect of popular contact with Westerners, and can be expected to continue to limit it as strictly as possible.

6. China's modernisation policies are closely associated with Deng Xiaoping, who was rehabilitated following Mao's death and the overthrow of the "Gang of Four". He is manifestly the driving force and holds the dominant political position. In the last two years his influence has brought about the replacement of Mao's designated heir, Hua Guofeng, by two of Deng's protégés Hu Yaobang (Party Secretary General) and Zhao Ziyang (Prime Minister); Deng has also secured the appointment of a Party Central Committee favourably disposed to his pragmatic policies.

SECTION II: BRITISH INTERESTS

7. In order of priority, revised since 1979:

I. Hong Kong

To negotiate an arrangement for the future of Hong Kong that will preserve business confidence and social stability. While doing this to seek to preserve existing good relations over practical matters affecting Hong Kong.

II. Political

Britain has a strong interest in the development of a stable and prosperous China well disposed towards the West.

III. Trade.

We want to maximise UK exports, taking advantage of the opportunities offered by China's modernisation programme.

IV. Defence Sales

The UK has an economic and political interest in selling the Chinese defensive equipment and advanced technology.

V. Raw Materials

In the longer term China may offer us the opportunity to diversify away from, eg Southern Africa, our imports of certain raw materials in ore, particularly manganese and antimony.

VI. Economic

As major project opportunities develop, we shall wish to monitor the performance of the Chinese economy and external payments situation to check that Chinese credit-worthiness is sustained. We have to guard against cheap Chinese exports damaging sectors of British industry.

VII. Residents/Tourists

There are few long-stay British residents in China. British visitors include students, teachers, press, businessmen and tourists. The expected continuing rise

/in

in the number of visiting businessmen and tourists, and the posting of more skilled technical personnel to China as project business develops, will increase the demand for consular services and other Embassy facilities.

SECTION III: CHINESE INTERESTS IN THE UK

8. (i) Economic

China will continue to look partly to Western Europe, including the UK, as a source for training expertise, technology and equipment (including defence equipment) and as an outlet for its exports. The Chinese have shown interest in the removal of China from the COCOM list and may pursue this.

(ii) Language

The Chinese will value British help with English language training, partly as a means of access to science and technology.

(iii) Strategic

The Chinese will value the UK as a significant and positive element in the EEC and NATO, which the Chinese view as important bulwarks against Soviet aggrandisement.

SECTION IV: BRITISH OBJECTIVES

9. In order of priority, revised since 1979:

I. Hong Kong

To work for a mutually satisfactory arrangement for the future of Hong Kong. To seek meanwhile to maintain existing practical arrangements between Britain and China over Hong Kong.

II. Political

To encourage the development of a stable, prosperous China well disposed towards the West as a major positive factor in international relations; to encourage the Chinese to participate fully in the work of international organisations and negotiations; and to continue the development of good Sino-UK political relations.

III. Trade

To increase UK exports to China, taking advantage of the modernisation programme, and following up our declared willingness to provide defensive military equipment.

IV. Exchanges

To promote further exchanges and visits at all levels, particularly in the fields of trade, science and technology (including agricultural), education and culture; and to co-ordinate them to our commercial advantage.

V. Raw Materials

To explore opportunities for adopting China as a source of supply of metals and minerals.

SECTION V: CHINA

DS SPONSORED STAFF

10. We maintain a resident Mission with a UK-based staff of 37 and a locally engaged staff of 36½. A breakdown of 'teeth staff' by function, which excludes administration and support, is as follows:-

	<u>UK-based</u>	<u>Locally-engaged</u>
Political	6	-
Commercial	5	-
Consular	1	-
Immigration/Visa	1	-
Science and Technology	1	-

Taking into account all factors, including the time of the Head of Mission and of the support staff not included in the table above and weighting the figures according to the salaries of the officers concerned, we estimate that the collective effort of the Mission is divided as follows:

Political	24%
Economic/ Commercial	27%
Science and Technology	3%

/Information

Information	1%
Consular	1%
Immigration/ Visa	7%
Administration/ Accounts	10%
Security	10%
Support	17%

Others

11. We have two Service Attachés supported by 2 UK-based staff. There is one member of the PSA at Post. The British Council have 5 UK-based staff in Peking who are integrated with the Embassy. Their main job is to stimulate and support English language teaching in China, to run academic, professional and student exchanges - including placing Chinese government-funded post-graduates at British universities - and to mount British cultural events in China.

Hong Kong

12. We also maintain a China Trade Unit in Hong Kong consisting of three UK-based staff. Two of these are 'teeth staff'. They spend 100% of their time on commercial work in accordance with the Unit's terms of reference, which are to identify commercial opportunities in Southern China, gather China trade information available in Hong Kong and to advise British businessmen in or passing through Hong Kong on doing business with China.

Shanghai

13. Ministers have approved the opening of a small consulate in Shanghai (1 DS5, 1 DS7) and negotiations with the Chinese are in hand. The main function of the new office will be commercial. The British Council have offered to post a UK-based member of staff to the consulate.

SECTION VI: POLICIES OF OTHERS WHICH SIGNIFICANTLY AFFECT BRITISH INTERESTS

14. Normalisation of China's relations with the United States on 1 January 1979 stimulated Sino/US contacts in many spheres and considerably enhanced China's politico-strategic opening to the West. Under the terms of a recent communiqué on arms supply to Taiwan, the two sides have come to a compromise arrangement for the time being over continuing differences. The signing of a Friendship Treaty between China and Japan in August 1978 consolidated Japan's already leading position as a trading partner and supplier of

/modern

modern technology to China. Within the Community the FRG offers the strongest competition, except in defence related sales, where France is our main rival.

15. The number of countries willing to provide bilateral aid to China in various forms has risen significantly in recent months. It involves some of our main competitors including Japan, Belgium, Denmark, Canada and Italy, while Sweden has become noticeably more generous with the terms of its mixed credits. Unless we are prepared to give China a similar priority within the UK aid programme this development is likely to put us at a disadvantage in our efforts to promote our exports in this market.

16. With the Sino-Soviet dispute unlikely to be resolved in the near future, Soviet apprehensions about China's long-term aims and prospects will colour Soviet reactions to other countries' dealings with China, especially in the delicate areas of defence sales and transfer of technology. Sino-Soviet rivalry will continue to lead China to give support to National Liberation Movements in Third World countries and will also be a major factor in South East Asia, including Indo-China. Such support may in some cases be compatible with British interests. But although China's real preoccupation is her relationship with the Super-Powers, she can be expected to side with the Third World in discussion of contentious issues in international fora.

/SECTION VII

SECTION VII: THREATS TO AND OPPORTUNITIES FOR BRITISH INTERESTS
THREATS

17. (i) Hong Kong

A break-down in the talks on Hong Kong's future and the consequent collapse of confidence in the Territory would gravely damage every other aspect of Sino-British relations.

(ii) Internal Political

China's internal stability cannot ^{be} assured. New tensions may be building up which might pose an eventual threat to the leadership.

(iii) External Political

The Soviet leadership will continue to express concern over the improving relations between Britain and other Western Governments and the Chinese, particularly in the field of defence sales.

(iv) Economic

In common with all China's trading partners, the UK could face problems in trading with China if the Chinese over-borrow, cannot export enough, want us to take more sensitive items under quota than we are ready to contemplate, or are held back by inefficiencies and shortcomings in the infrastructure.

OPPORTUNITIES

18. I. Hong Kong

Present good political relations between Britain and China, and the recent consolidation in power of a pragmatic leadership, provide a good opportunity to negotiate a mutually satisfactory arrangement for the future of Hong Kong.

II. Economic

The prospects for trade will be enhanced by our political relations and our readiness to provide some defence equipment; also by willingness to assist China's training effort by offering enhanced English language teaching support and some form of fee support to enable more Chinese to undergo high level Science and Technology training and research in British universities.

III. Science and Technology

Scope exists for greater Science and Technology collaboration mediated by the 1979 Science and Technology Agreement (and other agreements falling under it, including the 1980 Memorandum of Understanding on Agricultural Co-operation), the Royal Society, the British Council, and directly by UK firms. The Chinese would welcome this and trading opportunities for Britain would be likely to accrue.

IV. Visits

An invitation to the Chinese Prime Minister is outstanding.

1. Land Area and Population

(a) Land Area	9,596,961 km ²
(b) Population (1982)	1008.2 million
(c) Population Growth Rate (1975-79)	1.4% p.a.

2. Economic(i) Gross National Product

1980

(a) Total	283,250 US\$ mill
(b) Growth Rate (1970-79)	4.8 % p.a.
(c) Position in Total GNP League Table	8 (of 174)
(d) Per Head	290 US\$
(e) Position in Per Head League Table	151 (of 174)

(ii) Overseas Finance

(a) <u>Exchange Rate</u>	1978	1979	1980	1981	Curren
Yuan per £1 Sterling =	3.2317	3.2991	3.4857	3.4576	
US\$ =	1.6826	1.5550	1.4984	1.7050	Yuan

(b) Balance of Payments

	1978	1979	1980	1980	US\$ MI
Exports	9,607	13,658	18,492	22,027	
Imports	-10,745	-15,619	-21,243	-20,292	
Invisibles and Transfers (net)	360	356	276	369	
Current Account	-778	-1,605	-2,475	2,104	
Capital Account	30	2,208	2,701	-701	
Overall Balance	-748	603	372	1,924	

(c) International Reserves

	1978	1979	1980	1981	US\$ MILL
Total Reserves (excluding gold)	1557	2154	2545	5048	
Months of Imports covered	1.57	1.47	1.28	2.56	

(iii) Foreign Trade(a) Main Exports

	1978	1979
Crude Oil	9.8	15.7
Cotton Cloth	6.0	3.6
Cereals	5.3	2.2
Aquatic Products	2.6	1.6
Canned Fruit	2.1	1.6

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(b) <u>Main Export Markets</u>	<u>1978</u>	<u>1981</u>	?	
Japan	21.4	24.1		
Hong Kong	23.5	24.1		
United States	3.7	9.4		
Singapore	3.6	3.5		
FRG	3.8	3.5		
(United Kingdom)	2.2 (9th)	1.6 (11th)		
(c) <u>Main Imports</u>	<u>1978</u>	<u>1981</u>	?	
Cereals	8.7	13.2		
Cotton	6.2	7.5		
Steel Products	24.8	7.0		
Chemical Fertiliser	4.4	5.6		
(d) <u>Main Import Sources</u>	<u>1978</u>	<u>1981</u>	?	
Japan	34.2	28.8		
United States	9.2	20.5		
Hong Kong	1.0	11.2		
FRG	11.1	5.8		
Canada	4.9	4.4		
(United Kingdom)	2.0 (10th)	2.1 (8th)		
(e) <u>UK Trade with People's Rep of China</u>	<u>1975</u>	<u>1980</u>		
Total UK Exports	80.8	169.5	£ mill	
Real Growth of Exports (five years ending)	na	1.6	£ p.a.	
Position in UK Exports League Table	45	42	(of 151)	
Total UK Imports	59.3	153.4	£ mill	
(iv) <u>Development Aid</u>				
(a) <u>Reported Aid Receipts</u>	<u>1979</u>	<u>1980</u>	US\$ mill	
From: DAC Countries on a bilateral basis	4.3	22.2		
(of which, UK)	(-)	(0.1)		
Multilateral Organisations	12.6	43.9		
(b) <u>Aid per head</u>	<u>1979</u>	<u>1980</u>	US\$	
(i) China, PDR	0.02	0.07		
(ii) All LDCs	5.2	na		
(v) <u>Inflation</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	?
Consumer Price Index	1.9	7.5	2.6	

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.) <u>Overseas Debt</u>	1979	1980	1981	5
(a) Debt Service Ratio	2.3	4.8	7.4	
(b) Overseas Debt/Exports	na	26.0	22.6	
(c) Overseas Debt/GNP	na	1.9	na	
(vii) <u>Overseas Direct Investment</u>				
(a) UK Investment in China				
(b) Position in UK League Table		NOT APPLICABLE		
(c) Chinese Investment in UK				

COMPARATIVE REGIONAL TABLE: CHINA, JAPAN, USSR, INDIA, MALAYSIA, TAIWAN

Country	Year	Area		Population Growth (Annual average)	Total Armed Forces (1980)	Total Military Military Expenditure (1980)	GNP (1980)	Per Capita GNP (1980)	Total Exports (1980)	Total Imports (1980)	UK Exports (1980)	UK Imports (1980)	No of diplomatic missions in country (1981)	Missions abroad(1981)	Membership Principal International Organisations
		km ²	million												
China	1980	9,597,000	994.4*	2.2	4,750,000	12.5	238,250	290	17,309	19,493	169.5	153.4	100	114	UN, IMF, WB
Japan	1980	372,300	116.6	0.9	243,000	11.5	1,152,910	9,890	130,460	141,284	597.1	1,712.1	103	103	UN, OECD, IMF, WB, ADE
USSR	1980	22,402,200	266.7	0.9	3,673,000	N/A	1,212,030	4,550	29,498	31,121	455.3	786.2	108	123	UN, COMECON
India	1980	3,287,600	673.2	2.8	1,104,000	5.12	159,430	240	8,984	13,581	529.0	315.9	95	95	UN, NAM, CW, G77, IMF, WB, ADB
Malaysia	1980	329,700	13.4	2.8	102,000	2.25	22,410	1,670	13,005	10,841	233.5	187.1	71	38	UN, NAM, CW, G77, ASEAN, ICD, IMF, WB, ADB
Taiwan	1980	36,000	17.8	2.0	451,000	1.75	38,300	2,720	19,811	19,733	92.4	233.2	16	29	ADB

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- * 1981
- ** 1977/8

NOTE: WB - World Bank; ADB - Asian Development Bank;
 WP - Warsaw Pact; NAM - Non-Aligned Movement;
 CW - Commonwealth; G77 - Group of 77;
 ICO - Islamic Conference Organisation.

+ This figure is an official estimate and the population growth figure is based on estimated figures. It is reported that the population total according to the July 1982 census was 1,007.6 million.

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	1979	1980	1981	1982	UK - 1982
1. Population & Land Area					
Land Area (sq km)	9,597,000	9,597,000	9,597,000	9,597,000	244,046
Population (mill)	981.8	979.6	991.3	n.a	56.0
Pop. Growth rate (%)	1.6	1.9	1.5	n.a	0.1
2. Economic					
(i) Gross National Product					
GNP Total (US\$ mill)	250,770	267,810	299,770	n.a	510,310
Growth Rate (%)	n.a	4.8	5.7	n.a	0.7
GNP League	n.a	n.a	7	n.a	5
Table (of 170)					
GNP per capita (US\$)	260	270	300	n.a	9,110
P.C. Table (of 168)	n.a	151	147	n.a	26
(ii) Overseas Finance					
(a) Exchange Rates					
Yuan per US \$	1.5550	1.4984	1.7050	1.8887	
Yuan per Pound	3.2991	3.4857	3.4576	3.3062	
(b) Balance of Payments					
(US\$ millions)					
Exports	13,658	18,492	22,027	22,476	97,047
Imports	-16,212	-22,049	-21,047	-17,830	-93,505
Invisibles (net)	327	276	369	1,021	5,693
Current Account	-2,227	-3,281	1,347	5,667	9,237
Capital Account	2,830	3,507	854	1,697	513
Balancing Item	0	-146	277	1,100	-6,462
Overall Balance	603	372	1,924	6,264	3,288
(c) International Reserves					
(US\$ millions)					
Total Reserves	2,154	2,545	5,048	11,339	12,397
Months of Imports	1.4	1.2	2.5	6.5	1.1

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(iii) Foreign Trade

.a) Main Exports (%)	1979	1982	

Light Industrial & Textile Products	35.5	29.5	
Mineral Fuels & Oils	19.4	24.5	
Machinery & Equipment	3.4	14.4	
Foodstuffs	19.8	14.2	
Non Food Items (exc Fuels)	13.2	8.5	
(b) Main Export Markets (%)	1977	1982	

Hong Kong	23.1	23.7	
Japan	20.8	22.0	
U.S.A.	3.0	8.0	
Jordan	0.3	5.9	
U.K.(9th in 1982)	2.4	1.4	
(c) Main Imports (%)	1979	1982	

Foodstuffs	14.4	22.4	
Machinery & Equipment	25.9	19.5	
Non Food Items (exc.Fuels)	11.8	17.3	
Chemicals	10.4	16.0	
Products Classified by Materials	31.0	14.9	
(d) Main Import Sources (%)	1977	1982	

U.S.A.	3.0	22.7	
Japan	34.0	20.6	
Hong Kong	0.8	6.9	
Canada	6.0	6.5	
U.K. (12th in 1982)	1.9	1.4	
(e) Bilateral Trade	1977	1982	1983

UK Exports(pounds mill)	62.3	103.1	159.7
UK Imports(pounds mill)	104.4	193.2	231.4
Real Growth of Exports (5 years ending)(%)	-5.1	1.2	1.8
Export League Position.	65	57	44

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(iv) Development Aid

	1980	1981	1982
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(a) Aid Receipts(\$m)

From: DAC Countries on a bilateral basis (of which, U.K.)	22.2	52.2	485.5
Multilateral Orgs.	43.9	424.7	65.5

(b) Aid per head(\$)

(i) China	0.02	0.1	0.5
(ii) All LDCs	n.a	n.a	n.a

(v) Inflation(%)

Consumer Price Index	7.5	5.9	2.2
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(vi) Overseas Debt(%)

Debt Service Ratio	5.8	5.4 (8.6)	6.6 (10.9) **
Overseas Debt/XGS	26.0	22.8	22.9
Overseas Debt/GDP	1.8	2.1	2.3

(vii) Investment(pounds mill)

(a) UK Overseas Direct Investment	n.a	n.a	n.a
(b) Position in UK League Table(of 74)	n.a	n.a	n.a
(c) Investment in UK	n.a	n.a	n.a

** Includes early repayment of \$ 1.9 bill commercial bank debt in 1981 & 1982

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

CHINESE ATTITUDES AND SENSITIVITIES : BACKGROUND NOTE

Formative influences

1. Modern Chinese attitudes have evolved as a result of the following historical, geographical and cultural factors.

a. DEPTH OF HISTORICAL TRADITION

Theories of ethics and statecraft developed from first millenium BC. Among these, Confucian precepts governing the orderly conduct of human relationships proved exceptionally durable.

b. BASIC GEOGRAPHIC AND ECONOMIC CONDITIONS

From the beginnings of their recorded history the Chinese were more numerous than neighbouring races and were distinguished by their settled agricultural activity from most of their neighbours who were nomadic. While they are conscious of the difficulty of defending their long western and northern borders, the size of their country and population instils in the Chinese confidence in the ability of their civilization to survive challenges from outside.

c. CULTURAL DEVELOPMENT

Through the medium of the Chinese written language, Chinese thought and literature spread their influence in East Asia. Despite initial problems, Buddhism was satisfactorily assimilated and spread in Chinese forms to other east Asian countries.

d. THE "MANDATE OF HEAVEN"

According to Confucian theory the authority of the emperor depended on the "mandate of heaven", which would be removed if the emperor failed to fulfil his responsibilities to his subjects. In such a case a new emperor would emerge, having gained authority through leading a popular revolt.

e. RELATIONS WITH NEIGHBOURING PEOPLES

Symbolised by the Great Wall, a prime concern of Chinese governments has been the protection of their settled society from the depredations of nomadic and warlike neighbours. The Chinese, regarding these neighbours as barbarians, used the tributary system to secure their recognition of the emperor's authority, making tactical alliances in accordance with the principle of "using barbarians to control barbarians" for the protection of Chinese domains. The relationship between the Chinese empire and its neighbours was one of the dominant central power and lesser tribes. Consequently there was no concept of equality in its dealings with its neighbours. When the Chinese succumbed to the rule of invaders, first the Mongols in the 13th century and then the Manchus in the 17th, Chinese culture and methods of government proved stronger than those of the conquerors.

f. THE IMPACT OF THE WEST

The arrival of Western merchants, missionaries and military force in the 19th century was a severe shock to the Chinese system. In Chinese eyes the physical appearance of the Westerners was outlandish, their behaviour unruly and their pressure for trade and missionary activities disruptive to Chinese society, while the Chinese felt humiliated by Western military superiority, the establishment of foreign concessions and other privileges extracted by the West.

g. REACTIONS TO WESTERN INFLUENCE

A struggle ensued between the defenders of Chinese tradition who sought to restrict Western influence as far as possible and the advocates of modernisation by means of assimilating Western techniques and ideas. Among the latter were admirers of Japan's achievements. Others were impressed by the anti-imperialist policies of the Soviet Union, and by the early Soviet government's gestures towards China, including its disavowal of "unequal treaties". Western prestige, damaged by the 1914-18 war, was further impaired

by resentment over Western acquiescence in Japanese claims on China and other actions seen as directed against Chinese interests. The aim of redressing humiliations of the past was a matter of importance for the Nationalists, as for the Communists who supplanted them in 1949. This involves insistence on a concept of national unity which involves rule over the Tibetans and other races within China's present frontiers and the recovery of Taiwan, Hong Kong and Macao. Continuing sensitivity to foreign influence is amply demonstrated in China's conduct of relations with the Soviet Union and United States.

h. THE POLITICAL SYSTEM

Political discussion is formalised, with authority seldom being questioned openly. The Chinese have no experience of Western traditions of abrasive political debate. The centralised control and bureaucratic methods characteristic of communist societies lead to slowness of decision-making. This noticeably affects the conduct of foreign relations and trade.

Current attitudes

2. Reflecting historical experience and traditions, the following are noteworthy aspects of current Chinese attitudes and sensitivities:-

a. THE INTERNAL DIMENSION

Despite China's increasing international role and commercial exchanges, the leaders' main concern is with the major internal problems of meeting the needs and expectations of the enormous population, some 80 per cent of whom are still directly dependent on agriculture. Foreign trade is of growing importance but still small in relation to the domestic economy. It remains less than that of Taiwan, and less than Hong Kong's. "Foreign things for the use of China" is a commonly used expression which sums up the Chinese attitude to dealings with the outside world.

b. SELF-CONFIDENCE

Consciousness of the size of their territory and population, of their basic agricultural self-sufficiency, and of the durability of Chinese culture remains an important element in Chinese attitudes. There is still a tendency beneath the surface for many Chinese to believe that dealings with the outside world are marginal and, if necessary, expendable.

c. DEFENCE

The vastness of their territory leads the Chinese to believe that they can absorb and wear down any invasion by conventional means. The great efforts and financial resources which they expend on developing their nuclear capability indicate the high priority which they attach to this as the basis for preserving political independence vis-à-vis the major powers. Because of China's preoccupation with internal problems and defending its own territory, military expansion is not a major factor in the Chinese tradition. However, the Chinese display determination to ensure that their interests are respected by neighbouring countries, sometimes to the extent of using force, as on the Indian border in 1962 and the Vietnamese border in 1979.

d. THE LONG PERSPECTIVE

Because of their sense of history, and also to some extent because communist rulers need pay less regard to short-term political considerations, the Chinese tend to emphasise the long-term effects of decisions and policies. One example of this was their decision in re-establishing relations with Japanese in 1972 to waive all claims for war reparations: the Chinese apparently made this decision of their own accord rather than in response to pressure, in the interest of long-term relations with Japan, and perhaps calculating that the Japanese would thereby feel obliged to display generosity in extending aid to China. A very different example was the Chinese attack on Vietnam in early 1979 following the Vietnamese invasion of Cambodia. Here the Chinese apparently calculated that the long-term benefits of demonstrating to the international community their determination to oppose the Vietnamese occupation of Cambodia justified the short-term costs and risks.

e. FACE

This concept is linked with Confucian ideas of human relationship and behaviour and often finds expression in an oblique approach to dealing with contentious questions. In negotiations the Chinese perception of face is evident on the one hand in the importance attached by them to preliminary courtesies designed to establish a favourable general atmosphere and in the attention paid to hospitality, and on the other hand in their propensity to take offence when they feel that difficult questions are being discussed without sufficient regard for their sensitivities.

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

CHINESE PROTOCOL AND COURTESY: BACKGROUND NOTES

General

1. Despite their Marxist philosophy, the Chinese are not noticeably egalitarian, and attach considerable importance to protocol and formality. Ministers and senior officials are accorded at least as much respect as their counterparts in the West.

Official Talks

2. Normally only the senior Chinese will speak. His natural inclination will be to go in for (sometimes lengthy) statements of known Chinese positions, rather than the relaxed give-and-take of conversation.

Speeches

3. Formal speeches are de rigueur at most banquets (the normal term for a Chinese-style dinner in China). At the welcoming banquet, usually after the first (cold) course, the host will make a prepared speech in serious terms. At the end he will propose a toast, and may circulate around the top table, clinking glasses with the principal guests. The principal guest is then expected to reciprocate with a similarly serious speech, and toast. It is not appropriate on such occasions to make off-the-cuff remarks, and jokes are risky. The process will be reversed at the return banquet, and the speeches shorter and less formal.

Chinese Drinks

4. At a banquet, guests will usually find at their table-setting three glasses, for a fiery white spirit called 'Maotai'; for red wine; and for beer/soft drinks. 'Maotai' (pronounced 'Mow' - as now - 'tie') is an acquired taste. It is the prince of Chinese

/white

white spirits, with a status similar to eg Glenfiddich whisky. But foreigners often find it tart and oily.

5. Many Chinese enjoy drinking, and respect the man/woman who can hold his/her liquor (often described as a 'hailiang' or 'capacity of the sea'). Other Chinese maintain that alcohol makes their faces red and decline to take too much. They may well call for additional toasts in the course of the meal, using the Chinese words 'Ganbei'. This means 'dry glass' (and is often translated quaintly as 'bottoms up'). The invitation to a toast should not be refused, but the glass need not be drained.

Conversation

6. Chinese concepts of civilised conversation, and humour, are different from those of the West. They tend to concentrate on fairly mundane questions about family circumstances and background and age (the Chinese are proud of age, and expect foreigners to be the same); and to resist efforts to guide the conversation into other areas. Because of the very different structures of Chinese and English, and many Chinese interpreters' unfamiliarity with British slang, interpretation poses particular problems. Clear enunciation of conventional English in full sentences is helpful.

Eating

7. Much has been written about protocol at Chinese meals. The problems are exaggerated. The Chinese do not expect Westerners to be familiar with all their complicated politesses. However it is worth noting that it is politer to accept the topping up of one's plate or glass, and leave whatever is not wanted, than to decline what is offered; and that it is rude for guests to touch their chopsticks (or knife and fork) before the host.

/So,

So, at the return banquet, it is for the British hosts to make the first move. Meals normally finish promptly, once the last dish is finished.

Differences of Style

8. One aspect of Chinese behaviour which often surprises the Westerner, is the habit (often ingrained in and practised by the most senior Chinese) of hawking loudly and occasionally making use of the spittoons which are a common feature in public rooms. To the Chinese, this is as natural a practice as blowing noses into handkerchiefs is to Westerners.

Punctuality

9. The Chinese set great store by punctuality, and observe it punctiliously themselves (except on occasion at calls on their most senior State Leaders, who have been known to keep senior callers waiting for what we would regard as an unreasonable time).

Tipping

10. Tipping is not generally accepted (although words of thanks to eg guides and waiters are much appreciated).

PRIME MINISTER

Visit to Peking and Hong Kong

I attach the briefing folders for your visit to Peking and Hong Kong.

I am putting the main points for each meeting in Peking on to cards. There are also cards in the Hong Kong folder for supplementaries at your press conference.

The Peking briefs contain additional material which you asked for on the activities of British firms (annex to Brief 7) and recent developments in China (Briefs 9 and 10).

e.d.p.

C. D. POWELL

14 December, 1984

BRIEFING NOTE ²/₃: SIGNATURE CEREMONY

1. The signature ceremony will take place in the "Western Hall" of the Great Hall of the People at 1730 on 19 December. If, as is expected, the Prime Minister's meeting with Deng Xiaoping continues until shortly before the signature ceremony, all members of the two delegations except for Deng and the Prime Minister will go directly from the Fujian room (where the meeting with Deng will take place) to the signature hall where they will take their places. One or two minutes later Deng will escort the Prime Minister to a position in the "Northern Hall" (Annex 1) close to the entrance to the signature hall where President Li Xiannian and Premier Zhao Ziyang will be waiting. [If the meeting with Deng finishes earlier than expected, the Prime Minister and her delegation will be shown into a nearby anteroom from where the delegation, and shortly afterwards the Prime Minister herself, will be collected. In this case, the Prime Minister would be escorted by a Protocol official and would meet Li, Zhao and Deng close to the entrance to the signature hall.]
2. The Prime Minister and the three Chinese leaders will then enter the signature hall in a group (no particular order) and take their places.
3. Annex 2 indicates the layout of the signature hall. Annex 3 shows the places to be taken by the British delegation.
4. Once all participants have taken their places, the signature procedure will begin. The red bound copies of the agreement will be in front on the Prime Minister and Zhao. Stationery will be provided. Zhao will be assisted by Zhang Yu; the Prime Minister by Mr Blunt. The two assistants will open the folders at the appropriate pages. The Prime Minister will sign in the space above the Ambassador's initials first the English language then the Chinese language version of the

texts which we shall ultimately retain. Mr Blunt and Zhang Yu will then exchange folders so that the other side's documents can be signed by each leader. When this is complete Mr Blunt will insert into the Chinese folder the British memorandum and translation; Zhang Yu will insert into the British folder the Chinese memorandum and translation. The folders will then be closed and the Prime Minister and Zhao will exchange them. (The press hope that Premier Zhao and the Prime Minister will give ample time for photographing the exchange of agreement folders). The Prime Minister will return to her seat. First Zhao then the Prime Minister will deliver their speeches. There will be no interpretation. Translations will be circulated in advance to senior members of the two delegations. The Prime Minister will have a copy of Zhao's speech in front of her on the table. For presentational reasons other participants are asked not to read from their copies of speeches during the ceremony. Arrangements will be made for voice over interpretation for radio and TV broadcasts. Written translations will be made available to other participants and the press at the end of the ceremony.

5. After the speeches, glasses of champagne will be offered to all present except the press. The observers will at this point be able to leave their seats and mingle with the delegations.

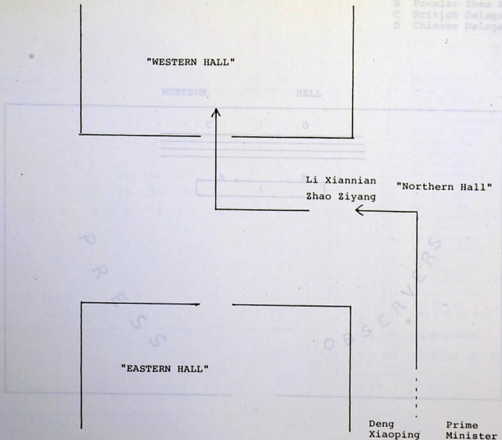
6. After the champagne toast, Li, Deng and Zhao will accompany the Prime Minister to just outside the door of the hall where they will take their leave of her, the Secretary of State and senior members of the British delegation before leaving themselves. The Prime Minister and her delegation will then be escorted to the cars by protocol officers.

7. The entire ceremony should last only about 30 minutes.

ANNEX 1

ANNEX 2

- A Prime Minister
- B Premier Zhao Ziyang
- C British Delegation
- D Chinese Delegation



from Fujian Room

- A Prime Minister
- B Premier Zhao Ziyang
- C British Delegation
- D Chinese Delegation

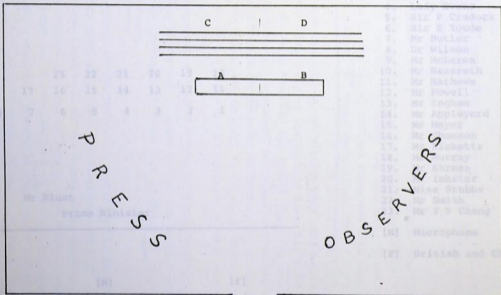
ANNEX 2

British
Delegation

WESTERN

Chinese
Delegation HALL

- 1. Secretary of State
- 2. Lady Howe
- 3. Sir N Evans



BRIEFING NOTE ONE

FORMAL WELCOMING CEREMONY

1. The ceremony will take place at 9 am on 19 December in Tiananmen Square in front of the Great Hall of the People (GHP). It will last for about 15 minutes.

2. On the Chinese side, in addition to Premier Zhao, there will be a total of 15-20 officials present, including Wu Xueqian, Ji Pengfei, Yao Guang and Zhou Nan. These, with the exception of Yao Guang, will be those who will take part in the talks between the Prime Minister and Zhao.

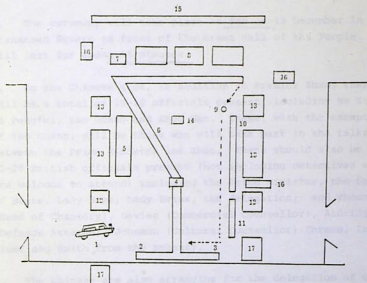
3. Those participating on the British side will be: Prime Minister, Secretary of State, Lady Howe, Sir Richard Evans, Lady Evans, Sir Percy Cradock, Sir Edward Youde, Mr Butler, Dr Wilson, Mr McLaren, Mr Powell, Mr Ingham, Mr Appleyard, Mr Meyer, Mr Ricketts, Mr Thomson, Mr Davies, Col Aldridge, Mr Johnson, Mr Ehrman, Mr Inkster, Mr Blunt, Mr Smith. The Detectives and Mr Y P Cheng may participate if they wish.

4. The delegation of observers from Hong Kong will also be present. They will stand on steps behind the Chinese and British groups, probably in three rows of about 40, as for the signature ceremony.

5. Those staying at the Diaoyutai, including the Secretary of State and Lady Howe, will leave the Guesthouse at 8.30 am and will wait in the Great Hall of the People until taken to their positions by Chinese protocol officials. The Prime Minister (only) will leave the Guesthouse at 8.50 am and will be driven directly to the ceremony. Members of the Embassy taking part should be in the Great Hall (enter at the North Door) by 8.30 am to wait with the rest of the delegation. The observer delegation will also assemble in the Great Hall at the same time.

ORDER OF PROCEEDINGS (see explanatory diagram attached)

6. The usual practice on these occasions is for the Chinese and British groups to wait respectively in the Hebei Room and the Northern Room in GHP. Ten minutes before the ceremony, they will leave GHP for the reception area in front of the eastern entrance to form the reception line on each side of the red carpet.
7. The Prime Minister will arrive on schedule at the reception area by car. Premier Zhao will greet the Prime Minister and will present the Chinese senior officials to the Prime Minister and will meet with the senior members of her entourage.
8. The Prime Minister, accompanied by Premier Zhao on her left, will mount the dias. The Military Band will play the national anthems of the two countries while a 19 gun salute is fired. The Commander of the Guard of Honour will march forwards, report and invite the Prime Minister to inspect the Guard of Honour. The Prime Minister, accompanied by Premier Zhao, will descend from the dias and will walk along the red carpet to inspect the Guard of Honour, with its Commander marching behind on her right.
9. The Prime Minister and Premier Zhao will stop before the Army Flag, and the Prime Minister will give a salute. The Prime Minister, in the company of Premier Zhao on her right, will inspect the Guard of Honour of the Three Services.
10. After the inspection, children will offer a bouquet to the Prime Minister. The Prime Minister and Premier Zhao will walk past the welcoming lines of children and will meet with members of the Embassy.
11. The Prime Minister and Premier Zhao will mount the dias again and will review the march-past of the Guard of Honour. They will then descend from the dias, and together with members of both parties attending the welcoming ceremony, will return to the Great Hall of the People.
12. Those participating in the courtesy call on Premier Zhao



Explanation

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| 1. Place where Guest of Honour gets off limousine | Guest of Honour |
| 2. Chinese senior officials | 10. Welcoming lines of children |
| 3. Entourage of Guest of Honour | 11. Members of Embassy of guest country in China |
| 4. Dais | 12. National flags of host and guest countries |
| 5. Military Band of Chinese People's Liberation Army | 13. Flower beds |
| 6. Red carpet | 14. Commander of Guard of Honour |
| 7. Army Flag | 15. Red flag holders |
| 8. Guard of Honour of the Three Services | 16. Cameramen's stands |
| 9. Place where bouquet is presented to | 17. Journalists |

WELCOMING CEREMONY IN PEKING, 19 DECEMBER

1. The ceremony will take place at 9am on 19 December in Tiananmen Square in front of the Great Hall of the People. It will last for about 15 minutes.
2. On the Chinese side, in addition to Premier Zhao, there will be a total of 15-20 officials present, including Wu Xueqian, Ji Pengfei, Yao Guang and Zhou Nan. These, with the exception of Yao Guang, will be those who will take part in the talks between the Prime Minister and Zhao. There should also be some 15-20 British officials present (not including detectives who are welcome to attend) including the Prime Minister, the Secretary of State, Lady Howe, Lady Evans, the delegation; and Thomson (Head of Chancery), Davies (Commercial Counsellor), Aldridge (Defence Attache), Johnson (Cultural Counsellor) Ehrman, Inkster, Blunt and Smith from the Embassy.
3. The Chinese are also arranging for the delegation of observers from Hong Kong to be present. They will stand on steps behind the Chinese and British groups, probably in three rows of about 40, as for the signature ceremony.
4. All members of the delegation except the Prime Minister will leave the Guest House at 8.30am and will wait in the Great Hall of the People until taken to their positions by Chinese protocol officials. The Prime Minister (only) will leave the Guest House at 8.50am to wait with the rest of the delegation. The observer delegation will also assemble in the Great Hall at the same time.
5. The ceremony itself will comprise an inspection by the Prime Minister (accompanied throughout by Zhao) of a Guard of Honour and lines of children, who will offer a bouquet to the Prime Minister: and presentation of the Chinese and British officials present (the Embassy will hand over full details and an explanatory diagram to the delegation on arrival).

6. At the conclusion of the ceremony everyone will be ushered back into the Great Hall of the People. Those participating in the courtesy call and the subsequent talks will be taken to the meeting room while others will leave the Great Hall under the direction of Chinese officials.

SIGNATURE CEREMONY: 1730 HOURS 19 DECEMBER 1984
GREAT HALL OF THE PEOPLE, PEKING

1. Following her meeting with Deng Xiaoping, the Prime Minister will enter the Western Hall of the Great Hall of the People with Deng, Li Xiannian and Zhao Ziyang. The table on which the signature will take place will be opposite the entrance to the Hall. Premier Zhao will be seated at the left hand end of the table (facing into the room) and the Prime Minister will be seated at the right hand end of the table.
2. The delegations will already have taken their places: the Chinese delegation behind Premier Zhao and the British delegation behind the Prime Minister. The observers will be in rows on the right hand side of the Hall, facing towards the signature table. The press will be on the left hand side of the Hall, facing towards the signature table. (The Embassy will have a diagram ready for the Prime Minister on arrival).
3. The Prime Minister will first sign the copies of the English and Chinese language versions of the Joint Declaration held by the British side. Premier Zhao will sign the Chinese Government's copies. The folders will be exchanged by aides. The Prime Minister will then sign the Chinese Government's copies while Premier Zhao signs our copies. There will thus be a total of four signatures by each Prime Minister. The date will already have been entered on all copies of the Joint Declaration.
4. The Memoranda on Nationality will be placed in their respective envelopes inside the folder of the other side after the Prime Minister and Premier Zhao have completed their fourth signatures. They will thus be exchanged when the agreement folders are exchanged by the two Prime Ministers before the speeches. They do not require signature or initialling.
5. Premier Zhao will make his speech after the folders have been exchanged for the second time. The Prime Minister will then make her speech. Both speeches will be translated paragraph by paragraph. They will be followed by a champagne toast bringing in the delegations and observers.
6. After the toast the Prime Minister will be escorted from the Hall by Li, Deng and Zhao. They will then take leave of the Prime Minister and senior members of the British delegation, who will be escorted to their cars by Protocol officers.

WELCOMING BANQUET IN PEKING, 19 DECEMBER

1. The total number present will be around 400, including the whole delegation, all members of the Embassy, all the Hong Kong observers and some press. Apart from Premier Zhao, Vice Premier Wan Li and State Councillor Ji Pengfei will also be present on the Chinese side.
2. At 7.30pm Zhao Ziyang will greet the Prime Minister. There will be a brief photocall and they will then enter for the banquet. Drinks will be served for 15 minutes with guests split into two groups. (Delegation, observers and some members of the press to the east of the room, Embassy and other press on the west side.) All guests will then take their seats. Speeches will be made without interpretation before the meal begins. Those members of the press who have not been invited to attend the banquet will leave immediately after the speeches. During the banquet a Chinese military band and traditional orchestra will play.
3. After the banquet senior officials will accompany the Prime Minister to a separate hall for presentation of the word processor to Premier Zhao. After presentation of the word processor the Prime Minister will leave the Great Hall and Secretary of State and Wu Xueqian will hold their meeting in an adjacent room.