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RECORD OF A MEETING BETWEEN
THE PRIME MINISTER
AND
PREMIER ZHAO ZIYANG
AT
THE GREAT HALL OF THE PEOPLE, PEKING
ON
19 DECEMBER, 1984, AT 9.35 A.M.

PRESENT:

The Rt Hon Margaret Thatcher, FRS, MP, Prime Minister
The Rt Hon Sir Geoffrey Howe, QC, MP, Secretary of State for
Foreign and Commonwealth Affairs
Sir Richard Evans, KCMG, H.M. Ambassador, Peking
Sir Percy Cradock, GCMG, Deputy Under Secretary of State, FCO
Sir Edward Youde, GCMG, MBE, Governor of Hong Kong
Mr F E R Butler, Principal Private Secretary to the Prime Minister
Dr D C Wilson, Assistant Under Secretary of State, FCO
Mr R J T McLaren, CMG, Assistant Under Secretary of State, FCO
Mr C D Powell, Private Secretary to the Prime Minister
Mr B Ingham, Chief Press Secretary to the Prime Minister
Mr L V Appleyard, Principal Private Secretary to the Secretary of State
Mr C J Meyer, Head of News Department, FCO
Mr P A B Thomson, Counsellor, British Embassy, Peking
Mr H L Davies, Commercial Counsellor, British Embassy, Peking
Mr W G Ehrman, First Secretary, British Embassy, Peking
Mr P F Ricketts, Private Secretary to the Secretary of State
Mr D G Blunt, First Secretary, British Embassy, Peking
Mr T W M Smith, Second Secretary, British Embassy, Peking
Mrs G T Ellis, Attache, British Embassy, Peking
Mr Y P Cheng, Interpreter

HE Mr Zhao Ziyang, Premier of the State Council
HE Mr Ji Pengfei, State Councillor
HE Mr Wu Xueqian, State Councillor and Foreign Minister
HE Mr Zhou Nan, Vice-Minister of Foreign Affairs
HE Mr Jia Shi, Vice-Minister of Foreign Economic Relations and Trade
HE Mr Chen Zhaoyuan, Chinese Ambassador at London
Mr Guo Fengmin, Director of the Western European Department of
the Foreign Ministry
Mr Tang Longbin, Director of the Protocol Department of the
Foreign Ministry

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Mr Ma Youzhen, Director of the Information Department of the
Foreign Ministry

Mr Shao Tianren, Legal Adviser to the Foreign Ministry

Mr Lu Ping, Adviser to the Foreign Ministry

Mr Ke Zaishuo, Adviser to the Foreign Ministry

Mr Luo Jiahuan, Counsellor of the Western European Department
of the Foreign Ministry

Mr Yue Junqing, Division Chief of the Western European
Department of the Foreign Ministry

Madame Zhang Youyun, Interpreter

Chinese notetakers

HONG KONG

1. After an exchange of courtesies, the Prime Minister said that when she had come to Peking two years ago Britain and China had embarked upon a great adventure. She had not known quite how it would turn out and had indeed wondered whether work could be completed within the time limit of two years set by Chairman Deng Xiaoping and Premier Zhao. In the event, had a time limit not been set, the two sides might not have given the subject the concentration which it had required and warranted.
2. The Prime Minister continued that she could not over-emphasise the importance which we attached to the agreement: it was for that reason that she had been so pleased when it was suggested that she and Premier Zhao should sign it on behalf of their respective governments. The agreement fully met the interests of both countries and laid a foundation for the people of Hong Kong to build an even more flourishing community than they already possessed. The friendly relations between Britain and China had enabled the two countries to achieve the agreement; the fact of the agreement now created the basis for greater cooperation and even more friendly relations between the two countries.
3. The Prime Minister said that she would like to make three points about the agreement. First, the government which she led was committed to implementing the Joint Declaration in every respect. It would be both its pride and duty to do so. We appreciated the very clear and categorical statements that Chairman Deng and Premier Zhao had made to the same effect. Those statements had contributed to the excellent reception which the agreement had received both from the international community and in Hong Kong. Hong Kong people had told her of Premier Zhao's statement to them pledging total commitment to the fulfilment of the agreement; they had found that very reassuring indeed and were most grateful for it. Britain was of course committed to working very closely with China to put the agreement into effect.
4. Secondly, we were very much aware that a task of particular importance would be the drafting of the Basic Law. A considerable part of the substance of that law was indicated in the agreement, but Premier Zhao would be aware that the people of Hong Kong were naturally concerned about its drafting. The Prime Minister said that she had greatly appreciated the Premier's statement to a Hong Kong delegation that when the time came to draft the Basic Law, the Chinese Government would "solicit opinion from a wide range of people in Hong Kong". This would be extremely important, both for the maintenance of confidence and also to ensure that the Basic Law would be right for the capitalist system, in accordance with Chairman Deng Xiaoping's concept of "one country, two systems". The Hong Kong people possessed a good deal of expertise on the capitalist system and would wish to indicate certain things which would help make the Basic Law totally consistent with it. The "one country, two systems" concept

would have to be embodied in a form which would work in Hong Kong's courts. The Basic Law and Hong Kong's legal system had to be compatible. The Prime Minister underlined the great importance of the drafting for also ensuring that the transition in 1997 would be, as we wanted it to be, totally smooth.

5. Thirdly, the Prime Minister assured Premier Zhao that preserving Hong Kong's stability and prosperity during the remaining years of British administration would be a principal British aim. The Hong Kong Government was well aware of the necessity of this. She could assure the Premier that financial management in the territory would remain as prudent and cautious in the future as it had been in the past. Hong Kong already exercised full control over its budget and over the exchange fund, as it would continue to do after 1997. Land leases would be dealt with in accordance with the Joint Declaration. The Prime Minister said that she wished to assure the Chinese Government again that Britain derived no direct revenue from Hong Kong. Nor would she derive any in the future.

6. The Prime Minister said that it was important not just that we should act in the manner she had outlined but that we be seen to do so in the eyes of the world. The British Government had been very pleased at the statements which the international community had made about the agreement. They had been most helpful. The US, Japan, Canada, Australia - all countries of great importance - had expressed their pleasure in the agreement and their confidence in Hong Kong's future.

7. The Prime Minister said that she wished to add one final point. The Chinese Government would be aware of proposals for constitutional development in Hong Kong. We were anxious to give the people the experience which they needed to run their own administration after 1997 to a greater extent than they did now. We would go steadily and surely. It was important to build securely, brick by brick. We would move forward in very close consultation with the people of Hong Kong in order to carry them with us. This would ensure the smoothest possible transition.

8. The Prime Minister concluded by expressing appreciation for the detailed consideration given by Zhou Nan, under the watchful eye of Wu Xueqian, to the agreement, and for the efforts of all the Chinese officials who had so ably supported him.

9. Premier Zhao thanked the Prime Minister for her comments on the agreement. Most of the views which she had expressed were shared by the Chinese Government. It was not improper to describe the conclusion of the agreement as a great event in contemporary world history. It had not only successfully solved the question of China's resumption of the exercise of sovereignty over Hong Kong, but it was also conducive to the maintenance of the territory's long-term stability and prosperity and to peace in Asia and the world as a whole. It had opened a new chapter in the history of Sino-British cooperation and friendship. It had also provided fresh experience for the resolution of issues left over from the past.

10. The agreement, as the Prime Minister had pointed out, fully conformed with the interests of the entire Chinese people, including the compatriots of Hong Kong, as well as with the interests of the British people. On behalf of the Chinese Government, Premier Zhao expressed his appreciation and thanks to the Prime Minister for the vision and statesmanship which she had displayed and which had so signally contributed to the successful conclusion of the agreement. He also expressed his thanks to Sir Geoffrey Howe who had visited China at two crucial moments during the talks, giving fresh impetus to them on each occasion. Credit should also be given too to the two government delegations, headed respectively by Wu Xueqian and Sir Geoffrey Howe.

11. Now the task was to implement the agreement in every respect. China was ready to do so. Premier Zhao was sure that Britain was also ready to do so. The concept of "one country, two systems" was a policy upon which the Chinese Government had settled after very careful consideration. It was not a measure of expediency. Recently the Sixth National People's Congress (NPC) had held the 8th session of its Standing Committee which, on 14 November, had endorsed the agreement. It had at the same time decided that, after the formal signing, the agreement would be submitted to the Third Plenary Session of the NPC which would be held in the first half of 1985. It was a tradition of the Chinese nation to act in good faith. China always lived up to her international commitments. Even during the years of domestic turmoil she had lived up to them. She had a good historical record in this respect. The agreement reached on Hong Kong was such a good agreement that no one wanted to alter or change it. The Chinese people supported it, the British people supported it, and so did the people of Hong Kong. The agreement had also received a very positive response from the international community. That said, there were a handful of people in the world who harboured doubts about it. They feared there might be some change in the policies now pursued by the Chinese Government. There were no grounds for such doubts. They were unnecessary. China would prove her words by her deeds.

12. Now a transitional period of 12½ years lay ahead. China was concerned about this period. If everything passed smoothly and if the Hong Kong economy prospered, a solid foundation would be laid for the 50 years after 1997. It was the shared desire of China and Britain to maintain the stability and prosperity of Hong Kong during the transitional period in order to ensure a smooth transfer of Government in 1997. However, sometimes there could be a gap between a subjective wish and an objective reality. Measures were therefore called for to ensure that the subjective wish would translate into the objective reality. As a Chinese proverb put it: "If preparations are made, troubles may be averted. Without preparations there will be troubles". In the past, on a number of occasions, the Chinese had let their British friends know some of their worries about the possibility of disturbances during the transitional period. They hoped the

British side would take preventative measures to avert the possible occurrence of troubles. It was very important for the two sides to enhance their mutual trust and to intensify their cooperation.

13. Premier Zhao referred to the Prime Minister's expression of concern about the drafting of the Basic Law. For their part, the Chinese would make efforts to expedite its drafting. It should give expression to the agreement which had been reached and should be widely welcomed by the people of Hong Kong. In accordance with the Chinese Constitution, the NPC first had to authorise the establishment of a Hong Kong Special Administrative Region. Then a Basic Law drafting committee would be set up. These measures would be taken by the Third Session of the Sixth NPC. The drafting committee would then start its work as soon as possible. The committee's composition and working procedures were matters for the Standing Committee of the NPC, but the Prime Minister could rest assured that in the course of drafting the views of the people of Hong Kong would be solicited on a wide basis. The Basic Law would be promulgated no later than 1990.

14. Turning to questions of constitutional development in Hong Kong, which the Prime Minister had touched upon, Premier Zhao said that the Basic Law would define the government structure, the form of legislature and the method of selection of the Chief Executive of the future Special Administrative Region. The Chinese Government was not prepared to make any comment on constitutional development during the transitional period. In principle, like us, they wanted to see more and more Hong Kong people working in Government departments in Hong Kong and playing an even greater role than hitherto. But any measures to this end should not adversely affect the stability and prosperity of Hong Kong or the smooth transfer of government in 1997. He said that he was sure the British Government was well aware of these Chinese concerns and would take them fully into consideration.

15. The Prime Minister thanked Premier Zhao for his remarks. She wished to comment on one or two points. The first was on implementation. Could she repeat Premier Zhao's assurances to the people of Hong Kong? They were facing what for them was a great change. People were always a little bit fearful of change. They needed constant reassurance. Premier Zhao said that he would welcome it if the Prime Minister were to repeat his assurances.

16. The Prime Minister said that she agreed with Premier Zhao that if there were preparations then troubles would be averted. There was a similar saying in Britain: "Be prepared". Premier Zhao had been wise to mention this point because undoubtedly there would be some troubles (she would be very surprised if there were no troubles) during the next 12½ years. It would be absolutely vital that we stay totally calm and decisive and that we remain in consultation through the Joint Liaison Group. She had always found that calmness and knowing what to do was critical in any period of trouble, as was staying in close touch. If we were prepared for the fact that there might be trouble then we would be able to handle it well.

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17. Her third comment related to the assurances given by Premier Zhao that in the course of drafting the Basic Law the views of the people of Hong Kong would be solicited on a wide basis. Could she also repeat this assurance in Hong Kong? Premier Zhao said that she could.

18. The Prime Minister said that the House of Commons had approved the agreement on 5 December and the House of Lords on 10 December. We were pledged to secure ratification by 30 June 1985.

19. Premier Zhao said that a satisfactory agreement on the question of Hong Kong had been reached by the two sides through showing mutual trust, through friendly cooperation and through setting store by their respective countries' greater interests. If work continued in the same spirit, China and Britain would succeed in fully implementing the agreement.

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BILATERAL ISSUES

20. The Prime Minister said that Chairman Deng Xiaoping and Premier Zhao had invited Her Majesty The Queen to consider paying a visit to China. The Queen was very happy to accept in principle. Her visits were already arranged for 1985, but she had reserved the second half of 1986 for a visit and was looking forward to it very much indeed. Premier Zhao said that China eagerly looked forward to the visit to be paid by Her Majesty in the second half of 1986. He suggested September as an ideal month to visit. The Prime Minister indicated that The Queen usually spent September in Scotland. She suggested, and Premier Zhao agreed, that dates be further discussed in consultation with Buckingham Palace.

21. The Prime Minister said that she herself would be delighted to welcome Premier Zhao to Britain in 1985, as early as he wished to come. She understood that he might be considering visiting Europe in June. Premier Zhao said that he looked forward to visiting Britain in June.

22. The Prime Minister said that she very much welcomed Premier Zhao's expressed wish that trade should grow faster. Britain carefully studied China's plans for the modernisation of those industries in which Britain possessed a special expertise. The Prime Minister proposed that an official government trade delegation, under the leadership of Lord Young, should visit China in early 1985 to hold detailed discussions on how to expand Sino-British trade. Premier Zhao said that he would warmly welcome this delegation. March would be the best time as it would allow for the visit to be well prepared and would follow the Spring Festival Holiday. The Prime Minister agreed. The visit must go well. Lord Young would bring with him a party of very high level British businessmen.

23. The Prime Minister said that she was very pleased that work in developing China's offshore oil and gas was going well. BP were participating in this and were prepared to do further work in the South China Sea. British oil companies probably possessed more expertise than any others in exploration and production work in harsh weather areas. Britain also possessed great expertise in the mining of coal. We possessed advanced mining equipment and our manufacturers were already in contact with China.

24. The Prime Minister said that progress was being made towards the establishment of the joint venture company for the Guangdong nuclear project. It was a very exciting project which the British Government wished well. We had done something about credit for it, making the best premium terms available. Premier Zhao said that the nuclear project joint venture would be not only the largest China/UK joint venture but also the largest between China and any foreign country since inception of China's opening to the outside world. He hoped that both sides would cooperate to make it successful. GEC would be providing the generating equipment. Since this would be GEC's first experience in manufacturing this type of generator, the Chinese hoped that the prices set would take account of this fact. Premier Zhao also

expressed the hope that the British side would set a limit on price escalation and would help over the OECD consensus rate. In sum, he was asking that Britain should give favourable terms. The Prime Minister pointed out that GEC had great experience in building generators of high quality, even if they had not made them of this particular size. She was fully confident of GEC's ability. As to the point about price, she would pass this on to Lord Weinstock. She would also pass on to those concerned the point about price escalation. She commented that one factor in price escalation was inflation, and this was the responsibility of governments to control. The British Government was playing its part in this respect.

25. On aerospace, the Prime Minister welcomed the news of the signature of a memorandum of understanding under which China intends to buy five Airbus 310. It was also welcome that a Memorandum of Understanding had been signed for fifteen 36-seater Short Brothers aircraft. The Prime Minister went on strongly to urge the Chinese Government to buy the BAE 146, referring to the successful demonstration tour in July and to the long period of negotiations. She listed the airlines which had already ordered the aircraft and referred to BAE's long relationship with CAAC. Premier Zhao said that it was true that CAAC would be buying many aircraft. He would convey what the Prime Minister had said about the BAE 146 and thought that CAAC would take this into positive consideration.

26. More generally, Premier Zhao thanked the Prime Minister for her positive observations on political and economic bilateral relations. China had always attached importance to cooperation in the technological and economic field. In recent years a number of Sino-British agreements had been signed which had opened up new vistas for development of these relations. China had a number of times expressed the hope that the percentage of her foreign trade occupied by Western Europe would increase. Now a satisfactory agreement on Hong Kong had ushered in a new era for friendly Sino-British cooperation. One aspect of this should be an increase in economic and technological interchange. It was China's policy to increase trade with Britain, but it was for Britain to enhance the competitiveness of her products. China took considerations of quality, price and transfer of technology terms into account in deciding on which products she should buy. She did not consider price alone. The attitude of Western European countries, including Britain, to transfer of technology was more liberal than that adopted by the US and Japan. Premier Zhao agreed that areas for Sino-British economic cooperation included offshore oil, where British companies had much expertise, coal, where not only British equipment but also British design and management techniques were advanced (Premier Zhao mentioned that he had been very impressed with British design for the Jining No 2 Coal Project in Shangdong), energy saving equipment and aircraft.

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27. On culture, Premier Zhao thanked the Prime Minister for increasing the number of scholarships for Chinese students in Britain. He hoped that this trend would continue. The Prime Minister agreed that this was a very good scheme and that it was working well. She remarked on the success of the British Council's language training schemes in Peking and mentioned that she was pleased with the sale of a number of good BBC TV programmes to China.

INTERNATIONAL ISSUES

28. Turning to international issues, the Prime Minister first commented on East-West relations. A number of factors had recently combined to cause the Soviet Union and the United States both to consider the resumption of negotiations on arms control. The chances of results were better than in the last two or three years. The prospect of the development of a new generation of weapons in outer space had been instrumental in bringing about the resumption of talks. We recognised that each country, including the Soviet Union, had to feel secure within its own borders and in its own way of life. For that, a balance of forces was necessary. The choice was between a balance at a high level of armaments or reaching agreement which could secure a balance at lower levels. Any such agreement had to be verifiable. Because the cost of moving to the next generation of weapons was so high, it was right to seek balance at lower levels. It was an opportunity that must not be missed, although a great deal of detailed and complex negotiations on all types of weapons and forces was necessary.

29. The Prime Minister said that she and Gorbachev, during their recent discussion, had agreed that neither side should look at the other through rose-tinted spectacles. Each looked from the view-point of two very different systems. Nevertheless, two views were held in common:

- (a) there must never be another major world conflict; and
- (b) there was anew urgency about seeking arms control agreements.

30. Premier Zhao said in reply that China understood why a number of Western European countries had agreed to INF deployment to offset Soviet nuclear superiority in Europe. But the escalating arms race, particularly in nuclear weapons, was making the situation in Europe and the whole world even more tense, which was a matter of concern to people throughout the world and also to the Chinese Government. China hoped to see relaxation of tension between the two sides and was glad to see recently more contact and an improvement in relations between countries of East and West Europe.

31. China welcomed the agreement between the Soviet Union and the United States to resume arms control talks in January and hoped this would lead to a relaxation of tension and genuine disarmament. Nevertheless, the process would clearly be a difficult one. It seemed that it represented merely a change of tactics by the two superpowers - neither had in fact abandoned its intention of seeking military superiority. Zhao hoped that countries close to the United States, particularly Britain, would urge the US to abandon efforts to seek such superiority. He had recently told the visiting Norwegian Premier that although the Soviet Union faced economic difficulties in sustaining military expenditure, nevertheless the Soviet people would be willing to make sacrifices if the Soviet Union felt insecure as

a result of American failure to show restraint. China therefore hoped the United States would show restraint in INF deployment and would make efforts to reach agreement with the Soviet Union.

32. The Prime Minister pointed out that the superpowers were fundamentally different. The Soviet brand of communism, unlike any other political system, had world domination as its objective, which it sought through the threat posed by the great forces at its command, through active subversion and through the use of proxy forces such as the Cubans. The United States on the other hand used its strength solely for defence. Despite having for years had a total monopoly on nuclear weapons, the United States had at no stage used that power to extend its territory.

33. She continued that nuclear weapons, by their horrific power, had provided a kind of security that did not exist before, provided no nation obtained a means to knock out another's nuclear weapons. The current escalation was because each side felt that the other might first develop such a capacity and so upset the balance. The Prime Minister said one of her tasks was to explain to the Soviet Union that the United States was not seeking superiority but that balance could be upset if one side got so far ahead that the other felt insecure. Another task was to convince the Soviet Union that the West was sincere in wanting genuine disarmament. This could not be achieved without other measures to relax tension and build confidence. The Prime Minister concluded by emphasising that world security would not be helped by an agreement which merely resulted in the relocation of existing Soviet nuclear weapons.

34. Premier Zhao replied that China's views on the nature of the Soviet knion were identical to ours. He had made his point about the escalation of the arms race against the background of a new posture on the part of both the Soviet Union and the United States. In the 70s it had been the Soviet Union that was increasing its armaments, but now the situation was different, particularly after the United States deployment of the first INF in Europe. It was in that context that he had said the United States should show restraint. He asked the Prime Minister to convey his greetings and 'regards to President Reagan and to say that China sincerely hoped to see the development of healthy Sino-US relations on an enduring and steady basis and hoped that in the President's second term there would be further development of existing relations on the basis of the three joint communiques.

35. On Sino-Soviet relations Premier Zhao said that the situation was unchanged. Progress depended on the removal of the three obstacles. No progress had been made in this respect either at the Foreign Ministers' meeting at the UN or at the most recent round of normalisation talks. But exchange in the economic, technological and cultural fields had increased

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and would continue to increase. The forthcoming visit of Arkhipov would be concerned mainly with economic and trade matters, for which Arkhipov was responsible. Premier Zhao did not expect the three obstacles or the normalisation of relations would be discussed during the visit but if they were, no progress was expected.

The meeting concluded at 12.15 p.m.

BRITISH EMBASSY
PEKING

28 December 1984

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