

5
808

PREM 19/1055

PART 6 ends:-

ASC to PM 30/6

PART 7 begins:-

FCO to ASC 1/7

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.

House of Commons HANSARD, 15 April 1983, columns 1059 to 1111: Dependent Territories

Signed J. Gray Date 20/5/2013

PREM Records Team

①

PRIME MINISTER

Hong Kong

You are seeing the unofficials at 3.30 on Monday.
There will be about eleven of them and I suggest we
✓ use the Cabinet Room.

On this occasion, I think there would be value
in having your "Hong Kong team" with you because some
of the faces will not be known to the unofficials.

✓ It will be particularly useful for Richard Luce to be
present as well as the Foreign Secretary since he looks
after Hong Kong in the FCO and may need to visit the
Colony.

I therefore suggest that you are accompanied by
the Foreign Secretary, Richard Luce, Antony Acland and
Alan Donald. Agree?

Y
Luce MR

A.J.C.

30 June 1983

SECRET

SECRET

56

DESKBY 291100Z (BOTH)

FROM PEKING 200910Z JUN 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 605 OF 29/6/83

*head in bill.**MS*

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: PRESS ANNOUNCEMENT

1. I WAS TELEPHONED THIS AFTERNOON BY ASSISTANT MINISTER ZHOU NAN, WHO SAID HE (AND IT TRANSPIRED YAO GUANG) WAS WORRIED AT MY STATEMENT ON 28 JUNE THAT HONG KONG WOULD WISH TO ISSUE THE PRESS ANNOUNCEMENT SEPARATELY IN ADDITION TO LONDON AND PEKING ON 1 JULY. THE CHINESE HAD MADE IT PLAIN THE NEGOTIATIONS WERE BILATERAL BETWEEN BRITAIN AND CHINA AND THAT THERE SHOULD BE A JOINT SINO-BRITISH ANNOUNCEMENT. IF THERE WERE A SEPARATE HONG KONG ANNOUNCEMENT IT WOULD GIVE THE IMPRESSION THAT HONG KONG WAS AN EQUAL THIRD PARTY. THE ACCOUNEMENT OF THE GOVERNOR'S ATTENDANCE MIGHT ALSO BE MISCONSTRUED IN THIS SENSE.

2. I SAID THE NEED FOR A HONG KONG ANNOUCEMENT AROSE FROM THE PLAIN FACT THAT WE WERE TALKING ABOUT HONG KONG'S FUTURE. HONG KONG WAS DIRECTLY AND INTIMATELY INVOLVED. IT WAS UNREAL TO EXPECT THAT ITS PRESS COULD BE GAGGED. MOREOVER, THE GOVERNOR WOULD HAVE TO ANNOUNCE HIS PARTICIPATION AND HIS MOVEMENTS. HE COULD NOT TRY TO LEAVE BY STEALTH. FAILURE TO MAKE AN OFFICIAL ANNOUNCEMENT IN HONG KONG WOULD PROMPT THE MOST DANGEROUS SPECULATION. I REMINDED ZHOU NAN THAT YAO GUANG HAD NOT DEMURRED AT MY STATEMENT YESTERDAY.

3. ZHOU SAID THAT YAO GUANG (AND HE IMPLIED OTHERS) WAS UNHAPPY NOW. IF THERE WERE AN INDEPENDENT HONG KONG ANNOUNCEMENT THE CHINESE SIDE MIGHT BE FORCED TO ISSUE SUPPLEMENTARY CLARIFICATION THAT THIS WAS A PURELY BILATERAL MATTER.

4. AFTER FURTHER ARGUMENT I SUGGESTED AN ANSWER MIGHT BE TO DELAY THE HONG KONG ANNOUNCEMENT BY, SAY, AN HOUR AND THEN SAY IT HAD JUST BEEN ANNOUNCED IN LONDON AND PEKING THAT.....THE GOVERNOR'S POSITION, IE AS A MEMBER OF THE BRITISH DELEGATION, WOULD BECOME PLAIN IN ANSWER TO PRESS QUESTIONS. AFTER SOME HESITATION, IN WHICH HE SAID THE CHINESE SIDE HAD NEVER ACCEPTED THE THREE-LEGGED-STOOL APPROACH, ZHOU NAN SAID THIS SHOULD BE ACCEPTABLE. I SAID I HAD MADE THE PROPOSAL ON THE USUAL PERSONAL BASIS AND WOULD CHECK THAT IT REPRESENTED MY GOVERNMENT'S VIEW.

SECRET*THE*

SECRET

5. THE ABOVE IS, IN MY VIEW: THE ONLY WAY ROUND THIS NEW OBSTACLE AND I HOPE YOU WILL ALLOW ME TO CONFIRM TO ZHOU NAN THAT WE SHALL PLAY THINGS THIS WAY. WE MUST AVOID SUPPLEMENTARY CLARIFICATION OR ANY PUBLIC SUGGESTION OF DISAGREEMENT. THE INCIDENT UNDERLINES EXTREME CHINESE SENSITIVITY ON THE BILATERAL NATURE OF THE GAME AND THE NEED FOR GREAT CIRCUMSPECTION IN WHAT IS SAID TO THE PRESS IN HONG KONG.

CRADOCK

FUTURE OF HONG KONG

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MR WALKER, RESEARCH DEPT

2
SECRET

55

SECRET

GR 50

SECRET

FM HONG KONG 290945Z JUN 83

TO PRIORITY FCO

TELEGRAM NUMBER 904 OF 29 JUNE

INFO PRIORITY PEKING

mf

PEKING TELS NOS 599 TO 601: FUTURE OF HONG KONG

1. I INFORMED EXCO THIS MORNING OF THE OUTCOME OF THE AMBASSADOR'S MEETING WITH YAO GUANG REPORTED IN TELS UNDER REF. THEY ASKED ME TO CONVEY THEIR CONGRATULATIONS TO SIR P. CRADOCK ON THE SKILL WHICH HE HAD DISPLAYED IN CONDUCTING THE NEGOTIATIONS ABOUT THE AGENDA FORMULA AND THE ANNOUNCEMENT. THIS I READILY AGREED TO DO.

YOUDE

THIS TELEGRAM
WAS NOT
ADVANCED

FUTURE OF HONG KONG

LIMITED

HD/HKD

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54

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 FM HONG KONG 291015Z JUN 83
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 905 OF 29 JUNE 1983
 INFO IMMEDIATE PEKING

A.J.C. 27/6

h-a

PEKING TELNO 593: FUTURE OF HONG KONG: OPENING STRATEGY

1. UNDER CERTAIN CIRCUMSTANCES I AM NOT OPPOSED TO THE USE OF SUB-COMMITTEES ALTHOUGH FOR THE REASONS SET OUT BELOW I DO NOT SEE THE CONTRIBUTION WHICH SUB-COMMITTEES COULD MAKE AS LIKELY TO BE OF SUCH SIGNIFICANCE IN OUR STRATEGY AS THE AMBASSADOR DOES. BUT BEFORE WE SET THEM UP WE NEED TO BE QUITE CLEAR IN OUR OWN MINDS AS TO THE PURPOSE THEY WOULD SERVE , WHAT THEIR FUNCTION WOULD BE , AND HOW THEY WOULD OPERATE.
2. AS REGARDS THE PURPOSE, OUR AIM IN THE TALKS IS TO CONVINCHE THE CORE OF SENIOR POLITICAL LEADERS WHO ARE RESPONSIBLE FOR POLICY ON HONG KONG OF THE NEED FOR CONTINUING BRITISH ADMINISTRATION. THEIR PRESENT FAILURE TO UNDERSTAND (OR AT ANY RATE ACCEPT) THIS IS UNLIKELY TO BE BASED ON LACK OF ACTUAL INFORMATION ON HOW THE ADMINISTRATIVE, FINANCIAL AND LEGAL SYSTEMS IN HONG KONG WORK. THIS INFORMATION IS FREELY AVAILABLE IN A VARIETY OF PUBLISHED DOCUMENTS. NOR DO THEY LACK SENIOR ADVISERS WHO UNDERSTAND VERY WELL THE QUOTE COMPLEXITIES OF THE HONG KONG FABRIC UNQUOTE (PARA 4 OF PEKING TUR). FOR EXAMPLE AS REGARDS THE FINANCIAL SYSTEM, THE HONG KONG DOLLAR ETC. THE SENIOR DIRECTORATE OF THE BANK OF CHINA (WHO ARE PEKING APPOINTED) OPERATE SUCCESSFULLY AND WITH PROFESSIONAL COMPETENCE IN HONG KONG AND THERE IS NOT MUCH THAT THEY COULD BE TAUGHT ABOUT E.G. THE EXCHANGE FUND. IN SHORT, TECHNICAL SUB-COMMITTEES ARE NOT GOING TO ADD VERY MUCH TO THE (NEXT TWO WORDS UNDERLINED) FACTUAL INFORMATION ALREADY AVAILABLE TO SENIOR CHINESE LEADERS FROM THEIR OWN SIDE ON THE OPERATION OF THE HONG KONG ECONOMY, OR IN OTHER AREAS.
3. IF THEIR WORDS ARE TO BE TAKEN AT FACE VALUE, THE SENIOR LEADERS DO NOT EVEN NEED TO BE CONVINCED THAT THE CHINESE GOVERNMENT IN PEKING COULD NOT DIRECTLY RUN HONG KONG AS IT IS TODAY. THEIR OWN PLAN PROVIDES FOR HONG KONG TO BE RUN BY THE HONG KONG CHINESE. (NOR IS IT ANY PART OF OUR CASE THAT THE HONG KONG CHINESE, (NEXT FOUR WORDS UNDERLINED) IF LEFT TO THEMSELVES, WOULD BE INCAPABLE OF RUNNING THIS TERRITORY).
4. MOREOVER EVEN WHEN WE HAVE EXPLAINED THE COMPLEXITY OF HONG KONG THE CHINESE RESPONSE WILL PRESUMABLY BE THAT THE QUOTE SYSTEMS UNQUOTE WE HAVE DESCRIBED WOULD REMAIN UNCHANGED UNDER HONG KONG CHINESE RULE, AND THAT THERE WOULD THEREFORE BE NO DIFFICULTY.

SECRET

/ 5. THE CASE

5. THE CASE WE HAVE TO MAKE, WHICH IS SET OUT IN ANNEX B TO THE PAPER ON STRATEGY, IS THAT HOWEVER ATTRACTIVE IN THEORY, THE CHINESE PLAN WOULD NOT WORK IN PRACTICE BECAUSE WITHOUT THE QUOTE INSULATOR UNQUOTE BETWEEN HONG KONG AND PEKING WHICH BRITISH ADMINISTRATION PROVIDES THERE WOULD BE NO CONFIDENCE. ACCORDINGLY:

(A) THE PROFESSIONAL CLASSES WHO ARE ESSENTIAL TO THE OPERATION OF ITS COMPLEX ECONOMY WOULD LEAVE:

(B) DOMESTIC AND INTERNATIONAL INVESTORS WOULD CEASE TO INVEST: AND IN CONSEQUENCE

(C) THE ECONOMY WOULD RUN DOWN AND THERE WOULD BE NEITHER PROSPERITY NOR STABILITY.

THESE POINTS CAN BE SUPPORTED BY REFERENCE TO THE YOUNG PROFESSIONALS' MEMORANDUM, TO FIGURES RELATING TO EMIGRATION APPLICATIONS AND SO ON. BUT THEY ARE ESSENTIALLY POLITICAL POINTS WHICH WE NEED TO GET ACROSS AT A HIGH LEVEL. THEY ARE SCARCELY POINTS FOR SUB-COMMITTEES.

6. THIS BRINGS US BACK TO THE FUNCTION OF THE SUB-COMMITTEES. IF THE AMBASSADOR'S VIEW IS THAT THIS WOULD BE PRIMARILY EXPLANATORY ON OUR SIDE, WE COULD CERTAINLY PREPARE FACTUAL PAPERS DESCRIBING HOW THE PRESENT SYSTEMS WORK AND PROVIDE EXPERTS FROM HERE TO AMPLIFY OR ELUCIDATE PARTICULAR POINTS. BUT IN MY VIEW THIS WILL NOT BE ENOUGH. IF THE PAPERS ARE TO FULFILL A GENUINELY EDUCATIVE FUNCTION, AND TO CONTRIBUTE TO OUR OBJECTIVE (PARA 2 ABOVE), THE FACTS WILL NEED TO BE PRESENTED IN SUCH A WAY AS TO LEAD IN-ESCAPABLY TO THE CONCLUSION THAT CONTINUING BRITISH ADMINISTRATION IS NECESSARY (THIS POINT IS ALSO MADE IN PARA 5(B) OF THE QUOTE FORWARD STRATEGY UNQUOTE PAPER: QUOTE OUR AIM SHOULD BE TO CONTINUE THE PROCESS OF EDUCATING THE CHINESE...BY MAKING DETAILED PRESENTATIONS ON SPECIFIC AREAS...(NEXT TWELVE WORDS UNDERLINED) IN ORDER TO DEMONSTRATE THE VITAL IMPORTANCE OF MAINTAINING THE BRITISH LINK UNQUOTE).

7. IT IS HOWEVER UNLIKELY THAT THE CHINESE WILL FAIL IN WITH ANY PLAN WHICH ALLOWED SUB-COMMITTEES SUCH A ROLE. THEY MAY LISTEN TO ANY INITIAL PRESENTATIONS WE MAY MAKE IN SUB-COMMITTEES. BUT THEY WILL HAVE A VERY DIFFERENT FUNCTION IN MIND: IN DISCUSSION OF ITEM 1 OF THE AGREED AGENDA THEY WILL WANT THE SUB-COMMITTEES TO DEAL WITH DETAILED ARRANGEMENTS AFTER BRITISH ADMINISTRATION HAS CEASED. WE COULD NOT OF COURSE AGREE TO THIS. WE MIGHT THEREFORE FIND THAT, HAVING ESTABLISHED SUB-COMMITTEES, WORK IN THEM WOULD GRIND TO A HALT AFTER TWO OR THREE MEETINGS.

SECRET

8. IN THE LIGHT OF THE ABOVE IT SEEMS TO ME THAT THE TERMS OF REFERENCE FOR SUB-COMMITTEES WILL BE A KEY ISSUE. POINTS (A) AND (B) IN PARA 7 OF PEKING TUR ARE VIRTUALLY SELF-EVIDENT, AND SUB-COMMITTEES COULD CERTAINLY BE USED TO QUOTE EXCHANGE INFORMATION UNQUOTE (POINT (D)). BUT THE FORMULATION IN POINT (C) DUCKS THE ISSUE: WE SHOULD BE UNDER NO ILLUSIONS THAT IT WILL BE EASY TO REACH AGREEMENT IN PLENARY ON WHAT MATTERS SHOULD BE REFERRED TO SUB-COMMITTEES, OR THAT THE SUB-COMMITTEES THEMSELVES WILL BE ABLE TO PRODUCE QUOTE RESULTS UNQUOTE TO BE REPORTED BACK TO THE PRENARY SESSIONS.

9. IT WAS BECAUSE OF THE PROBLEMS SET OUT ABOVE SURROUNDING THE OPERATING ETC. OF SUB-COMMITTEES THAT I SAW THE EDUCATIVE PROCESS BEING BEST CONDUCTED IN A QUOTE COMMITTEE OF THE WHOLE UNQUOTE WITH APPROPRIATE EXPERT PARTICIPATION.

10. MY TWO IFT'S DEAL WITH MORE DETAILED POINTS ON MODALITIES.

YOUDE

FUTURE OF HONG KONG

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MR ROBERTS NEWS D

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SECRET

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PRIME MINISTER

BRIEF FOR CABINET : HONG KONG

You informed Cabinet on 16 June of the position reached (see attached Cabinet minutes). FLAG A

You may now like to brief Cabinet on the following lines:

"(a) I told Cabinet on 16 June that the Chinese were now showing more urgency about substantive talks and that we were seeking agreement on an agenda which did not prejudge our position on sovereignty.

(b) It has now been agreed that substantive talks will begin on 12 July. An announcement will be made in London, Hong Kong and Peking on 1 July stating:-

"Following the discussions between the leaders of the two countries in September 1982, and subsequent useful exchanges, it has been agreed that a second phase of the talks on the future of Hong Kong will begin in Peking on 12 July 1983."

(c) The main difficulty over the agenda was the wording of the reference to sovereignty. We were prepared to agree that the relevant item would be worded "matters relating to a transfer of sovereignty". The Chinese wanted "matters relating to the transfer of sovereignty". We refused to accept this prejudicial language. Our Ambassador, who handled the discussions with great skill, manoeuvred the Chinese into proposing "matters relating to transfer of sovereignty" i.e. no article, definite or indefinite. We accepted that as being sufficiently neutral. (The complete agenda is attached.) FLAG B

/(d) The talks

SECRET

SECRET

(d) The talks will be long and difficult but it looks as though we shall at last be able to get down to serious discussion. Our first objective will be to demonstrate to the Chinese in considerable detail how Hong Kong works at present and how essential a system of administration and law like the present one is to the future stability and prosperity of Hong Kong.

(e) Members of the Hong Kong ⁴Legislative and Executive Councils will be visiting London on 4/5 July for consultations with me and the Foreign Secretary. This is part of our continuous process of consultation with Hong Kong representatives."

A.J.C.

29 June 1983

SECRET



10 DOWNING STREET

Caroline

No dinner.

Can we pl. discuss a time?

A.F.C. 29
16.

1 No. 1
had :-

15.30

- 17.00

✓

I have told F.C.O.

PRIME MINISTER

HONG KONG

As you know, the Unofficials are visiting London on 4/5 July. You agreed earlier to see them.

I do not think that you need give them a meal this time. Richard Luce is giving them lunch. But if you wanted to, you could give a working dinner on Monday, 4 July. Alternatively, you could set aside an hour for a meeting. They will be 11 in number, including the Governor.

What would you like to do?

A. J. C.

An hour for a
meeting would
be better
not

28 June 1983

SECRET

53
TOP COPY

GR 50
SECRET
DESKBY 30TH 281200Z
FM PEKING 281038Z JUN 83
TO IMMEDIATE FCO
TELNO 601 OF 28 JUNE
RPTD INFO IMMEDIATE HONG KONG.

*h.a.
MR 24/6.*

NY SECOND IPT: FUTURE OF HONG KONG

1. TEXT OF AGREED PRESS ANNOUNCEMENT AS FOLLOWS:

BEGINS -

FOLLOWING THE DISCUSSIONS BETWEEN THE LEADERS OF THE TWO COUNTRIES
IN SEPTEMBER 1982, AND SUBSEQUENT USEFUL EXCHANGES, IT HAS BEEN
AGREED THAT A SECOND PHASE OF THE TALKS ON THE FUTURE OF HONG KONG
WILL BEGIN IN PEKING ON 12 JULY 1983.

ENDS.

CRADOCK

FUTURE OF HONG KONG

LIMITED
HD/HKD
HD/FED
HD/PLANNING STAFF
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PS/LADY YOUNG
PS/MR LUCE
PS/PUS
SIR J BULLARD
MR GIFFARD
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MR WALKER, RESEARCH DEPT
MR ROBERTS NEWS DEPT

SECRET

GR 920

SECRET

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52

DESKBY BOTH 281200Z

FM PEKING 291000Z JUN 83

TO IMMEDIATE FCO

TELNO 599 OF 28 JUNE

RPTD INFO HONG KONG (IMMEDIATE DEKBY).

FUTURE OF HONG KONG

1. I CALLED ON VICE-FOREIGN MINISTER YAO GUANG AT HIS REQUEST AT 3.30 TODAY. HE BEGAN BY ASKING ME TO CONVEY HIS CONGRATULATIONS TO THE PRIME MINISTER ON THE SUCCESS OF THE ELECTION AND TO YOU ON YOUR APPOINTMENT. HE HOPED THAT OUR MEETING WOULD BE THE LAST BEFORE THE OPENING OF SUBSTANTIVE TALKS. BEARING IN MIND THE BRITISH SIDE'S PREOCCUPATION WITH THE ELECTION AND THE APPOINTMENT OF NEW MINISTERS, THE CHINESE SIDE SINCE MY LAST VISIT TO THE FOREIGN MINISTRY HAD MAINTAINED ONLY INFORMAL CONTACTS VIA ZHOU NAN. THESE HAD BEEN VERY BENEFICIAL AND YAO GUANG HOPED THEY WOULD CONTINUE.

2. HE GAVE ME THE NAMES OF THE CHINESE DELEGATION. BECAUSE THESE WERE OFFICIAL TALKS BETWEEN THE CHINESE AND BRITISH GOVERNMENTS THE CHINESE DELEGATION WOULD BE CALLED THE CHINESE GOVERNMENT DELEGATION. YAO GUANG HIMSELF WOULD LEAD IT. THE REMAINING MEMBERS WOULD BE, IN ORDER OF PRECEDENCE:

LI JUSHENG, SECOND DIRECTOR OF THE HONG KONG BRANCH OF XINHUA NEWS AGENCY

SHAO TIANREN, LEGAL ADVISER TO THE MINISTRY OF FOREIGN AFFAIRS (MFA)

LU PING, ADVISER TO THE DEPARTMENT OF WEST EUROPEAN AFFAIRS OF THE MFA

KE ZAISHUO, COUNSELLOR OF THE DEPARTMENT OF WEST EUROPEAN AFFAIRS OF THE MFA

0 LUO JIAHUAN, COUNSELLOR OF THE DEPARTMENT OF WEST EUROPEAN AFFAIRS OF THE MFA.

OF THESE, LU PING WE KNOW TO BE FROM THE HONG KONG MACAO OFFICE AND KE ZAISHUO WE STRONGLY SUSPECT TO BE FROM THE SAME OFFICE.

3. I CONFIRMED THAT OUR TEAM WOULD BE AS I HAD ALREADY GIVEN IT TO HIM, EXCEPT THAT, SINCE GALSWORDY WOULD BE ON LEAVE, HE WOULD BE REPLACED ON THIS OCCASION BY TOM SMITH. I SAID WE WOULD WISH TO RETAIN FLEXIBILITY ABOUT THE COMPOSITION OF OUR DELEGATION FOR FUTURE TALKS. YAO GUANG SAID THEY WOULD WISH TO DO THE SAME.

4. ON THE AGENDA, YAO GUANG HANDED ME A TEXT, (ENGLISH TRANSLATION IN MY IFT AND CHINESE TEXT BY BAG). AS YOU WILL SEE, THIS IS OUR AGREED TEXT PREFACED BY A SENTENCE SAYING THAT HE AND I HAVE HELD DISCUSSIONS ON THE AGENDA FOR THE SECOND PHASE OF THE SINO-BRITISH TALKS ON THE QUESTION OF HONG KONG. I SAID I SAW NO DIFFICULTY ABOUT THIS ADDITION. WE DISCUSSED HOW TO RECORD AGREEMENT AND IT WAS AGREED YAO GUANG WOULD WRITE TO ME SUGGESTING THAT THE TEXT IN MY IFT SHOULD BE EMBODIED AS PART OF THE OFFICIAL CONFIDENTIAL RECORD OF THE TALKS. I WOULD REPLY AGREEING.

SECRET

WE

SECRET

5. WE THEN AGREED ON THE NEWS RELEASE (AS IN MY SECOND IFT) WITH THE INSERTION OF 12 JULY AS THE OPENING DATE. ON TIMING OF ~~THE~~ ^{THE} RELEASE, HE SUGGESTED 5 JULY. I SPOKE AS IN HONG KONG TELNO 874 AND HE AGREED TO 1 JULY AND FIXED A TIME, IE. BETWEEN 1900 AND 1930 IN PEKING. I SAID THERE WOULD BE A SIMULTANEOUS ANNOUNCEMENT IN LONDON. HONG KONG WOULD ALSO MAKE AN ANNOUNCEMENT AND WOULD NEED TO SAY THAT THE GOVERNOR WAS ATTENDING.

6. YAO GUANG THEN MOVED ON TO THE CONDUCT OF THE FORMAL TALKS AND AGREED WITH MY SUGGESTION AT OUR LAST MEETING THAT BOTH SIDES SHOULD MAKE OPENING STATEMENTS. HE REFERRED TO THESE AS "GENERAL OPENING STATEMENTS". HE THEN SUGGESTED THAT EACH SIDE MIGHT WISH TO MAKE COMMENTS ON THE OTHER SIDE'S STATEMENT. I SAID THIS WAS ACCEPTABLE, AND THEN SUGGESTED WE SHOULD MOVE ON AS PART OF THE SAME ROUND OF TALKS TO THE FIRST ITEM ON THE AGREED AGENDA, NAMELY ARRANGEMENTS AFTER 1997. WE WOULD WISH TO APPROACH THIS BY BEGINNING A STUDY OF HOW HONG KONG WORKED AT PRESENT IN ORDER TO REACH A JOINT ASSESSMENT OF THE FACTORS MAKING FOR STABILITY AND PROSPERITY.

7. YAO GUANG SAID HE AGREED THAT THE FIRST ITEM ON THE AGENDA SHOULD BE ARRANGEMENTS AFTER 1997, BUT THE CHINESE SIDE WOULD WISH TO CONFINE THE FIRST MEETING TO THE GENERAL STATEMENTS SO AS TO GIVE THESE MORE PROMINENCE. AFTER THE OPENING STATEMENTS AND ANY COMMENTS ON THDM, THE TWO SIDES MIGHT WISH TO CONSIDER, PERHAPS ON THE AFTERNOON OF 12 JULY, HOW TO TACKLE THE FIRST ITEM ON THE AGENDA. AFTER SOME QUESTIONING IT BECAME CLEAR THAT HE DID NOT WISH THE FIRST ROUND TO OCCUPY MORE THAN ONE DAY. HE SAID, HOWEVERN THAT IT WOULD BE POSSIBLE TO HAVE A SECOND MEETING PERHAPS AS SOON AS THREE DAYS LATER.

8. I EXPLAINED THE DIFFICULTIES THIS WOULD PRESENT TO THE HONG KONG CONTINGENT AND THE EXTRA EXPOSURE OF THE GOVERNOR TO PRESS ATTENTIONS. I COULD NOT EXPECT HIM TO COMMUTE AT THIS FREQUENCY BETWEEN HONG KONG AND PEKING, AND AN INTERVAL OF, SAY, A WEEK MIGHT BE NECESSARY. YAO GUANG SHOWED NO DISPOSITION TO CHANGE THE LENGTH OF THE FIRST MEETING BUT SAID HE NOTED MY COMMENTS. A WEEK'S INTERVAL WOULD BE ACCEPTABLE AND SUBSEQUENT MEETINGS COULD BE RATHER LONGER, EG TWO DAYS. HE ALSO SUGGESTED THAT I SHOULD MAINTAIN INFORMAL CONTACT WITH ZHOU NAN ON HOW BEST TO TACKLE THE FIRST ITEM ON THE AGENDA AND THAT FOR THIS PURPOSE ZHOU NAN AND I SHOULD MEET BEFORE 12 JULY.

9. I INFORMED THE CHINESE THAT Y P CHENG WOULD ATTEND THE FIRST PLENARY AS INTERPRETER. I ALSO STRESSED ONCE AGAIN THE GREAT IMPORTANCE OF CONFIDENTIALITY IN OUR PROCEEDINGS, ON THE AGENDA, IN FACT EVERYTHING BUT THE PRESS ANNOUNCEMENT, AND WARNED THE CHINESE OF THE PRESS SCRUTINY THEY WOULD BE SUBJECT TO.

SECRET

COMMENT

SECRET

COMMENT

10. THIS WENT FAIRLY WELL AND WE GOT MOST OF WHAT WE WANTED, THOUGH THE CHINESE INSISTENCE ON CONFINING THE FIRST SESSION TO OPENING STATEMENTS WILL CAUSE US SOME INCONVENIENCE. NO DOUBT THE GOVERNOR WILL LET ME KNOW WHETHER HE COULD MANAGE A SECOND MEETING ON 19 OR 20 JULY. IT IS IN OUR INTEREST TO KEEP UP THE MOMENTUM. IT LOOKS AS THOUGH IT IS GOING TO TAKE TWO MEETINGS TO ACHIEVE WHAT I HOPED TO DO IN ONE, IE TO LAY THE GROUNDWORK FOR THE DETAILED DISCUSSION ON HONG KONG. BUT THE ARGUMENTS REMAIN AS SET OUT IN MY TELNO 593 AND I SHALL NEED EARLY INSTRUCTION TO ENABLE ME TO SPEAK TO ZHOU NAN WITHIN THE NEXT FEW DAYS.

CRADOCK

(REPEATED AS REQUESTED)

FUTURE OF HONG KONG

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PS/LADY YOUNG
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1401' - 1

GRS
SECRET
FM FCO 281050Z JUN 83
TO ROUTINE PEKING
TELEGRAM NUMBER 402 OF 28 JUNE
INFO ROUTINE HONG KONG
FUTURE OF HONG KONG.

A.S.C. 207/6

p.a.

1. THE PRIME MINISTER HAS SEEN YOUR TEL 580 ABOUT YOUR CONVERSATION WITH ZHOU NAN. SHE HAS MINUTED THAT YOU HANDLED THIS CONVERSATION VERY WELL INDEED. I HAD EXACTLY THE SAME COMMENT.

HOWE

FUTURE OF HONG KONG

LIMITED
HD/HKD
HD/FED
HD/PLANNING STAFF
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PS/LADY YOUNG
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MR. ROBERTS. NEWS. D.

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Hong Kong

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51 AA

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FM PEKING 201030Z JUN 83
TO IMMEDIATE FCO
TELNO 600 OF 20 JUNE
RPTD INFO IMMEDIATE HONG KONG.

MIPT: FUTURE OF HONG KONG

1. TEXT OF AGREED AGENDA FORMULA AS FOLLOWS:
BEGINS-

VICE-MINISTER YAO GUANG OF THE MINISTRY OF FOREIGN AFFAIRS OF THE PEOPLE'S REPUBLIC OF CHINA AND BRITISH AMBASSADOR TO CHINA SIR PERCY CRADOCK HAVE HELD DISCUSSIONS ON THE AGENDA FOR THE SECOND PHASE OF THE SINO-BRITISH TALKS ON THE QUESTION OF HONG KONG. IT IS AGREED THAT DURING THE COURSE OF THE TALKS MATTERS RELEVANT TO THE FUTURE OF HONG KONG SHOULD BE DISCUSSED, IN PARTICULAR ALL THE SUBJECTS MENTIONED IN MRS THATCHER'S LETTER AND PREMIER ZHAO'S LETTER. THESE WILL INCLUDE ARRANGEMENTS FOR THE MAINTENANCE OF THE STABILITY AND PROSPERITY OF HONG KONG AFTER 1997, ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997, AND MATTERS RELATING TO TRANSFER OF SOVEREIGNTY, IN THAT ORDER. IT IS AGREED THAT THIS AGENDA SHOULD REMAIN CONFIDENTIAL.
ENDS.

CRADOCK

FUTURE OF HONG KONG

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MR WALKER, RESEARCH DEPT.
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Four

10 DOWNING STREET

From the Private Secretary

27 June 1983

FUTURE OF HONG KONG

The Prime Minister has seen Peking Telegram No. 580 in which Sir Percy Cradock reports on his recent conversation with Minister Zhou Nan. Mrs. Thatcher has minuted that Sir Percy handled this conversation very well indeed.

A. J. COLES

J.E. Holmes, Esq.,
Foreign and Commonwealth Office.

005

GRS 410

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SECRET

DESBKY 270900Z BOTH

FROM PEKING 270915Z JUN 83

TO IMMEDIATE FCO

A.F.C. $\frac{27}{6}$
h.a.

TELEGRAM NUMBER 594 OF 27/6/83

FUTURE OF HONG KONG

1. YAO GUANG HAS ASKED ME TO CALL AT 1530 LOCAL TIME TOMORROW, 28 JUNE. I SHALL AIM AT THIS MEETING TO REACH FORMAL AGREEMENT ON THE TEXTS OF THE AGENDA AND THE JOINT PRESS ANNOUNCEMENT THAT I HAVE NOW AGREED ON A PERSONAL BASIS WITH ZHOU NAN (MY TELNO 585). I SHALL RESIST ANY ATTEMPT BY YAO TO INTRODUCE NEW AMENDMENTS, UNLESS THESE ARE CLEARLY OF NO SUBSTANCE.

2. I EXPECT TO COVER THE FOLLOWING ADDITIONAL POINTS WITH YAO, AND ON THESE I SHOULD BE GRATEFUL FOR YOUR GUIDANCE.

(A) DATE FOR THE FIRST MEETING. IF YOU AGREE, I SHALL PROPOSE 12 JULY (MY TEL NO 585 AND HONG KONG TEL N O 870):

(B) FORMAL RECORD OF THE AGENDA. MY INCLINATION IS THAT WE SHOULD AIM FOR AN EXCHANGE OF LETTERS BETWEEN MYSELF AND YAO, RECORDING THE AGREED AGENDA. SUBJECT TO YOUR VIEWS, HOWEVER, I WOULD NOT BE DISSATISFIED WITH FORMAL STATEMENTS AT THE OPENING SESSION, IF TH CHINESE PREFERRED NOT TO USE LETTERS:

(C) PRESS ANNOUNCEMENT. YAO WILL PROBABLY RAISE THE QUESTION OF TIMING OF THE PRESS ANNOUNCEMENT, AND IN HIS USUAL WAY ASK FOR MY VIEWS FIRST. FOR THE REASONS IN MY TEL NO 586 , AND BEARING IN MIND THE POINT IN PARA 2 OF YOUR TEL NO 396, I SHOULD PREFER THAT IT SHOULD BE AFTER THE EXCO VISIT TO LONDON. THERE WOULD THUS BE TWO CLEAR STAGES OF PUBLICITY, FIRST CONSULTATION WITH EXCO, SECOND THE ANNOUNCEMENT OF THE OPENING OF TALKS. I SHOULD THEREFORE LIKE TO BE ABLE TO PROPOSE TO YAO THAT THE ANNOUNCEMENT SHOULD BE MADE ON FRIDAY 3 JULY:

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(D) I NOTE THAT HONG KONG ALSO INTENDS TO ISSUE THE ANNOUNCEMENT (HONG KONG TEL NO 866). AS I SAID IN MY TEL NO 586, I HOPE THAT AS LITTLE AS POSSIBLE CAN BE SAID IN ADDITION TO THE SINGLE SENTENCE AGREED WITH THE CHINESE. IT WOULD BE APPROPRIATE FOR THE ANNOUNCEMENT TO BE ISSUED IN LONDON AS WELL: THE CHINESE WILL CERTAINLY SEE THIS AS AN AGREEMENT BETWEEN THE TWO CAPITALS:

(E) INTERPRETERS (MY TEL NO 580). YAO MAY PURSUE THIS POINT. IF YOU AGREE, I SHALL SAY THAT AN INTERPRETER FROM HONG KONG WILL ATTEND THE FIRST PLENARY (HONG KONG TEL NO 870. I SHALL BE NON-COMMITTAL ABOUT SUBSEQUENT MEETINGS.

CRADOCK

FUTURE OF HONG KONG

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MR WALKER, RESEARCH DEPT

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RESTRICTED

GRS 70

RESTRICTED

FROM PEKING 270235Z JUN 83

TO PRIORITY FCO

TELEGRAM NUMBER 587 OF 27/6/83

REPEATED FOR INFO TO PRIORITY HONG KONG

HONG KONG TEL NO 854: THE QUEEN'S SPEECH

1. THE CHINESE PRESS HAS REPORTED WITHOUT COMMENT
THE QUEEN'S SPEECH INCLUDING THE PASSAGE ABOUT HONG KONG,
AND QUOTING THE REFERENCE TO 'THE AIM OF REACHING
A SOLUTION ACCEPTABLE TO THIS PARLIAMENT, TO CHINA AND TO THE
PEOPLE OF HONG KONG'.

CRADOCK

FUTURE OF HONG KONG

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ED/FED

HD/PLANNING STAFF

HD/PUSD

PS

PS/LADY YOUNG

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Filed on USA:
Visit of Vice - Pres. Bush June 1983

Hong Kong

51

- Defence Pt 3: INF
- Middle East Pt: Situation
- Hong Kong: future of Pt 6
- Foreign Pol: East/West Relations Pt 3



10 DOWNING STREET

From the Private Secretary

27 June, 1983

Visit of Vice-President Bush

The Prime Minister has directed that no record should be circulated of her talk with Vice-President Bush on Friday, 24 June. Mr. Bush particularly requested this, stating that some of the information which he wished to pass to the Prime Minister was very sensitive.

The subjects covered were the Middle East, Hong Kong and China, East/West Relations and the INF negotiations.

You will wish to know that the question of Hong Kong was raised by Mr. Bush. The Prime Minister explained the present situation regarding our talks with the Chinese.

With regard to East/West Relations, you should be aware of two points:

- a) The Prime Minister told Mr. Bush that she was fully behind President Reagan in his wish to strengthen COCOM.
- b) Mr. Bush said that the previous American Ambassador in Prague was now a member of the National Security Council and that his views on East/West Relations were worth having. The Prime Minister thought that it might be useful for Sir Oliver Wright to talk to him in the next few weeks (I regret that I cannot supply his name, since Mr. Bush was unable to recall it!).

I am copying this letter to Richard Mottram (Ministry of Defence).

B. Fall, Esq.,
Foreign and Commonwealth Office

GR 1800
SECRET
DESKBY BOTH 270900Z
FM PEKING 270755Z JUN 83
TO IMMEDIATE FCO
TELNO 593 OF 27 JUNE
RPTD INFO IMMEDIATE HONG KONG.

SECRET

Who will prepare the paper? Ok with in H-K? Dead in file. Answered on other pages.

50B

FUTURE OF HONG KONG: OPENING STRATEGY

*A.S.C. 1/2
h.a.*

1. NOW THAT THE FIRST SUBSTANTIVE MEETING IS IN SIGHT, I HAVE BEEN GIVING FURTHER THOUGHT TO OUR STRATEGY FOR THE NEXT FEW WEEKS. HAVING OVERCOME (AT LEAST FOR THE TIME BEING) FIRST THE PROBLEMS ATTENDANT ON THE CHINESE "PREMISE" AND THEN THOSE ARISING FROM THEIR DEMAND FOR A GENERAL AGENDA FOR SUBSTANTIVE TALKS, WE AT LAST HAVE THEM IN A POSITIVE MOOD TO GET DOWN TO WORK. WE SHOULD SEEK IN OUR FIRST PLENARY MEETING TO MAKE THE MOST OF THIS OPPORTUNITY AND ENSURE THAT THE MOMENTUM IS SUSTAINED BEYOND THAT MEETING AND THAT WORK BEGINS AS SOON AS POSSIBLE ON THE FIRST AGENDA ITEM.

2. OUR STRATEGY PAPER ENVISAGES THAT OUR OPENING STATEMENT (INCLUDING THE GOVERNOR'S PRESENTATION) SHOULD CONCLUDE WITH ME SUGGESTING TO THE CHINESE THAT THE TWO SIDES SHOULD NEXT DISCUSS MATTERS OF DETAIL, SUCH AS THE FINANCIAL, FISCAL AND LEGAL SYSTEMS IN HONG KONG AND THE NETWORK OF TRADE AGREEMENTS, IN ORDER TO ESTABLISH THE ROLE OF THE PRESENT DETAILED ADMINISTRATIVE ARRANGEMENTS IN MAINTAINING STABILITY AND PROSPERITY, AND HOW THE CONTINUITY OF THESE SYSTEMS MAY BE ENSURED. AS YOU KNOW, I HAVE TO SOME EXTENT FLOATED THIS PROPOSAL ALREADY WITH ZHOU NAN, BY TELLING HIM THAT IN OUR VIEW THE LOGICAL WAY TO START WORK ON THE FIRST ITEM OF OUR AGREED AGENDA, IE. "ARRANGEMENTS FOR THE MAINTENANCE OF THE STABILITY AND PROSPERITY OF HONG KONG AFTER 1997", IS TO CONDUCT A JOINT ASSESSMENT OF THE ARRANGEMENTS THAT CURRENTLY MAINTAIN THAT STABILITY AND PROSPERITY, AND THAT WE SHOULD PROCEED AFTER THAT TO DISCUSS HOW CONTINUITY MIGHT BE ENSURED AFTER 1997. ZHOU NAN HAS TAKEN THIS POINT, SUBJECT TO THE CAVEAT THAT OUR DISCUSSION OF THE PRESENT ARRANGEMENTS SHOULD NOT BECOME "PHILOSOPHICAL OR ACADEMIC". THE CHINESE WILL THUS BE PREPARED FOR OUR SUGGESTION ON THE NEXT STEP AND, JUDGING FROM ZHOU NAN'S RESPONSES TO DATE, MAY WELL AGREE. WE SHOULD THEREFORE BE READY TO PUT TO THEM SPECIFIC SUGGESTIONS ON HOW THAT DETAILED WORK SHOULD BE CONDUCTED.

3. AS I SEE IT, DETAILED WORK MUST BE DELEGATED TO SUB-COMMITTEES, COMPOSED OF EXPERTS FROM OUR SIDE SPEAKING TO THEIR COUNTERPARTS FROM THE CHINESE SIDE. I COULD NOT PRETEND TO EXPOUND TO YAO GUANG THE INTRICACIES OF, SAY, THE FOREIGN EXCHANGE FUND IN HONG KONG: NOR WOULD THERE BE ANY POINT IN YAO AND MYSELF SITTING MUTE IN A PLENARY SESSION WHILE MEMBERS OF OUR TEAMS DISCUSSED SUCH SUBJECTS. MOREOVER, THERE IS A VAST AMOUNT OF EDUCATIVE WORK TO BE DONE ON THE LEGAL, FINANCIAL, FISCAL ETC. ASPECTS OF HONG KONG. IF THE TALKS ARE NOT TO BE INDEFINATELY EXTENDED THE PROCESS

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WILL HAVE TO MOVE FORWARD ON SEVERAL FRONTS AT THE SAME TIME. THE ESTABLISHMENT OF SUB-COMMITTEES IS THEREFORE ESSENTIAL. AS YOU KNOW, THE CHINESE ARE ALSO THINKING ALONG THESE LINES, AND ZHOU NAN HAS RAISED THE QUESTION WITH ME SEVERAL TIMES.

4. I NOTE THAT THE GOVERNOR (HONG KONG TELNO 322) HAS SOME MISGIVINGS ABOUT SETTING UP SUB-COMMITTEES IN THE EARLY STAGES. I TAKE A DIFFERENT VIEW. IT HAS BEEN OUR CONSISTENT AIM, SINCE LONG BEFORE THE PRIME MINISTER'S VISIT LAST SEPTEMBER, TO EDUCATE THE CHINESE IN THE COMPLEXITIES OF THE HONG KONG FABRIC, IN ORDER FIRST TO DISCOURAGE THEM FROM FORMULATING DANGEROUS AND INTRACTABLE POLICIES FOR THE FUTURE, BASED ON IGNORANCE AND OVER-SIMPLIFICATION OF THE REAL PROBLEMS SEMICOLON TO SHOW THAT THE REMOVAL OF ONE THREAD COULD UNRAVEL THE WHOLE FABRIC SEMICOLON AND ULTIMATELY TO INDUCE THEM TO DRAW FOR THEMSELVES THE INFERENCE THAT BRITISH ADMINISTRATION IS THE KEY TO THE MAINTENANCE OF STABILITY AND PROSPERITY. UNFORTUNATELY IT PROVED IMPOSSIBLE TO BEGIN THAT EDUCATIVE PROCESS BEFORE THE PRIME MINISTER'S VISIT, AND THIS CONTRIBUTED TO THE DIFFICULTIES WHICH FACED THE PRIME MINISTER IN HER TALKS HERE. IN OUR DISCUSSIONS IN HONG KONG DURING THE PRIME MINISTER'S VISIT, WHICH SET OUR BROAD STRATEGY, AND SUBSEQUENTLY, WE AGREED THAT OUR AIM IN THE INITIAL STAGES OF TALKS WITH THE CHINESE SHOULD BE TO GET AWAY FROM QUESTIONS OF PRINCIPLE, ON WHICH BOTH SIDES TOOK OPPOSING VIEWS, AND ON TO MATTERS OF DETAIL - GROUND ON WHICH WE WERE STRONG AND THE CHINESE WEAK. TALKS TO DATE HAVE BEEN CONFINED TO RATHER BARREN QUESTIONS OF PRINCIPLE. MEANWHILE TIME HAS PASSED, DURING WHICH THE CHINESE HAVE THROUGH VARIOUS CHANNELS, REPEATEDLY REVEALED UNSATISFACTORY PLANS FOR THE FUTURE, AND, APART FROM A FEW SPORADIC VISITS, OUR EDUCATIVE PROCESS HAS NEVER GOT UNDERWAY.

5. WE NOW AT LAST HAVE AN OPPORTUNITY TO BEGIN THE EDUCATIVE PROCESS THAT IS FUNDAMENTAL TO OUR STRATEGY.

IF WE DO NOT TAKE IT WE MAY LOSE THE PRESENT FAVOURABLE WIND. WE SHALL RISK VALIDATING THE LIKELY CHINESE COMPLAINT THAT WE ARE INTERESTED ONLY IN PHILOSOPHICAL AND ACADEMIC POINTS AND WE SHALL CONDEMN OURSELVES TO A PROLONGED WRANGLE OVER PRINCIPLES. I THEREFORE RECOMMEND STRONGLY THAT AT THE FIRST SUBSTANTIVE MEETING WE SHOULD SEEK TO SET UP SUB-COMMITTEES TO CONDUCT TO DETAILED WORK AND PROPOSE THAT THEY SHOULD BEGIN THEIR WORK AS SOON AS POSSIBLE, IDEALLY WITHIN A FEW DAYS OF THE END OF THE FIRST MEETING.

6. THERE ARE OF COURSE POINTS WE MUST WATCH IN THE SETTING UP OF SUB-COMMITTEES, SOME OF WHICH THE GOVERNOR HAS NOTED IN HIS TELNO 322. THE FIRST IS THAT, DESPITE THEIR APPARENT WILLINGNESS TO COMPLY WITH OUR PROPOSAL THAT THE SUB-COMMITTEES SHOULD FIRST CONDUCT JOINT ASSESSMENTS OF PRESENT ARRANGEMENTS, THE CHINESE WILL INTEND IN DUE COURSE TO USE THEM FOR THEIR OWN PURPOSES, MAINLY TO PRESS FOR CHANGES. BUT THIS IS NOT A SUFFICIENT ARGUMENT AGAINST HAVING SUB-COMMITTEES. IT MAY BE SAID OF THE ENTIRE NEGOTIATION THAT THE OBJECTIVES OF THE TWO SIDES ARE NOT THE SAME: IT WOULD BE A UNIQUE NEGOTIATION IF THEY WERE. THE ESSENTIAL THING IS TO KEEP IN MIND THE CHINESE PURPOSE WHILE MAKING THE BEST USE WE CAN OF THE TALKS TO SUIT OUR OWN. AS I HAVE ARGUED ABOVE, THE SUB-COMMITTEE ARE CRUCIAL TO OUR PURPOSE.

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7. TERMS OF REFERENCE WILL BE A KEY POINT. I AGREE WITH THE GOVERNOR HERE, BUT AT THE SAME TIME I AM ANXIOUS TO AVOID ANOTHER EXTENDED WRANGLE WITH THE CHINESE ON A FORM OF WORDS. THIS IS LIKELY TO OCCUR IF WE SEEK TO AGREE TERMS OF REFERENCE WHICH BEAR ON THE PRINCIPLED POSITIONS OF BOTH SIDES. INSTEAD I BELIEVE WE SHOULD SEEK SIMPLY TO AGREE THAT THE SUB-COMMITTEES:-

- (A) SHOULD BE SUBORDINATE TO THE PLENARY SESSIONS,
- (B) SHOULD HAVE NO POWER OF DECISION,
- (C) SHOULD DISCUSS MATTERS REFERRED TO THEM BY THE PLENARY SESSION, AND REFER THE RESULTS OF THEIR DISCUSSIONS BACK TO THE PLENARY,
- (D) MAY BE USED TO EXCHANGE INFORMATION.

8. WE SHOULD NEED TO KEEP A CAREFUL EYE ON THE ACTIVITIES OF THE SUB-COMMITTEES TO ENSURE THAT THESE TERMS WERE NOT EXCEEDED. I ENVISAGE THAT MEMBERS OF THIS EMBASSY, AND/OR THE POLITICAL ADVISER'S OFFICE, SHOULD ATTEND SUB-COMMITTEE MEETINGS FOR THIS PURPOSE.

9. WE NEED TO CONSIDER URGENTLY HOW MANY SUB-COMMITTEES WE WOULD REQUIRE AND WHAT FIELDS THEY SHOULD COVER. ZHOU NAN SUGGESTED THREE TO ME ON 23 JUNE (MY TELNO 580) - LEGAL/ADMINISTRATIVE, FINANCIAL/COMMERCIAL AND ONE COVERING INTERNATIONAL RELATIONS. YOU AND HONG KONG ARE BETTER PLACED THAN I TO CONSIDER THIS QUESTION. MY OWN THOUGHTS ARE SIMPLY THAT THERE SHOULD NOT BE TOO MANY SUB-COMMITTEES - THREE SEEMS ABOUT RIGHT - AND THEIR CATEGORISATION SHOULD BE OF A RELATIVELY GENERAL NATURE, AS ZHOU HAS SUGGESTED. WE SHOULD AVOID SETTING UP SUB-COMMITTEES ON SPECIALISED SUBJECTS, ESPECIALLY THOSE SUBJECTS (EG. MARITIME, AVIATION ETC.) THAT ARE CLOSELY BOUND UP WITH SOVEREIGNTY.

10. IF SUB-COMMITTEE SESSIONS ARE TO BE USED TO BEST EFFECT IT WILL BE ESSENTIAL TO HAND OVER PAPERS SETTING OUT THE DETAILS OF THE LEGAL, FINANCIAL, FISCAL SYSTEMS ETC. SO THAT SOME OF THESE AT LEAST CAN BE PASSED UP ON THE CHINESE SIDE TO THE DECISION-MAKERS. WORK ON THESE PAPERS SHOULD BEGIN AT ONCE, SO THAT THEY MAY BE PRESENTED AT THE START OF WORKING SESSIONS IN JULY AS A BASIS FOR DISCUSSIONS. THEY WILL HAVE TO BE GOOD PAPERS, FOR IT IS ONE OF THE MOST IMPORTANT CARDS IN OUR HAND THAT WE UNDERSTAND HOW HONG KONG WORKS, WHILE THE CHINESE DO NOT. OUR FIRST OBJECT SHOULD BE TO DEMONSTRATE OUR MASTERY OF THE SUBJECTS AND THE DEFICIENCY OF THEIR UNDERSTANDING.

11. IN THIS CONTEXT, I MIGHT ADD THAT THE AMERICAN CHARGE HAS TOLD ME THAT A GROUP OF AMERICAN LAWYERS HAD RECENTLY HAD A VERY USEFUL VISIT TO PEKING TO EXPLAIN THE SOVEREIGN IMMUNITIES ACT TO THE CHINESE (IN CONNECTION WITH THE HU GUANG RAILWAY BONDS DISPUTE). THE AMERICANS HAD DONE THOROUGH PREPARATIONS, HANDED OVER DETAILED PAPERS AT A SERIES OF MEETINGS AND EXPLAINED IN OBJECTIVE TERMS THE FACTS OF AMERICAN LAW. IN SPITE OF THE TENSIONS OF SINO-US RELATIONS, THE CHINESE HAD BEEN RECEPTIVE AND COULD WELL MOVE SOME WAY TO MEET THE AMERICANS AS A RESULT. THESE TALKS BETWEEN EXPERTS, AVOIDING ANY OBVIOUS POLITICAL POINTS, ARE PRECISELY THE SORT OF THING I SHOULD LIKE TO SEE HAPPEN IN OUR SUB-COMMITTEES.

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12. I MUST STRESS THE IMPORTANCE OF MOVING FAST IF WE ARE TO EXPLOIT THE PRESENT OPPORTUNITY. MY HOPE IS THAT WE CAN ESTABLISH OUR SUB-COMMITTEES AT THE FIRST MEETING AND SET THEM TO WORK IN JULY, WITH A BRIEF FROM THE PLENARY MEETING TO EXAMINE THE PRESENT ARRANGEMENTS IN THEIR VARIOUS FIELDS. IDEALLY, AT THE END OF JULY OR THE VERY BEGINNING OF AUGUST, WE MIGHT HAVE A SECOND PLENARY SESSION, TO HEAR INITIAL REPORTS OF THE SUB-COMMITTEES AND TO SET THEIR WORK FOR THE FOLLOWING WEEKS. THUS WHEN THE GOVERNOR AND I GO ON LEAVE IN AUGUST THE PROCESS WILL BE WELL UNDER WAY.

13 I SHALL TELEGRAPH SEPARATELY SOME THOUGHTS ON THE MODALITIES OF SUB-COMMITTEES.

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SIR A PARSONS " "
MR WALKER, RESEARCH DEPT

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SECRET
FM PEKING 240430Z JUN 83
TO IMMEDIATE FCO
TELNO 585 OF 24 JUNE
RPTD INFO IMMEDIATE HONG KONG.

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YOUR TELNO 390: FUTURE OF HONG KONG

1. I TELEPHONED ZHOU NAN THIS MORNING AND TOLD HIM THAT, ON A PERSONAL BASIS, I SAW NO DIFFICULTY ABOUT THE AGENDA AS AGREED YESTERDAY IE OUR DRAFT PLUS THE ADDITION OF "THE MAINTENANCE OF THE STABILITY AND PROSPERITY" AND DELETION OF THE ARTICLE BEFORE "TRANSFER". HE SAID HE WOULD REPORT TO YAO GUANG WHO WOULD, NO DOUBT, ASK ME TO CALL ON 27 OR 28 JUNE.

2. HE THEN ASKED WHETHER WE COULD AGREE, FOR THE PURPOSES OF A FORMAL STATEMENT OF THE AGENDA, TO DELETE THE TWO LINES "IN ORDER TO MEET THE WISH OF THE CHINESE SIDE FOR A BROAD AGENDA COVERING THE WHOLE COURSE OF THE FORMAL TALKS, THE BRITISH SIDE AGREE "AND BEGINSIMPLY BY SAYING "IT IS AGREED THAT DURING THE COURSE OF THE TALKS ETC"? I SAID I THOUGHT THAT WOULD BE ACCEPTABLE. HE THEN TRIED TO SUGGEST THAT IN PLACE OF "THE FUTURE OF HONG KONG" IN LINE 4, WE SHOULD HAVE "THE QUESTION OF HONG KONG". I SAID WE HAD NO SOONER AGREED AN AGENDA THAN HE WAS TRYING TO TINKER WITH IT. WE SHOULD STICK TO THE TEXT. HE ALSO SUGGESTED DELETION OF THE PHRASE "IT IS AGREED THAT" IN THE FINAL SENTENCE. AGAIN, I REFUSED. ZHOU DID NOT PRESS THESE LAST TWO POINTS.

3. WE ALSO READ OVER AGAIN THE AGREED TEXT OF THE PRESS ANNOUNCEMENT. HE SAID THAT AT MY MEETING WITH YAO GUANG WE SHOULD BE ABLE TO FILL IN THE PRECISE DATE FOR THE BEGINNING OF TALKS AND AGREE THE WAY IN WHICH THE ANNOUNCEMENT WOULD BE MADE.

4. AS SOON AS I GET A DEFINITE APPOINTMENT WITH YAO GUANG I SHALL LET YOU KNOW. GIVEN ZHOU NAN'S PERFORMANCE, WE CANNOT RULE OUT FURTHER LAST-MINUTE CHINESE ATTEMPTS AT CHISELLING, BUT WITH YAO GUANG THESE ARE LIKELY TO BE DONE IN A RATHER MORE ELEPHANTINE WAY.

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5. REGARDING THE TIMING OF THE FIRST MEETING, SUBJECT TO THE GOVERNOR'S VIEWS I SHOULD PREFER TO BEGIN ON TUESDAY, 12 JULY. THIS WOULD ALLOW THE GOVERNOR TO TRAVEL TO PEKING ON THE MONDAY, AND WE COULD MAKE OUR FINAL PREPARATIONS FOR THE TALKS DURING A NORMAL WORKING DAY. ON THE PRESS ANNOUNCEMENT, THE CHINESE WILL NO DOUBT WISH TO RELEASE IT THEMSELVES VIA NCNA HERE. IF YOU AGREE, I SHALL PROPOSE TO YAO GUANG THAT WE SHOULD MAKE A SIMULTANEOUS ANNOUNCEMENT TO BRITISH CORRESPONDENTS IN PEKING.

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND VICE
PRESIDENT BUSH ON FRIDAY 24 JUNE AT 10 DOWNING STREET

Present: Prime Minister
Mr. A.J. Coles

Vice President Bush
Admiral Murphy

* * * * *

Mr. Bush congratulated the Prime Minister on the outcome of the General Election. He asked a number of questions the answers to which could be relevant to President Reagan's prospects of success should he decide to run again.

Mr. Bush then asked how the INF issue had been handled during the campaign. The Prime Minister said that the Conservative Party had in effect defeated the Opposition on the broad general issue of defence policy. So there had been little discussion of INF and the dual key issue had arisen only once or twice. Mr. Bush enquired how the Prime Minister had handled the latter question. The Prime Minister said that she had emphasised that joint decision meant what it said. We had reviewed the arrangements in relation to Cruise and had found them satisfactory. She had also taken the line with Conservative MPs that the whole dual key debate had anti-American over-tones with which she strongly disagreed. Mr. Bush said that this matter might be raised at his Press Conference later in the day. There was some discussion of the line he should take and the Prime Minister gave him a copy of her written Parliamentary Answer to Mr. Anthony Buck, M.P. of 12 May.

Mr. Bush then asked how the Greenham Common women were faring. The Prime Minister said that they had become an eccentricity. Their activities had been inflamed by the media. They were very unpopular in the area of Greenham Common because of the disruption caused to normal life.

She had no doubt that when the time came to deploy Cruise there would be further problems but these would have to be surmounted. She doubted whether Mr. Andropov would negotiate until deployment began.

/ Sbe

She had been very surprised to hear President Mitterrand say at the recent European Council that the Soviet Union now wanted Cruise and Pershing to be deployed. She did not agree with this view. The only possible explanation for it was that the Russians sought a justification to deploy more nuclear weapons themselves.

Mr. Bush then said that he wanted to talk to the Prime Minister in great confidence about a matter which he had not discussed with the Foreign and Commonwealth Secretary and which was not widely known in the American Administration. Mr. Habib would shortly go back to the Middle East with a new proposal. The problem was how to get the Syrians out of Lebanon. It was necessary to dissuade Israel from embarking on partial withdrawal which would only increase the risks of the present situation. American objectives were still the withdrawal of all foreign troops, the reconstitution of Lebanon and security in the Galilee area.

Mr. Habib would try to persuade Mr. Begin to modify the existing Israel/Lebanon agreement. He would be asked to name a definite date for Israeli withdrawal. If he did so, the Americans would try to persuade the Syrians to name a definite date. These dates might not be the same because the Syrians were opposed to the agreement but they would be close enough so that the Israelis could show that their objective of withdrawal was being achieved.

It would be fatal to the initiative if news of it leaked. The Prime Minister said that she would keep this information to herself. In her view Syria was the key to the present situation. It was clearly much under Soviet influence. The question arose of how the West could acquire more influence in Damascus.

Mr. Bush said that money had a role to play. The Saudis were willing to send a large cheque to Syria. He had recently heard why it was that Syria had rejected a proposal that Habib should visit Damascus. This was because, at an earlier stage when Habib was negotiating the eleventh ceasefire in the Lebanon, President Asad had given his word that Syrian troops would observe the ceasefire. Begin had similarly given his word about Israeli troops but the day after the ceasefire agreement Israeli troops had moved forward. Asad had been extremely angry and held Habib responsible for this to this

day. Begin had attempted to argue that the ceasefire agreement did not rule out troop movements. The Prime Minister commented that this was typical of him. She well understood Asad's position. Her own confidence would have been undermined in similar circumstances.

Mr. Bush said that Israel had mounting public opinion problems. The Prime Minister reiterated that in her view more attention should be given to Asad and Khaddam. Arab confidence would be undermined if the Americans did not produce movement in the situation.

Mr. Bush said that President Reagan was well aware of this. His initiative was not dead. Moreover, Begin was less formidable now that Sharon was not with him.

The Prime Minister said that the speech made by President Reagan last September was absolutely first class. But, following Israel's rejection of the initiative, the Arab world had been disappointed at the American failure to follow up the initiative vigorously. They felt that one small country in the Middle East ought not to be able to deter a great power.

She had seen reports about Begin's present frame of mind. But this could have two alternative results. He could become less interested in the problem or more determined.

Mr. Bush said that he found Begin very unattractive. When he had visited Washington he had behaved as though the Israelis had never entered the Lebanon, bombed Beirut etc. Nevertheless the Americans would try to move things forward. They felt that they must have a Lebanon settlement before they could focus again on Arab/Israel. The Prime Minister said that we must also support King Hussein. He was a remarkable man and had made strenuous efforts with the PLO. But when there was no response from Begin, he had practically given up. She believed that Arafat might have made a more positive move if Begin had made some move on Israeli settlement policy.

Mr. Bush said that

The revolution within the PLO could be serious. A recent report suggested that Syria might

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OF THE PUBLIC RECORDS ACT

side with the non-Arafat section. The Prime Minister commented that there was a choice between trying to do something while Arafat remained in the leadership or take the risk of waiting until the real terrorists took over.

Mr. Bush then raised the question of Hong Kong and China. American relations with China were a little better. They had made the mistake earlier of not following up their undertakings to the Chinese. In negotiations with China you had to keep your word. So earlier undertakings on the transfer of technology would now proceed. Taiwan was the exacerbating factor. With regard to relations with Taiwan the Americans had done what their law required them to do. The Chinese had not reacted vehemently. Taiwan remained a very difficult issue but the US Ambassador in Peking was now more optimistic that China and Taiwan might be able to arrive at a settlement of their differences. Was China also likely to get a reasonable arrangement over Hong Kong?

The Prime Minister said that our talks with the Chinese were now entering a more intensive phase. China was suddenly giving more attention to the issue. We had now reached agreement on an agenda for the talks. She took the view that it would be absurd if the United Kingdom and China could not make arrangements for the stability and prosperity of Hong Kong to continue. But that required continuing British administration in one form or another. It might be possible to find a solution which salvaged China's pride but preserve Hong Kong's system. The Chinese would have in mind that if they disrupted the situation in Hong Kong this would have a negative impact on Taiwan.

Mr. Bush asked where the talks with the Chinese were taking place. The Prime Minister said that they were being conducted through diplomatic channels in Peking.

The Prime Minister said that she found it disturbing that Andropov had never set foot in a democratic country. Mr. Bush said that the Administration had divided views on Andropov's health. The Finns had told them that Andropov's health was not as bad as reported. But some sources, [redacted] reported that he had only two months to live. Mr. and Mrs. Harriman, who had recently visited Moscow, had also said that Andropov's health did not seem to be as bad as reported though he had kept his hands under the

table during their talk. A family doctor who had had access to Andropov's medical records had given the view that he had only two months to live. The Prime Minister said that she wondered about the quality of decisions taken by a person in Andropov's health. But perhaps this was not of great importance in a collective system.

She was more anxious about the future of East/West relations. It was necessary to reassess them. The West must keep up its strength. But now that the Soviet Union knew that the West would do so, it was necessary to consider how to deal with them in the non-military field. She was fully behind the President in his wish to strengthen COCOM. We should consider how we could best influence the Soviet people and how best we could carry forward relations. We could trade to mutual advantage. Chancellor Kohl would visit Moscow on 4 July. She had every confidence in him. She told Mr. Bush in confidence that she would be reviewing our strategy in September. When she had completed this review it might be useful for her to visit Washington and compare notes. She had the impression that the West had been staggering from decision to decision without an overall concept.

Mr. Bush said that Mr. Harriman had reported a remark by Andropov to the effect that the Russians had no communication with the Americans. But Mr. Shultz had met Dobrynin eleven times, most recently last Saturday. In the Vice President's judgement, President Reagan now had Soviet attention. They might not like American rhetoric but they had been using rhetoric themselves. The onset of the long United States election period was worrying. Mr. Mondale was saying publicly that the first thing he would do, if elected, is visit Andropov. So there was a danger of East/West relations becoming an issue in the election campaign.

The Prime Minister commented that in her view the aim should be to persuade Andropov to visit the West. But we needed a strategy. Otherwise one Head of Government after another would visit Moscow. If Mrs. Gandhi's proposal for a meeting of Heads of Government at the UNGA came to anything, and if this provided possibilities for meetings between Andropov and Western leaders in New York, it could be useful.

Mr. Bush said that the previous American Ambassador in Prague

was now a member of the National Security Council. It might be useful for one of our people to talk to him before our strategy review. Mr. Bush undertook to send the Prime Minister a copy of Mr. Harriman's report on his visit to Moscow.

The discussion ended at 1235.

24 June 1983

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DESKBY 231100Z

FROM PEKING 231020Z JUN 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 580 OF 23/6/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

He handled it very

well. M 24/6

Wonderfully

mf

YOUR TEL NO 386: FUTURE OF HONG KONG

1. I HAD ASSISTANT MINISTER ZHOU NAN ROUND FOR A DRINK THIS AFTERNOON AND ON THE USUAL PERSONAL BASIS PUT TO HIM STRONGLY THE DIFFICULTIES THAT WOULD BE CREATED BY THE PHRASE "THE TRANSFER OF SOVEREIGNTY". I SAID WE WERE BOTH IN SEARCH OF NEUTRAL WORDING WHICH WOULD ALLOW US TO EMBARK ON SUBSTANTIVE TALKS. THE PHRASE "A TRANSFER OF SOVEREIGNTY" WAS A SERIOUS ATTEMPT ON OUR SIDE TO MOVE FROM WHAT WOULD HAVE BEEN OUR PREFERRED LANGUAGE, NAMELY "ANY TRANSFER OF SOVEREIGNTY", TO MIDDLE GROUND. ON THE OTHER HAND, THE USE OF THE DEFINITE ARTICLE WOULD CONVEY THE CLEAR IMPRESSION THAT A TRANSFER WAS ALREADY SIGNED AND SEALED. THIS WOULD BE INACCURATE. IT WOULD ALSO BE UNCONSTITUTIONAL, SINCE SOVEREIGNTY LAY IN THE GIFT OF PARLIAMENT. THE RISK TO CONFIDENCE IN HONG KONG WOULD BE IMMENSE IF THERE WERE ANY LEAKAGE AND THERE HAD BEEN LEAKAGE ALREADY OF DELICATE MATTERS ON THE CHINESE SIDE. I URGED HIM TO THINK AGAIN.

2. ZHOU CLAIMED THAT, STARTING FROM ZHAO'S LETTER, THE CHINESE SIDE HAD ALREADY MADE IMMENSE CONCESSIONS AND THAT THE PHRASEOLOGY HE HAD NOW SUGGESTED WAS ENTIRELY NEUTRAL. THE USE OF THE INDEFINITE ARTICLE WAS QUITE UNACCEPTABLE.

3. AFTER SOME FURTHER EXCHANGES, WE AGREED WE HAD REACHED SOMETHING OF AN IMPASSE. HE THEREUPON SUGGESTED, AS THE ONLY POSSIBLE WAY OUT, THAT WE SHOULD DELETE THE ARTICLES, DEFINITE AND INDEFINITE, AND HAVE SIMPLY "MATTERS RELATING TO TRANSFER OF SOVEREIGNTY". I SAID THAT THIS MIGHT POSSIBLY PROVIDE A WAY OUT FOR US AND I WOULD REFER TO LONDON. I SAID THAT HIS OTHER AMENDMENT, NAMELY THE INSERTION OF THE PHRASE "THE MAINTENANCE OF THE STABILITY AND PROSPERITY" WOULD PROBABLY NOT CAUSE US SO MUCH DIFFICULTY IF OTHER THINGS FELL INTO PLACE.

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4. IT WAS LEFT THAT I WOULD GET IN TOUCH WITH HIM ON 24 JUNE AND IF THE ANSWER WAS SATISFACTORY VICE-MINISTER YAO GUANG WOULD ASK ME TO CALL ON 27 JUNE.

5. TOWARDS THE END OF OUR DISCUSSION, ZHOU TRIED ON ANOTHER AMENDMENT TO OUR DRAFT AGENDA NAMELY TO SUBSTITUTE FOR "ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997" THE PHRASE "ARRANGEMENTS IN HONG KONG IN THE TRANSITIONAL PERIOD BETWEEN NOW AND 1997". I TOLD HIM THIS WAS NOT ON AND HE RAPIDLY WITHDREW IT. I GOT THE IMPRESSION THAT HE HAD BEEN INSTRUCTED TO GO THROUGH THE MOTIONS.

6. WE WENT OVER THE QUESTION OF THE PRESS ANNOUNCEMENT AND IT WAS AGREED, AS REPORTED IN MY TEL NO 570, THAT HE COULD ACCEPT THE FIRST SENTENCE OF OUR DRAFT WITHOUT AMENDMENT, I REMINDED HIM THAT WE WOULD BE UNDER GREAT PRESSURE FROM THE PRESS AND WOULD NEED TO BE VERY CAREFUL TO MAINTAIN THE CONFIDENTIALITY OF THE DISCUSSIONS AND, IN PARTICULAR, OF THE AGENDA, HE FULLY TOOK THIS POINT AND SAID WE HAD A STRONG WEAPON AGAINST THE PRESS, NAMELY OUR AGREED ANNOUNCEMENT. WE WOULD SAY NO MORE AND NO LESS THAN THAT.

7. ON TIMING, I SAID THAT EVEN ASSUMING ALL WENT WELL, IT WAS UNLIKELY WE COULD HAVE A MEETING BEFORE THE WEEK BEGINNING 11 JULY. HE SAW NO DIFFICULTY IN THIS. IT WAS AGREED WE SHOULD THINK IN TERMS OF A MEETING ABOUT 11 JULY. I ASKED HOW LONG HE ENVISAGED THE FIRST MEETING WOULD BE AND SAID PERHAPS WE SHOULD ALLOW FOR TWO DAYS, IE ONE DAY FOR THE MEETING AND THE SECOND DAY FOR ANY SPILL-OVER. HE DID NOT DISSENT.

8. ON THE AGENDA FOR THE FIRST MEETING, AGAIN ASSUMING ALL WENT WELL, I SAID THAT WE SHOULD GO FOR THE FIRST AGENDA ITEM AND, AS A PRELUDE TO THAT, TRY TO REACH A JOINT ASSESSMENT OF THE FACTORS MAKING FOR THE PRESENT HONG KONG STABILITY AND PROSPERITY. HE SAW NO DIFFICULTY ABOUT THIS, BUT SAID EACH SIDE WOULD NO DOUBT WISH TO MAKE AN OPENING STATEMENT BUT REPEATED HIS EARLIER CAVEAT ABOUT AVOIDING PHILOSOPHICAL DISCUSSIONS: THE CHINESE WANTED TO GET DOWN TO DETAILS AS SOON AS POSSIBLE.

9. ON THE FORM OF THE TALKS, HE SPOKE ABOUT PLENARIES AND THREE POSSIBLE COMMITTEES, NAMELY A LEGAL/ADMINISTRATIVE COMMITTEE, A FINANCIAL/ECONOMIC COMMITTEE, AND A COMMITTEE TO CONSIDER HONG KONG'S INTERNATIONAL RELATIONS AND ITS POSITION AS AN INTERNATIONAL FINANCE AND TRADE CENTRE. I SAID I DID NOT SEE THIS NECESSARILY AS AN EXHAUSTIVE LIST BUT THESE WERE THE SORT OF SUBJECTS WE WOULD NEED TO DISCUSS IN DETAIL. HE ASKED AGAIN WHETHER WE FORESAW ANY TIME LIMIT FOR DISCUSSIONS OF EACH TOPIC: I REPEATED THAT I DID NOT THINK IT WOULD BE HELPFUL TO TRY TO SET SUCH A LIMIT IN ADVANCE.

10. IN THIS CONTEXT I REPEATED MY CONCERN AT THE EFFECT OF IMPOSING THE SEPTEMBER 1984 DEADLINE. ZHOU WAS PERHAPS A LITTLE LESS UNYIELDING ON THIS THAN ON 21 JUNE.

11. HE ASKED HOW WE SHOULD RECORD AGREEMENT ON THE AGENDA, IE BY SOME FORM OF STATEMENT AT THE OPENING MEETING OR BY EXCHANGE OF LETTERS. I SAID WE WERE FLEXIBLE, PROVIDED IT WAS CLEARLY AGREED.

12. ON VENUE, ZHOU SUGGESTED "SOME QUIET PLACE" IN PEKING WHICH WAS NEITHER THE EMBASSY NOR THE MINISTRY OF FOREIGN AFFAIRS.

13. ON INTERPRETERS, THE CHINESE SUGGESTED WE SHOULD BRING OUR OWN FOR BOTH PLENARY AND COMMITTEES. I WARNED WE WERE NOT SO WELL STOCKED IN THIS RESPECT AS THE CHINESE, BUT UNDERTOOK TO CHECK.

COMMENT

14. THIS WENT REASONABLY WELL AND UNLESS I HEAR FROM YOUR TO THE CONTRARY I SHALL TELEPHONE ZHOU AT 10 AM LOCAL ON 24 JUNE TO SAY THAT WE CAN ACCEPT THE AGENDA, IE OUR DRAFT PLUS THE INSERTION "THE MAINTENANCE OF STABILITY AND PROSPERITY" AND THE DELETION OF ANY ARTICLE BEFORE "TRANSFER". I JUDGED IT RIGHT TO GO THROUGH THE MOTION OF REFERRING BACK TO YOU SO AS TO UNDERLINE THAT WE WERE REALLY EXTENDING OURSELVES IN ORDER TO MEET THE CHINESE.

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SIR A PARSONS " " "

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DD 230100 PEKING

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DESKBY 230100Z

FM F C O 221830Z JUN 83

TO IMMEDIATE PEKING

TELEGRAM NUMBER 386 OF 22 JUNE

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

M $\frac{23}{6}$

YOUR TELNOS 570, 571 AND 575 AND HONG KONG TELNOS 843 AND 835: FUTURE OF HONG KONG

1. NOTWITHSTANDING EXCO'S ADVICE IN PARA 2 OF HONG KONG TELNO 843, MINISTERS ARE RELUCTANT TO ACCEPT THE FORMULA 'THE TRANSFER OF SOVEREIGNTY' IN THE AGENDA. THIS WOULD TILT THE LANGUAGE TOO FAR IN THE CHINESE DIRECTION AND COULD PROVE EMBARRASSING IF THE CHINESE MAKE IT PUBLIC. THEY ASSUME THAT THE CHINESE MAY WANT TO MAKE MAXIMUM USE OF THE AGENDA FORMULA, NOT ONLY IN THE SUBSTANTIVE TALKS THEMSELVES, BUT ALSO THROUGH PUBLIC INNUENDO TO IMPLY THAT WE HAVE AGREED TO SURRENDER SOVEREIGNTY OVER THE WHOLE OF HONG KONG.
2. MINISTERS ARE THEREFORE NOT PREPARED TO GIVE YOU DISCRETION TO ACCEPT THE DEFINITE ARTICLE BEFORE 'TRANSFER'. THE OBJECTIVE SHOULD BE TO GET THE INDEFINITE ARTICLE OR, AS A FALL BACK, NO ARTICLE AT ALL, LEAVING THE PHRASE TO READ: 'MATTERS RELATING TO TRANSFER OF SOVEREIGNTY'.
3. YOU SHOULD THEREFORE CONTACT ZHOU NAN AGAIN AND RESUME DISCUSSION ON THE SAME PERSONAL BASIS. YOU SHOULD EXPRESS DISAPPOINTMENT THAT, HAVING MADE SIGNIFICANT PROGRESS IN NARROWING THE GAP BETWEEN THE TWO SIDES, THE CHINESE SIDE ARE NOW SEEKING TO MAKE FURTHER AMENDMENTS WHICH WOULD AFFECT THE COURSE OF THE SUBSTANTIVE TALKS. YOU SHOULD ARGUE THAT THE PHRASE 'A TRANSFER OF SOVEREIGNTY' IS THE FORMULA WHICH MOST NEARLY EXPRESSES IN ENGLISH THE PRIME MINISTER'S CONDITIONAL OFFER SPELT OUT IN HER LETTER TO PREMIER

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ZHAO. HAVING PRESSED FOR RETENTION OF THIS FORM OF WORDS YOU MAY FALL BACK IF NECESSARY TO AGREEING TO DROP THE ARTICLE (DEFINITE OR INDEFINITE) ALTOGETHER (PRESUMABLY IT WOULD BE BETTER IF THE CHINESE WERE TO PROPOSE THIS IN THE FACE OF YOUR UNWILLINGNESS TO MOVE) IN DOING SO YOU SHOULD MAKE CLEAR TO THE CHINESE THAT MINISTERS' WILLINGNESS TO DO THIS IS IN ORDER TO GET SUBSTANTIVE TALKS GOING AND THE PHRASE IS WHOLLY WITHOUT PREJUDICE TO THEIR POSITION AS REGARDS A TRANSFER OF SOVEREIGNTY AS STATED IN THE PRIME MINISTER'S LETTER.

4. YOU COULD CONTRIVE TO LINK THE TWO AMENDMENTS PROPOSED BY THE CHINESE IN PARA 1 OF YOUR TELNO 570 WITH THE HINT THAT IF THE CHINESE WOULD ACCEPT EITHER ''A TRANSFER'' OR ''TRANSFER'', WE COULD AGREE TO THE PROPOSED EXPANSION OF THE PENULTIMATE SENTENCE (PARA 1A OF TUR).

5. MINISTERS ARE AWARE THAT THIS IS A VERY DIFFICULT HAND TO PLAY, AND PARAGRAPHS 3 AND 4 ABOVE ARE SUGGESTIONS ONLY. MINISTERS ARE CONTENT TO LEAVE THE TACTICS IN YOUR HANDS.

6. ON THE PROPOSED ANNOUNCEMENT, MINISTERS AGREE THAT THE SECOND SENTENCE MAY BE DROPPED BUT HAVE A PREFERENCE FOR OUR ORIGINAL WORDING, IE 'A SECOND PHASE OF THE TALKS' RATHER THAN 'SUBSTANTIVE DISCUSSIONS'. WE UNDERSTAND THE HONG KONG REQUIREMENT FOR A SHORT STATEMENT SAYING THAT THE GOVERNOR WOULD BE GOING TO PEKING ON SUCH AND SUCH A DAY TO TAKE PART IN THE TALKS.

7. WE WERE CONCERNED THAT ZHOU NAN HAD SUGGESTED THAT THE AGREED AGENDA SHOULD BE RELEASED PUBLICLY AND YOU SHOULD AGAIN REMIND HIM OF THE IMPORTANCE OF KEEPING WHATEVER IS AGREED FOR THE AGENDA STRICTLY CONFIDENTIAL.

8. ON THE SUGGESTION THAT SUBSTANTIVE TALKS MIGHT BEGIN ON 4 JULY, WE SUPPORT THE HONG KONG VIEW THAT THE PROPOSED VISIT BY THE GOVERNOR AND THE UNOFFICIALS SHOULD GO AHEAD AT THE TIME ALREADY AGREED IN PRINCIPLE. IN SPITE OF THE POINTS IN YOUR TELNO 575, THE CHINESE CANNOT SERIOUSLY ARGUE THAT WE WOULD BE DRAGGING OUR FEET BY SUGGESTING THAT TALKS MIGHT INSTEAD BEGIN A WEEK LATER, IE ON 11 JULY, AS THE GOVERNOR HAS SUGGESTED. HONG KONG SHOULD PLAN ON THIS BASIS.

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9. AS FAR AS AN ANNOUNCEMENT ABOUT THIS IS CONCERNED WE SHOULD LIKE TO MAKE A SMALL AMENDMENT TO THE TEXT PROPOSED IN HONG KONG TELNO 848 SO THAT IT READS AS FOLLOWS:

'AS PART OF THE CONTINUING PROCESS OF CONSULTATION ON THE FUTURE OF HONG KONG, THE GOVERNOR OF HONG KONG, ACCOMPANIED BY THE UNOFFICIAL MEMBERS OF THE EXECUTIVE COUNCIL, WILL VISIT LONDON DURING THE WEEK BEGINNING 4 JULY. WHILE IN LONDON THEY EXPECT TO CALL ON THE PRIME MINISTER, THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS AND THE MINISTER RESPONSIBLE FOR HONG KONG IN THE FOREIGN AND COMMONWEALTH OFFICE, MR RICHARD LUCE.'

10. WE SHOULD BE GRATEFUL HOWEVER IF HONG KONG WOULD HOLD ANY SUCH ANNOUNCEMENT UNTIL THE AMBASSADOR HAS MADE CONTACT AGAIN WITH ZHOU NAN AND WE HAVE A BETTER IDEA OF WHETHER THE CHINESE WOULD AGREE TO POSTPONE THE START OF SUBSTANTIVE TALKS UNTIL AFTER THE GOVERNOR'S RETURN TO HONG KONG.

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SIR A PARSONS " " "

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Joe VC
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a MASTER

10 DOWNING STREET

From the Private Secretary

22 June 1983

Thank you for your letter of today's date. The Prime Minister discussed the present state of negotiations with the Foreign and Commonwealth Secretary this afternoon.

It was agreed that:

- (a) We could accept the Chinese proposal to make the opening phrase of the penultimate sentence of our formula for the agenda read "These will include arrangements for the maintenance of the stability and prosperity of Hong Kong after 1997 ..." (The following words, "arrangements in Hong Kong between now and 1997" were omitted from your description of the Chinese proposal but would of course be retained.)
- (b) As regards the Chinese proposal to insert the definite article before "transfer of sovereignty", the aim in further discussions with the Chinese should be to retain the indefinite article or to have neither. Sir Percy Cradock should argue strenuously for such an outcome. He should have discretion as to tactics - it might be better for him to revert to our proposal for the indefinite article in the hope that the Chinese would themselves propose the compromise of having neither. He does not have discretion to accept the definite article.
- (c) As regards the proposed announcement for the substantive talks, we can agree to the Chinese proposal that the second sentence be omitted.

AG

J.E. Holmes, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

22 June 1983

*Dear John,*Future of Hong Kong

/ You will have seen the two latest telegrams from Peking (570 and 571) reporting on Sir Percy Cradock's latest contact with his Foreign Ministry interlocutor, Zhou Nan. I enclose a copy of Hong Kong Telegram Number 843 reporting the views of EXCO on that discussion.

/ Sir Percy Cradock has asked for instructions if possible by the morning of 23 June. To meet this deadline we should need to send a telegram tonight. Sir Geoffrey Howe would like to discuss this with the Prime Minister when they meet later this afternoon. You may find the enclosed note of the key texts useful for the discussion.

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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FM HONG KONG 220926Z JUN 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 843 OF 22 JUNE
INFO IMMEDIATE PEKING

ARC 23/6

p.a.

PEKING TELNOS 570 AND 571 : FUTURE OF HONG KONG

1. AT TODAY'S EXECUTIVE COUNCIL MEETING I TOOK THE OPPORTUNITY TO INFORM MEMBERS OF THE DISCUSSION WITH ZHOU NAN REPORTED IN PEKING TURS AND TO SEEK THEIR ADVICE ON THE AGENDA FORMULA AND THE JOINT PRESS ANNOUNCEMENT.

AGENDA

2. A NUMBER OF MEMBERS INTERPRETED ZHOU NAN'S AMENDMENTS, PARTICULARLY WHEN TAKEN TOGETHER, AS INDICATING A CHINESE INTENTION TO TRY TO LIMIT DISCUSSION UNDER THE FIRST ITEM TO THE QUESTION OF HOW TO MAINTAIN STABILITY AND PROSPERITY (NEXT WORD UNDERLINED) AFTER SOVEREIGNTY (AND CONTROL) HAS BEEN TRANSFERRED TO CHINA. ACCORDINGLY THERE WAS GENERAL AGREEMENT WITH THE AMBASSADOR'S PROPOSAL THAT AN ATTEMPT SHOULD BE MADE TO PERSUADE THE CHINESE TO REFER SIMPLY TO 'TRANSFER' OF SOVEREIGNTY (OMITTING THE ARTICLE) AND THUS TO BRING THE ENGLISH AND PROBABLE CHINESE TEXTS INTO LINE. (SOME MEMBERS TOOK THE VIEW THAT DIFFICULTIES ARE LIKELY TO ARISE IN DISCUSSION OF THE FIRST ITEM IN ANY EVENT; AND THAT ZHOU NAN'S AMENDMENTS WOULD NOT IN ANY CASE INHIBIT US FROM PRESENTING THE CASE FOR CONTINUED BRITISH ADMINISTRATION). MEMBERS ALSO THOUGHT IT IMPORTANT, PARTICULARLY IN VIEW OF THE EXPECTATIONS NOW BUILDING UP HERE THROUGH PRESS REPORTS, NOT TO RISK FURTHER DELAY IN THE START OF THE SUBSTANTIVE TALKS BY PROLONGING DISCUSSION OF THE AGENDA UNDULY. IT WAS THEREFORE THEIR UNANIMOUS ADVICE THAT THE AMBASSADOR SHOULD HAVE DISCRETION TO ACCEPT ZHOU NAN'S TWO AMENDMENTS IF A FURTHER EFFORT TO GET THE CHINESE TO ACCEPT 'TRANSFER' RATHER THAN 'THE TRANSFER' IS UNSUCCESSFUL.

3. EXCO WOULD BE CONTENT WITH A ONE SENTENCE ANNOUNCEMENT ON THE LINES DISCUSSED BETWEEN THE AMBASSADOR AND ZHOU NAN (PARA 8 OF TUR). HOWEVER THEY TOOK THE VIEW THAT IF THE CHINESE REVERTED TO A PREFERENCE FOR NO JOINT ANNOUNCEMENT AT ALL, THE HONG KONG REQUIREMENT WOULD BE MET BY A SHORT STATEMENT ISSUED HERE SAYING THAT THE GOVERNOR WOULD BE GOING TO PEKING ON SUCH AND SUCH A DATE TO TAKE PART IN THE TALKS.

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4. AS REGARDS A DATE FOR THE START OF SUBSTANTIVE TALKS (PARA 4 OF PEKING TELNO 570) MEMBERS CONFIRMED THEIR STRONG VIEW THAT THE VISIT TO LONDON BY UNOFFICIALS SHOULD PRECEDE MY VISIT TO PEKING TO TAKE PART IN THE TALKS (PARA 1 OF MY TELNO 835). ON THIS BASIS, AND ASSUMING THAT THE FIRST SUBSTANTIVE MEETING WOULD BE ONE WHICH I WOULD ATTEND, THE EARLIEST PRACTICABLE DATE FOR THE START OF THE SECOND PHASE WOULD BE MONDAY 11 JULY.

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FUTURE OF HONG KONG

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FUTURE OF HONG KONG

1. TRANSFER OF SOVEREIGNTY

(a) Extract from Prime Minister's letter of 10 March to Premier Zhao:

'I fully understand the importance the Chinese Government attach to the matter of sovereignty. But as I explained to you and Chairman Deng it is not constitutionally in my power as Prime Minister acting alone to agree to the transfer of sovereignty; that is a matter which I have to refer to Parliament which alone has the power to decline. If Parliament is to agree to such a transfer of sovereignty, it will need to be part of an overall package of measure guaranteeing the future stability and prosperity of Hong Kong. I understand your difficulties, but I hope that you will understand mine. In my meeting with you I said that I would be prepared to consider making recommendations on sovereignty to Parliament in certain circumstances. Perhaps it would be helpful if I strengthened that assurance. Provided that agreement could be reached between the British and Chinese Government on administrative arrangements for Hong Kong which would guarantee the future prosperity and stability of Hong Kong, and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, I would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China!!

(b) Extract from Premier Zhao's response on 9 May to the Prime Minister's letter:

'I also note that in your letter you have given an assurance that you are prepared at a certain stage to recommend to Parliament that sovereignty over the entire Hong Kong area should revert to China!'

2. AGENDA FORMULA

(a) Extract from Premier Zhao's response on 9 May to the Prime Minister's letter:

'Discussions on the form of transference of sovereignty as well as on the related questions of how China and Britain can cooperate during the transitional period between now and 1997 and after 1997.'

(b) Extract from Vice Minister Yao's conversation with the Ambassador on 24 May:

'Three-point agenda proposed in Zhao's letter:
A. The form of transference of sovereignty
B. Cooperation before 1997
C. Cooperation after 1997'

(c) Formula agreed by the Prime Minister on 15 June:



'In order to meet the wish of the Chinese side for a broad agenda covering the whole course of the formal talks, the British side agree that, during the course of the talks, matters relevant to the future of Hong Kong should be discussed, in particular all the subjects mentioned in Mrs Thatcher's letter and Premier Zhao's letter. These will include arrangements for Hong Kong after 1997, arrangements in Hong Kong between now and 1997, and matters relating to a transfer of sovereignty in that order. It is agreed that this agenda should remain strictly confidential'.

- (d) Amendments proposed by Assistant Minister Zhou to the Ambassador on 21 June:

'.....These will include arrangements for the maintenance of the stability and prosperity of Hong Kong after 1997, and matters relating to the transfer of sovereignty in that order. It is agreed that this agenda should remain strictly confidential'.

3. ANNOUNCEMENT OF SUBSTANTIVE TALKS

- (a) The wording agreed by the Prime Minister on 15 June:

'Following the discussions between the leaders of the two countries in September 1982, and subsequent useful exchanges, it has been agreed that a second phase of the talks on the future of Hong Kong will begin in Peking on Both sides have reaffirmed the common aim of maintaining the stability and prosperity of Hong Kong and have expressed their determination to pursue the talks to a successful conclusion.'

- (b) Change proposed by Zhou Nan to the Ambassador on 21 June: Omission of the second sentence of the above.

*arrangements in Hong Kong
between now and 1997*

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CONFIDENTIAL

Future of H-K 46B

CONFIDENTIAL

FM HONG KONG 210940Z JUN 83

TO PRIORITY FCO

TELEGRAM NUMBER 837 OF 21 JUNE

INFO PRIORITY HONG KONG GOVERNMENT OFFICE LONDON, PEKING

MY TELNO 826: FUTURE OF HONG KONG: PRESS COVERAGE.

1. THE NEWSWEEK ARTICLE AND THE GOVERNMENT SPOKESMAN'S RESPONSE WERE BOTH GIVEN PROMINENT AND WIDESPREAD COVERAGE IN THE LOCAL PRESS ON 21 JUNE. MOST PAPERS SOUGHT COMMENT FROM THE USUAL SELECTION OF ACADEMICS AND BUSINESSMEN, ALL OF WHOM EXPRESSED SCEPTICISM ABOUT THE NEWSWEEK REPORT, IN PARTICULAR THE NOTION THAT DENG XIAOPING HAD SET A DEADLINE FOR THE NEGOTIATIONS. MOST NEWSPAPERS INTERPRETED THE GOVERNMENT STATEMENT AS A DENIAL OF THE DEADLINE STORY AS WELL AS OF THE ASSERTION THAT THE TALKS IN SEPTEMBER 1982 HAD BEEN ACRIMONIOUS. ONLY THE SOUTH CHINA MORNING POST (SCMP) POINTED OUT THAT THE GOVERNMENT STATEMENT HAD NOT, IN FACT, REFUTED THE ASSERTION THAT DENG XIAOPING HAD SET A DEADLINE FOR THE TALKS. THE PRESS RELEASE ON MINISTERIAL MESSAGES WAS ALSO WIDELY COVERED AND GENERALLY SEEN AS A COUNTER TO THE NEWSWEEK ASSERTION THAT THE FCO HAD GIVEN UP ANY REAL HOPE OF RETAINING EVEN TITULAR SOVEREIGNTY OVER HONG KONG AFTER 1997.
2. THE HONG KONG ECONOMIC JOURNAL (INDEPENDENT) ALONGSIDE ITS COVERAGE OF THE NEWSWEEK ARTICLE, CARRIED ON ITS FRONT PAGE ON 21 JUNE AN ARTICLE QUOTING INFORMED SOURCES AS HAVING REVEALED THAT THE SINO/BRITISH TALKS WERE NOW FOCUSING ON THE AGENDA FOR THE NEGOTIATIONS. AGREEMENT HAD YET TO BE REACHED ON THE ORDER OF DISCUSSION OF THE TWO MOST IMPORTANT TOPICS, SOVEREIGNTY AND FUTURE ADMINISTRATIVE ARRANGEMENTS. BRITAIN WISHED TO DISCUSS FUTURE ADMINISTRATIVE ARRANGEMENTS FIRST, BUT CHINA WANTED TO HAVE SOVEREIGNTY AS THE FIRST ITEM. IN AN EDITORIAL IN THE SAME EDITION, THE ECONOMIC JOURNAL SUGGESTED THAT IT WOULD BE REASONABLE TO DETERMINE FIRST HOW HONG KONG'S CONTINUED ADMINISTRATION SHOULD BE ORGANISED BEFORE SETTLING THE SOVEREIGNTY ISSUE. IF THE SOVEREIGNTY ISSUE WERE DEALT WITH FIRST, THIS MIGHT CAUSE CHAOS IN HONG KONG. THE EDITORIAL ALSO URGED HONG KONG PEOPLE TO STATE THEIR VIEWS AND TO BEAR IN MIND THAT SOVEREIGNTY WAS AN ABSTRACT NOTION WHICH DID NOT AFFECT THEIR DAILY LIVES IN THE WAY THAT THE ORGANISATION OF HONG KONG'S ADMINISTRATION DID.

CONFIDENTIAL

/3. REMARKS

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3. REMARKS MADE BY THE DIRECTOR DESIGNATE OF NCNA HONG KONG, XU JIATUN, TO A SUB-COMMITTEE OF THE NPC WERE WIDELY REPORTED IN THE LOCAL PRESS OVER THE WEEKEND. PARTICULAR ATTENTION WAS PAID TO HIS ASSERTION THAT SOVEREIGNTY WAS NOT NEGOTIABLE.
4. FOLLOWING THE WEN WEI PO ARTICLE REPORTED IN PARAGRAPH 5 OF MY TELNO 818, THE TA KUNG PAO PUBLISHED A COMMENTARY ON 19 JUNE WHICH MAY ALSO BE READ AS A RESPONSE TO THE YOUNG PROFESSIONALS' MEMORANDUM. THE ARTICLE SUGGESTED THAT AS HONG KONG PEOPLE WERE CHINESE PEOPLE, SELF RULE WAS ANOTHER FORM OF CHINESE RULE. SINCE LOCAL RESIDENTS WERE FAMILIAR WITH THE CAPITALIST SYSTEM IT WOULD BE APPROPRIATE TO LET THEM ADMINISTER THE TERRITORY. CHINESE PEOPLE IN HONG KONG ALREADY OCCUPIED SENIOR PROFESSIONAL AND MANAGERIAL POSTS AS WELL AS SOME TOP LEVEL POSTS IN THE CIVIL SERVICE. AFTER CHINA REGAINED SOVEREIGNTY, LOCAL PEOPLE WOULD BE GIVEN THROUGH LEGISLATION THE RIGHT TO ADMINISTER THE TERRITORY AND THEIR SITUATION WOULD BE MUCH BETTER. THE ARTICLE REPEATED SOME OF THE HISTORICAL ARGUMENTS MENTIONED IN THE EARLIER WEN WEI PO COMMENTARY AND CONCLUDED WITH AN APPEAL TO LOCAL PEOPLE TO BELIEVE IN THEMSELVES AS CHINESE. WITH THE PASSAGE OF TIME THE AUTHOR BELIEVED THAT THERE WOULD BE MANY MORE LOCAL CHINESE WILLING TO WORK TOGETHER FOR HONG KONG'S CONTINUED PROSPERITY.

YOUDE

FUTURE OF HONG KONG

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SIR A PARSONS " " "

HKGO. LONDON

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SECRET

FM, PEKING

DESEKY 211000Z

TO IMMEDIATE FCO TELEGRAM NUMBER 571 OF 21 JUNE 1983, AND TO IMMEDIATE HONG KONG
 MIPT: FUTURE OF HONG KONG

1. AT LUNCH ON 121 JUNE ZHOU NAN RECALLED THAT DENG XIAOPING HAD TOLD THE PRIME MINISTER ON 24 SEPTEMBER 1982 THAT CHINA WOULD ANNOUNCE ITS PLAN FOR HONG KONG BY SEPTEMBER 1984 AT THE LATEST. I TOLD ZHOU THAT DENG HAD NOT BEEN SPECIFIC, BUT ZHOU RESPONDED THAT IT WAS DEFINITE THAT BY SEPTEMBER 1984, IF CHINA AND BRITAIN HAD NOT REACHED AN AGREEMENT, CHINA WOULD ANNOUNCE ITS PLAN FOR HONG KONG'S FUTURE IN (NEXT WORD UNDERLINED) DETAIL. I TOLD ZHOU THAT ALTHOUGH WE AGREED THAT WE SHOULD TRY TO REACH A SETTLEMENT QUICKLY, IT WAS ARTIFICIAL AND UNHELPFUL TO WORK UNDER THE THREAT OF AN ULTIMATUM., PARTICULARLY GIVEN THE DELAYS ON THE CHINESE SIDE IN THE LAST YEAR. ZHOU SHOWED NO LATITUDE ON THIS POINT.

2. I TOOK THE OPPORTUNITY TO MENTION THE NEWSWEEK ARTICLE (HONG KONG TEL N 826) TO ZHOU, AND WARN HIM OF THE EFFECT OF SUCH SEEMINGLY AUTHORITATIVE LEAKS ON CONFIDENCE IN HONG KONG. IT WAS NOT TRUE THAT THE MEETING BETWEEN DENG AND THE PRIME MINISTER HAD BEEN 'ACRIMONIOUS'. ZHOU WAS EVIDENTLY UNSIGHTED, BUT SAID HE COULD NOT BELIEVE HU YAOBANG HAD SAID THIS AND IT MUST HAVE BEEN A JOURNALISTIC FABRICATION.

3. I ALSO MENTIONED THE CHINESE AMBASSADOR'S DISCLOSURE OF THE CONTENTS OF THE PRIME MINISTER'S LETTER TO HENRY KESWICK.. ZHOU WAS UNAWARE OF THIS TOO AND INSTRUCTED A SUBORDINATE OFFICIAL TO LOOK INTO THE MATTER.

4. I ASKED ZHOU WHAT EFFECT LIAO CHENGZHI'S DEATH WOULD HAVE ON OUR DEALINGS ON THE HONG KONG QUESTION. ZHOU SAID THAT LIAO WOULD BE HARD TO REPLACE (NO-ONE WAS YET EARMARKED TO SUCCEED HIM) BUT POLICY WAS MADE COLLECTIVELY AND THERE WOULD THEREFORE BE NO CHANGE OF LINE.

5. I ASKED ZHOU WHAT HE SAW AS THE MAIN DIFFICULTY WE FACED IN OUR TALKS. HE OFFERED NO VIEW ON THIS AND ASKED ME THE SAME QUESTION. I TOLD HIM THAT IT WAS VITAL THAT THE CHINESE DECISION MAKERS SHOULD MAKE GREATER EFFORTS TO UNDERSTAND HONG KONG, HOW IT WORKED, WHAT PEOPLE THERE WERE WORRIED ABOUT AND HOW SUDDENLY THEIR CONFIDENCE COULD BE DESTROYED. I CITED THE RECENT DECLINE OF THE HONG KONG DOLLAR AND WARNED ZHOU THAT UNLESS THE CHINESE LEADERS BECAME MORE SENSITIVE TO THE CONCERNS OF

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/HONG KONG

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HONG KONG PEOPLE, WE MIGHT FIND OURSELVES DISCUSSING A WASTELAND. THIS WOULD BE TO THE DISCREDIT OF BOTH OUR COUNTRIES, SINCE THE EYES OF THE WORLD WERE UPON US. IT WOULD ALSO DO GREAT HARM TO CHINA'S HOPES OF REUNIFICATION WITH TAIWAN. IF ON THE OTHER HAND, WE WERE ABLE TO REACH A SATISFACTORY AGREEMENT, IT WOULD BE A TRIUMPH FOR BOTH COUNTRIES, AND HONG KONG WOULD BOOM AS IT HAD NEVER BOOMED BEFORE. THAT WAS THE CHOICE BEFORE US. ZHOU LISTENED AND DID NOT DEMUR. AN ASSISTANT TOOK CAREFUL NOTES.

6. ZHOU THEN RAISED THE QUESTION OF THE FINAL AGREEMENT STRESSING THAT HE WAS "THINKING ALOUD". HE SAID IN HIS VIEW THERE COULD BE NO QUESTION OF A "TREATY". HE LOATHED THE WORD AND ASSUMED HE DID NOT NEED TO EXPLAIN WHY. I INDICATED THAT I UNDERSTOOD HIS POINT, BUT THERE WOULD HAVE TO BE BILATERAL AGREEMENT AS A GUARANTEE TO THE HONG KONG PEOPLE THAT THE SETTLEMENT WOULD STICK GIVEN THE SWINGS IN CHINESE POLICY OVER THE LAST TWENTY YEARS. ZHOU SAID THAT AN "OFFICIAL AGREEMENT" WOULD BE SUFFICIENT GUARANTEE, BUT THERE COULD BE NOT TREATY. HE QUOTED "A ROSE BY ANY OTHER NAME WOULD SMELL AS SWEET".

CRADOCK

FUTURE OF HONG KONG

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SECRET

DESKBY 21100Z

FROM PEKING 210850Z JUN 83

TO IMMEDIATE FCO

r-a. Ad 21/6

TELEGRAM NUMBER 570 OF 21/6/83

REPETED FO INFO TO IMMEDIATE HONG KONG

YOUR TEL NO 375: FUTURE OF HONG KONG

1. I LUNCHEDED WITH ZHOU NAN ON 21 JUNE TO DISCUSS THE AGENDA FORMULA IN TUR. AS USUAL WE BOTH MADE IT PLAIN THAT EVERYTHING WE SAID WAS ON A PERSONAL BASIS. HE AT ONCE PICKED UP THE PHRASE "IN THAT ORDER". I EXPLAINED THAT SINCE ZHOU HIMSELF HAD TOLD ME ON 2 JUNE THAT THE CHINESE COULD ACCEPT OUR ORDER OF DISCUSSION, I COULD SEE NO POSSIBLE OBJECTION TO THE PHRASE. AFTER SOME HESITATION HE DROPPED THE POINT AND EXPRESSED HIMSELF CONTENT WITH THE FORMULA SUBJECT TO TWO CHANGES:

(A) HE PROPOSED THAT THE PENULTIMATE SENTENCE SHOULD BE EXPANDED TO READ: "THESE WILL INCLUDE ARRANGEMENTS FOR THE MAINTENANCE OF THE STABILITY AND PROSPERITY OF HONG KONG AFTER 1997, ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997 AND".

(B) HE OBJECTED "VERY STRONGLY" TO THE TERM "A TRANSFER OF SOVEREIGNTY" AND INSISTED THAT THIS SHOULD BE CHANGED TO (NEXT WORD UNDERLINED) "THE TRANSFER...".

2. I TOLD ZHOU THAT I WOULD REPORT BOTH POINTS. ON POINT (B) I TRIED VERY HARD TO PERSUADE HIM POINTING OUT THAT THE DISTINCTION WOULD BE NON-EXISTENT IN CHINESE (WHICH HE FIRST ADMITTED BUT LATER DENIED) AND NEED CAUSE HIM NO CONCERN IN ENGLISH. I EXPRESSED DISMAY THAT SUCH A SMALL POINT SHOULD MEAN THAT WE WERE UNABLE TO REACH AGREEMENT AT THIS SESSION. HOWEVER, ZHOU WAS ADAMANT THAT HE COULD NOT ACCEPT "A TRANSFER". WE RETURNED TO THE POINT SEVERAL TIMES IN THE COURSE OF THE LUNCH, WITHOUT SUCCESS.

3. ZHOU SAID HE COULD AGREE ON A PERSONAL BASIS TO KEEP THE AGENDA CONFIDENTIAL. I STRESSED THAT THIS WAS OF THE UTMOST IMPORTANCE.

4. ZHOU SAID THAT YAO GUANG HOPED TO BE ABLE TO CALL ME IN ON THURSDAY OR FRIDAY TO AGREE THE AGENDA. HE ENVISAGED THAT THE FIRST SUBSTANTIVE TALKS MIGHT THEN BEGIN ON 4 JULY. I UNDERTOOK TO REPORT THIS, BUT CAUTIONED HIM AGAIN THAT THE DIFFICULTY HE HAD RAISED ON THE AGENDA WAS NOT CONDUCTIVE TO RAPID PROGRESS. AGAIN HE WAS UNMOVED

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5. ZHOU SAID THAT YAO WOULD ALSO TELL ME THAT COMPOSITION OF THE CHINESE DELEGATION. IT WOULD HAVE SIX MEMBERS, LIKE OURS. HE COULD REVEAL NONE OF THE NAMES, BUT HE HINTED STRONGLY THAT HE WOULD NOT BE ONE OF THEM. HE WOULD HOWEVER BE AT MY DISPOSAL FOR INFORMAL CONVERSATIONS FOR AS LONG AS HE WAS IN PEKING.

6. ON THE SUBSTANCE OF THE FIRST MEETING, I EXPLAINED TO ZHOU THAT IN OUR VIEW THE BEST WAY TO BEGIN OUR CONSIDERATION OF THE FIRST AGENDA ITEM, IE ARRANGEMENTS AFTER 1997, WAS TO REACH A COMMON UNDERSTANDING OF THE ELEMENTS CONTRIBUTING TO THE STABILITY AND PROSPERITY IN HONG KONG NOW, AND ON THAT BASIS TO CONSIDER WHAT WAS NECESSARY TO MAINTAIN STABILITY AND PROSPERITY IN THE FUTURE. ZHOU SEEMED TO TAKE THIS POINT, BUT SAID THAT WE SHOULD NOT CONFINE OURSELVES TO A "PHILOSOPHICAL OR ACADEMIC DISCUSSION". I AGREED READILY THAT WE WANTED TO GET DOWN TO CONCRETE MATTERS.

7. ZHOU ASKED IF I THOUGHT IT DESIRABLE TO SET A TIME-FRAME FOR DISCUSSION OF EACH OF THE AGENDA ITEMS. I SAID I THOUGHT IT WAS HARDLY POSSIBLE TO FORESEE HOW LONG WE SHOULD NEED. HE SEEMED TO ACCEPT THIS.

8. I ALSO TRIED THE DRAFT PRESS ANNOUNCEMENT (PARA 3 OF TUR) ON ZHOU NAN. HE FIRST SAID THAT, SINCE WE HAD LAST DISCUSSED THIS, HE HAD COME TO THE VIEW THAT NO SUCH ANNOUNCEMENT WAS NECESSARY. HOWEVER, HE LATER ACCEPTED THAT SOMETHING WOULD PROBABLY HAVE TO BE SAID AND THAT IT WOULD BE BETTER TO HAVE A FORM OF WORDS AGREED BY BOTH SIDES. HE EXPRESSED DISSATISFACTION WITH OUR DRAFT SAYING THAT THE PHRASE "A SECOND PHASE OF THE TALKS" SHOULD BE REPLACED BY "SUBSTANTIVE DISCUSSIONS", AND SUGGESTING THAT THE AGREED AGENDA SHOULD ALSO BE RELEASED. I REMINDED HIM OF HIS AGREEMENT (PARA 3 ABOVE) TO KEEP THE AGENDA CONFIDENTIAL. HE FINALLY AGREED TO A PRESS ANNOUNCEMENT ON THE LINES OF THE FIRST SENTENCE OF OUR DRAFT, BUT OMITTING THE SECOND. HE MADE IT PRETTY CLEAR THAT IF WE WANTED TO SAY MORE, THE CHINESE WOULD ALSO WANT TO ADD THEIR OWN PIECE ABOUT SOVEREIGNTY.

9. WE AGREED THAT I SHOULD CONTACT ZHOU AGAIN AS SOON AS I HAD CONSULTED YOU, WITH A VIEW TO CALLING ON YAO GUANG AS QUICKLY AS POSSIBLE.

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COMMENT

10. ZHOU MADE IT PLAIN THAT THERE IS NO PROSPECT THAT THE CHINESE WILL AGREE TO 'A TRASFER'. MY FEELING IS THAT NOTHING SHORT OF 'THE TRANSFER' WILL BE ACCEPTABLE TO THEM. THIS IS UNFORTUNATE, BUT THE CRUCIAL POINTS FOR US ARE (A) THE ORDER OF AGENDA ITEMS, ON WHICH ZHOU HAS NOT ONLY ACCEPTED OUR SEQUENCE BUT EVEN, WITH SOME RELUCTANCE, AGREED TO THE PHRASE 'IN THAT ORDER' AND (B) THE FACT THAT TRANSFER OF SOVEREIGNTY IS DEPENDENT ON THE OTHER POINTS IN MRS THATCHER'S LETTER. HAVING SECURED THIS, WE SHOULD NOT RISK ALL THAT WE HAVE GAINED FOR THIS ONE POINT. IT IS JUST POSSIBLE, THOUGH IN MY VIEW UNLIKELY, THAT THE CHINESE MIGHT AGREE TO OMIT THE ARTICLE ALTOGETHER. I THEREFORE RECOMMEND THAT I BE INSTRUCTED FIRST TO TRY THIS WITH ZHOU NAN BUT, IF NECESSARY (AS I SUSPECT IT WILL BE) TO AGREE TO SUBSTITUTE 'THE ' FOR 'A'', PROVIDED THE REST OF THE FORMULA WE HAVE AGREED ON A PERSONAL BASIS IS ENDORSED FORMALLY. I ALSO RECOMMEND THAT WE SHOULD AGREE TO ZHOU'S PROPOSAL AT 1(A) ABOVE, IN WHICH I SEE NO DIFFICULTY. I SHOULD BE GRATEFUL FOR INSTRUCTIONS BY 0900 LOCAL TIME ON THURSDAY 23 JUNE.

11. MIFT CONTAINS OTHER, LESS PRESSING, POINTS COVERED AT THIS LUNCH.

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FUTURE OF HONG KONG

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SIR A PARSONS " " "

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45. JP

10 DOWNING STREET

From the Private Secretary

21 June 1983

FUTURE OF HONG KONG:
BRIEFING THE AUSTRALIANS

Thank you for your letter of 10 June. The Prime Minister shares the view of the Foreign and Commonwealth Secretary that it will be appropriate to give the Australian Foreign Minister a general briefing on Hong Kong before his visit to the Colony on 3 to 5 July.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

JP

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Mr Coles
44

GRS 40
SECRET
DEDIP

FM CANBERRA 210235Z JUN 63
TO IMMEDIATE FCO
TELEGRAM NUMBER 324 OF 21 JUNE
INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR) PEKING (PERSONAL
FOR AMBASSADOR)

Mr 21/6

h.a.

MY TELNO 322: VISIT BY MR HAYDEN TO HONG KONG

1. I HAVE NOW SEEN HONG KONG TELNO 316 AND PEKING TELNO 564.
IF IT IS THOUGHT PREFERABLE TO BRIEF MR HAYDEN PERSONALLY BEFORE
HE LEAVES AUSTRALIA, I SHOULD BE ABLE TO ARRANGE TO DO THIS WHILE
HE IS IN SYDNEY.

CULLIMORE

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MR DONALD

Copy 1.
Mr Coles No 10. D Pt.

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Roger HENNING

BU 19/7

Clark



10 DOWNING STREET

From the Private Secretary

28 June 1983

The Prime Minister has asked me to thank you for your letter of 20 June which she read with considerable interest. She has asked me to establish whether you are likely to be visiting London in the near future. If so, she will be happy to have a word with you about this matter herself. Perhaps you would kindly let me know.

A. J. COLES

Mr. Roger Henning.



10 DOWNING STREET

Prime Minister

You will know the writer
(ROGER HENNING) and perhaps be
able to judge whether he can be
helpful to us over HONG KONG.

He wants to know who he
should communicate with about
Hong Kong. If you think it
useful, I could offer to be his
contact point.

A.J.C. $\frac{27}{6}$.

All information is
useful. I will be here
when he comes and then
we can discuss how to proceed
no



PERSONAL

43A

HENNING INTERNATIONAL

SUITE 604 135 MACQUARIE ST., SYDNEY N.S.W. 2000 AUSTRALIA
Tel. (02) 27 9949 TELEX AA24667 CABLES: HENINT SYDNEY

RH:ng

20 June, 1983

1025

Dear Prime Minister,

We were all absolutely thrilled with the election result and again extend our congratulations to you on a superb victory!

Pru and I hope to be in the UK shortly to attend the wedding of one of our politicians in London on 9 July.

However, I have given some thought as to how to communicate to you some information regarding the attitude of China towards Hong Kong.

I do not believe it is wise to commit to paper the source of these comments but they are authoritative and come from a private conversation involving a prominent Chinese businessman with interests in Hong Kong, Macau and China.

He said prior to your election that he believed the Peoples Republic would begin negotiating "on a sensible basis" with the British Government during the second week of August.

He did not indicate a reason for stipulating the second week of August but felt that this month would be critical.

He believes that China has become quite aware of "the stupidity in insisting that the Governor of Hong Kong be someone appointed by the Chinese authorities."

He said that China has realised that a number of mistakes have been made in the handling of initial negotiations over the future of Hong Kong.

The Chinese business community has apparently put pressure on the decision-making process within China which was described as "archaic".

This discussion with someone whose future is dependent on both Hong Kong and Macau could best be described as pessimistic.

He was adamant that the future of both Macau and Hong Kong are irretrievably linked and if Hong Kong ceased to be a British colony, then the Chinese would be forced to do an about face on Macau and the fate of both territories would be similar.

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20 June, 1983

He believes the Chinese authorities are looking for a face-saving solution which is difficult for a country which he describes as being "50 years behind the times and unaware of how to communicate outside the Peoples Republic and devoid of any public relations or image-making skills."

He said that he automatically "writes off any business involvement he may be forced to have in China as an immediate bad debt" and gets it off his books.

His belief is that the Hong Kong situation can be resolved if "the British stick to their guns and do not concede to the unrealistic suggestions being made by China."

This prominent figure and others believe that it is essential for China to maintain the British presence in Hong Kong and that this necessity has been recognised.

The man involved in this conversation has no knowledge of my involvement with the Thatcher family as a friend and I intend to keep it that way.

Because of my on-going business activities involving Hong Kong, Macau and China and having been responsible for a report on tourism development in the southern provinces of China which helped lead to the opening of the border gate between Macau and China, I have some superb contacts and sources of information.

To the best of my knowledge the only person who knows that I have any connection with any member of the Thatcher family is my Hong Kong financial adviser who has met Mark on one occasion when we all had lunch together in Hong Kong.

I mention this to make it very clear that this pipeline to various sources of information in the Hong Kong/Chinese community, Macau and within China may be a resource of value to you but I do not know how to communicate to the appropriate person within your Government.

I am also anxious to retain the capacity to expand my ability to do business with China.

I can elaborate further on this conversation and others if it is of benefit to you or your colleagues in Government.

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20 June, 1983

I am reluctant to deal directly with any member of the bureaucracy or foreign office without first establishing the need for my various sources of information to be protected and it is vital that I am not linked directly with any Government to Government negotiations unless I am requested to participate on an official basis, as this could lead to embarrassment for all concerned and perhaps spoil opportunities for a happy final result for everyone.

I will be returning to Macau shortly and have an invitation from China to revisit the country but have chosen to postpone any direct contact with China until I can establish in my own mind the goal of the British Government in respect to Hong Kong.

Then and only then can I speak with any real knowledge of the situation as I am limited at this stage to the interpretation that is placed on the subject of Hong Kong by foreign correspondents and some areas of the business community.

I hope this input is of some benefit and I look forward to seeing the twins if they are in London when next we visit your country.

You have given us all new hope and for that we are most grateful.

Our best wishes for your next five years in office.

Sincerely and with best wishes

(ROGER HENNING)
Managing Director

The Right Honourable Mrs Margaret Thatcher
Prime Minister
10 Downing Street
London
UNITED KINGDOM



Agree that the
Australian Foreign Minister
should have a general
briefing on Hong Kong before
his visit?

Foreign and Commonwealth Office

London SW1A 2AH

20 June 1983

MR 20/6

Yes not

Dear John,

Future of Hong Kong: Briefing the Australians

As you are aware, we have been keeping the Americans up-to-date on the future of Hong Kong

The Australians however have been given more limited briefing, although our High Commissioner in Canberra was authorised to bring Mr Hayden and the Australian Prime Minister a little more fully into the picture before Premier Zhao visited Australia in April (your letter of 30 March).

The Australians continue to have a considerable interest in Hong Kong's future because of their significant investments there, the growing importance of their relationship with China and their interest in stability in the area.

Mr Hayden, the Australian Foreign Minister, is passing through Hong Kong from 3 to 5 July as part of a wider Asian tour. His primary purpose is to discuss regional economic issues with local bankers and businessmen, but he also apparently wants to get a personal feel for Hong Kong's future prospects. The Governor has offered to see Mr Hayden and to give him lunch.

In the context of this visit, it would in our view be useful to bring the Australians up to date, on the political net, on how far we have got in our contacts with the Chinese, in particular the most recent moves towards opening substantive talks (we would, as before, not go into details of the Prime Minister's talks with the Chinese). A briefing in Canberra before Mr Hayden leaves would be the easiest way to do this.

/I would

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I would be grateful for confirmation that the Prime Minister shares the Foreign and Commonwealth Secretary's view that such a briefing is justified and appropriate.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

S E C R E T

GR 350

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RESTRICTED

DESKBY 200930Z

FM HONG KONG 200856Z JUN 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 826 OF 20 JUNE
INFO IMMEDIATE PEKING

FUTURE OF HONG KONG : NEWSWEEK ARTICLE

1. SOME EXCITEMENT HAS BEEN CAUSED HERE BY REUTER AND AFP REPORTS ON AN ARTICLE IN THE LATEST (27 JUNE) INTERNATIONAL EDITION OF NEWSWEEK HEADED "DENG'S HONG KONG DEALINE". THE AGENCY REPORTS HIGHLIGHT TWO POINTS:

(1) THAT DENG XIAOPING TOLD THE PRIME MINISTER IN AN "ACRIMONIOUS" MEETING LAST SEPTEMBER THAT "IF BRITAIN AND CHINA DO NOT REACH AGREEMENT BY THE END OF 1984, CHINA WILL ANNOUNCE ITS OWN SOLUTION". THE SOURCE IS GIVEN AS HU YAOBANG IN AN INTERVIEW WITH A NEWSWEEK COLUMNIST.

(2) THAT ACCORDING TO "RELIABLE SOURCES IN LONDON" THE BRITISH FOREIGN OFFICE HAS GIVEN UP ANY REAL HOPE OF RETAINING EVEN TITULAR SOVEREIGNTY OVER HONG KONG AFTER 1997.

2. THE NEWSWEEK EDITION CONTAINING THE ARTICLE IS ON SALE HERE FROM TODAY.

3. WE HAVE TAKEN THE FOLLOWING LINE IN RESPONSE TO QUESTIONS FROM THE MEDIA:

"THE OUTCOME OF THE TALKS BETWEEN THE PRIME MINISTER AND CHINESE LEADERS WAS DESCRIBED IN THE JOINT STATEMENT ISSUED IN PEKING ON 24 SEPTEMBER 1982. THE JOING STATEMENT SAID SPECIFICALLY THAT THE TALKS HAD BEEN HELD "IN A FRIENDLY ATMOSPHERE".

WE KNOW OF NO BASIS FOR THE VIEWS ATTRIBUTED IN THE REPORT TO THE FOREIGN AND COMMONWEALTH OFFICE. HMG'S AIM WAS AND IS TO SEEK A SOLUTION TO THE QUESTION OF THE FUTURE WHICH IS ACCEPTABLE NOT ONLY TO THE BRITISH AND CHINESE GOVERNMENTS BUT ALSO TO THE PEOPLE OF HONG KONG.

THE DIPLOMATIC TALKS ARE CONFIDENTIAL. THE GOVERNOR INDICATED THEIR PRESENT STATE IN HIS TV INTERVIEW ON 20 MAY".

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*Thank you
Dr. K. [unclear]
[unclear] 20/6
[unclear] to [unclear].
[unclear] 21/6*

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4. A PRESS RELEASE ON THE MINISTERIAL MESSAGES IN YOUR TELNOS 534 AND 536 WILL BE ISSUED THIS EVENING AND MAY HELP TO REDUCE THE IMPACT OF THIS STORY. TEXT IS AS FOLLOWS:

'THE NEW SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS, SIR GEOFFREY HOWE, AND THE MINISTER OF STATE AT THE FOREIGN AND COMMONWEALTH OFFICE WHO HAS BEEN GIVEN SPECIAL RESPONSIBILITY FOR HONG KONG, MR RICHARD LUCE HAVE SENT PERSONAL MESSAGES TO THE GOVERNOR AND MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS. IN THESE MESSAGES THEY REAFFIRM HMG'S COMMITMENT TO HONG KONG, AND TO SEEKING A SOLUTION ON THE FUTURE OF THE TERRITORY WHICH IS ACCEPTABLE TO THE PEOPLE OF HONG KONG AS WELL AS TO THE BRITISH AND CHINESE GOVERNMENTS. THEY ARE CONFIDENT THAT SUCH A SOLUTION CAN BE ACHIEVED. THE TWO MINISTERS LOOK FORWARD TO MEETING AND WORKING WITH MEMBERS OF EXCO AND LEGCO''.

YOUDE

FUTURE OF HONG KONG

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ED/FUSD
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PS/LADY YOUNG
PS/MR LUCE
PS/FUS
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FM HONG KONG 130245Z JUN 83

TO PRIORITY FCO

TELEGRAM NUMBER 822 OF 18 JUNE 1983

INFO PRIORITY PEKING

FUTURE OF HONG KONG: SUBSTANTIVE TALKS

1. I NOTE THAT IN HIS CONVERSATION WITH GALSWORTHY ON 9 JUNE ZHOU NAN ASKED WHETHER THE TALKS MIGHT AT SOME STAGE BREAK UP INTO SMALLER GROUPS ON PARTICULAR POINTS, AND LATER AGREED THAT THERE MIGHT BE FORMAL SESSIONS, COMMITTEE SESSIONS AND INFORMAL CONVERSATIONS (PARA 5 OF PEKING TELNO 543). THE POSSIBILITY OF ESTABLISHING SUB-COMMITTEES HAS ALSO BEEN MENTIONED IN SOME OF OUR OWN PLANNING PAPERS, THOUGH IT HAS HITHERTO BEEN REGARDED AS UNLIKELY TO APPEAL TO THE CHINESE. I SUGGEST THAT IT NOW NEEDS FURTHER THOUGHT.

2. THE FIRST QUESTION IS WHAT FUNCTION AND TERMS OF REFERENCE SUB-COMMITTEES OR SMALL GROUPS WOULD HAVE. IF AGREEMENT HAD BEEN REACHED WITH THE CHINESE ON A PROGRAMME INVOLVING DETAILED EXAMINATION OF ARRANGEMENTS IN PARTICULAR AREAS, IT MIGHT WELL BE APPROPRIATE TO DELEGATE SOME OF THE WORK TO SUB-COMMITTEES. BUT IT IS DIFFICULT TO SEE HOW WE ARE GOING TO GET TO THAT POINT, AT LEAST ON THE BASIS OF PRESENT POSITIONS, IN DISCUSSIONS OF QUOTE ARRANGEMENTS FOR HONG KONG AFTER 1997 UNQUOTE. THE PROSPECT WE FACE IS THAT THE CHINESE WILL CONTINUE TO INSIST THAT DISCUSSION MUST BE ON THE BASIS THAT THE UK WILL RELINQUISH SOVEREIGNTY AND CONTROL IN 1997 AND THE GROUPS SHOULD EXAMINE SPECIFIC AREAS OF ADMINISTRATION ETC ON THAT BASIS. THAT WOULD NOT BE ACCEPTABLE TO US. WE WILL BE SEEKING TO DEMONSTRATE THAT A CONTINUING ADMINISTRATIVE ROLE FOR THE UK IS ESSENTIAL IF CONFIDENCE IS TO BE PRESERVED. SO THE TWO SIDES WOULD BE PROCEEDING AT LEAST IN THE FIRST STAGES ON PARALLEL RATHER THAN CONVERGING COURSES. IN MY VIEW IT WOULD BE TACTICALLY UNWISE AND DANGEROUS TO REMIT QUESTIONS TO SUB-COMMITTEES WITHOUT CLEAR AGREEMENT BETWEEN THE TWO SIDES ON WHAT THEY ARE TO DO.

3. THERE WOULD ALSO BE THE QUESTION OF WHO SHOULD LEAD AND ATTEND SUCH SUB-COMMITTEES. IF THE IDEA WAS THAT THERE SHOULD BE A SUB-COMMITTEE TO CONSIDER FINANCIAL AND FISCAL ARRANGEMENTS POST-1997 IT MIGHT WELL BE APPROPRIATE FOR E.G. THE FINANCIAL SECRETARY TO TAKE PART IN SOME AT LEAST OF ITS MEETINGS. IN THAT CASE THE FINANCIAL SECRETARY COULD HARDLY BE A MEMBER OF A SUB-COMMITTEE LED AT COUNSELLOR LEVEL: HE WOULD HAVE TO LEAD. WOULD THE CHINESE ACCEPT THIS?

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4. THESE CONSIDERATIONS SUGGEST THAT WE SHOULD NOT THINK IN TERMS OF ESTABLISHING SUB-COMMITTEES IN THE EARLY STAGES OF THE SUBSTANTIVE TALKS. BUT IT MIGHT BE WORTH CONSIDERING THE CONCEPT OF COMMITTEES OF THE WHOLE, IN WHICH THE BRITISH TEAM WOULD BE VARIED ACCORDING TO THE SUBJECT BUT THE AMBASSADOR WOULD RETAIN THE LEAD. I SHOULD BE INTERESTED IN SIR P CARDOCK'S COMMENTS.

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FM FCO 171430Z JUN 83

TO IMMEDIATE PEKING

TELEGRAM NUMBER 375 OF 17 JUNE.

INFO HONG KONG (PERSONAL FOR GOVERNOR)

YOUR TELNO 543 AND HONG KONG TELNO 780: FUTURE OF HONG KONG

1. MINISTERS HAVE NOW DISCUSSED THE FORMULA AND ORDER OF THE AGENDA FOR SUBSTANTIVE TALKS WITH THE CHINESE. THE FORMULA WHICH THEY CAN ENDORSE READS AS FOLLOWS:-

'IN ORDER TO MEET THE WISH OF THE CHINESE SIDE FOR A BROAD AGENDA COVERING THE WHOLE COURSE OF THE FORMULA TALKS, THE BRITISH SIDE AGREE THAT DURING THE COURSE OF THE TALKS MATTERS RELEVANT TO THE FUTURE OF HONG KONG SHOULD BE DISCUSSED, IN PARTICULAR ALL THE SUBJECTS MENTIONED IN MRS THATCHER'S LETTER AND PREMIER ZHAO'S LETTER. THESE WILL INCLUDE ARRANGEMENTS FOR HONG KONG AFTER 1997, ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997, AND MATTERS RELATING TO A TRANSFER OF SOVEREIGNTY, IN THAT ORDER. IT IS AGREED THAT THIS AGENDA SHOULD REMAIN CONFIDENTIAL'.

2. THE PRIME MINISTER PREFERRED TO SPELL OUT THE IMPORTANCE OF THE ORDER OF THE AGENDA IN WRITING, RATHER THAN LEAVE IT TO YOU TO MAKE ORALLY.

3. MINISTERS AGREE THAT WHEN IT IS CONFIRMED THAT SUBSTANTIVE TALKS ARE TO TAKE PLACE, IT WILL BE IMPORTANT NOT TO GIVE THE IMPRESSION THAT THE PAST NINE MONTHS OF CONTACTS WITH THE CHINESE HAVE BEEN STERILE AND THAT ONLY NOW ARE WE BEGINNING TO TALK BUSINESS. THEY AGREE THAT IT WOULD BE APPROPRIATE FOR A JOINT STATEMENT TO BE MADE TO THE EFFECT THAT FOLLOWING USEFUL EXCHANGES THE TALK WERE ABOUT TO MOVE INTO A NEW STAGE. WE SUGGEST THE FOLLOWING FORM OF WORDS:-

'FOLLOWING THE DISCUSSIONS BETWEEN THE LEADERS OF THE TWO COUNTRIES IN SEPTEMBER 1982, AND SUBSEQUENT USEFUL EXCHANGES,

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f.a.

IT HAS BEEN AGREED THAT A SECOND PHASE OF THE TALKS ON THE FUTURE OF HONG KONG WILL BEGIN IN PEKING ON BOTH SIDES HAVE REAFFIRMED THE COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG AND HAVE EXPRESSED THEIR DETERMINATION TO PURSUE THE TALKS TO A SUCCESSFUL CONCLUSION'.

4. HONG KONG WILL WANT TO USE A SEPARATE FORM OF WORDS EITHER FOR A STATEMENT OR IN ANSWER TO QUESTIONS. WE SUGGEST:-
'THE BRITISH DELEGATION WILL BE LED BY THE BRITISH AMBASSADOR IN PEKING. THE GOVERNOR OF HONG KONG WILL ALSO TAKE PART OPEN SQUARE BRACKETS AS A MEMBER OF THE BRITISH DELEGATION CLOSE SQUARE BRACKETS'.

PERHAPS YOU AND THE GOVERNOR COULD DECIDE BETWEEN YOU WHETHER TO INCLUDE THE PASSAGE IN SQUARE BRACKETS AND HOW TO HANDLE THIS PRESENTATIONAL POINT.

5. MINISTERS AGREE THAT IT WOULD BE USEFUL IF EXCO UNOFFICIALS COULD VISIT LONDON BEFORE THE PARLIAMENTARY RECESS, WHICH MAY BEGIN AS EARLY AS THE WEEK ENDING 22 JULY.

6. THE FORWARD STRATEGY PAPER WAS NOT CONSIDERED BY MINISTERS IN DETAIL. THEY RECOGNISED HOWEVER THAT DURING THE SUBSTANTIVE TALKS THE NEGOTIATORS WILL NEED SOME LATITUDE ON BOTH CHOICE AND ORDER OF PARTICULAR TOPICS AS WELL AS THE PRECISE LANGUAGE TO BE EMPLOYED. IT WAS GENERALLY AGREED THAT AT THE FIRST SESSION YOU AND THE GOVERNOR SHOULD MAKE A PRESENTATION SETTING OUT HOW HONG KONG WORKS NOW IN ORDER TO ILLUSTRATE THE VALUE OF THE PRESENT SYSTEMS AND THE KEY IMPORTANCE OF THE UNITED KINGDOM LINK.

7. YOU SHOULD NOW RENEW CONTACT ON A PERSONAL BASIS WITH ZHOU NAN AND PROPOSE THE FORMULA IN PARAGRAPH 1 ABOVE AS THE AGENDA FOR TALKS. AS THE SITUATION DEVELOPS WE WILL ASSUME THAT THE GOVERNOR WILL BE KEEPING EXCO CLOSELY INFORMED. IT WOULD BE HELPFUL IF THE GOVERNOR COULD PROPOSE SOME DATES FOR A POSSIBLE VISIT BY EXCO UNOFFICIALS TO LONDON.

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17 June 1983

FUTURE OF HONG KONG

Thank you for your letter of 16 June. The Prime Minister agrees with the Foreign and Commonwealth Secretary's proposals for publicising the substantive talks when agreement has been obtained that they will take place.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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DESKBY 161430Z
FM HONG KONG 161248Z JUN 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 812 OF 16 JUNE
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

mb

FUTURE OF HONG KONG

I TOOK ADVANTAGE OF AN INFORMAL DINNER WITH EXCO THIS EVENING TO CONFIRM THAT THE FOLLOWING FORMULA WAS ACCEPTABLE TO THEM.

2. QUOTE IN ORDER TO MEET THE WISH OF THE CHINESE SIDE FOR A BROAD AGENDA COVERING THE WHOLE COURSE OF THE FORMAL TALKS, THE BRITISH SIDE AGREE THAT, DURING THE COURSE OF THE TALKS, MATTERS RELEVANT TO THE FUTURE OF HONG KONG SHOULD BE DISCUSSED, IN PARTICULAR ALL THE SUBJECTS MENTIONED IN MRS THATCHER'S LETTER AND PREMIER ZHAO'S LETTER. THESE WOULD INCLUDE ARRANGEMENTS FOR HONG KONG AFTER 1997, ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997, AND MATTERS RELATING TO A TRANSFER OF SOVEREIGNTY IN THAT ORDER. BOTH SIDES AGREE THAT THIS AGENDA SHOULD REMAIN CONFIDENTIAL. UNQUOTE.

3. IN ADDITION I CONFIRMED THAT IT WAS THE COUNCIL'S INDEPENDENT VIEW THAT

(A) THE REFERENCE TO "ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997" WOULD NOT GIVE THE CHINESE ANY NEW STATUS OR RIGHT TO INTERFERE BEFORE 1997. (PARA 3(1) OF MY TELNO 779).

(B) TO ATTEMPT TO WRITE IN A SPECIFIC REFERENCE TO THE ARRANGEMENTS, HAVING TO BE ACCEPTABLE TO THE PEOPLE OF HONG KONG WOULD LEAD TO A FURTHER WRANGLE WITH THE CHINESE TO WHOM THE REFERENCE WOULD BE UNACCEPTABLE. THEY BELIEVED THAT THE REFERENCE TO THE PRIME MINISTER'S LETTER WAS A SUFFICIENT SAFEGUARD OF OUR POSITION.

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FUTURE OF HONG KONG

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S E C R E T



Foreign and Commonwealth Office

London SW1A 2AH

16 June 1983

Prime Minister
Agree to the form of
words? Duty clerk
16/6

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Agreed

Dear Ian,

Future of Hong Kong

The Prime Minister asked the Foreign and Commonwealth Secretary yesterday for a form of words for a joint statement to be issued, assuming it is agreed that substantive talks can shortly take place. His suggested wording is as follows:

'Following the discussions between the leaders of the two countries in September 1982, and subsequent useful exchanges, it has been agreed that a second phase of the talks on the future of Hong Kong will begin in Peking on Both sides have reaffirmed the common aim of maintaining the stability and prosperity of Hong Kong and have expressed their determination to pursue the talks to a successful conclusion.'

Hong Kong may want to use a separate form of words, either for a short statement of their own or in answer to questions. We suggest:

'The British delegation will be led by the British Ambassador in Peking. The Governor of Hong Kong will also take part [as a member of the British delegation.]'

These suggestions take into account the views of the Governor and the Ambassador. If the Prime Minister agrees, we shall telegraph the texts to Peking and Hong Kong. It is for agreement between the Governor and the Ambassador whether the passage in square brackets in the second text should be included or not, given the different sensitivities of their respective clients.

Yours ever
John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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10 DOWNING STREET

From the Private Secretary

16 June 1983

Dear John,

Future of Hong Kong

The Prime Minister held a meeting here yesterday to discuss this subject.

The discussion was in two parts, first a general exchange of views on the problems presented by the negotiations with the Chinese, secondly consideration of the immediate points for decision now that substantive talks appeared to be imminent. The latter part of the discussion was based on your letter of 13 June, Hong Kong telegrams numbers 624 and 779 and the FCO paper on forward strategy.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence).

Yours ever

John Cole.

John Holmes, Esq.,
Foreign and Commonwealth Office.

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RECORD OF A DISCUSSION AT 10 DOWNING STREET ON WEDNESDAY 15 JUNE
ABOUT THE FUTURE OF HONG KONG

Present: Prime Minister
Foreign and Commonwealth Secretary
Defence Secretary
Sir Antony Acland
Mr. Donald
Mr. Freeland
Sir Anthony Parsons
Mr. Butler
Mr. Coles

The Foreign and Commonwealth Secretary said that he had formed, in the brief time since he had taken office, some preliminary impressions about the problem. Confidence in Hong Kong was rather fragile at present. Anxiety was bound to recur between now and 1997 unless and until a satisfactory solution could be produced regarding arrangements for Hong Kong after 1997. Many Hong Kong Chinese appeared to be hedging their bets at present. It was clear that in the last resort our position in Hong Kong was untenable. China had overwhelming strength in the area and could overcome such resistance as we might care to mount. China had an economic interest in Hong Kong but this would diminish as its own economic strength increased. The major need was to bring the Chinese to an understanding of how the Hong Kong system worked and flourished. It was doubtful whether we could expect to retain a British administration of the present kind.

The Defence Secretary said that there was no easy way out. The choice before us was whether to accept an agenda on the lines proposed in the paper before the meeting or not. We must seek to ensure that the discussion with the Chinese centred initially on the question of maintaining industrial confidence.

The Prime Minister said that the problem remained disturbing. It would not be right for Hong Kong Chinese to think that the present system would necessarily be maintained until 1997.

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It remained important to stick to our position on the Treaties. By dint of the Treaties Hong Kong and Kowloon were ours in perpetuity unless we agreed otherwise. This was a fact which the Chinese had to face. While it was true, as the Foreign and Commonwealth Secretary had said, that China had overwhelming strength in the area it had so far refrained from using this and for good reasons relating to its economic interests and its international reputation. If the Chinese were to insist on a "red flag and yellow face" in Hong Kong, the remainder of the system after 1997 would have to be an administration of roughly the present kind though we might need to find a word other than administration to describe it. Our major responsibility was to the 4 million Chinese who had sought freedom from Communist rule. If the conviction grew that a Communist system would hold sway in Hong Kong after 1997, the basis of confidence would be destroyed. We had to find a system whereby the rights of the people of Hong Kong depended on the United Kingdom and were independent of Peking. Hong Kong needed this umbilical cord. China had provided for special regimes elsewhere. Perhaps it could be brought to accept in Hong Kong an effective system of administration of the present kind. It was not necessary that it should be called British administration. Confidence in Hong Kong would be retained only if China gained little more than titular sovereignty.

As regards the present state of the talks, it was important to be sure that EXCO were content with the approach which was proposed. She had expressed concern earlier that willingness on our part to discuss with the Chinese arrangements for Hong Kong between now and 1997 would give China a status in Hong Kong that it did not now possess. Mr. Freeland pointed out that mere agreement on our part to discuss arrangements with the Chinese did not necessarily give China increased status. The Prime Minister said that another problem was that it might be difficult to discuss the first agenda item proposed, namely arrangements for Hong Kong after 1997, without implying an acceptance of Chinese sovereignty. Sir Antony Acland observed that the question of sovereignty and the conditions under which we could agree to transfer it to China were covered in the Prime Minister's letter to Premier Zhao and

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the proposed formula for the agenda specifically mentioned that letter. Mr. Donald pointed out that the Chinese had originally sought to make the question of the transfer of sovereignty the first item on the agenda. By agreeing to invert the order, China had made a concession.

The Prime Minister said that she had to be sure that Hong Kong telegram number 779 was an accurate account of the discussion in EXCO. If necessary, we should have to publish EXCO's advice at a later stage. She recalled that at an earlier stage EXCO had not been content with the approach then proposed. We should also recognise the danger that the Chinese would leak the proposed formula for the agenda if it was agreed. The Defence Secretary and Sir Anthony Parsons commented that if the Chinese took this course, we should have to leak the Prime Minister's letter to Premier Zhao.

Following further discussion the Prime Minister stated that the formula to be put to the Chinese should read as follows:

"In order to meet the wish of the Chinese side for a broad agenda covering the whole course of the formal talks, the British side agree that, during the course of the talks, matters relevant to the future of Hong Kong should be discussed, in particular all the subjects mentioned in Mrs. Thatcher's letter and Premier Zhao's letter. These will include arrangements for Hong Kong after 1997, arrangements for Hong Kong between now and 1997, and matters relating to a transfer of sovereignty in that order. It is agreed that this agenda should remain strictly confidential."

The Prime Minister said that HM Ambassador in Peking should, EXCO having been told the latest position, be instructed to put this formula to the Chinese.

As regards the presentation of our case during the first round of substantive talks, discretion should be given to Sir Percy Cradock on the basis of the text in Hong Kong telegram number 624. Further consideration would need to be given to what

should be said in public about the new stage reached in the talks. The Foreign and Commonwealth Secretary said that he would submit a text shortly.

The Prime Minister said that it would be helpful if EXCO Unofficials visited London in the near future for further talks with Ministers.

The Foreign and Commonwealth Secretary said that there were one or two further points which needed consideration. When we spoke of discussing with the Chinese arrangements between now and 1997, we had to be clear what we had in mind. The Defence Secretary said that it was plain that China would in that period continue to be involved in such matters as investment decisions in Hong Kong. The answer to the point raised by the Foreign and Commonwealth Secretary was therefore probably that the arrangements to be discussed were those needed to maintain stability and prosperity between now and 1997.

The Foreign and Commonwealth Secretary said that we also needed to give thought to our condition that any solution must be "acceptable to the people of Hong Kong". We should come under increasing pressure to define this. At the moment we were only using EXCO as a test of acceptability. The Prime Minister agreed that more thought should be given to this criterion but stated that she could only recommend transfer of sovereignty if she was satisfied that the proposed solution was indeed acceptable to the people of Hong Kong. She understood that wording relevant to this point appeared in a current draft of The Queen's Speech. This would be discussed in Cabinet on Thursday, 16 June.

A.J.C.



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10 DOWNING STREET

From the Private Secretary

15 June 1983

THE THREAT TO HONG KONG

The Prime Minister has seen JIC(83)(N)85.

Mrs. Thatcher has asked me to bring to the attention of the Foreign and Commonwealth Secretary and the Secretary of State for Defence her view that this is an important assessment which she would wish to be kept firmly in mind by all concerned as negotiations over Hong Kong progress. She has asked that, as and when developments in the talks so require, the existing contingency plans should be revised and updated and brought to her attention.

The Prime Minister has further commented that, since the talks with the Chinese now appear to be reaching a critical stage, it will be necessary to give them particular attention in the coming weeks.

I am copying this letter to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

Prime Minister

Your papers to the Hong

Kong meeting on Wednesday are

in the hot box.

A.S.C. ¹⁴/₆.

mt.

PRIME MINISTER

HONG KONG

You agreed to hold a meeting on 15 June. We have reached the point where the Chinese are keen to begin substantive talks. We need to take a view on the basis for and the conduct of these talks. Specifically, decisions are needed on the following points:

- (a) What formula should we now put to the Chinese for an agenda?
- (b) Is it agreed that at the first session of substantive talks the Ambassador and the Governor should make a presentation setting out how Hong Kong works now?
- (c) What should be said publicly about the new stage of talks?
- (d) Should we arrange a visit by EXCO Unofficials to London very soon, i.e. before the substantive talks? Would you wish to give them lunch again?

These matters are all covered in the attached FCO letter (Flag A).

You will need to bear in mind the recent decline in confidence in Hong Kong which is described in Sir Edward Youde's telegram at Flag B.

I also attach:

- (a) A text on which the Governor would propose to draw to describe the basis of the present system in Kong Kong.
- (b) An FCO paper describing our strategy for the talks.

A.J.C.

14 June 1983

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FUTURE OF HONG KONG

UK CHINA TALKS - FORWARD STRATEGY

INTRODUCTION

1. The purpose of this paper is to prepare a plan for HMG's conduct of substantive negotiations with the PRC.

UK Aim

2. To conclude agreement on the future of Hong Kong involving the continuation of British administration of the territory for as long as possible beyond 1997.

Likely Chinese Aims

3. To obtain HMG's agreement that the whole of Hong Kong must revert to China in 1997 and to secure British cooperation in effecting a smooth transition to Chinese control.

Membership of British Team

4. At least initially the talks would be through the diplomatic channel with a team lead by the Ambassador. The Governor of Hong Kong would participate as necessary. The possibility of other participants from Hong Kong taking part at some later stage should be kept open but should not be raised with the Chinese at the outset. At a later stage, official or Ministerial participation from London might be necessary.

Sequence of Events

5. Following recent talks between the Ambassador and Assistant Minister Zhou Nan it now seems likely that agreement could be reached on an agenda as follows:

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- (a) Arrangements for Hong Kong after 1997;
- (b) Arrangements in Hong Kong between now and 1997;
- (c) Matters relating to a transfer of sovereignty.

(a) First Substantive Session

This should be attended by the Governor of Hong Kong accompanied by the Political Adviser. It might last for two days. Our guidelines would so far as possible follow those in Annex A. The object would be to set the scene for subsequent meetings, to draw the Chinese into discussions and, where necessary, to agree on subsequent detailed work. (In the early stages it may be enough to agree at each meeting the date for the next and to allow a pattern to develop) In doing so we should try to avoid confrontation on matters of principle, particularly sovereignty. An important part of this would be a presentation by the Governor (on the lines of Annex B), setting out how Hong Kong works now in order to illustrate the value of the present system of administration. The sovereignty issue is, however, likely to surface quickly. The Chinese can be expected to argue that since sovereignty will revert to China in 1997 arrangements after that date cannot include British administration.

(b) Second Phase (which might comprise a number of separate sessions)

During this phase, if not before, the Chinese will try to draw us onto ground of their choosing ie the proposition that sovereignty and administration are inseparable, and that discussion should concentrate on transition and eventual British withdrawal, and perhaps on measures to secure continued British investment and "cooperation" after Chinese control has been re-established. Our aim should be to continue the process of educating the Chinese about how Hong Kong works by making detailed presentations on specific areas, (eg the financial system, and the role of the Hong Kong Dollar; the legal system; the network of trade agreements

etc), in order to demonstrate the vital importance of maintaining the British link. If the Chinese wish to discuss their own proposals we should be willing to do this but our approach would be critical to show why their plan is inadequate. We would decline to be drawn on the question of transfer of sovereignty on the grounds that agreement on satisfactory arrangements post-1997 must come first. (Some points for use in drawing out the Chinese on what we know of their ideas are at Annex C.) It might be appropriate to suggest that these questions be explored by sub-committees, although it is doubtful whether this system would commend itself to the Chinese or lead to much progress. In any case, experts from Hong Kong might be added to the UK team for discussion of specific topics.

(c) Third Phase : Discussions of Principles

If the Chinese can be convinced through detailed presentations that the maintenance of stability and prosperity requires the continuation of British administration we shall face the difficult task of persuading them to accept this. We can expect them to argue that continued British administration is not consistent with Chinese sovereignty and would in any case be intolerable for reasons of national pride. We must have ready precedents which show that sovereignty and administration can be, and in other parts of the world have been, separated. If in that context the Chinese proposed discussion of substantive or symbolic changes in Hong Kong to reflect Chinese sovereignty over the territory, we should show readiness to listen to their ideas. Since our objective is to secure Chinese agreement to continuing effective British administration with as little outward change as possible we should not ourselves raise the question of changes but have ready our own ideas on what changes we could or could not accept.

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6. If the Chinese showed serious interest in a package whereby Chinese sovereignty was recognised but British administrative control remained we would need to record agreement on this in a document which would preserve Chinese face. We might at this stage need to raise the level of the talks. But the timing of Ministerial involvement in the talks (as opposed to Ministerial interventions outside the formal framework of the talks - see paragraph 8 below) would need very careful consideration.

Agreement

7. The normal procedure would be:
- (i) initialling of a draft agreement, subject to ratification.
 - (ii) formal signature.
 - (iii) passage of the necessary Bill through Parliament.
 - (iv) exchange of ratifications.

Other Methods

8. Throughout the talks we should keep in mind the possibility of using supplementary methods (eg Ministerial messages or visits and unofficial intermediaries) in order to overcome obstacles or clarify our position.

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FUTURE OF HONG KONG: SUBSTANTIVE TALKS: UK INITIAL PRESENTATION

1. The exchanges would probably begin with a rehearsal by the Chinese of their formal position on sovereignty, on familiar lines, including the points that sovereignty and administration were indivisible and that China could not allow others to administer Hong Kong on its behalf. The Chinese might go on to lay down some of their general principles for a future settlement, ie that Hong Kong people should govern Hong Kong, that a Special Administrative Region should be established and that certain systems would remain unchanged.

2. The Ambassador should respond by:

- (a) Indicating a full grasp of the Chinese position;
- (b) Making clear the British position, ie: that recommendations on sovereignty could only be put to Parliament if arrangements acceptable to all parties were agreed;
- (c) Making proposals on how the talks should proceed.

(a) and (b) above would be a reaffirmation of the message in the Prime Minister's letter to Zhao, adding that we were not looking to the past (ie the treaties) but to the future. On (c) we should seek to reduce the scope for procedural argument to a minimum by avoiding any detailed proposals covering several sessions. It will be necessary to feel the way forwards as talks proceed.

3. The Ambassador would introduce the Governor on the following lines:

"We have listened with interest to what the Chinese side has said about the future administration of Hong Kong. To take one element of what you have said, we have no objection in principle to the concept of self-government for Hong Kong. Indeed, if historical and political circumstances were different, Hong Kong would long ago have become independent. But Hong Kong is an exceptional case with a unique status and we wish to explain the situation there as we see it. As a first step, I should like to ask the Governor of Hong Kong to deliver a short presentation on how Hong Kong works."

4. The Governor could then speak (see Annex B).
5. The Ambassador would sum up on the following lines:

"Both sides agree that a solution to the problem of the future of Hong Kong should be such as to maintain the prosperity and stability of Hong Kong. Since the Chinese side has stated that in its proposals the "systems" of Hong Kong would remain unchanged, we assume that the Chinese side recognise that this is essential in order to obtain this object. A simple transfer of control over Hong Kong to Peking would not enable confidence to be maintained in the Hong Kong economy, and this would not enable prosperity and stability to be maintained. There are too many doubts about the continuity of Chinese policy which are founded in recent Chinese history and in particular the experience of the cultural revolution. It is inevitable too that there should be doubts whether a country with a socialist system could absorb a region with a liberal capitalist system without inducing fundamental change in the latter. It is not suggested that this consideration will apply for ever: but it certainly does apply at present.

"The question therefore is how to guarantee the continuity of the systems after 1997. The British side cannot see how a sufficient guarantee can be given unless an arrangement is reached which allows the continuation of the British administrative role in Hong Kong in order to inspire confidence that the systems will not be changed, though we all should agree that there would be increased scope for Hong Kong people to take part. It is recognised that to make this acceptable to the Chinese Government, it would have to be coupled to an acceptance by Britain of Chinese sovereignty over the whole of Hong Kong. As we have made clear this would have to be part of an overall package which Parliament and the people of Hong Kong could accept.

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"We appreciate that this view causes difficulty for the Chinese Government. But we hope they will show understanding of our position, which is based on practical considerations. We suggest that we should next discuss how Hong Kong operates in specific areas, eg the financial, fiscal and legal systems and the network of trade agreements currently in force, in order to establish the role of the present detailed administrative arrangements in maintaining stability and prosperity, and how the continuity of these systems may be ensured. The British side will be happy to answer any questions which the Chinese side may wish to raise."

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ANNEX B

SECRET

FM HONG KONG 050620Z MAY 83

TO PRIORITY FCO

TELEGRAM NUMBER 624 OF 5 MAY 1983

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MPT: FUTURE OF HONG KONG: STRATEGY FOR SUBSTANTIVE TALKS.

1. FOLLOWING IS TEXT OF OUR REVISED DRAFT PRESENTATION.

INTRODUCTION

IN THREE DECADES HONG KONG HAS DEVELOPED FROM AN ENTREPOT AND COMMERCIAL CENTRE, TO A MAJOR LIGHT MANUFACTURING CENTRE (DOMESTIC EXPORTS ACCOUNTING FOR 65 PER CENT OF TOTAL EXPORTS), AND THEN TO A DIVERSIFIED ECONOMY WITH AN INTERNATIONAL DIMENSION (THE FINANCIAL AND ALLIED SERVICES SECTOR ACCOUNTING FOR ABOUT A QUARTER OF THE GDP, I.E. AS MUCH AS THE MANUFACTURING SECTOR). THE HONG KONG ECONOMY HAS BECOME INCREASINGLY EXTERNALLY ORIENTED: AND WITH THE GROWTH OF THE MONEY AND FOREIGN EXCHANGE MARKETS IT HAS BECOME EVEN MORE SENSITIVE THAN HITHERTO TO INTERNATIONAL AS WELL AS DOMESTIC INFLUENCES.

INHERENT ADVANTAGES

2. UNDERLYING THIS DEVELOPMENT HAVE BEEN CERTAIN ADVANTAGES -

(A) HONG KONG'S GEOGRAPHICAL POSITION:

(B) THE BIGGEST (AND ONLY DEEPWATER) PORT IN SOUTH CHINA, WITH SHIPPING, CARGO AND CONTAINER HANDLING SERVICES TO MATCH, COMPLEMENTED BY AN INTERNATIONAL AIRPORT WITH MAJOR AIRCRAFT ENGINEERING FACILITIES AND A DEVELOPED INTERNATIONAL TELECOMMUNICATIONS NETWORK:

(C) THE PROXIMITY OF DEPENDABLE SOURCES OF BASIC FOODSTUFFS, RAW MATERIALS AND CONSUMER GOODS FOR LOCAL CONSUMPTION, AND THE AVAILABILITY OF A SUPPLEMENTARY WATER SUPPLY FROM CHINA AND A RELIABLE SUPPLY OF SEMI-FINISHED INPUTS FROM JAPAN:

(D) A FLEXIBLE, MOBILE, WELL TRAINED, HIGHLY MOTIVATED AND HIGHLY PRODUCTIVE LABOUR FORCE:

(E) RESOURCEFUL ENTREPRENEURS, WHO AMORTISE THEIR CAPITAL INVESTMENTS OVER THE ECONOMIC LIFE OF THE ASSETS CONCERNED, WHO SEEK TO UTILISE CAPITAL INVESTED AS EFFICIENTLY AS POSSIBLE, AND WHO HAVE THE COURAGE TO ADOPT NEW PROCESSES AND EQUIPMENT:

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(F)

(F) A LARGE AND SKILLED PROFESSIONAL AND MANAGERIAL CLASS, WITH A HIGH LEVEL OF EDUCATION AND LINGUISTIC ABILITY. MANY MEMBERS OF THIS CLASS HAVE BEEN EDUCATED ABROAD AND HAVE MAINTAINED THEIR LINKS WITH THE COUNTRIES IN WHICH THEY WERE TRAINED:

(G) EXCELLENT WORLD-WIDE MARKETING ARRANGEMENT ON WHICH HONG KONG'S EXPORT-ORIENTED MANUFACTURING SECTOR DEPENDS.

FAVOURABLE FACTORS

3. THE NATURAL AND HUMAN ADVANTAGES WHICH THE TERRITORY ENJOYS ARE NOT SUFFICIENT IN THEMSELVES TO ACCOUNT FOR ITS DEVELOPMENT, WHICH COULD NOT HAVE BEEN ACHIEVED WITHOUT:-

(A) A COOPERATIVE RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA, BASED ON MUTUAL BENEFIT:

(B) MOST-FAVOURABLE-NATION (MFN) RIGHTS OF ACCESS TO MAJOR FOREIGN MARKETS AND RESTRAINT AGREEMENTS NEGOTIATED UNDER THE MULTI-FIBRE ARRANGEMENT (MFA):

(C) A FISCAL AND SOCIAL ENVIRONMENT ENCOURAGING ENTERPRISE, HUMAN ENDEAVOUR, AND THE SPREAD OF PROSPERITY:

(D) FREEDOM OF MOVEMENT, FREEDOM OF EXPRESSION, FREE CHOICE OF CAREER AND OCCUPATION, AND A FAMILIAR LIFE STYLE:

(E) INTERNAL POLITICAL STABILITY:

(F) CONTINUITY OF POLICY, IMPLEMENTED BY AN IMPARTIAL CIVIL SERVICE.

4. BUT THE MAINTENANCE OF (C), (D), (E) AND (F) ABOVE REQUIRES -

(I) CONSISTENT AND PREDICTABLE ADMINISTRATION:

(II) A KNOWN AND WELL DEVELOPED SYSTEM OF LAW WHOSE PRACTICE IS INTERNATIONALLY ACCEPTED AND UNDERSTOOD, BACKED UP BY

(III) THE IMPARTIAL ADMINISTRATION OF THE LAW THROUGH AN INDEPENDENT JUDICIARY:

(IV) BUDGETARY POLICIES AND A TAX REGIME WHICH ENCOURAGE BUSINESS ENTERPRISE AND FOSTER DOMESTIC AND INTERNATIONAL INVESTMENT:

(V) A CAREFULLY MANAGED MONETARY SYSTEM AND A CURRENCY WHICH IS FULLY BACKED WITH FOREIGN EXCHANGE ASSETS, FREELY CONVERTIBLE AND INTERNATIONALLY ACCEPTED AND TRADED:

(VI) AN EDUCATION SYSTEM GEARED TO PROVIDING THE MANAGERIAL, PROFESSIONAL AND TECHNICAL SKILLS REQUIRED AT ALL LEVELS.

SECRET 2

THE

HONG KONG WOULD RETAIN ITS NATURAL GEOGRAPHICAL ADVANTAGES WHATEVER ITS CONSTITUTIONAL STATUS OR FORM OF GOVERNMENT. BUT HONG KONG COULD NOT PRESERVE ITS PRESENT LEVEL OF PROSPERITY AND STABILITY IF THERE WERE A WITHDRAWAL OF INVESTMENT AND SKILLS, A LOSS OF HONG KONG'S RIGHTS OF ACCESS TO OVERSEAS MARKETS OR DOUBTS ABOUT THE CONVERTIBILITY AND VALUE OF THE HONG KONG DOLLAR, OR THE CONTINUITY OF THE LEGAL SYSTEM.

6. THE HUMAN AND CAPITAL RESOURCES WHICH ARE ESSENTIAL TO HONG KONG'S SUCCESS ARE HIGHLY MOBILE. HONG KONG PLACES NO RESTRICTIONS UPON THE MOVEMENT OF CAPITAL. DOMESTIC AND INTERNATIONAL INVESTORS COULD AND WOULD SEEK TO LIQUIDATE THEIR ASSETS AND TRANSFER THE PROCEEDS AND CAPITAL EQUIPMENT OVERSEAS IF THERE WAS SERIOUS DOUBT ABOUT THE MAINTENANCE OF THE PRESENT BUSINESS ENVIRONMENT. PROFESSIONALLY QUALIFIED PEOPLE, WHETHER OF OVERSEAS OR HONG KONG ORIGIN POSSESS SKILLS WHICH ARE EASILY MARKETABLE ELSEWHERE. MANY OF THEM WILL REMAIN IN HONG KONG ONLY SO LONG AS THEY SEE NO THREAT TO THE PRESENT SOCIAL, LEGAL AND BUSINESS ENVIRONMENT, AND HENCE TO THE OPPORTUNITIES AVAILABLE TO THEM AND THE LIFESTYLE WHICH THEY NOW ENJOY.

7. BOTH DOMESTIC AND INTERNATIONAL INVESTORS AND THOSE WHOSE SKILLS ARE ESSENTIAL TO HONG KONG THEREFORE REQUIRE SOME GUARANTEE THAT THERE WILL BE NO FUNDAMENTAL CHANGE IN THE SYSTEMS IN FORCE OR IN THE POLICIES PURSUED. OTHERWISE, THERE WILL BE NO CONFIDENCE AND THEY WILL LEAVE.

8. IT HAS BEEN SUGGESTED THAT SUFFICIENT GUARANTEE WILL BE PROVIDED BY APPROPRIATE PROVISIONS IN THE CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA. THE DIFFICULTY FOR HONG KONG PEOPLE IS THAT IT IS NOT EASY TO SEE HOW A LIBERAL, CAPITALIST SYSTEM CAN SUCCESSFULLY EXIST WITHIN A COUNTRY OPERATING A SOCIALIST SYSTEM. THEY WOULD NEED TO SEE A LONG PERIOD OF STABILITY AND SUSTAINED ECONOMIC PROGRESS IN CHINA BEFORE THEY MIGHT OVERCOME THE GRAVE RESERVATIONS WHICH THEY HAVE TODAY ABOUT A FUTURE UNDER THE ULTIMATE AUTHORITY OF A SOCIALIST ADMINISTRATION. THESE DOUBTS ARE REINFORCED BY RECENT CHINESE HISTORY, AND IN PARTICULAR THE MEMORIES OF SOME HONG KONG INDUSTRIALISTS OF EVENTS IN SHANGHAI, AND THE EXPERIENCE OF THE CULTURAL REVOLUTION.

9. SO IF HONG KONG IS TO RETAIN INVESTMENTS AND THE SKILLED PROFESSIONALS ESSENTIAL TO ITS ECONOMY, SOME MEANS MUST BE FOUND TO SHOW THAT THE TERRITORY WILL CONTINUE TO BE INSULATED FROM THE EFFECTS OF POLITICAL CHANGES ELSEWHERE. AT PRESENT THIS INSULATION IS PROVIDED BY THE LINK WITH THE UK WHERE SIMILAR SYSTEMS AND POLICIES ARE IN FORCE, AND BY LONG EXPERIENCE OF RESPECT FOR HONG KONG'S INTERNAL AUTONOMY. OTHER FORMS OF INSULATION HAVE BEEN SUGGESTED, FOR EXAMPLE INDEPENDENCE OR UN TRUSTEESHIP, BUT IT IS CLEAR THAT THESE WOULD NOT BE ACCEPTABLE TO CHINA. THE OBVIOUS SOLUTION IS THEREFORE TO MAINTAIN THE EXISTING MEANS OF INSULATION WHICH HAS PROVED EFFECTIVE AND IS KNOWN AND ACCEPTED BY THE PEOPLE OF HONG KONG.

10. THUS THE LINK WITH THE UK ACTS AS A GUARANTEE AGAINST FUNDAMENTAL CHANGE, AND AS A MEANS OF PRESERVING CONFIDENCE. IT IS ALSO THE SOURCE OF COMMERCIAL AND OTHER RIGHTS, ESSENTIAL TO HONG KONG'S ECONOMY WHICH WOULD BE LOST IF THE LINK WERE BROKEN. THIS CAN BE ILLUSTRATED BY A NUMBER OF EXAMPLES -

(A) CURRENCY AND CONVERTIBILITY

AN INDEPENDENT AND CONVERTIBLE HONG KONG DOLLAR IS ESSENTIAL TO THE MAINTENANCE OF THE EXTERNALLY ORIENTED ECONOMY OF HONG KONG. THE OWNERSHIP AND CONTROL OF HONG KONG'S FOREIGN EXCHANGE ASSETS LIES IN HONG KONG NOT IN THE UK. BUT THE INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR ARE TAKEN FOR GRANTED, PARTLY BECAUSE IT IS MANAGED BY A GOVERNMENT IN HONG KONG DEDICATED TO FREE MARKET PRINCIPLES AND TO THE FREEDOM OF FINANCIAL FLOWS WITHIN THE INTERNATIONAL SYSTEM: AND PARTLY BECAUSE THE FINAL AUTHORITY IN THESE (AND ALL OTHER) MATTERS IN HONG KONG LIES WITH THE UK WHICH IS ITSELF FULLY INTEGRATED INTO THE INTERNATIONAL OPEN TRADING AND FINANCIAL SYSTEMS. THERE WOULD BE NO CONFIDENCE IN THE CONTINUED INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR IF THE ULTIMATE AUTHORITY RESTED WITH A GOVERNMENT DEDICATED TO A FULLY MANAGED ECONOMY AND WITH NO EXPERIENCE OF A CONVERTIBLE CURRENCY:

(B) INTERNATIONAL TRADE

HONG KONG DERIVES ITS OPEN ACCESS TO ITS MAIN MARKETS, IN PARTICULAR THE UNITED STATES AND EUROPE, FROM THE UK'S MEMBERSHIP OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE ULTIMATE GUARANTEE TO OTHER GATT MEMBERS THAT GATT RULES WILL APPLY IN HONG KONG IS THE ACCEPTANCE OF THESE RULES BY THE UK. THIS GUARANTEE WOULD BE REMOVED IF RESPONSIBILITY FOR HONG KONG LAY WITH CHINA, WHICH OPERATES A STATE MANAGED ECONOMY (AND WHICH IS NOT A MEMBER OF THE GATT). AGREEMENTS WITH HONG KONG'S MAIN TRADING PARTNERS WHICH ARE CLOSELY LINKED TO THE GATT AND WHICH APPLY TO A LARGE PROPORTION OF HONG KONG'S EXPORTS WOULD HAVE TO BE RENEGOTIATED IF THE LINK WITH THE UK WERE SEVERED. IT IS DIFFICULT TO SEE HOW HONG KONG'S TRADING PARTNERS WOULD AGREE TO HONG KONG RETAINING QUOTAS SEPARATE FROM AND ADDITIONAL TO THOSE OF CHINA IF THIS LINK WERE BROKEN:

(C) THE LEGAL SYSTEM

THE LAWS OF HONG KONG ARE BASED ON BRITISH COMMON AND STATUTE LAW, AND THE PROGRESSIVE INTERPRETATION OF THAT LAW BY COURTS IN THE UK IS ONE OF THE MAIN BASES ON WHICH THE LAW IN HONG KONG IS ADMINISTERED. THIS IS A SITUATION WELL UNDERSTOOD AND RELIED UPON BY THE INTERNATIONAL COMMUNITY TRADING IN AND INVESTING IN HONG KONG. THE JUDICIARY IS INDEPENDENT OF THE EXECUTIVE. THE GUARANTEE OF THE CONTINUED OPERATION OF THIS LEGAL SYSTEM IS THE LINK WITH THE UK WHERE THE SEPARATION OF THE JUDICIARY AND THE EXECUTIVE AND THE SAME

SYSTEM OF LAW HAVE BEEN IN FORCE FOR MANY CENTURIES. THE POLICE FORCE ARE TRAINED TO OPERATE WITHIN THE FRAMEWORK OF THE BRITISH LEGAL SYSTEM. THE CONFIDENCE WHICH THIS GIVES THAT THE BRITISH CONCEPT OF LAW WILL PREVAIL WOULD NOT BE MAINTAINED IF THE LINK WAS WITH CHINA WHICH HAS A COMPLETELY DIFFERENT CONCEPT AND SYSTEM OF LAW, AND ONE WHICH, IN MANY AREAS IMPORTANT FOR HONG KONG, IS STILL BEING DEVELOPED:

(D) THE JURISDICTIONAL LINK

SINCE IN THE CASE OF HONG KONG THE GUARANTEE CANNOT BE FOUNDED ON THE POLICIES OF AN INDEPENDENT GOVERNMENT (AS IN THE CASE OF SINGAPORE) IT MUST BE PROVIDED IN ANOTHER WAY. THE ULTIMATE GUARANTEE THAT THE POLITICAL, ECONOMIC AND SOCIAL SYSTEMS IN HONG KONG WILL NOT DIVERGE FROM THEIR PRESENT FORM IN ANY SUBSTANTIAL WAY HAS BEEN THAT FINAL AUTHORITY LIES, THROUGH THE GOVERNOR, WITH HER MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM WHERE SIMILAR SYSTEMS EXIST.

CONCLUSION

11. THE FOREGOING REPRESENTS ONLY A VERY BRIEF AND GENERAL PICTURE OF THE WAY IN WHICH THE LINK BETWEEN HONG KONG AND THE UK PRESENTLY OPERATES. THIS LINK, AND THE BRITISH ROLE IN THE ADMINISTRATION OF THE TERRITORY, AT PRESENT PROVIDE A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. WE PROPOSE IN SUBSEQUENT MEETINGS TO ENLARGE ON THESE ASPECTS OF THE ADMINISTRATIVE STATUS QUO IN HONG KONG, AND IN PARTICULAR ON THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE FABRIC OF AGREEMENT ON WHICH HONG KONG'S ROLE AS A FINANCIAL AND COMMERCIAL CENTRE DEPENDS. OUR OBJECTIVE WILL BE TO ILLUSTRATE OUR VIEW OF HOW THE AGREED COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG CAN BE ACHIEVED.

Yours

FUTURE OF HONG KONG

LIMITED

ED/REGD

ED/FED

ED/PLANNING STAFF

ED/PUSD

PS

PS/MR HUED

PS/LORD HELSTEAD

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

COPIES TO

SIR I SINCLAIR LEGAL ADVISER

MR BURROWS- LEGAL ADVISERS

MR ROBERTS NEWS D

MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

FUTURE OF HONG KONG

POINTS FOR USE IN DRAWING OUT THE CHINESE ON THEIR OWN PROPOSALS

1. Legal System

- (a) Would there be any alteration to Hong Kong's laws or legal system? Would the present arrangements for amending or repealing laws or introducing new legislation continue?
- (b) The existing courts and legal system do much to help confidence. How could they be maintained?
- (c) How would Hong Kong be assured that laws would not be imposed from outside?
- (d) What arrangements would be made to guarantee the independence of the judiciary?
- (e) How would the following be guaranteed:
 - (i) free movement of goods in and out of Hong Kong?
 - (ii) freedom to emigrate, and, apart from normal immigration controls, free movement of persons in and out of Hong Kong?
 - (iii) freedom of the press and speech?
 - (iv) freedom of assembly, protest, petition, etc?
 - (v) basic human rights?

2. Economy

- (a) The free market system must be guaranteed.
- (b) There must be adequate arrangements to govern Hong Kong's independent currency. What authority would supervise it? How would outside interference be prevented?
- (c) What arrangements would govern Hong Kong's participation in international trading agreements? How would Hong Kong quotas (eg for textiles) be kept separate from those of the PRC?

SECRET

- (d) What would be the system of banking supervision? How would its independence be guaranteed?
- (e) What guarantees would there be for free movement of capital into and out of Hong Kong? How would foreign investors be assured of free repatriation of dividends etc?

3. Public Service

- (a) What arrangements would guarantee the independence of the public service? How would senior officials in the Civil Service, Police, etc be appointed?
- (b) What arrangements would govern pensions?

4. Immigration and Citizenship

- (a) What arrangements would control immigration from China?
- (b) What citizenship arrangements would there be for Hong Kong residents? How could exclusive PRC citizenship maintain confidence?

5. External Relations

- (a) What would be the arrangements for representation of Hong Kong overseas?
- (b) How would Hong Kong residents be protected? What would be their citizenship status? What about existing BDTCs?



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Foreign and Commonwealth Office

London SW1A 2AH

13 June 1983

Dear John,

Future of Hong Kong

The Prime Minister is holding a meeting on Hong Kong on 15 June with the Foreign and Commonwealth Secretary and the Defence Secretary. As we discussed, Sir Anthony Acland and Mr Donald will also attend, possibly accompanied by the FCO Deputy Legal Adviser, Mr Freeland. This letter is intended to form a basis for discussion. It has not been possible to consult Sir G Howe yet, but it is being submitted to him in parallel.

There are two main points for decision: the formula for the agenda for substantive talks, and how we should handle the first round. It may be helpful to summarise developments over the past three weeks including the state of confidence in Hong Kong.

The Chinese Premier's reply (Peking telegrams Nos 439 and 440) to the Prime Minister's letter of 10 March ^{P45} was encouraging in welcoming the idea of an early start to substantive talks, but showed that the Chinese were still trying to steer matters towards an acceptance of their precondition on sovereignty. This was particularly evident in Zhao Ziyang's suggestion that the talks should deal with the form for the transfer of sovereignty, co-operation before 1997 and co-operation after 1997, in that order. The Ambassador was instructed to make clear to the Chinese that the conditions in the Prime Minister's letter still hold i.e. no recommendation on sovereignty could be made to Parliament unless arrangements could be agreed which would be acceptable to China, Parliament and the people of Hong Kong. In the event he had an inconclusive discussion with Vice Foreign Minister Yao Guang, who has proved a very unsatisfactory interlocutor, and it appeared that we might be in for a period of stalemate.

/However



However, the initiative on the Chinese side was taken over by Assistant Foreign Minister, Zhou Nan, who indicated privately that the Chinese would be prepared to consider a reversal of the order of items for discussion suggested by Premier Zhao. The Ambassador saw this as an encouraging sign and expressed the hope that we could follow it up. Following a conversation with Sir A Acland on 6 June, the Prime Minister decided to delay a decision until after the election. Sir P Cradock has now told Zhou Nan that he will be in touch again as soon as possible.

Meanwhile, confidence in Hong Kong, which had revived in the early months of the year, has declined rapidly during the past six weeks. This has been demonstrated most starkly by the fall in the Hong Kong dollar from around HK\$6.70 to the US dollar in early April to HK\$7.46 on 10 June. The reasons have been partly the rise in the value of the US dollar and a natural move by small and large investors to shift their money into that currency. But concern about the future has played a major part. The lack of signs of progress and in particular of any indication that substantive talks are under way have progressively damaged confidence. I enclose a copy of Hong Kong telegram No 791, which reviews the Hong Kong scene in more detail.

The Governor has kept EXCO fully informed of developments and has consulted them about Sir P Cradock's contacts with the Chinese Ministry of Foreign Affairs about the agenda. He has discussed with them, on a purely hypothetical basis, the Ambassador's suggestion that we might agree on the following formula and order for the agenda:

- Administrative*
- (a) arrangements for Hong Kong after 1997;
 - (b) arrangements in Hong Kong between now and 1997; →
 - (c) matters relating to a transfer of sovereignty.

EXCO are content with this. They do not believe that the reference to 'arrangements in Hong Kong between now and 1997' gives the Chinese any new status; nor do they consider it necessary for the formula to include a reference to arrangements being 'acceptable to the people of Hong Kong'. They feel this has been made clear enough already in the Prime Minister's letter to Premier Zhao. They would, however, like it to be made clear to the Chinese that the points are to be taken in the above order.

/The



The proposed formula would therefore read as follows:

' In order to meet the wish of the Chinese side for a broad agenda covering the whole course of the formal talks, the British side propose that, during the course of the talks, matters relevant to the future of Hong Kong should be discussed, in particular all the subjects mentioned in Mrs Thatcher's letter and Premier Zhao's letter. These would include arrangements for Hong Kong after 1997, arrangements in Hong Kong between now and 1997, and matters relating to a transfer of sovereignty.'

Given the views of the Ambassador, the Governor and particularly EXCO, we see no reason why the proposed formula for the agenda should not be acceptable. Sir P Cradock could therefore be instructed to go back to the Chinese towards the end of next week with agreed agenda proposals. The idea would be for him to have informal discussions with Assistant Minister Zhou Nan before formalising the agenda with Vice Minister Yao (he would make orally the point about the importance of the order). The next session thereafter would be a substantive one with the Governor taking part.

We suggest that at that session the Ambassador and Governor should make a presentation setting out how Hong Kong works now. The aim would be to illustrate the value of the present systems and the key importance of the UK link. If possible we should try to draw the Chinese into discussions of practical matters while seeking to avoid confrontation on matters of principle. A copy of the text on which the Governor would draw was enclosed with my letter of 20 May. You may also find it helpful to see the enclosed paper which outlines our ideas on our strategy for the talks.

We shall need also to consider carefully the question of a public announcement when it is agreed that substantive talks are to take place. It will be important not to give the impression that the past nine months of contacts with the Chinese have been sterile and that only now are we beginning to talk business. The best solution would probably be a joint statement to the effect that following useful exchanges the talks were about to move into a new stage. We must also bear in mind the possibility of Chinese statements designed to misrepresent the position or putting forward their own plans. As you know, we have contingency plans ready for this. However it is encouraging that so far the only public reference to Hong Kong at the National Peoples Congress has been in a report by Premier Zhao where he adopted a low key line. He only referred to the recovery of sovereignty 'at an opportune moment'.

Tangible signs that talks are moving ahead will be the most effective boost to confidence in Hong Kong. But we shall need to look at other ways of keeping up morale. As you know, the Prime

/Minister

S E C R E T



Minister has agreed that the EXCO Unofficials should visit London this summer for further talks with Ministers. The Governor believes that would be useful if this could be arranged soon and if possible before the Governor joins the Peking talks.

I am copying this to Richard Mottram (MOD).

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

S E C R E T

FUTURE OF HONG KONG

UK CHINA TALKS - FORWARD STRATEGY

INTRODUCTION

1. The purpose of this paper is to prepare a plan for HMG's conduct of substantive negotiations with the PRC.

UK Aim

2. To conclude agreement on the future of Hong Kong involving the continuation of British administration of the territory for as long as possible beyond 1997.

Likely Chinese Aims

3. To obtain HMG's agreement that the whole of Hong Kong must revert to China in 1997 and to secure British cooperation in effecting a smooth transition to Chinese control.

Membership of British Team

4. At least initially the talks would be through the diplomatic channel with a team lead by the Ambassador. The Governor of Hong Kong would participate as necessary. The possibility of other participants from Hong Kong taking part at some later stage should be kept open but should not be raised with the Chinese at the outset. At a later stage, official or Ministerial participation from London might be necessary.

Sequence of Events

5. Following recent talks between the Ambassador and Assistant Minister Zhou Nan it now seems likely that agreement could be reached on an agenda as follows:

- (a) Arrangements for Hong Kong after 1997;
- (b) Arrangements in Hong Kong between now and 1997;
- (c) Matters relating to a transfer of sovereignty.

(a) First Substantive Session

This should be attended by the Governor of Hong Kong ~~accompanied by the Political Adviser~~. It might last for two days. Our guidelines would so far as possible follow those in Annex A. The object would be to set the scene for subsequent meetings, to draw the Chinese into discussions and, where necessary, to agree on subsequent detailed work. (In the early stages it may be enough to agree at each meeting the date for the next and to allow a pattern to develop) In doing so we should try to avoid confrontation on matters of principle, particularly sovereignty. An important part of this would be a presentation by the Governor (on the lines of Annex B), setting out how Hong Kong works now in order to illustrate the value of the present system of administration. The sovereignty issue is, however, likely to surface quickly. The Chinese can be expected to argue that since sovereignty will revert to China in 1997 arrangements after that date cannot include British administration.

(b) Second Phase (which might comprise a number of separate sessions)

During this phase, if not before, the Chinese will try to draw us onto ground of their choosing ie the proposition that sovereignty and administration are inseparable, and that discussion should concentrate on transition and eventual British withdrawal, and perhaps on measures to secure continued British investment and "cooperation" after Chinese control has been re-established. Our aim should be to continue the process of educating the Chinese about how Hong Kong works by making detailed presentations on specific areas, (eg the financial system, and the role of the Hong Kong Dollar; the legal system; the network of trade agreements

etc), in order to demonstrate the vital importance of maintaining the British link. If the Chinese wish to discuss their own proposals we should be willing to do this but our approach would be critical to show why their plan is inadequate. We would decline to be drawn on the question of transfer of sovereignty on the grounds that agreement on satisfactory arrangements post-1997 must come first. (Some points for use in drawing out the Chinese on what we know of their ideas are at Annex C.) It might be appropriate to suggest that these questions be explored by sub-committees, although it is doubtful whether this system would commend itself to the Chinese or lead to much progress. In any case, experts from Hong Kong might be added to the UK team for discussion of specific topics.

(c) Third Phase : Discussions of Principles

If the Chinese can be convinced through detailed presentations that the maintenance of stability and prosperity requires the continuation of British administration we shall face the difficult task of persuading them to accept this. We can expect them to argue that continued British administration is not consistent with Chinese sovereignty and would in any case be intolerable for reasons of national pride. We must have ready precedents which show that sovereignty and administration can be, and in other parts of the world have been, separated. If in that context the Chinese proposed discussion of substantive or symbolic changes in Hong Kong to reflect Chinese sovereignty over the territory, we should show readiness to listen to their ideas. Since our objective is to secure Chinese agreement to continuing effective British administration with as little outward change as possible we should not ourselves raise the question of changes but have ready our own ideas on what changes we could or could not accept.

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6. If the Chinese showed serious interest in a package whereby Chinese sovereignty was recognised but British administrative control remained we would need to record agreement on this in a document which would preserve Chinese face. We might at this stage need to raise the level of the talks. But the timing of Ministerial involvement in the talks (as opposed to Ministerial interventions outside the formal framework of the talks - see paragraph 8 below) would need very careful consideration.

Agreement

7. The normal procedure would be:

- (i) initialling of a draft agreement, subject to ratification.
- (ii) formal signature.
- (iii) passage of the necessary Bill through Parliament.
- (iv) exchange of ratifications.

Other Methods

8. Throughout the talks we should keep in mind the possibility of using supplementary methods (eg Ministerial messages or visits and unofficial intermediaries) in order to overcome obstacles or clarify our position.

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ANNEX A

FUTURE OF HONG KONG: SUBSTANTIVE TALKS: UK INITIAL PRESENTATION

1. The exchanges would probably begin with a rehearsal by the Chinese of their formal position on sovereignty, on familiar lines, including the points that sovereignty and administration were indivisible and that China could not allow others to administer Hong Kong on its behalf. The Chinese might go on to lay down some of their general principles for a future settlement, ie that Hong Kong people should govern Hong Kong, that a Special Administrative Region should be established and that certain systems would remain unchanged.

2. The Ambassador should respond by:

- (a) Indicating a full grasp of the Chinese position;
- (b) Making clear the British position, ie: that recommendations on sovereignty could only be put to Parliament if arrangements acceptable to all parties were agreed;
- (c) Making proposals on how the talks should proceed.

(a) and (b) above would be a reaffirmation of the message in the Prime Minister's letter to Zhao, adding that we were not looking to the past (ie the treaties) but to the future. On (c) we should seek to reduce the scope for procedural argument to a minimum by avoiding any detailed proposals covering several sessions. It will be necessary to feel the way forwards as talks proceed.

3. The Ambassador would introduce the Governor on the following lines:

"We have listened with interest to what the Chinese side has said about the future administration of Hong Kong. To take one element of what you have said, we have no objection in principle to the concept of self-government for Hong Kong. Indeed, if historical and political circumstances were different, Hong Kong would long ago have become independent. But Hong Kong is an exceptional case with a unique status and we wish to explain the situation there as we see it. As a first step, I should like to ask the Governor of Hong Kong to deliver a short presentation on how Hong Kong works."

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4. The Governor could then speak (see Annex B).
5. The Ambassador would sum up on the following lines:

"Both sides agree that a solution to the problem of the future of Hong Kong should be such as to maintain the prosperity and stability of Hong Kong. Since the Chinese side has stated that in its proposals the "systems" of Hong Kong would remain unchanged, we assume that the Chinese side recognise that this is essential in order to obtain this object. A simple transfer of control over Hong Kong to Peking would not enable confidence to be maintained in the Hong Kong economy, and this would not enable prosperity and stability to be maintained. There are too many doubts about the continuity of Chinese policy which are founded in recent Chinese history and in particular the experience of the cultural revolution. It is inevitable too that there should be doubts whether a country with a socialist system could absorb a region with a liberal capitalist system without inducing fundamental change in the latter. It is not suggested that this consideration will apply for ever: but it certainly does apply at present.

"The question therefore is how to guarantee the continuity of the systems after 1997. The British side cannot see how a sufficient guarantee can be given unless an arrangement is reached which allows the continuation of the British administrative role in Hong Kong in order to inspire confidence that the systems will not be changed, though we all should agree that there would be increased scope for Hong Kong people to take part. It is recognised that to make this acceptable to the Chinese Government, it would have to be coupled to an acceptance by Britain of Chinese sovereignty over the whole of Hong Kong. As we have made clear this would have to be part of an overall package which Parliament and the people of Hong Kong could accept.

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"We appreciate that this view causes difficulty for the Chinese Government. But we hope they will show understanding of our position, which is based on practical considerations. We suggest that we should next discuss how Hong Kong operates in specific areas, eg the financial, fiscal and legal systems and the network of trade agreements currently in force, in order to establish the role of the present detailed administrative arrangements in maintaining stability and prosperity, and how the continuity of these systems may be ensured. The British side will be happy to answer any questions which the Chinese side may wish to raise."

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FUTURE OF HONG KONG

POINTS FOR USE IN DRAWING OUT THE CHINESE ON THEIR OWN PROPOSALS

1. Legal System

- (a) Would there be any alteration to Hong Kong's laws or legal system? Would the present arrangements for amending or repealing laws or introducing new legislation continue?
- (b) The existing courts and legal system do much to help confidence. How could they be maintained?
- (c) How would Hong Kong be assured that laws would not be imposed from outside?
- (d) What arrangements would be made to guarantee the independence of the judiciary?
- (e) How would the following be guaranteed:
 - (i) free movement of goods in and out of Hong Kong?
 - (ii) freedom to emigrate, and, apart from normal immigration controls, free movement of persons in and out of Hong Kong?
 - (iii) freedom of the press and speech?
 - (iv) freedom of assembly, protest, petition, etc?
 - (v) basic human rights?

2. Economy

- (a) The free market system must be guaranteed.
- (b) There must be adequate arrangements to govern Hong Kong's independent currency. What authority would supervise it? How would outside interference be prevented?
- (c) What arrangements would govern Hong Kong's participation in international trading agreements? How would Hong Kong quotas (eg for textiles) be kept separate from those of the PRC?

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- (d) What would be the system of banking supervision? How would its independence be guaranteed?
- (e) What guarantees would there be for free movement of capital into and out of Hong Kong? How would foreign investors be assured of free repatriation of dividends etc?

3. Public Service

- (a) What arrangements would guarantee the independence of the public service? How would senior officials in the Civil Service, Police, etc be appointed?
- (b) What arrangements would govern pensions?

4. Immigration and Citizenship

- (a) What arrangements would control immigration from China?
- (b) What citizenship arrangements would there be for Hong Kong residents? How could exclusive PRC citizenship maintain confidence?

5. External Relations

- (a) What would be the arrangements for representation of Hong Kong overseas?
- (b) How would Hong Kong residents be protected? What would be their citizenship status? What about existing BDTs?

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FM HONG KONG 100800Z JUN 83

TO PRIORITY FCO

TELEGRAM NUMBER 791 OF 10 JUNE

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

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FUTURE OF HONG KONG

1. MINISTERS MAY FIND IT HELPFUL TO HAVE A BRIEF SUMMARY OF THE PRESENT SITUATION IN HONG KONG, PARTICULARLY AS REGARDS THE STATE OF CONFIDENCE.
2. THE ECONOMY IS STILL SUFFERING FROM THE EFFECTS OF THE WORLD RECESSION, WHICH CAME LATE TO HONG KONG, AND THE COLLAPSE OF PROPERTY PRICES WITH ITS CONSEQUENCES FOR THE DOMESTIC FINANCIAL SECTOR. BUT THERE ARE NOW SIGNS OF AN EXPORT-LED RECOVERY. THE VOLUME OF DOMESTIC EXPORTS IS PICKING UP, AFTER HAVING FALLEN LAST YEAR: UNEMPLOYMENT IS ALMOST CERTAINLY FALLING: THE STATE OF MANUFACTURERS' ORDER BOOKS IS GENERALLY ENCOURAGING. THE PROSPECTS LOOK BRIGHT FOR FURTHER IMPROVEMENT LATER IN THE YEAR.
3. THE UNDERLYING ECONOMIC SITUATION HAS THEREFORE IMPROVED. BUT THE EVIDENCE OF RECOVERY HAS SO FAR HAD LITTLE EFFECT ON THE MARKETS. THE PROPERTY SECTOR REMAINS DEPRESSED. THE HANG SENG INDEX IS AROUND HALF OF ITS MID 1982 PEAK AND THE VOLUME OF TRADING HAS BEEN CONSISTENTLY LOW IN RECENT MONTHS. BUT THE MAIN PREOCCUPATION IS THE SHARP DECLINE IN THE EXCHANGE VALUE OF THE HONG KONG DOLLAR. THE TRADE WEIGHTED INDEX FELL FROM 89.5 AT END MAY 1982 TO 73.8 AT END MAY 1983. THIS HAS BEEN CAUSED PARTLY BY THE SURGING STRENGTH OF THE U.S. DOLLAR BUT ALSO BY INCREASING ANXIETY ABOUT THE FUTURE WHICH HAS ENCOURAGED A SWITCH FROM HONG KONG DOLLARS TO U.S. DOLLAR DEPOSITS.
4. PUBLIC CONFIDENCE IS FRAGILE. THE CAMPAIGN WAGED BY THE CHINESE OVER THE PAST NINE MONTHS HAS HAD A CUMULATIVE IMPACT. IT IS NOW WIDELY ACCEPTED THAT THE CHINESE INTENTION IS TO RECOVER SOVEREIGNTY AND CONTROL OVER HONG KONG IN 1997. ALTHOUGH THERE ARE WIDESPREAD DOUBTS ON WHETHER THIS COULD BE DONE IN A WAY WHICH WOULD (AS THE CHINESE CLAIM) PRESERVE THE TERRITORY'S PROSPERITY AND THE FREEDOMS NOW ENJOYED BY HONG KONG PEOPLE, THERE IS ALSO A GROWING BELIEF THAT A CHINESE TAKEOVER IN 1997 IS INEVITABLE. THOSE IN THE ENTREPRENEURIAL, MANAGERIAL AND PROFESSIONAL CLASSES WHO ARE MOBILE OR POTENTIALLY SO ARE BEGINNING TO MAKE THEIR DISPOSITIONS ACCORDINGLY. THERE HAS ALREADY BEEN A MARKED RISE IN THE NUMBER OF APPLICATIONS FOR RESIDENCE OVERSEAS, IN SOME CASES ACCOMPANIED BY TRANSFERS OF ASSETS. THE NUMBERS ARE NOT YET VERY SIGNIFICANT IN ABSOLUTE TERMS BUT THE TREND IS THERE.
5. THE HONG KONG GOVERNMENT IS MAINTAINING THE LEVEL OF EXPENDITURE ON RECURRENT SERVICES AND INVESTMENT PROGRAMMES DESPITE A LARGE BUDGET DEFICIT IN 1982-83 AND A LIKELY DEFICIT IN 1983-84. IT IS ALSO MAINTAINING THE IMAGE OF A GOVERNMENT CONFIDENT IN THE FUTURE AND GETTING ON WITH THE BUSINESS OF THE DAY. BUT THE NEED TO MAINTAIN CONFIDENTIALITY IN THE TALKS, AND TO AVOID A PUBLIC CONFRONTATION WITH THE CHINESE OVER THEIR PLANS HAS PRECLUDED US

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FROM RESPONDING TO THE RISING PUBLIC DEMAND FOR INFORMATION ON WHAT IS GOING ON, WITH CONSEQUENT ACCUSATIONS OF PASSIVITY, LACK OF LEADERSHIP AND SO ON. THIS HAS TO BE TOLERATED IN THE SHORT TERM BUT UNLESS THERE IS SOMETHING TO SHOW FOR THE PATIENCE WE HAVE ENJOINED ON THE PUBLIC, THE POINT WILL BE REACHED AT WHICH THE CREDIBILITY OF THE ADMINISTRATION WILL BE CALLED IN QUESTION. 6. IN SHORT, EVERYONE IS NOW LOOKING FOR PROGRESS OR AT LEAST SIGNS OF GREATER ACTIVITY THAN OVER THE PAST NINE MONTHS. IF THE CURRENT DISCUSSIONS IN PEKING LEAD TO AN EARLY START OF SUBSTANTIVE TALKS AND I ATTEND, THIS WILL BE INTERPRETED AS EVIDENCE THAT THE LOG JAM HAS BEEN BROKEN. PROVIDED THE ACCOMPANYING ATMOSPHERICS ARE RIGHT THE EFFECT ON CONFIDENCE SHOULD BE FAVOURABLE BUT CONTINUING EVIDENCE OF PROGRESS WILL BE REQUIRED AND IF NOTHING MUCH IS SEEN TO BE HAPPENING THE GLOOM IS LIKELY TO DEEPEN. THE NEXT SIX MONTHS ARE THEREFORE LIKELY TO BE CRUCIAL FOR THE FUTURE OF HONG KONG. HMG'S CONTINUING COMMITMENT TO THE TERRITORY WILL BE VERY IMPORTANT AND PEOPLE HERE WILL BE LOOKING FOR EVIDENCE THAT THEIR FUTURE REMAINS HIGH ON THE AGENDA OF MINISTERS IN LONDON.

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FM PEKING 080435Z JUN 83
TO IMMEDIATE HONG KONG
TELNO 56 OF 8 JUNE
AND TO IMMEDIATE FCO.

10/6

h.a.

FOR POLITICAL ADVISER FROM HEAD OF CHANCERY

FUTURE OF HONG KONG: VISIT TO HONG KONG BY CHINESE ACADEMY OF
SOCIAL SCIENCES DELEGATION

1. WE HAVE RECEIVED A VISA APPLICATION FOR A CASS 'STUDY GROUP'
LED BY HUAN XIANG TO VISIT HONG KONG FOR FOUR WEEKS FROM 26 JUNE,
SPONSORED BY NCNA HONG KONG. OTHER MEMBERS OF THE TEAM ARE YU
GUANGYUAN, QIAN JUNRUI, XU DIXIN, JIANG GANZHANG. OUR TELNO
IMMA 843 REFERS.

2. THIS IS A HIGH-LEVEL DELEGATION WITH ACCESS TO THE TOP HERE
AND THE VISIT IS POTENTIALLY OF GREAT IMPORTANCE. AS YOU KNOW,
THERE HAVE BEEN EARLIER REPORTS THAT HUAN HEADS AN ADVISORY
GROUP ON THE QUESTION OF HONG KONG'S FUTURE. YOU WILL RECALL
THAT HE VISITED HONG KONG LAST YEAR AND WAS RECEIVED BY THE
ACTING GOVERNOR.

3. YOU WILL NO DOUBT WISH TO MAKE CONTACT WITH HIM DURING HIS
VISIT AND WE WOULD SEE GREAT VALUE IN A CALL ON THE GOVERNOR,
OF WHOM HUAN SPOKE HIGHLY WHEN HE HAD LUNCH WITH THE AMBASSADOR
LAST JUNE. I WOULD RECOMMEND THAT WE SHOULD PASS A MESSAGE TO
CASS AS SOON AS POSSIBLE OFFERING TO GIVE ANY ASSISTANCE WE CAN
FOR THE VISIT.

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FUTURE OF HONG KONG

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FM HONG KONG 081030Z JUN 83
TO PRIORITY FCO
TELEGRAM NUMBER 780 OF 8 JUNE
INFO PRIORITY PEKING

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PEKING TELNO 530 PARA 4: FUTURE OF HONG KONG:
JOINT ANNOUNCEMENT ABOUT THE TALKS

1. I THINK THERE WILL BE A NEED FOR AN ANNOUNCEMENT BEFORE THE NEW STAGE OF TALKS BEGINS AND THUS THE FORMULA IN PEKING TELNO 473 WILL NEED MODIFICATION. PROVIDED IT WAS POSITIVELY WORDED SUCH A STATEMENT WOULD GIVE A HELPFUL BOOST TO CONFIDENCE HERE, AND WOULD ALSO MAKE IT EASIER TO DEAL WITH PRESS SPECULATION WHEN IT BECAME KNOWN THAT I WAS GOING TO PEKING TO TAKE PART IN THE TALKS.

2. AT THIS MORNING'S MEETING OF EXCO I PUT THE FOLLOWING FORMULA FORWARD FOR DISCUSSION ON A PERSONAL BASIS:

'FOLLOWING THE DISCUSSIONS BETWEEN THE LEADERS OF THE TWO COUNTRIES IN SEPTEMBER 1982 AND SUBSEQUENT SQUARE BRACKETS BEGIN DISCUSSIONS SQUARE BRACKETS END SQUARE BRACKETS BEGIN CONTACTS SQUARE BRACKETS END AND EXCHANGES AT VARIOUS LEVELS, IT HAS BEEN AGREED THAT SQUARE BRACKETS BEGIN A NEW STAGE SQUARE BRACKETS END SQUARE BRACKETS BEGIN THE NEXT STAGE SQUARE BRACKETS END SQUARE BRACKETS BEGIN A SECOND PHASE SQUARE BRACKETS END OF THE TALKS ON THE FUTURE OF HONG KONG WILL BEGIN IN PEKING ON..... . THE BRITISH DELEGATION WILL BE LED BY THE BRITISH AMBASSADOR IN PEKING. THE GOVERNOR OF HONG KONG WILL ALSO ATTEND. THE CHINESE DELEGATION WILL BE LED BY..... .

BOTH SIDES SQUARE BRACKETS BEGIN HAVE REAFFIRMED THE COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG AND SQUARE BRACKETS END HAVE EXPRESSED THEIR DETERMINATION TO PURSUE THE TALKS TO A SUCCESSFUL CONCLUSION'',

THE GENERAL VIEW WAS THAT SOMETHING ON THESE LINES WOULD BE HELPFUL.

3. THE AMBASSADOR WILL HAVE COMMENTS ON THIS FORMULA. HE MAY CONSIDER THAT THE CHINESE WOULD BE UNLIKELY TO ACCEPT ANY REFERENCE TO MY PARTICIPATION UNLESS IT WAS MADE CLEAR THAT I WOULD BE ATTENDING AS A MEMBER OF THE BRITISH DELEGATION. IF SO, THE POINT COULD BE OMITTED FROM THE JOINT ANNOUNCEMENT AND MADE SEPARATELY BY THE BRITISH SIDE IN ANSWER TO QUESTION. THE FACT THAT THE AMBASSADOR WILL LEAD WILL BE WELL UNDERSTOOD BUT I COULD NOT APPEAR AS JUST ANOTHER MEMBER OF THE DELEGATION.

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4. FROM THE HONG KONG POINT OF VIEW I WOULD SEE NO OBJECTION TO THE ISSUE OF AN AGREED STATEMENT ON THESE LINES DURING THE NPC IF THE CHINESE SO WISHED.

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FM HONG KONG 081035Z JUN 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 779 OF 8 JUNE 1983

INFO IMMEDIATE PEKING

Mc 7/6

f.c.

MY TELNO 766: FUTURE OF HONG KONG: PROPOSED AGENDA

1. I CONTINUED THE DISCUSSION WITH EXCO THIS MORNING, BRINGING THEM UP TO DATE ON THE DEVELOPMENTS REPORTED IN PEKING TELNO 526. FOR THE PURPOSES OF DISCUSSION, THE FORMULA WHICH I PUT TO EXCO WAS:

QUOTE IN ORDER TO MEET THE WISH OF THE CHINESE SIDE FOR A BROAD AGENDA COVERING THE WHOLE COURSE OF THE FORMAL TALKS, THE BRITISH SIDE PROPOSE THAT, DURING THE COURSE OF THE TALKS, MATTERS RELEVANT TO THE FUTURE OF HONG KONG SHOULD BE DISCUSSED, IN PARTICULAR OPEN SQUARE BRACKETS ALL CLOSE SQUARE BRACKETS THE SUBJECTS MENTIONED IN MRS THATCHER'S LETTER AND PREMIER ZHAO'S LETTER. THESE WOULD INCLUDE ARRANGEMENTS OPEN SQUARE BRACKETS FOR HONG KONG CLOSE SQUARE BRACKETS AFTER 1997, ARRANGEMENTS OPEN SQUARE BRACKETS IN HONG KONG CLOSE SQUARE BRACKETS BETWEEN NOW AND 1997, AND OPEN SQUARE BRACKETS FACTORS/MATTERS CLOSE SQUARE BRACKETS RELATING TO A TRANSFER OF SOVEREIGNTY UNQUOTE. (THIS IS BASED ON PEKING TEL NO 517 PARA 14 AS MODIFIED BY PEKING TEL NO 518)

THE SQUARE BRACKETS REPRESENT THE DIFFERENCE BETWEEN THE WORDING IN PARA 14 OF PEKING TELNO 517 AND THE WORDING USED BY THE AMBASSADOR WITH ZHOU NAN IN PARA 3 OF PEKING TELNO 518 (WHICH I ASSUME REFLECTS INTER ALIA THE POINT IN MY TELNO 760).

2. THE CONSENSUS AMONG EXCO MEMBERS CAN BE SUMMARISED AS FOLLOWS:

(A) THEY AGREED THAT THE PRESENT OPPORTUNITY TO GET SUBSTANTIVE TALKS STARTED WITHOUT PRECONDITIONS SHOULD NOT BE LOST.

(B) THEY WOULD BE CONTENT WITH THE PROPOSED AGENDA FORMULA IF IN THE AMBASSADOR'S JUDGMENT THIS WAS WHAT WAS NECESSARY TO GET THE TALKS STARTED. THEY DID NOT BELIEVE THAT IT HELD ANY UNACCEPTABLE RISKS OR HOSTAGES TO FORTUNE (SOME PREFERRED QUOTE FACTORS UNQUOTE TO QUOTE MATTERS UNQUOTE)

(C) THEY REMAINED CONCERNED ABOUT THE POSSIBILITY OF A CHINESE LEAK AND ATTACHED IMPORTANCE TO OBTAINING AS FIRM A COMMITMENT FROM THE CHINESE AS POSSIBLE ON CONFIDENTIALITY. THEY ALSO STRONGLY SUPPORTED THE ACTION PROPOSED BY THE AMBASSADOR IN PARA 11 OF PEKING TELNO 517.

3. I SOUGHT MEMBERS' VIEWS SPECIFICALLY ON THE CONCERNS EXPRESSED IN PARA ONE OF YOUR TELNO 350 (WITHOUT ATTRIBUTING THEM):

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(I) THEY DID NOT THINK THAT THE REFERENCE TO QUOTE ARRANGEMENTS OPEN SQUARE BRACKETS IN HONG KONG CLOSE SQUARE BRACKETS BETWEEN NOW AND 1997 UNQUOTE WOULD GIVE THE CHINESE ANY NEW STATUS OR RIGHT TO INTERFERE. THIS COULD BE PRESENTED AS A NEED TO DISCUSS PRACTICAL ARRANGEMENTS FOR CHINESE AGENCIES NOW IN HONG KONG FOLLOWING THE CONCLUSION OF AN AGREEMENT.

(II) THEY ACCEPTED THE AMBASSADOR'S VIEW (PARA 8 OF PEKING TELNO 526) THAT THE CHINESE WOULD REJECT ANY ATTEMPT TO WRITE THE REQUIREMENT THAT THE ARRANGEMENTS SHOULD BE ACCEPTABLE TO THE PEOPLE OF HONG KONG INTO THE AGREED FORMULA, AND BELIEVED THAT OUR POSITION WOULD BE PROTECTED BY THE REFERENCE TO THE PRIME MINISTER'S LETTER)

4. I DREW ON PEKING TELNO 530 (I WAS MOST GRATEFUL FOR THIS SWIFT REPLY) IN RESPONDING TO THE OTHER POINTS MADE BY UNOFFICIALS ON 7 JUNE (PARAS 4 TO 8 OF MY TUR). ON ONE POINT ONLY WAS THERE A SIGNIFICANT DIFFERENCE OF OPINION AMONG UNOFFICIALS. ALL BELIEVED IT IMPORTANT TO ESTABLISH THAT THE ORDER OF DISCUSSION WAS ACCEPTED BY THE CHINESE. SIR S Y CHUNG TOOK THE VIEW THAT FOR THIS PURPOSE EVERY EFFORT SHOULD BE MADE TO OBTAIN THE ADDITION OF THE WORDS QUOTE IN THAT ORDER UNQUOTE AFTER THE PHRASE QUOTE TRANSFER OF SOVEREIGNTY UNQUOTE IN THE FINAL SENTENCE. SINCE THE CHINESE HAD AGREED ORALLY THAT OUR ORDER SHOULD BE FOLLOWED HE DID NOT SEE WHY THIS SHOULD NOT BE SPELT OUT IN THE AGENDA AND THOUGHT THAT THERE WOULD BE MERIT IN TYING THE CHINESE DOWN FIRMLY. OTHER MEMBERS ACCEPTED THE AMBASSADOR'S VIEW (PARA 3 OF PEKING TELNO 530).

5. I AM TELEGRAPHING SEPARATELY ON THE QUESTION OF THE FORM AND TIMING OF AN AGREED PUBLIC ANNOUNCEMENT.

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TO ROUTINE FCO
TELEGRAM NUMBER 775 OF 8 JUNE
AND TO ROUTINE PEKING
INFO ROUTINE HONG KONG GOVERNMENT OFFICE LONDON

A.J.C. $\frac{10}{6}$
F.A.

FUTURE OF HONG KONG: PRESS COVERAGE.

THE CONTINUED DECLINE OF THE HONG KONG DOLLAR TODAY ATTRACTED PROMINENT COVERAGE IN MOST PAPERS.

2. A CONTRIBUTOR TO THE COMMUNIST WEN WEI PO WARNED THE HONG KONG AND BRITISH GOVERNMENTS AGAINST SPREADING RUMOURS OF A 'CRISIS OF CONFIDENCE' TO EXPLAIN THE SLIDE OF THE HONG KONG DOLLAR. SUCH RUMOURS WOULD ONLY UNDERMINE HONG KONG'S PROSPERITY AND STABILITY. THE CONTRIBUTOR ARGUED THAT THE CHINESE GOVERNMENT HAD ALREADY ALLAYED LOCAL RESIDENTS' WORRIES ABOUT THE FUTURE BY REPEATING ASSURANCES ON THE TERRITORY'S PROSPERITY AND STABILITY AND BY ANNOUNCING SPECIFIC MEASURES. FOR EXAMPLE, PEKING HAD ANNOUNCED ITS PLANS TO INVEST IN-LOCAL INDUSTRY. BY CONTRAST, THE BRITISH AND HONG KONG GOVERNMENTS HAD FAILED TO DO ANYTHING. THE GOVERNMENT HAD REFUSED TO WAIVE THE WITHHOLDING TAX ON HONG KONG DOLLAR DEPOSITS AND THERE HAD BEEN MASSIVE SALES OF THE LOCAL CURRENCY FOR STERLING ON THE LONDON MARKET. THE LEFT-INCLINED TIN TIN DAILY NEWS SIMILARLY HELD THAT THE FALL IN THE HONG KONG DOLLAR HAD NOTHING TO DO WITH A CRISIS OF CONFIDENCE. THE HONG KONG GOVERNMENT WOULD BE ABLE TO TURN THE TIDE PROVIDED IT MADE EFFORTS TO CURB GALLOPING INFLATION.

3. TWO INDEPENDENT NEWSPAPERS, THE FINANCIAL DAILY AND THE EXPRESS ARGUED THAT THE CHINESE, BRITISH AND HONG KONG GOVERNMENTS ALL HAD A RESPONSIBILITY TO TAKE DETERMINED AND SINCERE ACTION TO HALT THE DOLLAR'S DECLINE. THE EXPRESS TOOK THE CHINESE GOVERNMENT TO TASK FOR PURCHASING LARGE QUANTITIES OF US CURRENCY, THEREBY INCREASING THE PRESSURE ON THE LOCAL UNIT.

4. THE HONG KONG DAILY NEWS (INDEPENDENT RIGHT WING) CARRIED AN EDITORIAL WHICH ARGUED THAT THE LOCAL CURRENCY HIT RECORD LOWS EVERY TIME PEKING SPOKE OF RECOVERING SOVEREIGNTY OVER HONG

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KONG. IT SAID THAT UNCERTAINTY OVER THE FUTURE AND SPECULATION WERE THE MAJOR FACTORS CONTRIBUTING TO THE DECLINE OF THE HONG KONG DOLLAR. THE EDITORIAL CALLED FOR (UNSPECIFIED) CONCRETE ACTION BY THE CHINESE AND BRITISH GOVERNMENTS.

5. THE PRO-KMT, KUNG SHEUNG DAILY NEWS WARNED THAT CHINA WOULD SUFFER GREAT LOSSES THROUGH THE SUSTAINED WEAKNESS OF THE HONG KONG DOLLAR. THE PAPER HELD THAT PEKING SHOULD TAKE ACTION TO STABILISE THE LOCAL UNIT.

YOUDE

THIS TELEGRAM
WAS NOT
ADVANCED

FUTURE OF HONG KONG

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MR COLES NO 10 DOWNING ST.
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NO 10 DOWNING ST.
HONG KONG GOVT OFFICE, LONDON

2
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SECRET

Hongkong

28

GP 290
SECRET
FM PEKING 080450Z JUN 83
TO PRIORITY FCO
TELNO 533 OF 8 JUNE
RPTD INFO PRIORITY HONG KONG.

Mr ^a/_c
f.a.

YOUR TELNO 429: FUTURE OF HONG KONG: FORWARD STRATEGY

1. I HAVE NO DIFFICULTIES WITH YOUR LATEST DRAFT, NOR WITH TWO OF THE THREE COMMENTS IN HONG KONG TELNO 734 TO YOU.
2. ON THE FIRST OF GOVERNOR'S POINTS, HOWEVER, MY VIEW REMAINS AS STATED IN PARAGRAPH 8 OF MY TELNO 434, IE. THAT IN OUR PROPOSAL FOR THE FURTHER DEVELOPMENT OF THE TALKS WE SHOULD NOT RISK A FORMULA WHICH MIGHT LEAD THE CHINESE TO CONCLUDE THAT OUR STAND WAS SO INFLEXIBLE THAT THERE WAS NO POINT IN TALKING FURTHER. I ACCEPT THAT WE SHOULD NOT BE THE ONES TO PROPOSE CHANGES, BUT IF OUR POSITION APPEARS TO EXCLUDE EVEN THE DISCUSSION OF CHANGES, I WOULD EXPECT THE CHINESE TO BREAK OFF THE TALKS. THE FORMULA IN HONG KONG TELNO 734 SUGGESTS THAT WE ARE PREPARED ONLY TO DISCUSS THE PRESENT. THIS IS CONTRARY TO THE AGENDA WE ARE CURRENTLY TRYING TO AGREE WITH THE CHINESE, WHICH INCLUDES 'ARRANGEMENTS AFTER 1997'.
3. PERHAPS MY CONCERNS AND THOSE OF THE GOVERNOR COULD BE MET BY A FORMULA ALONG THE LINES OF:
QUOTE: WE SUGGEST THAT WE SHOULD NEXT DISCUSS HOW HONG KONG OPERATES IN SPECIFIC AREAS EG. THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE NETWORK OF TRADE AGREEMENTS CURRENTLY IN FORCE, IN ORDER TO ESTABLISH THE ROLE OF THE PRESENT DETAILED ADMINISTRATIVE ARRANGEMENTS IN MAINTAINING STABILITY AND PROSPERITY AND HOW THE CONTINUITY OF THESE SYSTEMS MAY BE ENSURED. THE BRITISH SIDE WILL BE HAPPY TO ANSWER ANY QUESTIONS WHICH THE CHINESE SIDE MAY WISH TO RAISE. UNQUOTE.

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FUTURE OF HONG KONG

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SECRET

Prime Minister

270

Interesting. Exco did not give the Governor quite such carte blanche as procast.

GR 320

SECRET

SECRET

DESKBY PEKING 070830Z

FM HONG KONG 070744Z JUN 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 766 OF 7 JUNE
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

FERG
Non would 7.6.
I have done! We were right to be not signed.

FUTURE OF HONG KONG : YOUR TELNO 350 TO PEKING : PARA 4.

EXCO HAD NOT OF COURSE AT THAT POINT BEEN CONSULTED ON THE PROPOSED AGENDA. GIVEN THE PACE OF DEVELOPMENTS I ARRANGED A PRELIMINARY DISCUSSION AT EXCO THIS MORNING AND THERE WILL BE A FULLER DISCUSSION AT THE REGULAR MEETING ON THE FUTURE TOMORROW.

2. THE INITIAL CONCERN IN EXCO CONCENTRATED ON WHAT THE PUBLIC REACTION WOULD BE HERE IF THE CHINESE LEAKED THE AGENDA. SOME MEMBERS THOUGHT THAT IF THEY DID, ANY REFERENCE TO THE "TRANSFER OF SOVEREIGNTY" COULD BE INTERPRETED BY THE PUBLIC AS INDICATING THAT SOVEREIGNTY HAD ALREADY BEEN CONCEDED.

3. I SPOKE ON THE LINES OF PARA 11 OF PEKING TELNO 517 BUT IT WOULD BE HELPFUL IF I COULD HAVE THE AMBASSADOR'S VIEWS ON THE FOLLOWING POINTS WHICH CAME UP TODAY.

4. HOW FIRM AN ASSURANCE MIGHT WE GET FROM THE CHINESE THAT THEY WOULD NOT PUBLISH? COULD WE FOR EXAMPLE MAKE THIS A FORMAL CONDITION OF OUR AGREEMENT?

5. IF THERE REMAINS NEVERTHELESS A DANGER OF THE CHINESE LEAKING THE AGENDA, WHAT ARE THE PROSPECTS OF HOLDING OUT FOR -
(A) THE OMISSION OF THE WORDS "TRANSFER OF" BEFORE "SOVEREIGNTY"
(I TOLD EXCO THAT THE AMBASSADOR HAD ALREADY TRIED THIS),
(B) THE ADDITION OF SOME WORDS TO DILUTE FURTHER ANY IMPLICATION THAT TRANSFER HAD BEEN AGREED.

6. WOULD IT BE THE INTENTION TO GET FORMAL CONFIRMATION FROM YAO GUANG THAT THE CHINESE ACCEPTED OUR ORDER OF DISCUSSIONS? IF SO, WOULD WE TRY TO GET IT CONFIRMED IN THE AGENDA FORMULA?

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7. THE POINTS MADE ABOVE COULD BE MET BY E.G. INSERTING SOMETHING LIKE 'PROPOSED' BEFORE 'TRANSFER OF SOVEREIGNTY' AND 'IN THAT ORDER' AFTER THAT PHRASE. WOULD THE AMBASSADOR THINK THIS WORTH TRYING EVEN IF THEY WERE NOT MADE STICKING POINTS?

8. WHAT KIND OF FORMULA DOES HE HAVE IN MIND FOR THE ANNOUNCEMENT (PARA 12 OF HIS TELNO 517).

9. ANY ADDITIONAL COMMENT WHICH PEKING COULD OFFER TO REACH ME BY 080030Z WOULD BE VERY HELPFUL.

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HD/FED
PS
PS/PUS
MR. GIFFARD
MR. DONALD

COPIES TO:
MR BUTLER
NO. 10. DOWNING STREET

²
SECRET

MR. COLES

cc. Mr. Flesher

HONG KONG

On the assumption that the Government win the Election, you will see from the attached papers that we will need a meeting early next week on the agenda for the talks with the Chinese. I am sure that the Prime Minister will want a small meeting, and will then report to Cabinet on Thursday if necessary. The meeting will have to be after the Foreign Secretary returns from the Foreign Affairs Council.

The Prime Minister mentioned OD, but probably she does not want a larger meeting than the one which discussed the letter of 10 March to the Chinese Premier. This would point to having the Foreign Secretary and the Secretary of State for Defence but it might be helpful if the Foreign Secretary were to bring Sir Antony Acland and/or a legal adviser.

This is as far as I got with the Foreign Office Private Office in your absence. Would you like to take it on from here?

F.R.B.

7 June, 1983

CONFIDENTIAL

GR 90
CONFIDENTIAL
FM PEKING 071000Z JUN 83
TO PRIORITY FCO
TELNO 529 OF 7 JUNE
AND PRIORITY HONG KONG.

AR 107/6

h-a.

NATIONAL PEOPLE'S CONGRESS: HONG KONG

1. IN HIS REPORT ON THE WORK OF THE GOVERNMENT AT THE OPENING SESSION OF THE NATIONAL PEOPLE'S CONGRESS ON 6 JUNE, PREMIER ZHAO LIMITED HIMSELF ON HONG KONG TO STATING:

'WE SHALL, AT AN OPPORTUNE MOMENT, RECOVER CHINESE SOVEREIGNTY OVER HONG KONG AND TAKE APPROPRIATE MEASURES TO MAINTAIN ITS PROSPERITY'.

2. THIS IS A MINIMUM FORMULATION AND MAY REFLECT CHINESE WORRIES ABOUT THE PRESENT SITUATION IN HONG KONG.

CRADOCK

FUTURE OF HONG KONG

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27^B

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GR 340
SECRET
DESKBY FCO 071200Z
DESKBY HONG KONG 080030Z
FM PEKING 070950Z JUN 83
TO IMMEDIATE FCO
TELNO 530 OF 7 JUNE
AND TO IMMEDIATE HONG KONG KONG (PERSONAL FOR GOVERNOR).

ML 15/6
h-a

HONG KONG TELNO 766: FUTURE OF HONG KONG

1. I CERTAINLY HOPE WE COULD OBTAIN AN ASSURANCE FROM THE CHINESE THAT THEY WOULD NOT PUBLISH THE AGENDA. NO DOUBT WE COULD EXACT THIS AS A FORMAL CONDITION OF OUR AGREEMENT. THE CHINESE WOULD PROBABLY AGREE, VERY MUCH IN THE WAY THEY HAVE AGREED TO KEEP CONFIDENTIAL THE LETTERS BY ZHAO AND MRS THATCHER. BUT WE SHOULD BE UNDER NO ILLUSION THAT THIS WILL NOT PREVENT THEM LEAKING IN AN UNATTRIBUTABLE WAY IF IT SUITS THEIR BOOK. THIS IS WHY I HAVE POINTED OUT THE NEED TO WARN THE CHINESE THAT IF LEAKAGE OCCURRED WE SHOULD BE OBLIGED TO MAKE PUBLIC THE CONDITIONS IN THE PRIME MINISTER'S LETTER. THIS IS OUR ONLY EFFECTIVE SACTION.

2. ON PARA 5(A) OF TUR, THERE IS NO, REPEAT NO, PROSPECT OF OMITTING THE WORDS "TRANSFER OF". ON PARA 5(B), THE ADDITION OF "PROPOSED" WOULD BE VERY DIFFICULT AND, AS I SEE IT, OF LITTLE VALUE. IT COULD BE ARGUED THAT "PROPOSED TRANSFER OF SOVEREIGNTY" SMACKED MORE OF PRIOR AGREEMENT THAN "TRANSFER OF SOVEREIGNTY". OUR MAIN ALLY IS LIKELY TO BE THE USE OF THE INDEFINITE ARTICLE BEFORE "TRANSFER", IF WE CAN GET AWAY WITH THAT.

3. ON PARA OF TUR, IT WOULM BE MY INTENTION TO OBTAIN ORAL CONFIRMATION FROM YAO GUANG THAT THE CHINESE ACCEPTED OUR ORDER OF DISCUSSION. IT WOULD BE CONFIRMED BY THE ORDER OF ITEMS IN THE AGENDA FORMULA WHICH IS AT PRESENT DISCUSSED. I SEE LITTLE PROSPECT OF SUCCESS, AND LITTLE VALUE, IN ENDEAVOURING TO INSERT "IN THAT ORDER".

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4. ON THE ANNOUNCEMENT (PARA 8 OF TUR), I WOULD HOPE THAT ANY PUBLIC ANNOUNCEMENT ABOUT THE TALKS MIGHT BE CONFINED TO A STATEMENT ALONG THE LINES OF PARA 2 OF MY TELNO 473 OF 18 MAY. THE CHINESE MAY WELL OBJECT TO THIS FORMULA, BUT WITHOUT THE OPPORTUNITY TO EXPLORE THEIR POSITION ON THIS IT IS DIFFICULT TO SEE WHAT SORT OF COMPROMISE FORMULA WE MIGHT ACHIEVE. WE SHOULD HAVE TO SEEK TO AVOID THE TWO PITFALLS MENTIONED IN PARA 12 OF MY TELNO 517, BUT IN ANY EVENT IT WILL BE CLEAR TO THE PUBLIC, PARTICULARLY AS A RESULT OF YOUR ATTENDANCE, THAT A MILESTONE OF SOME KIND HAS BEEN REACHED.

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FUTURE OF HONG KONG

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DESKBY 071100Z

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FM PEKING 070950Z JUN 83 * [AMENDED DISTRIBUTION 7 JUNE 1983] *

27A

TO IMMEDIATE FCO

TELNO 526 OF 7 JUNE

RPTD INFO HONG KONG (PERSONAL FOR GOVERNOR).

PERSONAL FOR PUS FROM AMBASSADOR

YOUR TELNO 350: FUTURE OF HONG KONG

MR 15/6
L.C.

1. I FULLY UNDERSTAND MINISTERS' RELUCTANCE TO PURSUE THIS DELICATE ISSUE OR TAKE DECISIONS ON IT BEFORE THE ELECTION.

2. I RECEIVED AN INVITATION THIS MORNING FROM ASSISTANT FOREIGN MINISTER ZHOU NAN TO A WORKING LUNCH ON 9 JUNE. I THEREFORE TELEPHONED HIM AND SPOKE AS IN PARA 3 OF YOUR TUR. I OMITTED THE SPECIFIC MENTION OF THE NPC BECAUSE THE STATEMENTS THERE IN YESTERDAY'S SPEECHES WERE VERY ANODYNE, AND BECAUSE I SEE IT AS POSSIBLY PROVOCATIVE, BUT OTHERWISE KEPT FAIRLY CLOSELY TO YOUR TEXT.

3. ZHOU TOOK CAREFUL NOTE, PARTICULARLY OF THE SENTENCE BEGINNING "IT WOULD IN ANY CASE BE CONSTITUTIONALLY WRONG" AND SAID HE QUITE UNDERSTOOD. HE ALSO SOUNDED RECEPTIVE TO THE POINT ON CONFIDENTIALITY.

4. I WENT ON TO SAY THAT THOUGH I SHOULD, OF COURSE, LIKE TO LUNCH WITH HIM, IN THE CIRCUMSTANCES I SHOULD HAVE LITTLE NEW TO CONTRIBUTE TO A DISCUSSION. ZHOU SAID THAT AFTER OUR TALK YESTERDAY HE HAD REPORTED TO YAO GUANG WITH THE SUGGESTION THAT MY INTERVIEW WITH YAO BE POSTPONED TO ALLOW A CHANCE FOR INFORMAL CONVERSATION. HE ASKED WHEN I THOUGHT I SHOULD NOW BE ABLE TO PURSUE A DISCUSSION ON A PERSONAL BASIS. I SAID I HOPED NEXT WEEK. HE UNDERTOOK TO REPORT TO YAO GUANG. HE LATER TELEPHONED ME TO SAY THAT THE FORMAL MEETING WOULD BE POSTPONED AND THE LUNCH PUT OFF UNTIL SUCH TIME NEXT WEEK AS I COULD TELL ZHOU NAN ANOTHER PERSONAL DISCUSSION WOULD BE POSSIBLE.

COMMENT

5. I NOTED IN MY TELNO 518 THAT THE CHINESE SEEMED TO BE IN A HURRY TO GET SUBSTANTIVE TALKS GOING. ZHOU'S INITIATIVE TODAY, WITHOUT WAITING FOR THE RESPONSE I HAD SAID I WOULD TRY TO GIVE HIM WITHIN 48 HOURS, CONFIRMS THE POINT. THE PRECISE REASONS REMAIN OBSCURE. I WOULD GUESS THAT THE MINISTRY IS UNDER PRESSURE TO SECURE AN EARLY AGREEMENT TO BEGIN TALKS, HAVING FAILED TO KEEP TO THE TIMETABLE, (IE BY THE END OF MAY), WHICH YAO GUANG PROPOSED WHEN HE DELIVERED ZHAO'S LETTER. THAT TIMETABLE MAY HAVE BEEN CONNECTED WITH THE NPC. ALTHOUGH THE ANODYNE REFERENCE TO HONG KONG IN ZHAO'S OPENING STATEMENT ON 6 JUNE DID NOT CONVEY THE IMPRESSION THAT MUCH BUSINESS ON THIS SUBJECT WOULD BE CONDUCTED AT THE NPC, THE CHINESE MAY, NEVERTHELESS, WISH TO MAKE AN ANNOUNCEMENT DURING THE NPC THAT TALKS ARE ABOUT TO BEGIN.

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6. AS I SAID IN MY TELNO 518, THE CHINESE MAY ALSO BE CONCERNED ABOUT THE RECENT SLIDE OF THE HONG KONG DOLLAR. CERTAINLY THE BLANDNESS OF ZHAO'S NPC REFERENCE TO HONG KONG SUGGESTS THAT THEY ARE AWARE OF THE PRESENT FRAGILITY OF CONFIDENCE. IF SO, THIS IS IMPORTANT. BUT IT SHOULD NOT LEAD US TO FORGET THE PRIMACY OF POLITICAL AS OPPOSED TO ECONOMIC FACTORS IN THE CHINESE LEADERS' MINDS. MOREOVER WE SHOULD BE ILL-ADVISED TO DERIVE MUCH COMFORT FROM IT AS LONG AS THE EVIDENCE CONTINUES TO SUGGEST THAT THE CHINESE DO NOT FULLY UNDERSTAND WHAT IS NEEDED TO ALLAY INVESTORS' FEARS. THEY MAY WELL THINK THAT A STATEMENT THAT SUBSTANTIVE TALKS WERE ABOUT TO BEGIN AND THAT THE SOVEREIGNTY OBSTACLE HAD BEEN OVERCOME WOULD DO THE TRICK. IN FACT, UNLESS SUITABLY QUALIFIED, IT WOULD VERY LIKELY HAVE THE OPPOSITE EFFECT. WE MUST THEREFORE WATCH THIS CAREFULLY, AS I HAVE SAID IN MY TELNOS 517 AND 518.

7. THE IMMEDIATE TASK, HOWEVER, IS TO SETTLE THE AGENDA QUESTION. I HOPE THAT THIS CAN BE DEALT WITH VERY SOON AFTER THE ELECTION ON THE LINES SUGGESTED IN MY TELNOS 517 AND 518. AS YOU SAY IN YOUR PARA 2, WE MUST NOT LOSE THE PRESENT FAVOURABLE WIND. I AM VERY CONCERNED ABOUT THE POINTS AT THE END OF PARA 1 OF YOUR TUR. I DO NOT AGREE THAT THE REFERENCE TO ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997 GIVES THE CHINESE A "NEW STATUS". IT IS NOT A NEW ELEMENT IN THE TALKS, BUT A CONSISTENT ONE DATING BACK TO THE PRIME MINISTER'S MEETING WITH DENG XIAOPING IN SEPTEMBER 1982, WHEN HE SPOKE OF TALKS ABOUT "HOW TO ENSURE A GOOD TRANSITIONAL PERIOD OF FIFTEEN YEARS AND WHAT WOULD BE DONE AFTER FIFTEEN YEARS". WE HAVE NEVER DISPUTED THIS, AND THERE IS NO PROSPECT THAT THE CHINESE WOULD AGREE TO THE

OMISSION OF THIS SUBJECT

FROM THE TALKS. MOREOVER, IT IS LOGICALLY INESCAPABLE THAT, HAVING DISCUSSED ARRANGEMENTS AFTER 1997, WE SHOULD TALK ABOUT THE INTERVENING PERIOD. THE NEUTRAL WORDING DOES NOT PREJUDICE OUR POSITION IN ANY WAY. IT WOULD BE DIFFERENT IF THE CHINESE WERE INSISTING ON A REFERENCE TO, SAY, "HOW BRITAIN CAN COOPERATE WITH CHINA IN THE TRANSITIONAL PERIOD".

8. SECONDLY, AN EXPLICIT REFERENCE IN THIS CONTEXT TO THE REQUIREMENT THAT THE ARRANGEMENTS ARE ACCEPTABLE TO THE PEOPLE OF HONG KONG, WITH RESPECT, IS UNNECESSARY, SINCE IT IS COVERED IN THE GENERAL REFERENCE TO MRS THATCHER'S LETTER. MOREOVER IT IS INCONCEIVABLE THAT THE CHINESE WOULD ACCEPT IT. THE FORMAL CHINESE POSITION, FROM WHICH THEY WILL NOT DIVERGE, IS THAT THE TALKS ARE STRICTLY BETWEEN CHINA AND BRITAIN. IF WERE TO INSIST ON REFERENCE TO THIS POINT IN A JOINTLY AGREED FORMULATION WE SHOULD NOT BE ABLE TO REACH AN AGREEMENT. TALKS WOULD BE STYMIED FOR A VERY LONG TIME OR MIGHT NEVER BEIN AT ALL.

SECRET -2-

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D. TO REPEAT, WE COULD BE WITHIN REACH OF A FORMULA FOR A GENERAL AGENDA WHICH SHOULD ALLOW SUBSTANTIVE TALKS TO BEGIN AND WHICH SELLS NO PASSES. WE NEED HAVE NO ILLUSIONS ABOUT THE TALKS. THEY WILL PROVE EXTREMELY DIFFICULT IF THEY SURVIVE AT ALL. BUT TO EMBARK UPON THEM WILL BE A MODEST ACHIEVEMENT AND THE PREREQUISITE FOR EVERYTHING ELSE.

PARA 7

LINE 13

TO THE OMISSION OF THIS SUBJECT FROM THE TALKS. MOREOVER IT IS

LOGICALLY INESCAPABLE ETC

FUTURE OF HONG KONG

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FM HONG KONG 071023Z JUN 83
TO ROUTINE F C O
TELEGRAM NUMBER 771 OF 7 JUNE
INFO HONG KONG GOVERNMENT OFFICE LONDON, PEKING

M 15
6

FUTURE OF HONG KONG : PRESS COVERAGE

ZHAO ZIYANG'S STATEMENT IN HIS REPORT ON THE WORK OF THE GOVERNMENT TO THE NPC THAT CHINA WOULD "RECOVER SOVEREIGNTY OVER HONG KONG AT THE OPPORTUNE TIME AND TAKE APPROPRIATE MEASURES TO MAINTAIN ITS PROSPERITY", IS GIVEN WIDE COVERAGE IN TODAY'S PRESS. MOST PAPERS DRAWING ON A CHINA NEWS SERVICE (CNS) DESPATCH NOTED THAT THIS WAS THE FIRST TIME THAT THE SUBJECT OF RECOVERING SOVEREIGNTY HAD BEEN RAISED IN CHINA'S MOST AUTHORITATIVE FORUM. AN EDITORIAL IN THE COMMUNIST WEN WU PO STATED THAT IT WAS CHINA'S UNEQUIVOCAL POLICY TO REGAIN SOVEREIGNTY WHILST MAINTAINING PROSPERITY. THE QUESTION NOW WAS HOW TO RECOVER AND ADMINISTER HONG KONG WITHOUT CAUSING EXCESSIVE DISRUPTION SO THAT PROSPERITY COULD CONTINUE.

2. REFERRING TO ZHAO'S STATEMENT THAT SOVEREIGNTY WOULD BE RECOVERED WHEN THE MOMENT WAS "OPPORTUNE", BOTH THE FINANCIAL DAILY AND WAH KIU YAT PO BELIEVED THAT THE MOMENT HAD NOT YET ARRIVED AND THAT ZHAO'S STATEMENT CONTAINED NOTHING NEW. HOWEVER, THESE PAPERS NOTED THE OMISSION OF A REFERENCE TO THE MAINTENANCE OF "STABILITY" WHICH THEY INFERRED WAS AN INDICATION THAT CHINA MIGHT RECOVER HONG KONG WITHOUT TAKING INTO ACCOUNT ITS CONTINUED STABILITY.

3. THE CONTINUED PRESSURE ON THE HONG KONG DOLLAR EXCHANGE RATE AGAINST THE U.S. CURRENCY HAS STIMULATED FURTHER EDITORIAL AND OTHER PRESS COMMENT. AN EDITORIAL IN THE INDEPENDENT MING PAO REFUTED THE ARGUMENT THAT THE HONG KONG DOLLAR'S DECLINE WAS DUE LARGELY TO THE LOCAL ECONOMIC RECESSION AND THE STRENGTH OF THE U.S. CURRENCY. IT TOOK THE VIEW THAT HONG KONG'S UNCERTAIN POLITICAL FUTURE WAS THE MAIN CAUSE, AND THAT PEKING'S FREQUENT PRONOUNCEMENTS ON THE FUTURE DID LITTLE TO DISPEL RESIDENTS GLOOM SINCE THE CHINESE PROPOSALS DID NOT MEET THEIR WISHES.

4. ECONOMIC THEMES HAVE BEEN FURTHER COVERED BY THE HONG KONG JOURNALISTS PRESENTLY IN SHANGHAI (WEBB'S TELELETTER OF 6 JUNE TO MORRIS). TODAY'S REPORTS COVERED AN INTERVIEW GIVEN TO THEM BY THE MAYOR OF SHANGHAI, WANG DAOHAN. WANG STRESSED THE COMPLEMENTARY NATURE OF HONG KONG'S AND SHANGHAI'S ECONOMIES AND SAID THAT BOTH CITIES SHOULD BEGIN NOW TO STUDY THEIR RELATIONSHIP AFTER 1997 WHEN CHINA WOULD HAVE REGAINED SOVEREIGNTY OVER HONG KONG. HE UNDERSTOOD THAT SOME BUSINESSMEN WERE WORRIED ABOUT THE

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TERRITORIES

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TERRITORIES' FUTURE BUT ACCORDING TO THE HONG KONG STANDARD SOUGHT TO REASSURE THEM THAT 'AS A SPECIAL ADMINISTRATIVE REGION, THE PLACE WOULD HAVE ITS MARKET ECONOMY REMAINING UNCHANGED EVEN IF IT IS TO BECOME A LINK IN THE CHINESE ECONOMY'.

5. ALTHOUGH THERE HAS BEEN LITTLE FOLLOW-UP OF THE RECENT 'WRITTEN RESPONSE' TO THE JOURNALISTS QUESTIONS (MY TELNO 258) A FEW NEWSPAPERS (WEN WI PO AND WAH KIU YAT PO) HAVE ECHOED A CALL FOR 'MUTUAL UNDERSTANDING OF COMMON OBJECTIVES' BY CHINA AND THE UK. THE QUOTE CAME FROM A CNS COMMENTARY ON 3 JUNE WHICH CALLED FOR CLOSER COOPERATION BETWEEN BRITAIN AND CHINA IN THE FIELDS OF INVESTMENT AND TECHNOLOGY TRANSFER. THE COMMENTARY REFERRED TO FRIENDLY EXCHANGES BETWEEN THE TWO COUNTRIES AND CITED VISITS BY THE ROYAL BALLETT AND WATFORD FOOTBALL TEAM AS WELL AS THE AWARD OF THE FIRST OIL EXPLORATION CONTRACT TO A CONSORTIUM HEADED BY BRITISH PETROLEUM.

YOUDE

(REPEATED AS REQUESTED)

FUTURE OF HONG KONG

LIMITED

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PS/LORD BELSTEAD
PS/FUS
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MR GIFFARD
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GR 320

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AMENDED DISTRIBUTION - 7 JUNE 1983

SECRET

DESKBY PEKING 070830Z

FM HONG KONG 070744Z JUN 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 766 OF 7 JUNE
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

FUTURE OF HONG KONG : YOUR TELNO 350 TO PEKING : PARA 4.

EXCO HAD NOT OF COURSE AT THAT POINT BEEN CONSULTED ON THE PROPOSED AGENDA. GIVEN THE PACE OF DEVELOPMENTS I ARRANGED A PRELIMINARY DISCUSSION AT EXCO THIS MORNING AND THERE WILL BE A FULLER DISCUSSION AT THE REGULAR MEETING ON THE FUTURE TOMORROW.

2. THE INITIAL CONCERN IN EXCO CONCENTRATED ON WHAT THE PUBLIC REACTION WOULD BE HERE IF THE CHINESE LEAKED THE AGENDA. SOME MEMBERS THOUGHT THAT IF THEY DID, ANY REFERENCE TO THE "TRANSFER OF SOVEREIGNTY" COULD BE INTERPRETED BY THE PUBLIC AS INDICATING THAT SOVEREIGNTY HAD ALREADY BEEN CONCEDED.

3. I SPOKE ON THE LINES OF PARA 11 OF PEKING TELNO 517 BUT IT WOULD BE HELPFUL IF I COULD HAVE THE AMBASSADOR'S VIEWS ON THE FOLLOWING POINTS WHICH CAME UP TODAY.

4. HOW FIRM AN ASSURANCE MIGHT WE GET FROM THE CHINESE THAT THEY WOULD NOT PUBLISH? COULD WE FOR EXAMPLE MAKE THIS A FORMAL CONDITION OF OUR AGREEMENT?

5. IF THERE REMAINS NEVERTHELESS A DANGER OF THE CHINESE LEAKING THE AGENDA, WHAT ARE THE PROSPECTS OF HOLDING OUT FOR -
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(I TOLD EXCO THAT THE AMBASSADOR HAD ALREADY TRIED THIS),
(B) THE ADDITION OF SOME WORDS TO DILUTE FURTHER ANY IMPLICATION THAT TRANSFER HAD BEEN AGREED.

6. WOULD IT BE THE INTENTION TO GET FORMAL CONFIRMATION FROM YAO GUANG THAT THE CHINESE ACCEPTED OUR ORDER OF DISCUSSIONS? IF SO, WOULD WE TRY TO GET IT CONFIRMED IN THE AGENDA FORMULA?

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7. THE POINTS MADE ABOVE COULD BE MET BY E.G. INSERTING SOMETHING LIKE 'PROPOSED' BEFORE 'TRANSFER OF SOVEREIGNTY' AND 'IN THAT ORDER' AFTER THAT PHRASE. WOULD THE AMBASSADOR THINK THIS WORTH TRYING EVEN IF THEY WERE NOT MADE STICKING POINTS?

8. WHAT KIND OF FORMULA DOES HE HAVE IN MIND FOR THE ANNOUNCEMENT (PARA 12 OF HIS TELNO 517).

9. ANY ADDITIONAL COMMENT WHICH PEKING COULD OFFER TO REACH ME BY 080030Z WOULD BE VERY HELPFUL.

YOUDE

FUTURE OF HONG KONG

LIMITED

ED/HKGD

ED/FED

ED/PLANNING STAFF

ED/FUSD

PS

PS/MR HURD

PS/LORD BELSTEAD

PS/FUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

COPIES TO

SIR I SINCLAIR LEGAL ADVISER

MR BURROWS LEGAL ADVISERS

MR ROBERTS NEWS D

MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

MR FLOWER FUSD

MR COLES NO 10 DOWNING ST.

SIR A PARSONS NO 10 DOWNING ST.

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S E C R E T

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DD 070100Z PEKING

GRS 606

SECRET

DESKBY 070100Z

FM FCO 062107Z JUNE 83

TO IMMEDIATE PEKING

TELEGRAM NUMBER 350 OF 6 JUNE

AND REPEATED TO FOR INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR FROM PUS)

PERSONAL FOR AMBASSADOR FROM PUS

YOUR TELNOS 517 AND 518 AND HONG KONG TELNO 760: FUTURE OF HONG KONG

1. THE SECRETARY OF STATE THOUGHT THAT IT WOULD BE WRONG FOR YOU TO PURSUE, EVEN ON A STRICTLY PERSONAL BASIS, THE LINE RECOMMENDED IN PARAGRAPHS 13 AND 14 OF YOUR FIRST TUR AS AMENDED BY YOUR SUBSEQUENT TELEPHONE CONVERSATION WITH ZHOU NAN, UNLESS IT WAS CLEAR THAT THE PROPOSED WORDING FOR THE AGENDA WAS ACCEPTABLE TO THE PRIME MINISTER. I HAVE JUST HAD AN HOUR WITH HER AND WE WENT INTO THE MATTER IN SOME DEPTH ALTHOUGH SHE HAD TO PREPARE FOR YET ANOTHER SPEAKING ENGAGEMENT IN THE ELECTION CAMPAIGN. SHE IS NOT WHOLLY HAPPY WITH WHAT IS PROPOSED AND WANTS MORE TIME TO REFLECT. FURTHERMORE, SHE THINKS THAT IT WOULD BE CONSTITUTIONALLY WRONG TO COMMIT HERSELF TO QUITE A MAJOR STEP IN THE NEGOTIATIONS WITH THE CHINESE IN THE LAST DAYS OF THE ELECTION CAMPAIGN. SHE IS CONCERNED THAT IN THE FORMULA IN PARAGRAPH 14 OF YOUR FIRST TUR THE REFERENCE TO ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997 GIVES THE CHINESE A NEW STATUS IN THE SITUATION. SHE ALSO THINKS THAT IF SPECIFIC SUBJECTS ARE QUOTED THEY SHOULD INCLUDE POINTS FROM HER LETTER LIKE THE REQUIREMENT THAT THE ARRANGEMENTS ARE ACCEPTABLE TO THE PEOPLE OF HONG KONG IN ADDITION TO THE THREE FROM PERMIER ZHAO'S (I ARGUED THAT THE ORDER HAD BEEN CHANGED AND THAT THE WORDING HAD BEEN CONSIDERABLY IMPROVED FROM OUR POINT OF VIEW). WE CAN OF COURSE DISCUSS THESE POINTS FURTHER AFTER THE ELECTION.

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2. FOR THE TIME BEING THE IMPORTANT OBJECTIVES ARE TO KEEP THE CHINESE IN PLAY AND NOT TO LOSE THE FAVOURABLE DEVELOPMENTS ARISING FROM YOUR TWO TALKS WITH ZHOU NAN AND ALSO TO AVOID ANY PUBLIC STATEMENT FOLLOWING THE NATIONAL PEOPLE'S CONGRESS WHICH WE WOULD HAVE TO REFUTE.

3. IN THESE CIRCUMSTANCES I SUGGEST, UNLESS YOU SEE STRONG OBJECTION, THAT YOU ARRANGE A FURTHER MEETING WITH ZHOU NAN AND TELL HIM THAT MINISTERS ARE PREOCCUPIED WITH THE ELECTION AND HAVE NOT BEEN ABLE TO CONSIDER THE POSSIBLE FORMULA FOR GETTING THE TALKS STARTED. IT WOULD IN ANY CASE BE CONSTITUTIONALLY WRONG FOR THEM TO TAKE DECISIONS OF THIS IMPORTANCE IN THE LAST DAYS OF THE ELECTION CAMPAIGN. IF THE PRIME MINISTER IS RE-ELECTED YOU ARE SURE THAT SHE AND HER COLLEAGUES WILL FOCUS ON THE MATTER AT THE EARLIEST POSSIBLE OPPORTUNITY. YOU SHOULD ADD THAT YOU GREATLY HOPE THAT MEANWHILE THERE WILL BE NO STATEMENTS MADE, EG AT THE NATIONAL PEOPLE'S CONGRESS, WHICH COULD GIVE A MISLEADING IMPRESSION ON THE POSITION SO FAR REACHED OR ANY SUGGESTION THAT THE BRITISH HAVE ACCEPTED TRANSFER OF SOVEREIGNTY AS A FOREGONE CONCLUSION. SUCH SUGGESTIONS WOULD BE VERY DAMAGING TO CONFIDENCE IN HONG KONG AND NO BRITISH GOVERNMENT COULD BE EXPECTED TO NEGOTIATE ON THAT BASIS. WE HAVE MADE OUR POSITION CLEAR AND WE SHALL NOT BACK-TRACK FROM IT. IT WOULD BE VERY UNDESIRABLE IF WE WERE FORCED TO REACT PUBLICLY TO ANY PUBLIC STATEMENT BY THE CHINESE, THEREBY JEOPARDISING THE START OF THE TALKS WHICH WE BOTH WANT TO BEGIN AS SOON AS POSSIBLE.

4. THE GOVERNOR SHOULD EXPLAIN TO EXCO THAT THE PRIME MINISTER HAS NOT FELT ABLE TO TAKE A DECISION ON THE PROPOSED FORMULA AT THIS STAGE. FOR SIR E YOUDE'S PERSONAL INFORMATION, THE PRIME MINISTER WONDERED WHETHER EXCO HAD REALLY FOCUSED ON THE RISKS WHICH SHE WAS INCLINED TO SEE. I SAID THAT IT WOULD BE UNWISE TO STIR THEM UP TO OBJECT IF THEY WERE NOT DISPOSED TO DO SO, IT WOULD HOWEVER BE USEFUL TO SIR E YOUNDE'S CONFIRMATION THAT THEY SEE NO PARTICULAR DANGERS OR HOSTAGES TO FORTUNE IN THE FORMULA PROPOSED.

PYM

LIMITED

HD/HK D

HD/PLANN STAFF

HD/FED

PS

PS/PUS

MR GIFFARD

MR DONALD

COPY TO:

MR BUTLER, NO.10 DOWNING STREET

- 2 -

SECRET



10 DOWNING STREET

From the Principal Private Secretary

6 June 1983

FUTURE OF HONG KONG: AGENDA FOR THE TALKS

Thank you for your letter of today, which the Prime Minister discussed with Sir Antony Acland this evening.

The Prime Minister agreed that we should seek to keep open the channel of communication through Zhou Nan and should use it to warn the Chinese Government not to use the occasion of the National Peoples Congress to make a false statement about our position on sovereignty which would have to be denied by us and would be in nobody's interest. But she felt that the proposals about the agenda raise substantive issues which it is difficult, and would be constitutionally improper, for her to settle in the three days before a General Election. The Prime Minister suggested that Sir Percy Cradock should explain these difficulties to Zhou Nan and assure him that, if she is re-elected, she will turn her attention to these matters on the earliest occasion when she can discuss them with her colleagues after the General Election.

On the substance of the agenda, the Prime Minister was concerned that the inclusion of "arrangements in Hong Kong between now and 1997" might introduce a new principle by conceding for the first time the Chinese had some right to be involved in Hong Kong's internal affairs before 1997. She also commented that she would be helped if there was some reference to acceptability to the people of Hong Kong, and she would think further about the formula relating to sovereignty.

If the Government is re-elected, we will seek to arrange a meeting of Ministers next week to discuss these matters in time for the Prime Minister to report to Cabinet next Thursday if necessary. In the meantime Sir Antony Acland said that he would send instructions to Sir Percy Cradock on the lines of paragraph 2 above.

E. E. R. BUTLER

John Holmes, Esq.,
Foreign and Commonwealth Office.



26^B

Agenda "The subjects in both letters"
Foreign and Commonwealth Office

withholding:

London SW1A 2AH

the arrangements after 1997
6 June, 1983

arrangements pre 1997

Dear Robin,

Future of Hong Kong: Agenda for the Talks

As the Prime Minister will be aware, Sir Percy Cradock's last meeting with his Chinese interlocutor, Yao Guang, was not very productive. Yao insisted that the agenda for the substantive talks should be the three points in Premier Zhao's letter and appeared reluctant to make any comment on our own proposal to avoid a formal agenda and that the first meeting be used for initial statements from both sides. The meeting ended with Yao saying that the Chinese side would consider our ideas and that he would summon the Ambassador when they were ready to reply.

At the end of last week the Assistant Foreign Minister, Zhou Nan, claiming to be speaking informally but clearly acting on instructions, discussed the agenda for the talks further with the Ambassador privately at a National Day reception in Peking. Zhou argued for the acceptance of the three points in Zhao's letter but said that the Chinese were ready to accept our preferred order of discussion of these points ie arrangements after 1997, arrangements pre-1997 and finally sovereignty; but they had to be formally on the agenda in particular the last. Discussion thereafter focussed on an acceptable means of referring to sovereignty. Zhou appeared to accept that simply to refer to 'the form of transfer of sovereignty' would be incompatible with our position, and suggested 'the factors relating to the transfer of sovereignty'. Sir P Cradock, who made clear throughout that he was speaking only on a personal basis, said that he would reflect on this. (I enclose a copy of Peking telno 517 which gives an account of this discussion and Sir P Cradock's comments on it).

Zhou telephoned Sir P Cradock again on the morning of 6 June to ask if we had any reactions to his ideas. He pressed very hard for a further talk early this week. They discussed, again on a personal basis, possible formulas for the agenda. Zhou suggested this time that the formula relating to sovereignty should read 'matters relating to a transfer of sovereignty'. (I enclose a copy of Peking telno 518 recording this further conversation).

/It



It is clear from these conversations that the Chinese are anxious to reach agreement quickly on the basis for substantive talks. The immediate pressure probably stems from the fact that the National Peoples Congress is currently meeting and closes on 12 June. The Chinese may well want to have the basis of the talks settled in time to say something about them during the Congress, and this may have led them to make two considerable concessions on the agenda, firstly by accepting an order for Premier Zhao's three points which conforms with the logical sequence of discussion implicit in our position; and secondly by being prepared to vary the formula in Zhao's letter about the 'form of transfer of sovereignty'.

Sir P Cradock and Sir E Youde both take the view that we should take advantage of this welcome (and somewhat surprising) flexibility. On the other hand we must avoid falling into a trap. The Chinese may, as on previous occasions, misrepresent our position publicly. It is obviously very important that we prevent them from making any statement on the talks during the Congress which would suggest that we had given way to them on the issue of sovereignty. Sir P Cradock has already pointed out forcibly to the Chinese that any such statement would seriously affect confidence in Hong Kong and that we would have to react strongly to it, but this message needs ramming home further. Mr Pym therefore believes that there would be advantage in the Ambassador being instructed to go back to Zhou Nan, once the Governor has touched base with Exco (with whom he expects no problem), both to reinforce the point about public presentation and to keep the Chinese in play as far as the agenda is concerned. We believe that pursuing the contact in this way is more likely to prevent them from making an unhelpful statement in the next few days. In Mr Pym's view, Sir P Cradock should say to the Chinese that the demands of the election here mean that he can only speak on a personal basis for the moment but that on this basis he believes that the agenda on the lines so far discussed could prove acceptable to HMG when Ministers are free of their present preoccupations. He would at the same time speak strongly on the need to avoid damaging public statements.

The existence of the elections gives Sir P Cradock a convenient pretext for continuing to talk to the Chinese on a personal basis. This device will keep up the momentum and offer an opportunity to impress on the Chinese again the conditionality of our offer and the importance of avoiding a public row. It will also buy some time. However in Mr Pym's view the Ambassador can only proceed if the Prime Minister would in fact accept a formula on the lines he will be discussing with the Chinese, if that is the end result of the discussions. This would not of course be revealed to the Chinese at this stage but it would avoid any risk of having to disown Sir P Cradock. Even though he will have stressed that he was speaking personally, this would damage his credibility in the future.

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If we use this tactical ploy, clearly we need to go
back to the Chinese at once. If the Prime Minister is
/ content therefore we propose to send the enclosed telegram
of instructions tonight.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

Robin Butler Esq
Private Secretary
10 Downing Street

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OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	SECRET	IMMEDIATE 070015Z

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7 TO IMMEDIATE PEKING
8 TELEGRAM NUMBER
9 AND TO IMMEDIATE HONG KONG
10 PERSONAL FOR AMBASSADOR
11 YOUR TELNOS 517 AND 518 AND HONG KONG TELNO 760: FUTURE OF
12 HONG KONG
13 1. We agree that this is a helpful development but it will
14 need firm and careful handling to avoid Chinese public
15 exploitation on misleading lines, which would be particularly
16 difficult to handle in present circumstances here.
17 2. Ministers here have not been able to consider the latest
18 ideas in detail but in the circumstances we agree to action
19 as follows. Your general aim should be to keep the Chinese in
20 play on the agenda for the moment, while preventing them from
21 making any unhelpful public statement.
22 3. The Governor should touch base with EXCO on 7 June.
23 4. Once Sir E Youde has confirmed that this has been done you
24 should arrange a further meeting with Zhou Nan. At this you
25 should seek to slow down the pace at which the Chinese appear to

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File number	Dept Private Office	Distribution Future of Hong Kong
Drafted by (Block capitals) JOHN HOLMES		
Telephone number		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

	Classification and Caveats SECRET	IMMEDIATE	Page 2
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2 be driving. You should say that Ministers are ~~obviously~~

3 preoccupied with the Election. This is why all that you have

4 been saying so far has been on a personal basis only. Having

5 emphasised that you are still speaking without clearance by

6 Ministers, you should pursue the line recommended in paras

7 13 and 14 of your first TUR as amended by your subsequent

8 telephone conversation with Zhou Nan. In other words ~~we~~ *you*

9 ~~believe~~ *think* 'matters relating to a transfer of sovereignty' ~~is~~ *may*

10 ~~likely to~~ prove acceptable. We leave it to your discretion

11 whether to leave out the words ' for Hong Kong' and ' in Hong

12 Kong' (Hong Kong TUR para 3). If you think they can be

13 retained without causing a dispute we should prefer this.

14 5. You should say that we continue to attach the greatest

15 importance to the conditions in the Prime Minister's letter.

16 ~~If appropriate~~ *Y* you should add that HMG would have to react

17 strongly if statements were made, eg at the National Peoples

18 Congress, to the effect that the British had accepted transfer

19 of sovereignty as a foregone conclusion. Such suggestions

20 would be very damaging to confidence in Hong Kong and no

21 Government could be expected to negotiate on that basis. We

22 have made our position clear and we shall not backtrack on it,

23 but arrangements for the future must be considered as a whole.

24 6. If Zhou takes up the question of a joint announcement

25 you should say that, *if and when the time comes for that,* it would not help confidence to give

26 further encouragement to the idea that substantive talks were

27 only just beginning after nine months of contacts. A better

28 line might be that, following helpful exchanges, the talks

29 had now reached a new stage and both sides looked forward to

30 further progress. (Hong Kong would make a separate

31 announcement about participation by the Governor). We would

32 certainly not (not) favour an announcement which quoted the

33 agreed formula on the agenda. We should preserve

34 confidentiality.

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OUT TELEGRAM (CONT)

	S	Classification and Caveats SECRET	IMMEDIATE	Page 3
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DESKBY BOTH 060900Z

FM PEKING 060615Z JUN 83

TO IMMEDIATE FCO

TELNO 518 OF 6 JUNE

RPTD HONG KONG (PERSONAL FOR GOVERNOR).

MY TELNO 517: FUTURE OF HONG KONG

1. I WAS TELEPHONED THIS MORNING BY ASSISTANT FOREIGN MINISTER ZHOU NAN, WHO ASKED IF WE HAD ANY REACTIONS TO HIS IDEAS PUT FORWARD ON 2 JUNE (MY TUR). I SAID I HAD NO INSTRUCTIONS AS YET, BUT WE WERE NATURALLY GIVING CAREFUL THOUGH TO WHAT HE HAD SAID AND I HOPED I MIGHT BE ABLE TO SUGGEST A CHAT, PERHAPS OVER LUNCH, ABOUT THE END OF THIS WEEK.

2. ZHOU SAID THAT WOULD BE VERY NICE BUT SUGGESTED IT MIGHT BE RATHER LATE. VICE MINISTER YAO GUANG WAS PLANNING TO SUMMON ME ON 7 OR 8 JUNE. I SUGGESTED IT WOULD BE BETTER TO POSTPONE SLIGHTLY THE MEETING WITH YAO GUANG UNTIL I HAD HAD A CHANCE FOR ANOTHER CHAT WITH ZHOU NAN. HE SAID HE WOULD HAVE TO SEEK AUTHORITY FOR THIS, BUT LEFT THE IMPRESSION THAT IT COULD BE MANAGED. HE PRESSED ME VERY HARD TO MEET HIM OR AT LEAST TALK FURTHER EARLY IN THE WEEK.

3. ZHOU ASKED WHAT WERE THE CONSIDERATIONS IN OUR MINDS ABOUT HIS PROPOSALS. I SAID I HAD EXPLAINED THEM AS FULLY AS I COULD ON A PERSONAL BASIS ON 2 JUNE. HE ASKED AGAIN WHAT WAS THE FORMULA WE HAD DISCUSSED. I REHEARSED IT FOR HIM AS FOLLOWS: 'ALL SUBJECTS IN THE TWO LETTERS, INCLUDING ARRANGEMENTS AFTER 1997, ARRANGEMENTS BEFORE 1997, AND FACTORS RELATING TO A TRANSFER OF SOVERIGNTY'. ZHOU DENIED THAT HE HAD SAID 'FACTORS'. HE CLAIMED HE HAD SAID 'MATTERS'. I SAID IF 'MATTERS' WERE SUBSTITUTED THE PHRASE SHOULD BE 'MATTERS AFFECTING A TRANSFER OF SOVEREIGNTY'. ZHOU SAID HE DID NOT LIKE 'AFFECTING': IF WE COULD NOT HAVE 'MATTERS RELATING TO A TRANSFER OF SOVEREIGNTY' IT WOULD BE BETTER TO GO BACK TO A RECITAL OF THE WORDS IN ZHAO'S LETTER, OR SOMETHING LIKE 'ARRANGEMENTS AS WELL AS PROCESSES FOR TRANSFER OF SOVEREIGNTY'. I SAID THAT WOULD NOT DO.

4. IT WAS LEFT THAT I WOULD TRY TO CONTACT HIM WITH THE NEXT 48 HOURS, GIVING HIM A REACTION. ZHOU EMPHASISED THAT HE WAS SPEAKING PERSONALLY: SO DID I.

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COMMENT

5. THIS CALL AND THE WARNING OF AN EARLY SUMMONS BY YAO GUANG SUGGESTS THE CHINESE ARE IN A HURRY TO GET SUBSTANTIVE TALKS GOING. ONE FACTOR MIGHT BE THE STATE OF THE HONG KONG DOLLAR, BUT ANOTHER IS LIKELY TO BE THE NPC SESSION OPENING TODAY. THE CHINESE MAY WISH TO MAKE AN ANNOUNCEMENT OF TALKS IN THE COURSE OF THE NPC AND PUT IT ABOUT THAT BRITISH CONCESSIONS ON SOVEREIGNTY HAVE MADE THIS POSSIBLE. THIS UNDERLINES THE NEED FOR A FURNISHING TO THEM AS IN PARA 11 OF MY TUR AND FOR CARE OVER ANY PUBLIC ANNOUNCEMENT.

6. I SEE EVERY ADVANTAGE IN ARRANGING ANOTHER CHAT WITH ZHOU NAN BEFORE A FORMAL MEETING WITH YAO GUANG, AND SHOULD BE GRATEFUL FOR AUTHORITY BY 080100Z TO REPLY TO HIM, IF ONLY ON THE TELEPHONE. I HOPE THAT THE GOVERNOR WILL BE ABLE TO TOUCH BASE WITH EXCO, OR AT LEAST S Y CHEUNG ON TUESDAY.

7. ON SUBSTANCE, WE HAVE NOW GOT WITHIN STRIKING DISTANCE OF AN AGREED FORMULA. THE BACKSLIDING ON 'FACTORS/MATTERS' IS A PITY BUT I DO NOT THINK IT HAS ANY SUBSTANTIAL SIGNIFICANCE. 'MATTERS RELATING TO A TRANSFER OF SOVEREIGNTY' WOULD, AS I SEE IT, BE SAFE FOR OUR SIDE. LOGICALLY THERE IS LITTLE DIFFERENCE BETWEEN THIS AND 'FACTORS RELATING TO'. ONE REASON FOR THE CHINESE CAUTION OVER THIS COULD BE THAT THE CHINESE TERM FOR 'FACTORS' (YINSU) IS A STRONGER TERM THAN WITH US, CARRYING A GREATER FLAVOUR OF CONDITIONALITY. THE SUBSTITUTION OF THE INDEFINITE FOR THE DEFINITE ARTICLE IN THE FORMULA EXCITED NO INTEREST, AT LEAST AT THIS EARLY STAGE.

CRADOCK

FUTURE OF HONG KONG

LIMITED

ED/HEAD
ED/FED
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PS
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SIR A PARSONS
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26

Mr Coles o/r

DESKBY 030930Z

FROM PEKING 030650Z JUN 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 517 OF 3/6/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG.

1. AT THE ITALIAN NATIONAL DAY RECEPTION ON 2 JUNE, ASSISTANT FOREIGN MINISTER ZHOU NAN TOOK ME ASIDE AND ASKED WHEN WE WOULD BE READY TO DISCUSS THE AGENDA. I SAID THE LAST MEETING HAD ENDED WITH YAO GUANG SAYING THE CHINESE SIDE WOULD CONSIDER OUR IDEAS AND HE WOULD SUMMON ME WHEN THEY WERE READY. ZHOU SAID HE HOPED WE WERE ALSO CONSIDERING THE CHINESE PROPOSALS. WHY COULD WE NOT ACCEPT THE THREE POINTS IN ZHAO'S LETTER? IT WAS A VERY REASONABLE PROPOSAL. I EXPLAINED WE COULD NOT ACCEPT ONE SIDE'S LETTER AS THE BASIS FOR DISCUSSION. WHAT WAS NEEDED WAS SOMETHING LIKE A GENERAL REFERENCE TO THE SUBJECTS IN THE TWO PRIME MINISTERS' LETTERS.

2. ZHOU SAID THAT THE CHINESE WERE READY TO ACCEPT OUR ORDER OF DISCUSSION, IE ARRANGEMENTS AFTER 1997, PRE-1997, AND FINALLY, SOVEREIGNTY, BUT THERE MUST BE A MENTION OF THE THREE, IN PARTICULAR SOVEREIGNTY. I SAID I WAS AWAITING INSTRUCTIONS AND ANY COMMENTS I MADE WOULD HAVE TO BE ON A PURELY PERSONAL BASIS. BUT I SUGGESTED WE SHOULD AVOID TRYING TO PARTICULARISE TOO MUCH. IT WOULD SIMPLY BRING US TO FACE TOO EARLY REMAINING DIFFERENCES OF PRINCIPLE BETWEEN THE TWO SIDES. MOREOVER, IF WE TRIED TO LIST IN DETAIL THE AGENDA FOR A WHOLE SERIES OF TALKS, THERE WOULD BE A DANGER THAT WE WOULD DISCOVER LATER THAT WE HAD MISSED IMPORTANT POINTS OUT. WHY COULD WE NOT BE CONTENT WITH A GENERAL REFERENCE TO THE POINTS IN THE TWO LETTERS?

3. ZHOU INDICATED THIS WOULD NOT BE ENOUGH. HE SUGGESTED THAT AFTER A GENERAL REFERENCE TO THE SUBJECTS IN BOTH PRIME MINISTERS' LETTERS, WE SHOULD LIST THE THREE IMPORTANT TOPICS. I ASKED HIS REACTION ON A PERSONAL BASIS TO A FORMULA LIKE "THE SUBJECTS IN BOTH LETTERS, INCLUDING THE ARRANGEMENTS AFTER 1997, PRE-1997, AND THE ISSUE OF SOVEREIGNTY". HE SAID "THE ISSUE OF SOVEREIGNTY" WOULD NOT DO. THERE HAD TO BE A REFERENCE TO TRANSFER OF SOVEREIGNTY AS IN ZHAO'S LETTER. I EXPLAINED THAT MRS THATCHER HAD MADE IT PLAIN THAT SHE WAS PREPARED TO MAKE RECOMMENDATIONS TO PARLIAMENT ON THE SUBJECT IF THE OTHER ASPECTS PROVED SATISFACTORY. AS I HAD ALREADY EXPLAINED TO YAO GUANG, THE DIFFICULTY WITH THE FORMULATION IN ZHAO'S LETTER WAS THAT IT TOOK TRANSFER OF SOVEREIGNTY AS A FOREGONE CONCLUSION.

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4. ZHOU THEN ASKED "WHAT ABOUT THE FACTORS RELATING TO THE TRANSFER OF SOVEREIGNTY"? I SAID THAT WE HAD HAD A USEFUL TALK AND HE HAD NARROWED THE DIFFERENCES BETWEEN US BUT THERE WERE STILL PROBLEMS. HE URGED ME TO REFLECT AND TO TELEPHONE HIM AT ANY TIME.

5. I ASKED WHETHER OUR PROPOSALS ON THE COMPOSITION OF TEAMS PRESENTED DIFFICULTIES? HE SAID NO, THOUGH THE CHINESE LIKED THE WORD "DELEGATION". HE SAID THE GOVERNOR OF HONG KONG WOULD, PRESUMABLY, BE A MEMBER OF THE BRITISH DELEGATION. I SAID YES. I ASKED WHETHER YAO GUANG WOULD LEAD THE CHINESE SIDE. ZHOU SAID PERHAPS. I GOT THE IMPRESSION THAT THIS WAS PERHAPS MORE THAN NORMAL CHINESE CAUTION AND MIGHT INDICATE SOME GENUINE DOUBT.

6. ZHOU ALSO MADE A REFERENCE TO OUR PROPOSAL FOR DISCUSSION OF THE SYSTEMS IN A WAY WHICH SUGGESTED TO ME THAT THIS HAD NOT BEEN ENTIRELY UNDERSTOOD. I EXPLAINED AGAIN THAT I PUTTING THIS FORWARD WE WERE MERELY SUGGESTING THE OPENING TOPIC FOR THE FIRST SUBSTANTIVE MEETING. WE WERE NOT TRYING TO LIMIT SUBSEQUENT DISCUSSION. I ALSO MENTIONED, IN THE COURSE OF THE EXCHANGE, OUR FALLBACK IDEA OF OPENING STATEMENTS BY BOTH SIDES AS THE AGENDA FOR THE FIRST MEETING. ZHOU INDICATED THAT THIS WAS NOT VERY ATTRACTIVE TO THE CHINESE AND ASKED WHERE WOULD WE GO FROM THERE?

7. ZHOU ALSO SAID WE WOULD NEED TO THINK ABOUT THE FORM OF PUBLIC ANOUNCEMENT THAT OFFICIAL TALKS HAD BEGUN. I SAID THIS WAS THE LEAST OF OUR PROBLEMS. IF WE COULD SETTLE THE QUESTION OF THE AGENDA THEN THE REST WOULD BE RELATIVELY EASY. HE AGREED THE AGENDA WAS THE ONLY REAL PROBLEM.

COMMENT

8. ZHOU NAN IS A RELATIVELY RECENT ACQUISITION TO THE FOREIGN MINISTRY AS THE ASSISTANT MINISTER RESPONSIBLE FOR WESTERN EUROPE. HE WAS PREVIOUSLY 12 YEARS AT THE UN, MAINLY RESPONSIBLE FOR THE CHINESE DELEGATION'S CONTACTS WITH OTHER UN DELEGATIONS. HE IS EXPERIENCED, INTELLIGENT, SMOOTH AND WITH EXCELLENT ENGLISH. IT IS POSSIBLE TO DO BUSINESS WITH HIM RELATIVELY PAINLESSLY. SINCE HE WOULD NOT HAVE MADE THIS APPROACH WITHOUT INSTRUCTIONS, IT IS CLEAR THAT HE IS READY TO TAKE A LARGER PART IN THE DISCUSSIONS. GIVEN THE DEFICIENCIES OF YAO GUANG, THIS IS ONLY TO BE WELCOMED.

9. ZHOU'S INTERVENTION CONFIRMS THAT THE CHINESE WANT TO GET ON WITH THE TALKS, THOUGH OF COURSE ON AS FAVOURABLE TERMS AS POSSIBLE. THE SUGGESTION THAT THEY ARE PREPARED TO REVERSE

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THE ORDER OF THE 3 POINTS WOULD, IF CONFIRMED, BE AN IMPORTANT CONCESSION, AND WOULD AGREE WITH THE LOGICAL SEQUENCE IMPLICIT IN THE PRIME MINISTER'S LETTER. IN ADDITION IT APPEARS THAT THE CHINESE MAY BE READY TO DISCUSS VARIATIONS TO THE FORMULA IN ZHAO'S LETTER RELATING TO 'FORM OF TRANSFER OF SOVEREIGNTY', THOUGH IT IS VERY CLEAR THAT THEY WILL INSIST ON A REFERENCE TO 'TRANSFER'

10. I STRONGLY URGE THAT WE SHOULD NOT DISMISS THE IDEA OF ANY REFERENCE AT ALL TO 'TRANSFER OF SOVEREIGNTY' IN THE AGENDA. NOT ONLY IS IT CLEAR THAT THE CHINESE WILL INSIST ON IT, BUT IT IS ALSO A LOGICAL REQUIREMENT OF OUR OWN POSITION. THE PM HAS SAID THAT IF CERTAIN CONDITIONS ARE MET SHE WILL RECOMMEND TO PARLIAMENT A TRANSFER OF SOVEREIGNTY. IT FOLLOWS THAT UNLESS THE TALKS BREAK DOWN OR DEADLOCK (WHICH IS ALL TOO POSSIBLE) WE MUST AT A CERTAIN STAGE DISCUSS THE TRANSFER OF SOVEREIGNTY. TO REFUSE TO AGREE TO ITS BEING ON THE AGENDA WOULD THEREFORE IMPLY THAT WE WERE BACKING AWAY FROM THE PM'S ASSURANCE.

11. OF COURSE IF WE DO ACCEPT THE REFERENCE TO 'TRANSFER' WE SHALL NEED TO REAFFIRM ORALLY TO THE CHINESE THAT THE PM'S COMMITMENT IS CONTINGENT ON HER CONDITIONS BEING MET, AND INDEED THAT THERE WOULD BE NO POINT IN HER MAKING A PROPOSAL TO PARLIAMENT IF THEY WERE NOT MET. MOREOVER I THINK WE SHOULD TELL THE CHINESE THAT IF THERE WERE ANY PUBLIC CLAIM THAT THE UK HAD ALREADY AGREED TO TRANSFER SOVEREIGNTY WE SHOULD HAVE NO ALTERNATIVE BUT TO MAKE PUBLIC THE CONDITIONS IN THE PM'S LETTER. OTHERWISE THE EFFECT ON CONFIDENCE IN HONG KONG WOULD BE DISASTROUS.

12. THIS IS PARTICULARLY IMPORTANT IN VIEW OF THE APPARENT CHINESE DESIRE FOR AN ANNOUNCEMENT OF THE START OF OFFICIAL TALKS, WHICH WILL HAVE TO BE LOOKED AT VERY CAREFULLY. WE SHALL NOT WISH TO IMPLY THAT WE HAVE NOT HITHERTO BEEN TALKING, OR THAT WE ARE ONLY TALKING NOW BECAUSE WE HAVE CONCEDED SOVEREIGNTY. BUT WE NEED TO EXPLORE THE CHINESE POSITION ON THIS MORE FULLY.

13. I SHOULD LIKE TO TAKE UP ZHOU'S INVITATION TO CONTACT HIM ABOUT THIS, PROBABLY BY INVITING HIM TO LUNCH, IF POSSIBLE NEXT WEEK. I SHOULD LIKE AUTHORITY TO DISCUSS WITH HIM A POSSIBLE AGENDA ON THE FOLLOWING LINES:

- (1) ARRANGEMENTS FOR HONG KONG AFTER 1997
- (2) ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997
- (3) FACTORS RELATING TO A TRANSFER OF SOVEREIGNTY.

I WOULD ALSO MAKE THE CAVEATS MENTIONED IN MY PARA 11 ABOVE.

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14. THE EFFECT OF THIS WOULD BE THAT I WOULD BE DISCUSSING WITH ZHOU NAN THE FOLLOWING FORMULA TO TAKE THE PLACE OF THAT IN PARA 4 OF MY TEL NO 494 (A) OF 25 MAY.

BEGINS. IN ORDER TO MEET THE WISH OF THE CHINESE SIDE FOR A BROAD AGENDA COVERING THE WHOLE COURSE OF THE FORMAL TALKS, THE BRITISH SIDE PROPOSES THAT, DURING THE COURSE OF THE TALKS, MATTERS RELEVANT TO THE FUTURE OF HONG KONG SHOULD BE DISCUSSED, IN PARTICULAR THE SUBJECTS MENTIONED IN MRS THATCHER'S LETTER AND PREMIER ZHAO'S LETTER. THESE WOULD INCLUDE ARRANGEMENTS FOR HONG KONG AFTER 1997, ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997, AND FACTORS RELATING TO A TRANSFER OF SOVEREIGNTY. ENDS.

15. IN SUGGESTING THE WORDING OF PARA 13 (3) ABOVE, I CONSIDERED A PHRASE SUCH AS 'FACTORS GOVERNING A TRANSFER OF SOVEREIGNTY'. HOWEVER, THIS DOES NOT TRANSLATE WELL INTO CHINESE AND I AM NOT SURE THAT IT ADDS MUCH. THE SUBSTITUTION OF THE INDEFINITE ARTICLE IS THE MAIN POINT: IF NECESSARY, WE MIGHT CONSIDER DROPPING THE ARTICLE ALTOGETHER, BUT WE SHOULD TRY TO AVOID THE DEFINITE ARTICLE. SINCE THERE WOULD BE NO NEED FOR A CHANGE IN THE CHINESE TEXT, BECAUSE CHINESE DOES NOT HAVE ARTICLES, WE MIGHT GET AWAY WITH THIS.

16. IT SHOULD BE NOTED THAT SUCH AN OCCASION WOULD NOT BE PART OF THE FORMAL TALKS, AND THAT ANY PROPOSAL I FLOATED WITH ZHOU NAN WOULD NOT BE FORMALLY ON THE RECORD AT THIS STAGE.

CRADOCK

FUTURE OF HONG KONG

IMMEDIATE

HD/HKGD

HD/FED

HD/PLANNING STAFF

HD/FUSD

PS

PS/MR HURD

PS/LOED BELSTEAD

PS/FUS

SIR J BULLARD

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SIR A. PARSON

4
SECRET



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PRIME MINISTER

ms

HONG KONG

Percy Cradock yesterday delivered our reply to Zhao's letter. He had a two-hour talk with the Chinese Ministry of Foreign Affairs but nothing much transpired. The Chinese reiterated their wish to hold substantive talks as soon as possible but did not suggest a date. They will now reflect on our suggestions about the agenda and the form of talks and will then summon Percy Cradock again. It therefore looks less and less likely that the talks will open before 10 June.

A. J. C.

25 May 1983

25B

SECRET

GR 420

SECRET

A.J.C. ²⁶/₅
h-a.

FM HONG KONG 251004Z MAY 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 724 OF 25 MAY
INFO IMMEDIATE PEKING

PEKING TELNO 485 : FUTURE OF HONG KONG : CHINESE REPLY

1. I CONSIDER THE AMBASSADOR'S CONCERN MISPLACED. NO-ONE HAS SUGGESTED THAT EXCO SHOULD HAVE "CONTROL" OVER HIS INSTRUCTIONS - THAT RESTS AS ALWAYS WITH MINISTERS. EXCO HAS SHOWN NO TENDENCY TO "TINKER" WITH THE DRAFTING OF TEXTS. NEITHER MEMBERS OF EXCO NOR I WOULD ACCEPT THAT WE HAVE GONE BEYOND LORD BELSTEAD'S ASSURANCE (AN ASSURANCE INCIDENTALLY WHICH WE COULD NOT CONSTITUTIONALLY HAVE DECLINED TO GIVE).

2. THE DANGER WOULD ARISE NOT FROM MINISTERS PREFERRING THE ADVICE OF OTHERS TO THAT OF EXCO, IF A DIFFERENCE AROSE (PARA 4 OF PEKING TUR). THEY WOULD HAVE GOOD REASONS FOR DOING SO WHICH COULD BE EXPLAINED. THE REAL DANGER WOULD LIE IN THE SERIOUS AND POLITICALLY HIGHLY DAMAGING CRISIS OF CONFIDENCE WHICH WOULD OCCUR BETWEEN LONDON AND HONG KONG IF IT BECAME CLEAR (AS IT WOULD) THAT THE ADVICE OF EXCO WAS NOT BEING TAKEN (NEXT WORD UNDERLINED) BEFORE THINGS WERE SAID TO THE CHINESE. IT WOULD BE INTERPRETED AS A LACK OF TRUST, AND A DEROGATION FROM THE MINISTERIAL ASSURANCE. THIS IS PARTICULARLY THE CASE WHERE ANY DOCUMENT IS TO BE LEFT WITH THE CHINESE (AS THE SPEAKING NOTE WAS ON THIS OCCASION). WHERE THE EXACT WORDING OF A TEXT IS IMPORTANT, (I.E. BECAUSE A POINT OF SUBSTANCE IS INVOLVED) THERE WOULD BE A RISK OF CONFUSION OR WORSE IF IT HAD TO BE PARAPHRASED OR SUMMARISED FOR EXCO.

3. I FIND PARA 3 OF PEKING'S TUR OVER-SIMPLIFIED. PRECISE WORDING IS IMPORTANT ONLY WHERE ISSUES OF SUBSTANCE LIE BEHIND THAT WORDING SEMI-COLON AND THE CHINESE CERTAINLY SAW THE PM'S LETTER AS MORE THAN AN "ADJUSTMENT OF LANGUAGE".

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/ 4. IF I MIGHT

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4. IF I MIGHT MAKE A GENERAL POINT: THE GOVERNOR-IN-COUNCIL IS THE GOVERNMENT OF HONG KONG. THE COUNCIL IS COMPRISED OF OFFICIALS AND UNOFFICIALS WHO HAVE WIDE EXPERIENCE AND WHO HAVE ACCEPTED RESPONSIBILITY FOR THE GOOD GOVERNMENT AND WELFARE OF THIS TERRITORY. WE SHOULD BE WELL ADVISED TO TREAT THEM AS SUCH AND, AS I BELIEVE MINISTERS DO, TO VALUE THEIR ADVICE AND NOT TO SEEK TO IMPOSE LIMITATIONS ON WHAT ADVICE SHOULD BE SOUGHT FROM THEM. THEY ARE INTER ALIA THE ONLY DIRECT SOURCE OF (NEXT WORD UNDERLINED) CHINESE ADVICE WE HAVE. THEY ARE AS MUCH A PART OF THE TEAM AS ANYONE ELSE: AND HAVE A GREAT DEAL DIRECTLY AT STAKE IN THIS NEGOTIATION.

5. WE HAVE REACHED A POINT WHERE THERE IS FULL CONFIDENCE IN EXCO THAT THEY KNOW WHAT IS GOING ON AND THEIR ADVICE IS BEING TAKEN (EVEN IF NOT ALWAYS ACCEPTED), AS LORD BELSTEAD ASSURED THEM IT WOULD BE. TO SEEK NOW TO EXCLUDE THINGS WHICH ARE GOING TO BE PUT TO THE CHINESE FROM THE MATTERS PUT BEFORE THEM, WOULD BE A RETROGRESSIVE AND POLITICALLY DANGEROUS STEP.

YOUDE

FUTURE OF HONG KONG

LIMITED

ED/HKGD
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ED/FUSD
PS
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PS/LORD BELSTEAD
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GR 610
SECRET
DESKBY 251100Z
FM PEKING 250935Z MAY 83
TO IMMEDIATE FCO
TELNO 494A OF 25 MAY
RPTD INFO IMMEDIATE HONG KONG.

SECRET

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071

A.J.C. 26/5
f.a.

MIPT: FUTURE OF HONG KONG

1. DISCUSSION WITH YAO IS ALWAYS REMINISCENT OF A WET DAY ON THE WESTERN FRONT, BUT ON THIS OCCASION THE MUD WAS DEEPER THAN USUAL. HE SEEMED IN A STATE OF MENTAL AND PHYSICAL TORPOR. HE MAY HAVE BEEN ILL OR UNDER MEDICATION. HE WAS ALSO OBVIOUSLY WORRIED ABOUT BEING IN SOME WAY OUTSMARTED AND CONSEQUENTLY RELUCTANT TO BECOME INVOLVED IN ASCONSTRUCTIVE EXCHANGE. HE IS CONFIDENT ONLY WHEN HIS JOB IS TO TRANSMIT MESSAGES OR EXECUTE PRECISE INSTRUCTIONS. ON THIS OCCASION HE CLEARLY HAD NO AUTHORITY TO AGREE ANYTHING.
2. DESPITE THIS, YAO PROTESTED THAT THE CHINESE WANTED TO BEGIN SUBSTANTIVE TALKS SOON AND THAT THEIR ATTITUDE WAS BOTH FLEXIBLE AND POSITIVE. I AM PREPARED TO BELIEVE THE FIRST PART OF THIS, AND I DO NOT THINK THERE HAS BEEN ANY CHANGE OF HEART SINCE ZHAO'S LETTER. THE FAULT LIES PARTLY IN THE NATURE OF THE MAN I AM DEALING WITH, AND PARTLY IN THE NATURE OF COMPLICATED BUREAUCRACY HANDLING THIS PROBLEM ON THE CHINESE SIDE. THE SIMPLEST WORK CANNOT BE CONDUCTED WITHOUT LONG DELAYS.
3. THE QUESTION OF THE COMPOSITION OF TEAMS AND TIMING SHOULD BE RELATIVELY SIMPLE, THOUGH THERE MAY BE RESERVATIONS ABOUT HONG KONG CHINESE PARTICIPATING. IT IS ON THE AGENDA THAT THE REAL DIFFICULTIES HAVE ARISEN. YAO CLEARLY WANTED MY AGREEMENT THAT TALKS COULD BE CONDUCTED PURELY ON THE BASIS OF ZHAO'S LETTER, USING HIS THREE-POINT AGENDA. OBVIOUSLY WE CANNOT ACCEPT THAT. BUT IT IS ALSO OBVIOUS THAT WE SHALL NOT MAKE PROGRESS IF WE DO NOT TAKE ACCOUNT OF ZHAO'S THREE POINTS. YAO OFFERED SOME FLEXIBILITY ON WHICH PART OF THE FULL AGENDA CAME FIRST AND WHICH SECOND. BUT WHAT I THINK HE WAS LOOKING FOR WAS AT LEAST A BOW IN THE DIRECTION OF ZHAO'S LETTER AND AN ASSURANCE THAT SOVEREIGNTY WOULD NOT BE EVADED. I THEREFORE TOLD YAO THAT WE WERE READY IN THE FULL COURSE OF THE TALKS TO COVER ZHAO'S THREE POINTS AS WELL AS THE POINTS RAISED IN MRS THATCHER'S LETTER. ALTHOUGH THIS DID NOT GET ME ANYWHERE WITH YAO YESTERDAY (FOR THE REASONS IN MY PARA 1), I BELIEVE THAT SOMETHING ALONG THESE LINES MAY BE SUFFICIENT TO MEET THE CHINESE NEED FOR A BROADBRUSH AGENDA, BASED ON ZHAO'S LETTER.

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/ 4. IT WOULD

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4. IT WOULD HELP ME NEXT TIME WITH YAO IF I WERE ABLE TO READ A REVISED AGENDA PROPOSAL, IN THE FORM OF WRITTEN INSTRUCTIONS TO ME AND TO LEAVE ANOTHER SPEAKING NOTE WITH HIM. HE MIGHT THEREBY BE LESS WARY OF A PEBATING RUSE ON MY PART, AND HE WOULD HAVE SOMETHING MORE 'AUTHORITATIVE' TO TRANSMIT TO HIS SUPERIORS. I SUGGEST THE FOLLOWING TEXT: BEGLNS. IN ORDER TO MEET THE WISH OF THE CHINESE SIDE FOR A BROAD AGENDA COVERING THE WHOLE XOURSE OF THE FORMAL TALKS, THE BRITISH SIDE PROPOSES THAT, DURING THE COURSE OF THE TALKS, MATTERS RELEVANT TO THE FUTURE OF HONG KONG SHOULD BE DISCUSSES, IN PARTICULAR THE THREE SUBJECTS MENTIONED IN PREMIOR ZHAO'S LETTER AND THE POINTS RAISED IN MRS THATCHER'S LETTER, SO AS TO ENABLE REMAINING DIFFERENCES ON POINTS OF PRINCIPLE TO BE RESOLVED IN A MANNER SATISFACTORY TO BOTH SIDES. ENDS.

5. I HAVE DELIBERATELY OMITTED ANY REFERENCE TO THE PRECISE AGENDA FOR THE FIRST ROUND. THIS, I THINK, WOULD BE BETTER LEFT FOR A PERSONAL COMMENT BY ME. I WOULD SUGGEST THAT THE FIRST ROUND SHOULD CONSIST OF OPENING STATEMENTS BY BOTH SIDES.

CRADOCK

FUTURE OF HONG KONG

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DESK BY 251008Z

FM PEKING 250820Z MAY 83

TO IMMEDIATE FCO

TELNO 494 OF 25 MAY

RPTD INFO IMMEDIATE HONG KONG.

A.J.C. $\frac{26}{5}$
f.a.

MY TELNO 489: FUTURE OF HONG KONG

1. THE FOLLOWING IS A MORE COMPLETE REPORT OF MY MEETING WITH YAO GUANG ON 24 MAY. EVEN SO, SINCE THE MEETING WAS HIGHLY REPETITIOUS IT IS ONLY A DISTILLATION.
2. I SPOKE ACCORDING TO THE TEXT OF YOUR TELNO 308 AND HANDED YAO A COPY OF MY SPEAKING NOTE. YAO THANKED ME AND ASKED FOR MY VIEWS ON MODALITIES.

COMPOSITION OF DELEGATIONS

3. I SAID THAT, AS I HAD SAID LAST OCTOBER TO ZHANG WENJIN, WE PROPOSED THAT THE TALKS SHOULD BE CONDUCTED IN PEKING, INITIALLY AT LEAST, BY SMALL TEAMS, THE BRITISH SIDE LED BY MYSELF. THE GOVERNOR AND THE POLITICAL ADVISER SHOULD ATTEND THE FIRST SUBSTANTIVE MEETING, AND I SHOULD ALSO LIKE TO HAVE GALSORTHY, EHRMAN AND PEIRCE FROM THE EMBASSY. THEREAFTER THE BRITISH TEAM WOULD BE CHOSEN ACCORDING TO THE REQUIREMENTS OF THE NEGOTIATION, NORMALLY INCLUDING PARTICIPATION FROM HONG KONG. WE WISHED TO BE FLEXIBLE.
4. YAO ASKED WHETHER THE FIVE PERSONS MENTIONED ABOVE WOULD BE FULL MEMBERS OF THE UK TEAM OR 'SPECIALISTS'. I TOLD HIM WE MADE NO SUCH DISTINCTION. THEY WOULD BE FULL MEMBERS. WITH REFERENCE TO MY REMARK ON FUTURE PARTICIPATION FROM HONG KONG, YAO ASKED WHAT WOULD BE THE STATUS OF THE HONG KONG PARTICIPANTS. WOULD THEY BE MEMBERS OF THE UK TEAM? I SAID THEY WOULD. YAO SAID HE HAD RAISED THE QUESTION BECAUSE THESE TALKS WERE BILATERAL BETWEEN CHINA AND BRITAIN.
5. YAO SAID HE THOUGHT THERE WAS NO GREAT DIFFICULTY ABOUT THIS QUESTION. THE CHINESE SIDE WOULD CONSIDER OUR PROPOSALS. SINCE THEY WERE THE HOSTS AND WE THE GUESTS, THEY WISHED TO MAKE ARRANGEMENTS TO SUIT OUR CONVENIENCE. HE SAID THAT AFTER HEARING THE BRITISH OPINION THE CHINESE SIDE WOULD STUDY IT AND FORM ITS TEAM ACCORDINGLY. WHEN I ASKED IF I WAS THEREFORE TO TAKE IT THAT HE AGREED WITH MY PROPOSALS HE COULD ONLY SAY THAT THE CHINESE SIDE WOULD TAKE THEM INTO ACCOUNT WHEN FORMING THEIR OWN TEAM. THE QUESTION COULD BE DISCUSSED FURTHER AT OUR NEXT MEETING.

SECRET

/AGENDA

6. I PROPOSED THAT AT THE FIRST SUBSTANTIVE MEETING BOTH SIDES SHOULD PRESENT THEIR VIEWS ON THE PRESENT SYSTEMS IN HONG KONG IN ORDER TO PREPARE THE WAY FOR MORE DETAILED DISCUSSIONS. I ASKED FOR YAO'S COMMENTS ON THIS SUGGESTION.

7. AT THIS STAGE YAO BECAME HOPELESSLY CONFUSED, I WAS REQUIRED TO REPEAT PARA 6 ABOVE, AND THE INTERPRETER BECAME INCREASINGLY FRUSTRATED AS SHE TRIED TO EXPLAIN TO YAO WHAT HAD BEEN SAID. EVENTUALLY HE REPLIED THAT THE CHINESE VIEW WAS THAT THE SUBSTANTIVE TALKS SHOULD FOLLOW AN AGENDA TO BE AGREED BEFORE THEY BEGAN. THEY THEREFORE WANTED AN AGENDA FOR THE WHOLE SERIES OF TALKS. YAO QUOTED THE THREE-POINT AGENDA PROPOSED IN ZHAO'S LETTER TO THE PRIME MINISTER IE. (A) THE FORM OF TRANSFERENCE OF SOVEREIGNTY: (B) COOPERATION BEFORE 1997: (C) COOPERATION AFTER 1997.

8. I TOLD YAO THAT I NOTED WHAT HE HAD SAID AND THAT EVERYTHING IN ZHAO'S LETTER HAD RECEIVED AND WOULD RECEIVE THE CLOSEST ATTENTION. BUT CONSIDERATION OF QUESTIONS RELATING TO THE TRANSFER OF SOVEREIGNTY WOULD HAVE TO FOLLOW DISCUSSION OF ARRANGEMENTS WHICH WOULD GUARANTEE THE FUTURE PROSPERITY AND STABILITY OF THE TERRITORY. IT WAS SIMPLY A QUESTION OF FOLLOWING THE LOGICAL SEQUENCE, AS SET OUT IN MY PRIME MINISTER'S LETTER, THAT IF CERTAIN CONDITIONS WERE MET, SHE WOULD BE PREPARED TO RECOMMEND THE TRANSFER OF SOVEREIGNTY. IN OUR TALKS WE NEEDED TO EXAMINE WHETHER THOSE CONDITIONS WOULD BE MET. MY PROPOSAL WENT AGAINST NEITHER THE MEANING NOR THE SPIRIT OF ZHAO'S LETTER. INDEED IT FOLLOWED BOTH LETTERS VERY CLOSELY.

9. YAO SAID THAT THE QUESTION OF WHAT TO DISCUSS FIRST, AND WHAT TO TAKE NEXT AND SO ON, COULD BE DISCUSSED. HE LAUNCHED INTO A REHEARSAL OF CHINA'S BASIC POSITION ON HONG KONG, QUOTING FROM THE PRIME MINISTER'S MEETINGS HERE IN SEPTEMBER. THE THREE-POINT AGENDA IN ZHAO'S LETTER WAS BASED ON THAT POSITION. THE FORM OF SOVEREIGNTY WAS THE FIRST POINT. HE THEN SAID THAT TIME WAS RUNNING ON AND WE SHOULD MEET AGAIN TO DISCUSS MODALITIES. SUDDENLY PULLING A WRITTEN BRIEF FROM HIS POCKET, HE READ AN EXCERPT SAYING THAT CHINA COULD NOT ACCEPT BRITAIN'S LINKAGE OF THE TRANSFER OF SOVEREIGNTY WITH CERTAIN PRECONDITIONS. NOT COULD IT ACCEPT SOME OF THE 'WORDING' OF THOSE PRECONDITIONS. IT WAS UNREASONABLE. YAO THEN ADDED THAT CHINA WANTED TO BEGIN SUBSTANTIVE TALKS IN ONE OR TWO WEEKS TIME, AND SAID HE WAS OPTIMISTIC.

10. I SAID THAT WE ALSO WANTED TO BEGIN QUICKLY. FOR THAT REASON I HAD HOPED WE MIGHT AGREE THE MODALITIES AT THIS MEETING. BUT THE MINISTER APPEARED UNABLE OR UNAUTHORISED TO RESPOND TO MY POINTS OR TO MAKE PROPOSALS OF HIS OWN. HE HAD NOT EVEN HARD MY PROPOSAL ON TIMING AND YET HE WAS ALREADY PROPOSING WE SHOULD END THE MEETING AND CONTINUE OUR DISCUSSIONS AT A LATER DATE.

11. I REFERRED TO ZHAO'S THREE-POINT AGENDA AND SAID THAT WE HAD NO INTENTION OF EVADING THE ISSUE OF SOVEREIGNTY. BUT WE HAD TO DEAL WITH ONE THING AT A TIME. WE COULD NOT DO EVERYTHING IN ONE MEETING. I ENVISAGED A WHOLE SERIES OF SUBSTANTIVE MEETINGS WITH AMPLE TIME FOR BOTH SIDES TO EXCHANGE VIEWS ON ALL ASPECTS OF THE QUESTION.
12. YAO SAID THAT I HAD NOT ANSWERED HIS POINT ABOUT ZHAO'S AGENDA, NOR GIVEN THE BRITISH REACTION TO IT. I RETORTED THAT I HAD DONE SO AND HAD GIVEN HIM A GOOD DEAL OF EXPLANATION BESIDES. I RESISTED ANOTHER ATTEMPT BY YAO TO END THE MEETING AND SAID THAT I HAD HOPED TO MAKE REAL PROGRESS ON MODALITIES NOW. I STRESSED AGAIN THAT YAO WAS INACCURATE IN SAYING THAT WE WERE EVADING ZHAO'S AGENDA. WE WERE READY TO DEAL WITH ALL THREE POINTS IN TALKS. BUT WE HAD TO BEGIN SOMEWHERE. WE WISHED TO BE FLEXIBLE. WE WOULD OF COURSE COVER ALL ASPECTS OF THE PROBLEM BUT IT WAS HARDLY POSSIBLE TO DECIDE NOW WHAT WE SHOULD BE DISCUSSING IN EACH SUCCEEDING ROUND.
13. YAO SAID THAT THE BROAD LINES OF AN OVERALL AGENDA SHOULD BE AGREED. CHINA COULD BE FLEXIBLE ABOUT THE ORDER OF DISCUSSION. BUT THE QUESTIONS TO BE DISCUSSED SHOULD BE IDENTIFIED BEFOREHAND.
14. I REPLIED THAT IN THAT CASE I SAW NO DIFFERENCE BETWEEN US. AS I HAD ALREADY SAID, WE SHOULD DISCUSS ALL THE QUESTIONS MENTIONED IN THE CORRESPONDENCE BETWEEN OUR PRIME MINISTERS. BOTH SIDES APPEARED TO BE FLEXIBLE ABOUT THE ORDER IN WHICH THESE COULD BE TAKEN. YAO INTERJECTED THAT WE HAD TO BE CLEAR WHAT SHOULD BE TAKEN FIRST, AND WHAT SECOND ETC. I POINTED OUT THAT THIS WAS A DIRECT CONTRADICTION OF WHAT HE HAD SAID BEFORE.
15. YAO SAID THE CHINESE POSITION IN A NUTSHELL WAS THAT THERE SHOULD BE AN AGENDA AND THAT IT SHOULD BE ZHAO'S THREE-POINT AGENDA. I THEN OFFERED OUR FALL-BACK FORMULA, THAT THE FIRST MEETING SHOULD CONSIST SIMPLY OF STATEMENTS BY BOTH SIDES. YAO HAD GREAT DIFFICULTY UNDERSTANDING THIS. HE ASKED WHETHER THEY WERE TO BE PRESS STATEMENTS (EXCLAMATION MARK). I CAREFULLY EXPLAINED THE PROPOSAL, BUT YAO SIMPLY REITERATED THAT THERE MUST BE AN AGENDA AND THAT CHINA FAVOURED THE ONE IN ZHAO'S LETTER. ONCE AGAIN I SAID THAT ALL THOSE TOPICS WOULD BE COVERED IN THE TALKS.
16. YAO ASKED WHETHER WE THEREFORE AGREED THAT THE TALKS SHOULD FOLLOW ZHAO'S FORMULA. I REPLIED AGAIN THAT WE WERE READY TO DISCUSS ALL THE QUESTIONS MENTIONED IN THE TWO PRIME MINISTERS' LETTERS. I COULD NOT SEE WHY THIS NOT SATISFY THE MINISTER. I SUGGESTED THAT, IF IT WOULD HELP, WE MIGHT PERHAPS AGREE ON A FORM OF WORDS TO THIS EFFECT. BUT IT WOULD HAVE TO TAKE (NEXT WORD UNDERLINED) BOTH PRIME MINISTERS' LETTERS AS ITS BASIS, NOT JUST ONE.

SECRET

17. YAO ASKED FOR MY IDEAS. I TOLD HIM I HAD ALREADY PUT FORWARD SEVERAL FORMULAE AND HAD DONE MY BEST TO MEET HIS DIFFICULTIES SO AS TO EXPEDITE THE START OF SUBSTANTIVE TALKS.

18. YAO SAID HE UNDERSTOOD THAT THE BRITISH SIDE DID NOT WANT TO EVADE THE IMPORTANT QUESTIONS RAISED DURING THE TALKS SO FAR, AND IN THE PRIME MINISTERS' LETTERS. THE CHINESE SIDE WOULD CONSIDER OUR PROPOSALS AND HOPED WE WOULD CONSIDER THE THREE-POINT AGENDA IN ZHAO'S LETTER.

TIMING

19. I SAID WE WOULD LIKE TO BEGIN SOON, SAY EARLY JUNE, BUT ASKED YAO TO PROPOSE SPECIFIC DATES. HE WANTED TO LEAVE THIS UNTIL THE OTHER QUESTIONS WERE SETTLED, BUT PROFESSED TO BE HOPEFUL OF AN EARLY START.

CONFIDENTIALITY

20. I STRESSED THE NEED FOR CONFIDENTIALITY, AS INSTRUCTED IN YOUR TELNO 307, AND REFERRED TO SEVERAL RECENT ARTICLES IN THE HONG KONG PRESS. YAO SAID THAT THE CHINESE SIDE DID NOT REVEAL THE CONTENT OF THE TALKS AND COULD NOT BE HELD RESPONSIBLE FOR THE HONG KONG PAPERS. THE STORIES IN QUESTION WERE NOT THE CONSEQUENCE OF LEAKS FROM THE CHINESE SIDE. YAO ADDED THAT THE CHINESE HAD NOTED THE STATEMENT MADE BY THE HONG KONG GOVERNMENT SPOKESMAN.

21. THE MEETING ENDED AFTER TWO HOURS, AND IT WAS LEFT THAT YAO WOULD SUMMON ME FOR A FOLLOW-UP MEETING AT HIS CONVENIENCE. SEE MIHFT FOR COMMENT.

CRADOCK

REPEATED AS REQUESTED

FUTURE OF HONG KONG

LIMITED

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ED/FUSD
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PS/MR HURD
PS/LORD BELSTEAD
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4

SECRET

GR 370

S E C R E T

SECRET

DESKBY FCO 241230Z

DESKBY HONG KONG 250015Z

FM PEKING 241120Z MAY 83

TO IMMEDIATE FCO

TELNO 489 OF 24 MAY

INFO IMMEDIATE HONG ONG.

f.a.
A.J.C. 25/5

FUTURE OF HONG KONG

1. I CALLED ON VICE FOREIGN MINISTER YAO GUANG THIS AFTERNOON TO DELIVER OUR REPLY TO PREMIER ZHAO'S LETTER OF 28 APRIL. I SPOKE AS INSTRUCTED IN YOUR TELNO 616 AND LEFT A COPY OF MY SPEAKING NOTE. YAO GUANG EXPRESSED HIS THANKS.

2. I THEN RAISED THE QUESTION OF MODALITIES AND FOUND MYSELF INVOLVED IN A SESSION WHICH WAS LONG, OBSCURE AND UNFRUITFUL EVEN BY THE HIGH STANDARD SET IN PREVIOUS MEETINGS WITH YAO GUANG. HE WAS CLEARLY WITHOUT AUTHORITY TO DECIDE ON ANY POINT AND COULD ONLY NOTE AND REPORT. HE OFTEN SEEMED NOT TO UNDERSTAND FULLY WHAT WAS BEING SAID AND REQUIRED CONSTANT REPETITION.

3. HE SAID THAT THE QUESTION OF THE COMPOSITION OF DELEGATIONS WAS UNLIKELY TO CAUSE GREAT DIFFICULTY. BUT HE SUCKED HIS TEETH FOR A LONG TIME OVER OUR REFERENCE TO PARTICIPATION FROM HONG KONG. HE WANTED TO CLEAR WHETHER THE HONG KONG CONTINGENT WOULD BE MEMBERS OF THE UK TEAM OR JUST 'SPECIALISTS'. HE EMPHASISED THAT CHINA SAW THE TALKS AS BILATERAL BETWEEN CHINA AND BRITAIN.

4. THE QUESTION OF TIMING WAS LEFT VERY VAGUE, YAO SIMPLY REITERATING THE CHINESE WISH TO HOLD SUBSTANTIVE TALKS AS SOON AS POSSIBLE.

5. THE REAL DIFFICULTIES OCCURRED OVER THE AGENDA. THOUGH YAO WAS PARTICULARLY OBSCURE, IT WAS PLAIN THAT HE WAS TERRIFIED OF ACCEPTING ANY AGENDA WHICH WAS NOT THE THREE POINTS IN ZHAO'S LETTER OF 28 APRIL, IE METHOD OF TRANSFER OF SOVEREIGNTY, COOPERATION BETWEEN NOW AND 1997, AND AFTER 1997. HE ALSO PROPOSED THAT WE SHOULD TRY TO DRAW UP A BROAD BRUSH AGENDA COVERING ALL FUTURE SUBSTANTIVE TALKS. HE CONSIDERED OUR FIRST PROPOSAL, NAMELY, BOTH SIDES PRESENTING THEIR VIEWS ON THE PRESENT SYSTEMS, INADEQUATE AS AN ANSWER TO THE POINTS IN ZHAO'S LETTER. HE DID NOT REACT WELL TO, AND PERHAPS DID NOT UNDERSTAND, OUR FALL-BACK PROPOSAL THAT THE FIRST ROUND SHOULD CONSIST OF STATEMENTS BY BOTH SIDES.

S E C R E T

/6. IT

S E C R E T

6. IT WAS LEFT THAT THE CHINESE SIDE WOULD REFLECT ON OUR PROPOSALS AND ZHAO WOULD SUMMON ME FOR A FURTHER MEETING.

7. I RAISED THE QUESTION OF CONFIDENTIALITY AS INSTRUCTED AND RECEIVED THE STANDARD RESPONSE, THAT THE CHINESE SIDE PAID GREAT ATTENTION TO CONFIDENTIALITY AND THAT THEY COULD TAKE NO RESPONSIBILITY FOR WHAT APPEARED IN THE HONG KONG PRESS.

8. THE ABOVE IS A VERY SUMMARY REPORT OF A 2 HOUR MEETING. I SHALL BE TELEGRAPHING IN GREATER DETAIL TOMORROW.

CRADOCK

FUTURE OF HONG KONG

LIMITED

HD/HKGD

HD/FED

HD/PLANNING STAFF

HD/FUSD

PS

PS/MR HURD

PS/LORD BELSTEAD

PS/FUS

SIR J BULLARD

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SIR I SINCLAIR LEGAL ADVISER

MR BURROWS LEGAL ADVISERS

MR ROBERTS NEWS D

MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

MR FLOWER FUSD

MR COLES NO 10 DOWNING ST.

SIR A PARSONS NO 10 DOWNING ST

2

S E C R E T



Foreign and Commonwealth Office

London SW1A 2AH

20 May 1983

I have agreed with the F.C.O. that no action should be taken on this letter until the prospect of substantive talks is firm and the F.C.O. contact me again. A.S.C. 25/5 p-a.

Dear John,

Talks on the Future of Hong Kong

My letter of 13 May and your reply of 17 May dealt with Premier Zhao's response to the Prime Minister's letter. As you will have seen, EXCO unanimously supported the proposed reply.

In your letter of 17 May you said that the Prime Minister would like to consider the timing of the substantive talks in the light of the Chinese reaction to Sir P Cradock's call on Vice Minister Yao. If Yao suggests an early substantive meeting, the Ambassador will simply undertake to report this. Given that we wish, without rushing, to keep up the momentum, Mr Pym's view is nevertheless that we should be ready to agree to an early meeting, even one before the election, since we do not wish to give the Chinese the impression that elections here are a relevant factor.

In practice, the Chinese are likely to take some time to evaluate our reply, but since events could move quickly, it makes sense to do some planning ahead for the substantive talks now. We have been discussing our strategy with the Governor and Sir P Cradock. Assuming that the Chinese agree to talks, we believe that the first substantive meeting should from our side take the form of a presentation by the Governor setting out how Hong Kong works now. I enclose a text on which the Governor would draw. This illustrates the value of the present systems there and the key importance of the UK link. The aim is to try to draw the Chinese into discussions on practical matters. In doing so, we should seek to avoid confrontation on matters of principle, particularly sovereignty, although if necessary the Ambassador would make our position, as set out in the Prime Minister's letter of 10 March, clear. We would then attempt to seek Chinese views on how the continuity of the various systems in Hong Kong could best be guaranteed in the future. In this way we would hope to lead the Chinese towards subsequent detailed discussion of practical matters, such as currency, trade and the legal system.

/Obviously

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Obviously, this will not be easy. We may come up against the sovereignty point at any time. But it is essential to begin the educative process soon. It is difficult to predict how the Chinese will react, and there is little point in trying to look much beyond the first meeting. It would nevertheless be very helpful to have the Prime Minister's views on timing and the proposed initial approach. If the Prime Minister is generally content, we propose to ask the Governor to discuss it with EXCO in general terms, showing them the text of the proposed presentation. He could do this, on a contingency basis in advance of the Chinese reply, on 25 May at one of his regular meetings.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

S E C R E T

SECRET

ANNEX B

SECRET

FM HONG KONG 052620Z MAY 83

TO PRIORITY FCO

TELEGRAM NUMBER 624 OF 5 MAY 1983

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MPT: FUTURE OF HONG KONG: STRATEGY FOR SUBSTANTIVE TALKS.

1. FOLLOWING IS TEXT OF OUR REVISED DRAFT PRESENTATION.

INTRODUCTION

IN THREE DECADES HONG KONG HAS DEVELOPED FROM AN ENTREPOT AND COMMERCIAL CENTRE, TO A MAJOR LIGHT MANUFACTURING CENTRE (DOMESTIC EXPORTS ACCOUNTING FOR 65 PER CENT OF TOTAL EXPORTS), AND THEN TO A DIVERSIFIED ECONOMY WITH AN INTERNATIONAL DIMENSION (THE FINANCIAL AND ALLIED SERVICES SECTOR ACCOUNTING FOR ABOUT A QUARTER OF THE GDP, I.E. AS MUCH AS THE MANUFACTURING SECTOR). THE HONG KONG ECONOMY HAS BECOME INCREASINGLY EXTERNALLY ORIENTED: AND WITH THE GROWTH OF THE MONEY AND FOREIGN EXCHANGE MARKETS IT HAS BECOME EVEN MORE SENSITIVE THAN HITHERTO TO INTERNATIONAL AS WELL AS DOMESTIC INFLUENCES.

INHERENT ADVANTAGES

2. UNDERLYING THIS DEVELOPMENT HAVE BEEN CERTAIN ADVANTAGES -

(A) HONG KONG'S GEOGRAPHICAL POSITION:

(B) THE BIGGEST (AND ONLY DEEPWATER) PORT IN SOUTH CHINA, WITH SHIPPING, CARGO AND CONTAINER HANDLING SERVICES TO MATCH, COMPLEMENTED BY AN INTERNATIONAL AIRPORT WITH MAJOR AIRCRAFT ENGINEERING FACILITIES AND A DEVELOPED INTERNATIONAL TELECOMMUNICATIONS NETWORK:

(C) THE PROXIMITY OF DEPENDABLE SOURCES OF BASIC FOODSTUFFS, RAW MATERIALS AND CONSUMER GOODS FOR LOCAL CONSUMPTION, AND THE AVAILABILITY OF A SUPPLEMENTARY WATER SUPPLY FROM CHINA AND A RELIABLE SUPPLY OF SEMI-FINISHED INPUTS FROM JAPAN:

(D) A FLEXIBLE, MOBILE, WELL TRAINED, HIGHLY MOTIVATED AND HIGHLY PRODUCTIVE LABOUR FORCE:

(E) RESOURCEFUL ENTREPRENEURS, WHO AMORTISE THEIR CAPITAL INVESTMENTS OVER THE ECONOMIC LIFE OF THE ASSETS CONCERNED, WHO SEEK TO UTILISE CAPITAL INVESTED AS EFFICIENTLY AS POSSIBLE, AND WHO HAVE THE COURAGE TO ADOPT NEW PROCESSES AND EQUIPMENT:

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(F)

1. A LARGE AND SKILLED PROFESSIONAL AND MANAGERIAL CLASS, A HIGH LEVEL OF EDUCATION AND LINGUISTIC ABILITY. MANY MEMBERS OF THIS CLASS HAVE BEEN EDUCATED ABROAD AND HAVE MAINTAINED THEIR LINKS WITH THE COUNTRIES IN WHICH THEY WERE TRAINED:

(G) EXCELLENT WORLD-WIDE MARKETING ARRANGEMENTS ON WHICH HONG KONG'S EXPORT-ORIENTED MANUFACTURING SECTOR DEPENDS.

FAVOURABLE FACTORS

3. THE NATURAL AND HUMAN ADVANTAGES WHICH THE TERRITORY ENJOYS ARE NOT SUFFICIENT IN THEMSELVES TO ACCOUNT FOR ITS DEVELOPMENT, WHICH COULD NOT HAVE BEEN ACHIEVED WITHOUT:-

(A) A COOPERATIVE RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA, BASED ON MUTUAL BENEFIT:

(B) MOST-FAVOURLED-NATION (MFN) RIGHTS OF ACCESS TO MAJOR FOREIGN MARKETS AND RESTRAINT AGREEMENTS NEGOTIATED UNDER THE MULTI-FIBRE ARRANGEMENT (MFA):

(C) A FISCAL AND SOCIAL ENVIRONMENT ENCOURAGING ENTERPRISE, HUMAN ENDEAVOUR, AND THE SPREAD OF PROSPERITY:

(D) FREEDOM OF MOVEMENT, FREEDOM OF EXPRESSION, FREE CHOICE OF CAREER AND OCCUPATION, AND A FAMILIAR LIFE STYLE:

(E) INTERNAL POLITICAL STABILITY:

(F) CONTINUITY OF POLICY, IMPLEMENTED BY AN IMPARTIAL CIVIL SERVICE.

4. BUT THE MAINTENANCE OF (C), (D), (E) AND (F) ABOVE REQUIRES -

(I) CONSISTENT AND PREDICTABLE ADMINISTRATION:

(II) A KNOWN AND WELL DEVELOPED SYSTEM OF LAW WHOSE PRACTICE IS INTERNATIONALLY ACCEPTED AND UNDERSTOOD, BACKED UP BY

(III) THE IMPARTIAL ADMINISTRATION OF THE LAW THROUGH AN INDEPENDENT JUDICIARY:

(IV) BUDGETARY POLICIES AND A TAX REGIME WHICH ENCOURAGE BUSINESS ENTERPRISE AND FOSTER DOMESTIC AND INTERNATIONAL INVESTMENT:

(V) A CAREFULLY MANAGED MONETARY SYSTEM AND A CURRENCY WHICH IS FULLY BACKED WITH FOREIGN EXCHANGE ASSETS, FREELY CONVERTIBLE AND INTERNATIONALLY ACCEPTED AND TRADED:

(VI) AN EDUCATION SYSTEM GEARED TO PROVIDING THE MANAGERIAL, PROFESSIONAL AND TECHNICAL SKILLS REQUIRED AT ALL LEVELS.

SECRET 2

THE

THE BASIS OF CONFIDENCE

HONG KONG COULD RETAIN ITS NATURAL GEOGRAPHICAL ADVANTAGES WHATEVER ITS CONSTITUTIONAL STATUS OR FORM OF GOVERNMENT. BUT HONG KONG COULD NOT PRESERVE ITS PRESENT LEVEL OF PROSPERITY AND STABILITY IF THERE WERE A WITHDRAWAL OF INVESTMENT AND SKILLS, A LOSS OF HONG KONG'S RIGHTS OF ACCESS TO OVERSEAS MARKETS OR DOUBTS ABOUT THE CONVERTIBILITY AND VALUE OF THE HONG KONG DOLLAR OR THE CONTINUITY OF THE LEGAL SYSTEM.

6. THE HUMAN AND CAPITAL RESOURCES WHICH ARE ESSENTIAL TO HONG KONG'S SUCCESS ARE HIGHLY MOBILE. HONG KONG PLACES NO RESTRICTIONS UPON THE MOVEMENT OF CAPITAL. DOMESTIC AND INTERNATIONAL INVESTORS COULD AND WOULD SEEK TO LIQUIDATE THEIR ASSETS AND TRANSFER THE PROCEEDS AND CAPITAL EQUIPMENT OVERSEAS IF THERE WAS SERIOUS DOUBT ABOUT THE MAINTENANCE OF THE PRESENT BUSINESS ENVIRONMENT. PROFESSIONALLY QUALIFIED PEOPLE, WHETHER OF OVERSEAS OR HONG KONG ORIGIN POSSESS SKILLS WHICH ARE EASILY MARKETABLE ELSEWHERE. MANY OF THEM WILL REMAIN IN HONG KONG ONLY SO LONG AS THEY SEE NO THREAT TO THE PRESENT SOCIAL, LEGAL AND BUSINESS ENVIRONMENT, AND HENCE TO THE OPPORTUNITIES AVAILABLE TO THEM AND THE LIFESTYLE WHICH THEY NOW ENJOY.

7. BOTH DOMESTIC AND INTERNATIONAL INVESTORS AND THOSE WHOSE SKILLS ARE ESSENTIAL TO HONG KONG THEREFORE REQUIRE SOME GUARANTEE THAT THERE WILL BE NO FUNDAMENTAL CHANGE IN THE SYSTEMS IN FORCE OR IN THE POLICIES PURSUED. OTHERWISE, THERE WILL BE NO CONFIDENCE AND THEY WILL LEAVE.

8. IT HAS BEEN SUGGESTED THAT SUFFICIENT GUARANTEE WILL BE PROVIDED BY APPROPRIATE PROVISIONS IN THE CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA. THE DIFFICULTY FOR HONG KONG PEOPLE IS THAT IT IS NOT EASY TO SEE HOW A LIBERAL, CAPITALIST SYSTEM CAN SUCCESSFULLY EXIST WITHIN A COUNTRY OPERATING A SOCIALIST SYSTEM. THEY WOULD NEED TO SEE A LONG PERIOD OF STABILITY AND SUSTAINED ECONOMIC PROGRESS IN CHINA BEFORE THEY MIGHT OVERCOME THE GRAVE RESERVATIONS WHICH THEY HAVE TODAY ABOUT A FUTURE UNDER THE ULTIMATE AUTHORITY OF A SOCIALIST ADMINISTRATION. THESE DOUBTS ARE REINFORCED BY RECENT CHINESE HISTORY, AND IN PARTICULAR THE MEMORIES OF SOME HONG KONG INDUSTRIALISTS OF EVENTS IN SHANGHAI, AND THE EXPERIENCE OF THE CULTURAL REVOLUTION.

9. SO IF HONG KONG IS TO RETAIN INVESTMENTS AND THE SKILLED PROFESSIONALS ESSENTIAL TO ITS ECONOMY, SOME MEANS MUST BE FOUND TO SHOW THAT THE TERRITORY WILL CONTINUE TO BE INSULATED FROM THE EFFECTS OF POLITICAL CHANGES ELSEWHERE. AT PRESENT THIS INSULATION IS PROVIDED BY THE LINK WITH THE UK WHERE SIMILAR SYSTEMS AND POLICIES ARE IN FORCE, AND BY LONG EXPERIENCE OF RESPECT FOR HONG KONG'S INTERNAL AUTONOMY. OTHER FORMS OF INSULATION HAVE BEEN SUGGESTED, FOR EXAMPLE INDEPENDENCE OR UN TRUSTEESHIP, BUT IT IS CLEAR THAT THESE WOULD NOT BE ACCEPTABLE TO CHINA. THE OBVIOUS SOLUTION IS THEREFORE TO MAINTAIN THE EXISTING MEANS OF INSULATION WHICH HAS PROVED EFFECTIVE AND IS KNOWN AND ACCEPTED BY THE PEOPLE OF HONG KONG.

... THUS THE LINK WITH THE UK ACTS AS A GUARANTEE AGAINST FUNDAMENTAL CHANGE, AND AS A MEANS OF PRESERVING CONFIDENCE. IT IS ALSO THE SOURCE OF COMMERCIAL AND OTHER RIGHTS, ESSENTIAL TO HONG KONG'S ECONOMY WHICH WOULD BE LOST IF THE LINK WERE BROKEN. THIS CAN BE ILLUSTRATED BY A NUMBER OF EXAMPLES -

(A) CURRENCY AND CONVERTIBILITY

AN INDEPENDENT AND CONVERTIBLE HONG KONG DOLLAR IS ESSENTIAL TO THE MAINTENANCE OF THE EXTERNALLY ORIENTED ECONOMY OF HONG KONG. THE OWNERSHIP AND CONTROL OF HONG KONG'S FOREIGN EXCHANGE ASSETS LIES IN HONG KONG NOT IN THE UK. BUT THE INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR ARE TAKEN FOR GRANTED, PARTLY BECAUSE IT IS MANAGED BY A GOVERNMENT IN HONG KONG DEDICATED TO FREE MARKET PRINCIPLES AND TO THE FREEDOM OF FINANCIAL FLOWS WITHIN THE INTERNATIONAL SYSTEM; AND PARTLY BECAUSE THE FINAL AUTHORITY IN THESE (AND ALL OTHER) MATTERS IN HONG KONG LIES WITH THE UK WHICH IS ITSELF FULLY INTEGRATED INTO THE INTERNATIONAL OPEN TRADING AND FINANCIAL SYSTEMS. THERE WOULD BE NO CONFIDENCE IN THE CONTINUED INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR IF THE ULTIMATE AUTHORITY RESTED WITH A GOVERNMENT DEDICATED TO A FULLY MANAGED ECONOMY AND WITH NO EXPERIENCE OF A CONVERTIBLE CURRENCY:

(B) INTERNATIONAL TRADE

HONG KONG DERIVES ITS OPEN ACCESS TO ITS MAIN MARKETS, IN PARTICULAR THE UNITED STATES AND EUROPE, FROM THE UK'S MEMBERSHIP OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE ULTIMATE GUARANTEE TO OTHER GATT MEMBERS THAT GATT RULES WILL APPLY IN HONG KONG IS THE ACCEPTANCE OF THESE RULES BY THE UK. THIS GUARANTEE WOULD BE REMOVED IF RESPONSIBILITY FOR HONG KONG LAY WITH CHINA, WHICH OPERATES A STATE MANAGED ECONOMY (AND WHICH IS NOT A MEMBER OF THE GATT). AGREEMENTS WITH HONG KONG'S MAIN TRADING PARTNERS WHICH ARE CLOSELY LINKED TO THE GATT AND WHICH APPLY TO A LARGE PROPORTION OF HONG KONG'S EXPORTS WOULD HAVE TO BE RENEGOTIATED IF THE LINK WITH THE UK WERE SEVERED. IT IS DIFFICULT TO SEE HOW HONG KONG'S TRADING PARTNERS WOULD AGREE TO HONG KONG RETAINING QUOTAS SEPARATE FROM AND ADDITIONAL TO THOSE OF CHINA IF THIS LINK WERE BROKEN:

(C) THE LEGAL SYSTEM

THE LAWS OF HONG KONG ARE BASED ON BRITISH COMMON AND STATUTE LAW, AND THE PROGRESSIVE INTERPRETATION OF THAT LAW BY COURTS IN THE UK IS ONE OF THE MAIN BASES ON WHICH THE LAW IN HONG KONG IS ADMINISTERED. THIS IS A SITUATION WELL UNDERSTOOD AND RELIED UPON BY THE INTERNATIONAL COMMUNITY TRADING IN AND INVESTING IN HONG KONG. THE JUDICIARY IS INDEPENDENT OF THE EXECUTIVE. THE GUARANTEE OF THE CONTINUED OPERATION OF THIS LEGAL SYSTEM IS THE LINK WITH THE UK WHERE THE SEPARATION OF THE JUDICIARY AND THE EXECUTIVE ARE THE SAME

SYSTEM OF LAW HAVE BEEN IN FORCE FOR MANY CENTURIES. THE POLICE OFFICERS ARE TRAINED TO OPERATE WITHIN THE FRAMEWORK OF THE BRITISH LEGAL SYSTEM. THE CONFIDENCE WHICH THIS GIVES THAT THE BRITISH CONCEPT OF LAW WILL PREVAIL WOULD NOT BE MAINTAINED IF THE LINK WAS WITH CHINA WHICH HAS A COMPLETELY DIFFERENT CONCEPT AND SYSTEM OF LAW, AND ONE WHICH, IN MANY AREAS IMPORTANT FOR HONG KONG, IS STILL BEING DEVELOPED:

(D) THE JURISDICTIONAL LINK

SINCE IN THE CASE OF HONG KONG THE GUARANTEE CANNOT BE FOUNDED ON THE POLICIES OF AN INDEPENDENT GOVERNMENT (AS IN THE CASE OF SINGAPORE) IT MUST BE PROVIDED IN ANOTHER WAY. THE ULTIMATE GUARANTEE THAT THE POLITICAL, ECONOMIC AND SOCIAL SYSTEMS IN HONG KONG WILL NOT DIVERGE FROM THEIR PRESENT FORM IN ANY SUBSTANTIAL WAY HAS BEEN THAT FINAL AUTHORITY LIES, THROUGH THE GOVERNOR, WITH HER MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM WHERE SIMILAR SYSTEMS EXIST.

CONCLUSION

11. THE FOREGOING REPRESENTS ONLY A VERY BRIEF AND GENERAL PICTURE OF THE WAY IN WHICH THE LINK BETWEEN HONG KONG AND THE UK PRESENTLY OPERATES. THIS LINK, AND THE BRITISH ROLE IN THE ADMINISTRATION OF THE TERRITORY, AT PRESENT PROVIDE A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. WE PROPOSE IN SUBSEQUENT MEETINGS TO ENLARGE ON THESE ASPECTS OF THE ADMINISTRATIVE STATUS QUO IN HONG KONG, AND IN PARTICULAR ON THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE FABRIC OF AGREEMENT ON WHICH HONG KONG'S ROLE AS A FINANCIAL AND COMMERCIAL CENTRE DEPENDS. OUR OBJECTIVE WILL BE TO ILLUSTRATE OUR VIEW OF HOW THE AGREED COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG CAN BE ACHIEVED.

YOUDE

FUTURE OF HONG KONG

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PS/FUS

SIR J BULLARD

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SIR I SINCLAIR LEGAL ADVISER

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Mr Coles, No 10 Downing St.

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FM HONG KONG 200352Z MAY 83
TO PRIORITY F C O
TELEGRAM NUMBER 710 OF 20 MAY
INFO PRIORITY HONG KONG GOVERNMENT OFFICE LONDON, PEKING, HONG
KONG GOVERNMENT REPRESENTATIVES BRUSSELS, GENEVA, WASHINGTON
AND NEW YORK.

FUTURE OF HONG KONG : PRESS COVERAGE

THE WEN WEI PO (COMMUNIST) ON 18 MAY CARRIED AN INTERVIEW WITH
THE NEW CHINESE AMBASSADOR TO BRITAIN, MR. CHEN ZHAO YUAN. AFTER
A BRIEF OUTLINE OF HIS CAREER, CHEN DESCRIBED SINO/BRITISH
RELATIONS AS "GOOD ON THE WHOLE". "AS LONG AS BOTH SIDES
CONTINUE TO MAKE CONCERTED EFFORTS, THERE WILL BE EVEN BETTER
PRSPCTS FOR THE DEVELOPMENT OF SINO/BRITISH RELATIONS". HE
REFERRED TO THE AWARD OF THE FIRST SOUTH CHINA SEA OFFSHORE OIL
CONTRACT TO THE BP LED CONSORTIUM AS AN EXAMPLE OF THE IMPORTANCE
WHICH CHINA ATTACHED TO ITS TIES WITH BRITAIN.

2. ON HONG KONG'S FUTURE, CHEN WAS REPORTED TO HAVE SAID THAT
CHINA HAD MADE IT CLEAR THAT IT WOULD REGAIN SOVEREIGNTY OVER
HONG KONG AND MAINTAIN THE TERRITORY'S STABILITY AND PROSPERITY.
THE TWO SIDES WERE CURRENTLY CONTINUING THEIR CONTACTS ON THIS
SUBJECT AND A SOLUTION COULD BE FOUND THROUGH NEGOTIATION.

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FUTURE OF HONG KONG

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PS/FUS

SIR J BULLARD

MR GIFFARD

MR DONALD

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MR MARTIN ASSESSMENTS STAFF
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SIR A PARSONS

HONG KONG GOVT OFFICE

LONDON

RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

BF

20 May 1983

This will be brought to the P.N.'s attention if there is final evidence that the Chinese intend to announce their "plan" in June.

A.S.C. 23/5

S.U. 4/6

Dear Idan,

Future of Hong Kong: Contingency Planning for an Announcement by the Chinese of their proposals for Hong Kong

Thank you for your letter of 6 April. The ideas in the paper enclosed with my letter of 5 April were subsequently discussed with the Ambassador in Peking and with the Governor and EXCO in Hong Kong. They met with general approval. The situation has of course moved on a little since then, notably with Premier Zhao's reply to the Prime Minister. I now enclose a note setting out our latest views.

BF overtaken by events 8/6/83

*Yours ever
John Holmes*

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

Future of Hong Kong: Contingency Planning for an Announcement
by the Chinese of their Proposals for Hong Kong

Since early April there have been a number of indications that the Chinese may be reconsidering the idea of an announcement in June or intending to postpone it. Some reports have suggested that action would not be taken until September. One of the more authoritative reports was in the account given by Mr Hal Miller MP of his conversation in mid-April with Liao Changzhi, Politburo member in charge of Hong Kong and Macau questions. He gave a firm assurance that there would be no 'unilateral declaration' by China.

This adjustment of Chinese thinking seems to have coincided with the period in which the Prime Minister's letter of 10 March to Premier Zhao was under study in Peking. A number of reports mentioned that the letter had been well received. If the Chinese indeed thought that there was a new chance to break the log-jam and get substantive talks going, it would be logical for them to play down an announcement of their own plan.

However, we have now seen that Zhao's reply to the Prime Minister aims to steer the talks towards discussion of a transference of sovereignty and we can expect the Chinese to repeat this point at intervals. Moreover they have already, as reported by the Governor by telegram, leaked a highly distorted version of plans for substantive talks intended to suggest that HMG have conceded their position on sovereignty. We cannot therefore rule out another kind of Chinese announcement designed to suggest to Hong Kong that we have already given way. This might well take the form of a statement or answers to journalists' questions by the Chinese Ministry of Foreign Affairs when a visit by the Governor to Peking was announced or took place.

/At the



At the same time we should still be ready for a statement on Hong Kong during the National People's Congress which opens in Peking on 6 June, which would probably be designed to put over a similar line.

We must be prepared to meet tactics of this sort firmly while avoiding jeopardising the talks. Depending on the type and level of the Chinese statement we should need to issue a statement of our own. The terms would vary, but some or all of the following points should be included:

'The British position on the question of sovereignty over Hong Kong has been made clear. Authority for any transfer of sovereignty is not in the gift of the British Government: it is for Parliament to decide.

'We have explained to the Chinese that before any proposals could be put to Parliament, it would be necessary to reach agreement on arrangements for the future which would be acceptable, not only to Parliament and the Chinese Government, but also to the people of Hong Kong.

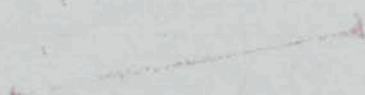
'In our talks with the Chinese Government, the common objective of which is the maintenance of the stability and prosperity of Hong Kong, we intend to work towards such an agreement, which meets the concerns of all the parties involved.

'Any suggestion that HMG have made an advance commitment on any aspect of future arrangements, including the question of sovereignty, is incorrect.'

HONG KONG : Future of
Pt 6.



Ms. 98765



SECRET

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10 DOWNING STREET

From the Private Secretary

17 May 1983

Future of Hong Kong: Letter from Chinese Premier

Thank you for your letter of 13 May.

The Prime Minister agrees that Sir Percy Cradock should respond to Zhao Ziyang's letter in the terms suggested in the speaking note enclosed with your letter and that the text of this should be left with the Chinese. She also agrees that we should take EXCO fully into our confidence and show them the text (while making it clear if necessary that the final decision on the text will be taken in London).

The Prime Minister has made no comment on the timing of the commencement of substantive talks. I should like an opportunity to bring this point to her attention again in the light of the Chinese response to Sir Percy Cradock's demarche.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office,

SECRET

PRIME MINISTER

Hong Kong

May I just be sure that you agree (see attached letter) that Sir Percy Cradock should be instructed to speak to the Chinese about Zhao Ziyang's reply on the lines of the paper at Flag J and also that we should show this to EXCO before it goes to the Chinese?

If so, the Governor will show it to EXCO on Wednesday.

A.S.C.

16 May 1983

RESTRICTED

Hong Kong

RESTRICTED

FM HONG KONG 140439Z MAY 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 690 OF 14 MAY
INFO IMMEDIATE PEKING

MY TELNO 681 : FUTURE OF HONG KONG : PRESS REPORTS

THE LATEST EDITION OF 'WIDE ANGLE' PUBLISHED TODAY CARRIES A LONG ARTICLE HEADLINED 'SINO/BRITISH TALKS ABOUT TO TAKE A DRAMATIC TURN'. THE STORY INCLUDES THE POINTS IN MY TUR.

2. TODAY'S ECONOMIC JOURNAL ALSO CARRIES THE STORY, ATTRIBUTING IT TO 'A PRO-CHINA PUBLICATION IN HONG KONG' THROUGH WHICH 'THE CHINESE GOVERNMENT HAS SPREAD THE NEWS THAT NEGOTIATIONS OVER HONG KONG'S FUTURE WILL SOON BEGIN'. THE ARTICLE SAYS THAT SINO/BRITISH TALKS WILL BEGIN LATER THIS MONTH IN PEKING AND WILL BE HELD IN ACCORDANCE WITH CHINA'S 'FORMULA' WHICH MEANS THAT TALKS WILL BE DIVIDED INTO TWO STAGES AND WILL BE BASED ON THE PREMISE THAT BRITAIN RECOGNISES CHINA'S SOVEREIGNTY OVER HONG KONG. IN THE FIRST STAGE THE TALKS WILL FOCUS ON HOW TO MAINTAIN HONG KONG'S PROSPERITY AND STABILITY BETWEEN NOW AND 1997 AND ON OTHER QUESTIONS RELATING TO THE REVERSION OF SOVEREIGNTY AND RULE OVER HONG KONG. IN THE SECOND STAGE THERE WILL BE DISCUSSION OF SINO/BRITISH CO-OPERATION AFTER 1997. HOWEVER, BRITAIN WOULD BASICALLY HAVE NO SAY ON HOW HONG KONG SHOULD BE RULED AFTER 1997. SINO/BRITISH CO-OPERATION WOULD CONCERN ONLY SUCH MATTERS AS ARRANGING FOR THE HONG KONG BANK AND CHARTERED BANK TO CONTINUE TO ISSUE HONG KONG CURRENCY.

3. THE ARTICLE ALSO QUOTED FULLY THE POINTS MADE BY THE GOVERNMENT SPOKESMAN YESTERDAY EVENING (MY TELNO 683), DESCRIBED AS A 'DENIAL'. IT THEN REFERRED TO REPORTS THAT THE 'FOREIGN OFFICE' WROTE TO THE CHINESE PRIME MINISTER 'A FEW MONTHS AGO' TO REITERATE THAT THE TALKS MUST TAKE PLACE WITHOUT PRECONDITIONS AND COULD NOT PROCEED ON THE BASIS OF CHINA'S STAND THAT BRITAIN MUST FIRST RECOGNISE CHINA'S SOVEREIGNTY OVER HONG KONG. BUT THE FCO LETTER HAD RAISED NO OBJECTION TO CHINA PURSUING IT'S SOVEREIGNTY CLAIM IN THE TALKS, AND HAD SAID THAT THE ISSUE OF SOVEREIGNTY WOULD BE INCLUDED IN THE AGENDA. CHINA HAD SUBSEQUENTLY SAID THAT THIS COULD BE ARRANGED AND THE DEADLOCK HAD THUS BEEN BROKEN. CONCLUDING, THE ARTICLE SAID THAT PREPARATORY MEETINGS MIGHT BE HELD BEFORE THE NATIONAL PEOPLES' CONGRESS AND THE U.K. GENERAL ELECTION BUT THE ACTUAL TALKS WOULD HAVE TO WAIT UNTIL AFTER THE ELECTION. IT SAID THAT BRITAIN'S POSITION ON THE FUTURE ADMINISTRATION OF HONG KONG HAD CONSISTENTLY BEEN THAT ANY AGREEMENT REACHED SHOULD BE AGREED AND ACCEPTED BY HONG KONG PEOPLE.

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4. THE MING PAO TODAY CARRIES AN EDITORIAL WHICH BY IMPLICATION CRITICISES ITS SISTER EVENING PAPER FOR PRINTING A STORY BASED ONLY ON THE IDEAS OF THE CHINESE AUTHORITIES (PARA 1 OF MY TUR). THE EDITORIAL REFERS TO THE HARMFUL EFFECT OF RUMOURS AND MISLEADING REMARKS SPREAD WITH AN ULTERIOR MOTIVE. REFERRING TO THE FACT THAT WHILE PEKING OFFICIALS HAD PUT FORWARD PROPOSALS FOR HONG KONG'S FUTURE BRITAIN HAD NOT REAVELED IT'S INTENTIONS, THE PAPER SAID THAT THOSE WHO WROTE ARTICLES TO SPREAD INCORRECT IDEAS BASED ON THE THINKING OF ONLY ONE PARTY (IN THE TALKS), AND CLAIMED AUTHORITATIVE SOURCES FOR THEM WERE SIMPLY UNDERMINING HONG KONG'S STABILITY AND PROSPERITY.

5. NO OTHER PAPERS HAVE SO FAR REPRODUCED THE WIDE ANGLE STORY OR COMMENTED ON IT BUT THE GOVERNMENT STATEMENT WAS GIVEN MODERATE COVERAGE BY TEN INDEPENDENT AND PRO-KMT NEWSPAPERS.

YOUDE

FUTURE OF HONG KONG

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HD/FED
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HD/PUSD
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PS/MR HURD
PS/LORD BELSTRAID
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

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MR COLES NO 10 DOWNING ST. }
SIR A PARSONS }
2

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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

1) Agree to reply at

Flag J :

Yes mt

2) Agree that we should
show it to EXCO before
delivery to Chinese?

13 May 1983

Yes mt

A.J.C. $\frac{13}{5}$

Dear John,

Future of Hong Kong: Letter from Chinese Premier

You will have seen Sir P Cradock's telegrams from Peking reporting the Chinese Premier's reply to the Prime Minister's letter of 10 March and his discussion with Vice Foreign Minister Yao Guang, and making comments and recommendations (I enclose copies). Sir E Youde has since given EXCO the gist of the Chinese reply and sent his own comments (also enclosed),

Zhao's response represents a step forward. The Chinese have reacted well to the Prime Minister's letter and seem keen to get substantive talks going. However, he has distorted the assurance in the Prime Minister's letter about sovereignty by suggesting that she would be ready to recommend a transfer 'at a certain stage'. And the Chinese insistence that the agenda centres on 'the form of transference of sovereignty' is also not acceptable. It is important that our response should leave the Chinese in no doubt that our position on sovereignty has not changed since we cannot exclude the possibility that the Chinese might publish the exchange at some stage, with consequent effect on confidence in Hong Kong. At the same time it is in our interests to avoid a further confrontational exchange with the Chinese which might delay or even prevent altogether the talks we have been seeking. Sir P Cradock of course repeated our position clearly to Yao Guang. I enclose a draft response in the form of a Speaking Note for Sir P Cradock, the text of which he would leave with the Chinese. This attempts to steer between these two dangers. The tactics of this have been fully discussed with both Sir P Cradock and Sir E Youde.

/The degree



The degree of consultation with EXCO presents a difficult problem. There is obviously a risk that if we show the text of the response to them, they will wish to strengthen it in ways which would provoke the Chinese. It is of course important not to allow EXCO a veto. However, Mr Pym believes that, having shown them the Prime Minister's letter and the Chinese response, and in the light of the assurances we have given them, we must take EXCO fully into our confidence and show them the text. In doing so the Governor should make it clear that while he will transmit any comments they may have, the final decision will of course be taken in London.

If the Prime Minister is content, the next stage would be to get substantive talks going. As far as the composition of our delegation is concerned, we should tell the Chinese that this would be flexible. The purpose would be to allow for the possible later participation of representatives of Hong Kong, including EXCO Unofficials, if this should become desirable or necessary. The immediate aim would be to start substantive talks with a session attended by the Governor in which a presentation would be given on Hong Kong in order to underline the importance of the British link. On timing, Mr Pym considers that it is important to keep up the momentum and that, while not appearing over-anxious, we should not give the impression that we are delaying because of the election. If the Chinese respond quickly, we shall of course need to seek clearance during the campaign for the line which our presentation to the Chinese should take.

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

*This is a speaking note for Sir
P. Coadoch, but the text will
be left with the Chinese. A.S.C. 17.
8*
MT

DRAFT RESPONSE TO CHINESE LETTER ON FUTURE OF HONG KONG

The Prime Minister has studied with great care the letter from HE the Prime Minister Zhao Ziyang. She welcomes the positive spirit of that letter which she shares. She agrees that substantive talks on the future of Hong Kong should begin in the next few weeks. The British approach to these talks remains as set out in the Prime Minister's letter of 10 March.

The Governments of the United Kingdom and the People's Republic of China have a common interest in working towards the aim agreed during Mrs Thatcher's visit in September 1982. The Prime Minister shares Premier Zhao's hope that through the efforts of both sides such differences as there are may be gradually narrowed. She is confident that in this way the conditions can be met to enable the interests of all parties to be satisfied.

I am instructed to put forward proposals on timing, composition of delegations and other modalities to make possible an early start to substantive discussions. We hope that discussions on modalities will not occupy the two sides for long and that we shall be able to agree to hold an early meeting.

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SECRET
DESKBY FCO 131630Z
DESKBY PEKING 140100Z
FM HONG KONG 131400Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 683 OF 13 MAY
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

MIPT

HONG KONG PRESS REPORT

1. THE FOLLOWING ARE THE MAIN POINTS MADE BY THE HONG KONG GOVERNMENT SPOKESMAN THIS EVENING:-

QUOTE COMMENTING ON A REPORT PUBLISHED IN A LOCAL EVENING PAPER TODAY, THE GOVERNMENT SPOKESMAN SAID THAT DISCUSSIONS IN PEKING ARE CONTINUING BUT THEIR CONTENT REMAINS CONFIDENTIAL. THERE ARE NO CURRENT PLANS AT THE MOMENT FOR THE GOVERNOR TO VISIT PEKING. AS ALREADY STATED HE WILL GO WHEN THE TALKS REACH THE APPROPRIATE STAGE. CONTINUING THE SPOKESMAN SAID THAT THE NEWSPAPER REPORT WAS NOT AN ACCURATE REPRESENTATION OF THE STATE OF THE TALKS, OR OF THE BRITISH POSITION. THE SPOKESMAN ADDED THAT AS LORD BELSTEAD HAS SAID LAST DECEMBER PEOPLE SHOULD NOT BE MISLED BY WHAT THEY HEAR OUTSIDE THE TALKS. THE ONLY AUTHENTIC INFORMATION IS THAT WHICH EMERGES OFFICIALLY FROM THE TALKS UNQUOTE.

YOUDE

FUTURE OF HONG KONG

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- HD/FED
- HD/PLANNING STAFF
- HD/PUSD
- PS
- PS/MR HURD
- PS/LORD BELSTEAD
- PS/PUS
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- MR GIFFARD
- MR DONALD

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- MR BURROWS LEGAL ADVISERS
- MR ROBERTS NEWS D
- MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE
- MR FLOWER PUSD
- MR COLES NO 10 DOWNING ST.
- SIR A. PARSONS NO 10 DOWNING ST

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MM

GR 100

SECRET
DESKBY FCO 131630Z

DESKBY PEKING 140100Z
FM HONG KONG 131357Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 682 OF 13 MAY
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

FUTURE OF HONG KONG

1. THESE REPORTS ARE CLEARLY BASED ON ZHAO ZHIYANG'S REPLY TO THE PM'S LETTER. OUR NORMAL REACTION WOULD BE TO REFUSE TO COMMENT ON THE STATE OF THE TALKS ON THE GROUNDS OF THEIR CONFIDENTIALITY. BUT IF THESE REPORTS WERE ALLOWED TO GAIN CURRENCY HERE THEY WOULD BE SEVERELY DAMAGING TO CONFIDENCE IN HONG KONG. I HAVE THEREFORE AUTHORISED THE GOVERNMENT SPOKESMAN TO ISSUE A STATEMENT WHICH MAKES CLEAR THEY THEY DO NOT ACCURATELY REFLECT EITHER THE STATE OF THE TALKS OR THE BRITISH POSITION. MAIN POINTS ARE IN MY I.F.T.

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FUTURE OF HONG KONG

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- PS
- PS/MR HURD
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- PS/PUS
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- SIR A PARSONS

}

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DESKBY FCO 131630Z
DESKBY PEKING 140100Z
FM HONG KONG 131355Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 681 OF 13 MAY
INFO IMMEDIATE PEKING

MY TELEPHONE CONVERSATION WITH CLIFT

FUTURE OF HONG KONG

1. A HONG KONG JOURNALIST HAS TOLD US THAT THE FOLLOWING STORY IS BEING SPREAD AMONG THE PRESS HERE AND A SUBSTANTIAL SUMMARY OF IT HAS ALREADY APPEARED IN THE MING BAO EVENING PRESS THIS EVENING. IT IS EXPECTED TO GET WIDE COVERAGE IN TOMORROWS PAPERS.

I) THE TALKS ARE TO BEGIN IN PEKING ON FRIDAY NEXT:

II) AGREEMENT TO BEGIN HAS BEEN REACHED ON THE BASIS OF QUOTE THE CHINESE FORMULA UNQUOTE:

III) THAT IS TO SAY, THE UK WILL RECOGNISE CHINESE SOVEREIGNTY OVER THE WHOLE OF HONG KONG, ALBEIT IN A SUBTLE WAY:

IV) THE AGENDA FOR THE TALKS WILL BE:

(A) ARRANGEMENTS FOR THE TRANSFER OF POWER DURING THE NEXT 14 YEARS AND WHAT THE UK GOVERNMENT AND THE HONG KONG GOVERNMENT SHOULD DO IN THIS PERIOD:

(B) WHAT CO-OPERATION THERE SHOULD BE BETWEEN THE UK GOVERNMENT AND THE CHINESE GOVERNMENT AFTER 1997:

V) THE GOVERNOR IS AWAITING INSTRUCTIONS FROM LONDON AS TO WHETHER HE SHOULD ATTEND THE TALKS, AS A MEMBER OF THE BRITISH DELEGATION.

2. ACCORDING TO OUR INFORMANT THE STORY ORIGINATED WITH THE LEFT WING MAGAZINE QUOTE WIDE ANGLE UNQUOTE WHO SPREAD IT TO A NUMBER OF LOCAL NEWSPAPERS. THE PRESS THIS EVENING QUOTES 'SOURCES CLOSE TO PEKING' AND A QUOTE HIGH LEVEL FOREIGN OFFICE OFFICIAL UNQUOTE.
YOUDE

FUTURE OF HONG KONG

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SIR A PARSONS NO 10 DOWNING ST

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A.J.C. $\frac{16}{5}$

h.a.

With the compliments of

J E HOLMES

FOREIGN AND COMMONWEALTH OFFICE
LONDON, SW1A 2AH

18

cc. Mr Coles (No 10)

S E C R E T

Mr Giffard

- cc: PS
- PS/Lord Belstead
- PS/PUS
- Mr Donald o r
- Mr Roberts, News Dept
- Mr Elliott, FED
- Mr Morris, HKGD
- Mr Burrows, Legal Advisers
- Mr Walker, Research Dept

FUTURE OF HONG KONG : HONG KONG NEWS REPORT

1. The Governor of Hong Kong telephoned to say that a number of Hong Kong evening papers were carrying a story with the following points:

- (a) Talks would begin in Peking next Friday (20 May).
- (b) Agreement had been reached on the basis of the Chinese formula, ie the UK would recognise Chinese sovereignty over the whole of Hong Kong.
- (c) The agenda for the talks would be arrangements for the transfer of power within the next 14 years and what action the UK and Hong Kong Governments should take to assist this. The agenda would also cover cooperation between the UK and Chinese Governments after 1997.
- (d) The Governor was awaiting instructions from London on whether he should attend as a member of the British delegation.
- (e) A senior official in the FCO had stated that because the British side was no longer insisting on sovereignty the two sides could proceed to the necessary arrangements for the transfer.

S E C R E T

S E C R E T

- 2 -

2. The Governor pointed out that these reports would have a serious effect on confidence. He proposed instructing the Hong Kong Government spokesman to take the following line:

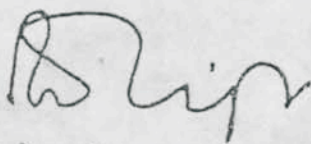
- (i) There were no plans at the moment for the Governor to visit Peking. He would, as already stated, go when the talks reached the appropriate stage.
- (ii) The newspaper reports were not an accurate representation of the state of the talks or of the British position.
- (iii) People should not be misled by what they heard outside the talks. As Lord Belstead had said the only authentic information was that which emerged from the talks themselves.

3. After consulting FED and News Department I telephoned the Governor to agree his line. I suggested that they preface the comment by saying that discussions with the Chinese were continuing and by stressing their confidentiality. I also said that we would say if asked that no official of the FCO or other Government Department had made any statement on the subject.

4. The report is clearly a leak by the Chinese, with the intention of making it appear that it has a British origin. It was to be expected that the Chinese at some stage would try to create the impression that we had accepted their premise. They have started early. It clearly makes it the more important that we should leave the Chinese under no illusion about our position.

5. Hong Kong will be reporting this by telegram. We shall need to consider whether we should protest to the Chinese. Sir P Cradock will have views. My initial view is that at his next contact he probably should be instructed at the least to draw attention to the report, to emphasise that we had no hand in it and to say that information released outside the talks could well jeopardise them.

6. Meanwhile News Department may wish to take a similar line to Hong Kong if asked.



13 May 1983

R D Clift
Hong Kong and General Department

S E C R E T

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+ 17

FROM:

Reference

PRIVATE SECRETARY
DEPARTMENT:

TEL. NO:

M. Coles (No 10)
We spoke.

M 13/5

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

A J COLES ESQ
NO 10

Copies to:

Justly
13/5

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

FUTURE OF HONG KONG: LETTER FROM CHINESE PREMIER

In Peking telnos 416 and 436 Sir P Cradock reported the revised text of the Chinese Premier's reply to the Prime Minister's letter of 10 March and his discussion with Vice Foreign Minister Yao Guang. He has followed this up (Peking telnos 418 and 426) with comment and recommendations. The Governor has reported that he has given EXCO the gist of the Chinese reply and sent his own comments (Hong Kong telnos 650 and 666). Peking telno 440 comments on the Governor's views.

Sir P Cradock sees the Chinese response as positive and as having broken the deadlock. He believes we have secured talks without surrendering anything. The Governor is more cautious. He picks up the points to which the Ambassador first drew attention that Zhao has blurred the assurance in the Prime Minister's letter of 10 March about sovereignty, suggesting that she would be ready to recommend a transfer "at a certain stage". Both underline the problem in the Chinese insistence that the

Enclosures—flag(s).....

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talks would be about "the form of transference of sovereignty" and about cooperation in the transition period between now and 1997 and after 1997. The Governor believes we may still come up at an early stage against the sovereignty stumbling block.

We agree with the Ambassador that Zhao's response represents a step forward. The Chinese have reacted well to the Prime Minister's letter and seem keen to get substantive talks going. However, we believe that it is very important that our response should leave the Chinese in no doubt about our position on sovereignty, since we cannot exclude the possibility that the Chinese might publish the exchange at some stage. At the same time it is ^{important} ~~essential~~, as the Prime Minister said to the Governor and Ambassador in March, to avoid confrontation with the Chinese ^{if we can}. The Ambassador emphasises that, in his discussions with Yao Guang, he made the Prime Minister's position abundantly clear and he advises against reiterating our conditions on sovereignty in detail. The attached draft instructions aim to leave the Chinese in no doubt that our position is unaltered while preserving the forthcoming tone of Sir P Cradock's original draft. We consider that, to avoid misunderstanding, Sir P Cradock should after all leave a copy of his speaking note with the Chinese.

If the Prime Minister agrees ^(that Sir P Cradock should be instructed to speak on his own) ~~with the proposed~~ instructions we shall then need to ask the Governor to consult EXCO, ~~about them~~. This would be in line with assurances given to the Unofficials and repeated by the

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Prime Minister to Sir S Y Chung only last week. The Ambassador has strong objections about showing EXCO the text of ^{the} ~~these~~ instructions (because he sees a risk that EXCO will wish to strengthen dangerously the tone of the message). It is of course important not to allow EXCO a veto. However, Mr Pym believes that we must take EXCO fully into our confidence and show them the text. In doing so the Governor should make it clear that while he will transmit their advice, the final decision will be taken in London.

The next stage would be to get substantive talks going as quickly as possible. In Mr Pym's view we should instruct Sir P Cradock to deal with procedural matters when he delivers our response. We should ^{avoid} ~~avoid~~ a separate "agenda session" which could encourage the Chinese to reopen the argument over sovereignty.

We should tell the Chinese that the composition of our delegation would be flexible. The purpose of this would be to allow for the possible participation of representatives of Hong Kong, including EXCO Unofficials, if this should become desirable or necessary. The aim would then be to start substantive talks with a session attended by the Governor in which a presentation would be given on Hong Kong in order to underline the importance of the British link.

On timing, both the Ambassador and Governor favour moving reasonably quickly. Mr Pym considers that it is important to keep up the momentum and that the election should not prevent us proposing that substantive talks

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begin soon. If the Chinese responded quickly we should
of course ^{need to} ~~seek~~ seek Ministerial clearance during the
campaign for the line which our presentations to the
Chinese should take. But if ~~at all~~ possible we should
avoid appearing to be responsible for delaying progress.
~~because of the election.~~

E.R.

CONFIDENTIAL

cc Mr. Jackling

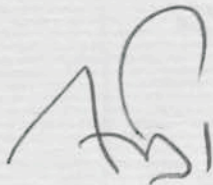
MR. COLES

HONG KONG

Sir A. Parsons *AS 17/5* *File*
The Prime Minister has now agreed to the
F.C.O. recommendations. A.D.C. 17/5

I have read Peking Telegrams nos 416-418. So far, so good - just. I agree with Percy Cradock's interpretation of the Chinese move and with his proposal for our response to it. It seems to me that he spoke very well to his Chinese interlocutor.

I discussed the question with the FCO yesterday. I understand that they will probably propose an immediate response on the lines suggested by Percy Cradock, ie welcoming the Chinese readiness to talk, suggesting that we should get down to detail, while restating our position plainly (to counter Chinese misrepresentation) but without stating our views in such a way as to oblige the Chinese to back off. I think that this is the right way to proceed.



A.D. PARSONS
12 May 1983

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The National Archives

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DESKBY 120900Z

FROM PEKING 120430Z MAY 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 440 OF 12/5/83
 REPEATED FOR INFO TO IMMEDIATE HONG KONG

HONG KONG TEL NO 666: FUTURE OF HONG KONG: CHINESE REPLY

1. ZHAO'S PROPOSITION WAS NOT ONLY THAT QUOTED IN TUR. HE ALSO SAID QUOTE THE CHINESE GOVERNMENT AGREES TO HOLD FORMAL TALKS AS SOON AS POSSIBLE, WITH THE COMMON AIM OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG, AND THAT WE SHOULD START SUBSTANTIVE DISCUSSIONS ON THE FORM OF TRANSFERENCE OF SOVEREIGNTY AS WELL AS ON THE RELATED QUESTIONS OF HOW CHINA AND BRITAIN CAN COOPERATE DURING THE TRANSITIONAL PERIOD BETWEEN NOW AND 1997 AND AFTER 1997. UNQUOTE, QQWMI:WMMY TEL NO 439 CONTAINING OUR CONSIDERED TRANSLATION). YAO GUANG, IN HIS WORDS OF EXPLANATION TO ME ON 9 MAY, SAID THAT ZHAO QUOTE AGREED TO FORMAL SUBSTANTIVE TALKS AS SOON AS POSSIBLEUNQUOTE AND QUOTETHE TALKS COULD BEGIN IN MAY.....UNQUOTE (MY TELNO 416 PARA 4)). IT IS PLAIN THAT THIS A GREAT DEAL MORE THAN A PROPOSAL MERELY FOR AGENDA DISCUSSIONS.
2. I AGREE THAT THE CHINESE MAY STILL PUT OBSTACLES IN THE WAY OF SUBSTANTIVE DISCUSSION AND I FULLY EXPECT THOSE DISCUSSIONS TO BE VERY DIFFICULT INDEED. THEY MIGHT EASILY AGAIN BECOME DEADLOCKED. BUT THE ESSENTIAL POINT NOW IS THAT WE HAVE GOT THE CHINESE TO AGREE TO HAVE SUCH DISCUSSIONS, WITHOUT OUR HAVING TO SURRENDER ANYTHING OF OUR BASIC POSITION. WE MUST NOT FUMBLE THE OPPORTUNITY.
3. I THEREFORE WELCOME THE GOVERNOR'S AGREEMENT THAT WE SHOULD NOW RESPOND POSITIVELY AND USE THE CHINESE REPLY AS A MEANS OF GETTING INTO SUBSTANTIVE TALKS.

CRADOCK

FUTURE OF HONG KONG

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 ED/FUSD
 PS
 PS/MR HURD
 PS/LOED BELSTEAD
 PS/FUS
 SIR J BULLARD
 MR GIFFARD
 MR DONALD

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SIR I SINCLAIR LEGAL ADVISER
 MR BURROWS LEGAL ADVISERS
 MR ROBERTS NEWS D
 MR MARTIN ASSESSMENTS STAFF
 CABINET OFFICE
 MR FLOWER FUSD
 MR COLES NO 10 DOWNING ST.

HD/HKGD

HD/FED

MR DONALD

RESIDENT CLERK

B

16A

J64AA/8

SUBJECT

ccops
minter

SECRET

DESKBY 121000Z

FROM PEKING 120238Z MAY 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 439 OF 12/5/83

AND TO IMMEDIATE HONG KONG

IMMEDIATE
ADVANCE COPY

MIPT: FUTURE OF HONG KONG: REPLY TO THE PRIME MINISTER'S LETTER

TEXT READS AS FOLLOWS:

TO HER EXCELLENCY MRS MARGARET THATCHER.
RESPECTED PRIME MINISTER:

THANK YOU FOR YOUR LETTER OF 10 MARCH 1983. IT REMINDED ME OF THE MEMORABLE DAYS WHEN YOU VISITED CHINA IN SEPTEMBER 1982, AT WHICH TIME CHAIRMAN DENG XIAOPING AND I SEPARATELY HELD PLEASANT MEETINGS WITH YOU IN PEKING. APART FROM OTHER QUESTIONS, WE CONCENTRATED ON AN IN-DEPTH DISCUSSION OF THE QUESTION OF HONG KONG IN A FRIENDLY AND FRANK ATMOSPHERE.

2. YOU WILL RECALL THAT AT THAT TIME CHAIRMAN DENG XIAOPING AND I SET OUT IN DETAIL THE CONSISTENT STAND OF OUR GOVERNMENT NAMELY THAT THE ENTIRE HONG KONG AREA (INCLUDING HONG KONG ISLAND, KOWLOON AND THE NEW TERRITORIES) HAS ALWAYS BEEN CHINESE TERRITORY. IT IS INDUBITABLE THAT CHINA HAS INHERENT SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA. DURING OUR TALKS, WE ALSO TOLD YOU FORMALLY THAT THE TIME WAS NOW RIPE TO SOLVE THE HONG KONG QUESTION, THAT CHINA WOULD RECOVER SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA NO LATER THAN 1997 AND THAT THIS WOULD MEAN THE RESTORATION OF THE EXERCISE OF THAT SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA. I ALSO MADE CLEAR TO YOU THAT THE FUNDAMENTAL PRINCIPLE OF THE CHINESE GOVERNMENT FOR THE SETTLEMENT OF THE HONG KONG QUESTION WAS TO RECOVER SOVEREIGNTY WHILE MAINTAINING PROSPERITY AND THAT THE TWO WERE INDIVISIBLE. ONCE THE PREMISE OF THE RECOVERY OF SOVEREIGNTY WAS SETTLED, CHINA AND BRITAIN COULD THEN CONTINUE TO EXPLORE THE QUESTION OF HOW TO

THE PREMISE OF THE RECOVERY OF SOVEREIGNTY WAS SETTLED, CHINA AND BRITAIN COULD THEN CONTINUE TO EXPLORE THE QUESTION OF HOW TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG. BASED ON THE ABOVE STAND, WE AGREED THAT BOTH SIDES SHOULD CONDUCT TALKS THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIM OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG.

3. REGRETTABLY, AFTER MORE THAN SIX MONTHS AND SEVERAL CONTACTS BETWEEN THE CHINESE AND BRITISH REPRESENTATIVES NO REAL PROGRESS HAS BEEN ACHIEVED. YOUR EXCELLENCY KNOWS VERY WELL WHERE LIES THE NUB OF THE PROBLEM. MAKING CLEAR CHINESE SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA IS THE PREMISE AND BASIS FOR FURTHER TALKS.

4. I HAVE CAREFULLY READ AND STUDIED YOUR LETTER. IN IT YOU SAY THAT YOU ATTACH THE HIGHEST IMPORTANCE TO THE DEVELOPMENT OF SINO-BRITISH RELATIONS AND YOU EXPRESS THE HOPE THAT THROUGH SINO-BRITISH COOPERATION THE HONG KONG QUESTION MAY BE SETTLED AT AN EARLY DATE. I AGREE WITH THAT. I ALSO NOTE THAT IN YOUR LETTER YOU HAVE GIVEN AN ASSURANCE THAT YOU ARE PREPARED AT A CERTAIN STAGE TO RECOMMEND TO PARLIAMENT THAT SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA SHOULD REVERT TO CHINA. THE CHINESE GOVERNMENT AGREES TO HOLD FORMAL TALKS AS SOON AS POSSIBLE, WITH THE COMMON AIM OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG, AND THAT WE SHOULD START SUBSTANTIVE DISCUSSIONS ON THE FORM OF TRANSFERENCE OF SOVEREIGNTH AS WELL AS ON THE RELATED QUESTIONS OF HOW CHINA AND BRITAIN CAN COOPERATE DURING THE TRANSITIONAL PERIOD BETWEEN NOW AND 1997 AND AFTER 1997.

5. CHINA AND BRITAIN ARE FRIENDLY COUNTRIES WHICH ENJOY GOOD RELATIONS. THE HONG KONG QUESTION IS AN ISSUE BETWEEN CHINA AND BRITAIN LEFT OVER BY HISTORY AND I BELIEVE THAT IT MUST AND CAN BE RESOLVED THROUGH BILATERAL DISCUSSION BETWEEN THE CHINESE AND BRITISH GOVERNMENTS. SETTLEMENT OF THE HONG KONG QUESTION COULD NOT ONLY ERASE THE HISTORICAL TRAUMA BUT COULD ALSO GIVE A TREMENDOUS IMPETUS TO THE DEVELOPMENT OF OUR TWO COUNTRIES' EXISTING GOOD RELATIONS. THIS WOULD NOT ONLY BE IN CHINA'S INTEREST BUT ALSO IN BRITAIN'S INTEREST. OF COURSE THERE STILL EXIST DIFFERENCES BETWEEN CHINA AND BRITAIN ON CERTAIN ISSUES OF PRINCIPLE. BUT SPEAKING FOR THE CHINESE GOVERNMENT, I ARDENTLY HOPE THAT THROUGH THE COMMON EFFORTS OF BOTH SIDES THESE DIFFERENCES MAY IN THE END BE GRADUALLY NARROWED, LEADING TO SMOOTH PROGRESS IN THE TALKS AND A SATISFACTORY SETTLEMENT OF THE HONG KONG QUESTION.

6. IN THIS SPIRIT I PROPOSE THAT CHINESE AND BRITISH REPRESENTATIVES SHOULD CONTINUE TO MEET IN PEKING TO DISCUSS THE AGENDA FOR THE TALKS, THE COMPOSITION OF DELEGATIONS AND OTHER RELATED QUESTIONS IN PREPARATION FOR AN EARLY START OF SUBSTANTIVE NEGOTIATIONS.

PREMIER OF THE STATE COUNCIL OF THE PEOPLE'S
REPUBLIC OF CHINA ZHAO ZIYANG
28 APRIL 1983 PEKING

GRS 330
CONFIDENTIAL
FROM PEKING 110940Z MAY 83
TOROUTINE FCO
TELEGRAM NUMBER 435 OF 11/5/83.

CONFIDENTIAL

REPEATED FOR INFO TO HONG KONG

FUTURE OF HONG KONG: LORD SHAWCROSS

1. LORD SHAWCROSS CAME TO LUNCH WITH ME ON 11 MAY. HE HAD HAD MEETINGS WITH THE CHINESE PEOPLE'S INSTITUTE FOR FOREIGN AFFAIRS (HIS HOSTS) AND WITH ASSISTANT FOREIGN MINISTER ZHOU NAN.

2. LORD SHAWCROSS SAID THAT ALL HIS CHINESE INTERLOCUTORS HAD BEEN CATEGORICAL THAT SOVEREIGNTY OVER HONG KONG WAS NOT NEGOTIABLE. ZHOU HAD SAID THE CHINESE EXPECTED BRITAIN TO BE IN A POSITION TO MAKE A STATEMENT ABOUT SOVEREIGNTY BY SEPTEMBER 1984. NEGOTIATIONS ON OTHER POINTS COULD EXTEND WELL BEYOND THAT. LORD SHAWCROSS COMMENTED TO ME THAT A STATEMENT ON SOVEREIGNTY ALONE, WITHOUT MENTIONING OTHER MATTERS, WOULD BE CATASTROPHIC FOR CONFIDENCE IN HONG KONG, BUT IT WAS NOT ABSOLUTELY PLAIN THAT HE HAD MADE THIS POINT SPECIFICALLY TO THE CHINESE.

3. LORD SHAWCROSS HAD HOWEVER TOLD THE CHINESE THAT INVESTOR CONFIDENCE IN HONG KONG WAS ALREADY EBBING AND WOULD EBB MORE QUICKLY UNLESS AND UNTIL THERE WAS A SATISFACTORY SETTLEMENT. HE HAD SAID THAT THE CHINESE MILLIONAIRES WHO CAME UP TO PEKING AND SPOKE IN TERMS AGREEABLE TO THE CHINESE WERE AT THE SAME TIME SEEKING ADVICE FROM SHAWCROSS AND OTHERS ON HOW TO GET THEIR MONEY OUT. MONEY WAS ALREADY LEAVING.

4. A BANKER IN SHAWCROSS'S PARTY TOLD US THAT SHAWCROSS HAD ALSO SPOKEN AT SOME LENGTH TO ZHOUNAN ABOUT SINGAPORE, SAYING THAT SINGAPORE HAD BEEN A SUCCESS LARGELY BECAUSE IT HAD PRESERVED BRITISH INSTITUTIONS AND INTRODUCED CHANGE ONLY GRADUALLY. ZHOU HAD SAID THAT HE HAD NOT FOCUSSED ON THIS POINT BUT WOULD HAVE IT LOOKED INTO.

5. COMMENT.

SHAWCROSS SEEMS TO HAVE SPOKEN MORE ROBUSTLY THAN MOST VISITORS, THOUGH WITHOUT ELICITING A CHINESE RESPONSE. HIS CALLS WERE AT A RELATIVELY LOW LEVEL, BUT THE CONVERSATION WITH ZHOU AT LEAST WILL HAVE BEEN REPORTED TO THOSE CONCERNED ON THE CHINESE SIDE.

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FUTURE OF HONG KONG

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Hongkong

SPEAKING NOTE FOR CABINET

HONG KONG

I told Cabinet on 24 March that my letter to the Chinese Prime Minister had been delivered.

The key passage was:-

"Provided that agreement could be reached between the British and Chinese Governments on administrative arrangements for Hong Kong which would guarantee the future prosperity and stability of Hong Kong, and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, I would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China."

On 9 May the reply of the Chinese Prime Minister was handed to our Ambassador in Peking. The tone of the reply is friendly. But it reiterates that China has inherent sovereignty over the whole Hong Kong area, that it will recover sovereignty not later than 1997 and that that must be the premise and basis for further talks. He notes, twisting my words, that I am "prepared at a certain stage to recommend to Parliament that sovereignty over the entire Hong Kong area should revert to China". He proposes that there should be an early meeting in Peking to discuss the agenda for talks, the composition of delegations and other relevant matters in preparation for an early start of substantive talks.

Our Ambassador, in receiving the reply, drew attention to the precise language which I had used about sovereignty.

/We are

We are now considering the next steps. But it looks as though we shall be able to get substantive talks going which was our objective - and that is a relief. We shall of course make our position on sovereignty very clear during the talks.

Colleagues will also have noted that BP has just won an important off-shore contract from China.

A.J.C.

No mention of this publicly. Usual arrangements for Cabinet minutes.

11 May 1983

16

SECRET

GR 230

SECRET

DESKBY 111200Z

FM HONG KONG 111040Z MAY 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 666 OF 11 MAY

INFO IMMEDIATE PEKING

PEKING TELNO 418 : FUTURE OF HONG KONG : CHINESE REPLY

1. I WOULD NOT DISSENT FROM HMA'S CONCLUSION THAT THIS IS A POSITIVE RESPONSE. BUT I WOULD BE MORE CAUTIOUS IN INTERPRETING ITS CONTENTS. IT REMAINS TO BE SEEN WHETHER THE DEADLOCK HAS BEEN BROKEN. ZHAO ZHIYANG'S PROPOSITION IS ONLY THAT THE TWO SIDES SHOULD QUOTE CONTINUE TO MEET IN PEKING TO DISCUSS THE AGENDA FOR THE TALKS, COMPOSITION OF DELEGATIONS AND OTHER RELEVANT MATTERS IN (NEXT WORD UNDERLINED) PREPARATION FOR AN EARLY START OF SUBSTANTIVE TALKS UNQUOTE, AND HE MAKES A SPECIFIC REFERENCE TO THE SUBSTANTIVE TALKS BEING ON THE QUOTE FORM OF TRANSFERENCE OF SOVEREIGNTY AND HOW CHINA AND BRITAIN CAN CO-OPERATE IN THE TRANSITION PERIOD BETWEEN NOW AND 1997 AND AFTER 1997 UNQUOTE. NOT ONLY HAS ZHAO BLURRED POINTS FROM THE PM'S LETTER BUT HE HAS GIVEN NOTHING ON THE PURPOSE OF THE TALKS BEYOND RECOGNISING THAT THERE ARE DIFFERENCES ON ISSUES OF PRINCIPLE STILL BE BE RECONCILED. WHILE THEREFORE I AGREE WE SHOULD SEEK TO RESPOND POSITIVELY AND USE THE CHINESE REPLY AS A MEANS OF GETTING INTO SUBSTANTIVE TALKS, WE MAY STILL FIND THE CHINESE INSISTING ON THEIR CONDITIONS BEFORE THEY AGREE ACTUALLY TO START SUCH TALKS.

YOUDE

FUTURE OF HONG KONG

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GPS 175

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DESKBY 100900Z

FM HONG KONG 100742Z MAY 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 650 OF 10 MAY 1983

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

PEKING TELSNOs 416 TO 418: FUTURE OF HONG KONG

1. I HAVE TOLD SIR S.Y. CHUNG AND OTHER EXCO UNOFFICIALS THAT THE REPLY TO THE PRIME MINISTER'S MESSAGE WAS DELIVERED YESTERDAY AFTERNOON. AT TOMORROW'S MEETING OF EXCO I PROPOSE TO GIVE THEM A SUMMARY OF THE REPLY AND TO SAY THAT I WOULD EXPECT TO RECEIVE INSTRUCTIONS TO SHOW THEM THE TEXT AS SOON AS A PROPER TRANSLATION HAS BEEN PREPARED AND THE PRIME MINISTER HAD HAD AN OPPORTUNITY TO STUDY IT.

2. MEMBERS ARE BOUND TO ASK ABOUT THE SIGNIFICANCE OF THE REPLY AND THE PROSPECTS FOR GETTING SUBSTANTIVE TALKS STARTED SOON. IN GIVING A PRELIMINARY VIEW I PROPOSE TO DRAW ON PEKING TELNO 418 BUT TO STRESS THAT A FULL ASSESSMENT WOULD HAVE TO WAIT UNTIL THE MESSAGE HAD BEEN STUDIED IN LONDON.

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FUTURE OF HONG KONG

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DESKBY 101000Z)

FROM PEKING 100900Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 426 OF 10/5/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 416, 417 AND 418: FUTURE OF HONG KONG

1. I RECOMMEND THAT THE PRIME MINISTER'S REPLY SHOULD TAKE THE FORM OF INSTRUCTIONS TO ME FOR ORAL DELIVERY TO YAO GUANG RATHER THAN A FURTHER LETTER. THE DEVICE OF A LETTER, USED ONCE NOW TO GOOD EFFECT, SHOULD NOT BE USED TOO FREQUENTLY LEST ITS FUTURE IMPACT IS DEVALUED. NOR SHOULD WE HAND OVER A PIECE OF PAPER, WHICH WOULD REQUIRE STUDY BY THE CHINESE AND ENTAIL FURTHER DELAY.

2. I SUGGEST I BE INSTRUCTED TO SPEAK AS FOLLOWS:
 BEGINS: THE PRIME MINISTER HAS STUDIED WITH GREAT CARE THE LETTER FROM HE THE PRIME MINISTER ZHAO ZIYANG AND WELCOMES THE POSITIVE SPIRIT OF THAT LETTER, WHICH SHE SHARES. IN PARTICULAR SHE WELCOMES THE PROPOSAL IN THE PREMIER'S LETTER THAT SUBSTANTIVE TALKS ON THE FUTURE OF HONG KONG SHOULD BEGIN IN THE NEXT FEW T
 WEEKS.

SHE MADE CLEAR THE BRITISH APPROACH TO THESE TALKS IN HER LETTER OF 10 MARCH AND IS CONFIDENT THAT, AS A RESULT OF THE DISCUSSIONS, THE CONDITIONS CAN BE MET ENABLING THE INTERESTS OF BOTH SIDES TO BE SATISFIED. SHE HAS INSTRUCTED ME TO PUT FORWARD PROPOSALS ON TIMING, COMPOSITION OF DELEGATIONS ETC TO MAKE POSSIBLE AN EARLY START TO SUBSTANTIVE DISCUSSIONS VVMTC. SHE HOPES TH
 AT

DISCUSSIONS ON MODALITIES WILL NOT OCCUPY THE TWO SIDES FOR LONG AND THAT WE SHALL BE ABLE TO AGREE TO HOLD AN EARLY MEETING. ENDS.

3. I WOULD THEN MAKE PROPOSALS ON MODALITIES ALONG THE LINES OF PARAGRAPH 3 OF MY TEL NO 416, SUBJECT TO HONG KONG'S AND YOUR VIEWS.

4. I THINK IT IMPORTANT TO KEEP THIS MESSAGE BRIEF AND POSITIVE AND AS UNCONTENTIOUS AS POSSIBLE. OUR NEED FOR CLARIFICATION SHOULD BE MET ADEQUATELY BY THE SENTENCE BEGINNING "SHE MADE CLEAR THE BRITISH APPROACH TO THESE TALKS....." AND BY MY OWN PERSONAL COMMENTS ON 9 MAY. IT WAS INEVITABLE THAT ZHAO'S LETTER

SECRET

/ WOULD

WOULD WISH TO PUT A CHINESE COLOUR ON DEVELOPMENTS, BUT HE HAS GONE A FAIR WAY TO MEET OUR CONCERNS AND WHAT WE SHOULD DO IS STRIKE A BALANCE BETWEEN THE NEED TO KEEP THE RECORDS STRAIGHT ON THE ONE HAND AND TO AVOID SLIPPING BACK INTO A WRANGLE ABOUT THE PREMISE ON THE OTHER.

5. AS REGARDS THE AGENDA, I THINK IT COULD BE UNWISE FOR US TO MAKE SPECIFIC PROPOSALS. WE DO NOT WISH TO GET OURSELVES INTO LENGTHY ARGUMENT ON PROCEDURAL MATTERS AND, SINCE WE COULD NOT ACCEPT THE ORDER OF TOPICS AS OUTLINED BY ZHAO IN HIS LETTER (END OF PARAGRAPH 5 OF MY TEL NO 417), IT IS ALL TOO LIKELY THAT, IF WE WERE TO MAKE PROPOSALS, WE SHOULD THEREBY FIND OURSELVES IN SUCH A POSITION.

6. IF HOWEVER THE CHINESE WERE TO MAKE AGENDA PROPOSALS OF THEIR OWN, ALONG THE LINES OF ZHAO'S LETTER, WE WOULD BE OBLIGED TO RESPOND. IN THIS CASE WE WOULD HAVE TO SAY THAT WE AGREED THAT THE THREE SUBJECTS LISTED BY ZHAO (I.E. "THE FORM OF TRANSFERENCE OF SOVEREIGNTY AND HOW CHINA AND BRITAIN CAN COOPERATE IN THE TRANSITION PERIOD BETWEEN NOW AND 1997 AND AFTER 1997") SHOULD BE COVERED IN THE TALKS, BUT THAT IN OUR VIEW WE SHOULD LOGICALLY BEGIN WITH DISCUSSION ABOUT ARRANGEMENTS AFTER 1997, AND THAT ONLY AFTER WE HAD AGREED ON THIS (IE WHAT WE WERE TRANSITTING TOWARDS) COULD WE DISCUSS HOW TO HANDLE THE TRANSITION PERIOD, AND FINALLY HOW TO EFFECT THE TRANSFER OF SOVEREIGNTY.

7. I SHOULD LIKE TO BE ABLE TO DELIVER THE REPLY TO YAO GUANG ON THE MORNING OF MONDAY 16 MAY IN ORDER TO HAVE SOME CHANCE OF HOLDING THE FIRST SUBSTANTIVE ROUND BEFORE THE END OF THE MONTH AS THE CHINESE HAVE PROPOSED.

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FUTURE OF HONG KONG

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2
SECRET

GR 990
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DESKBY 091100Z
FM PEKING 090940Z MAY 83
TO IMMEDIATE FCO
TELNO 416 OF 9 MAY
RPTD INFO IMMEDIATE HONG KONG.

SECRET

*We are still reading
on eggshells but it looks as if
we can start talks
read in full.*

13

*Advice will be provided
shortly. A.S.C. '75.*

FUTURE OF HONG KONG

1. I CALLED ON VICE FOREIGN MINISTER YAO GUANG THIS AFTERNOON AT HIS REQUEST TO RECEIVE ZHAO ZIYANG'S REPLY TO MRS THATCHER'S LETTER OF 10 MARCH.
2. YAO GUANG HANDED OVER A LETTER FROM ZHAO (ORIGINAL IN TODAY'S BAG ADDRESSED TO CLIFT). HE SAID THAT ZHAO ATTACHED IMPORTANCE TO MRS THATCHER'S MESSAGE. WHEN IT WAS RECEIVED HE WAS BUSY PREPARING TO GO ABROAD BUT ON HIS RETURN HE HAD DEALT WITH IT IN EARNEST.
3. HE THEN READ FROM A CHINESE COPY OF THE LETTER, ORALLY TRANSLATED BY THE CHINESE INTERPRETER ON AN 'UNOFFICIAL BASIS'. TEXT IN MIFT.
4. HE THEN ADDED SOME WORDS OF EXPLANATION TO THE LETTER, SAYING THAT ZHAO WAS VERY PLEASED TO HAVE MRS THATCHER'S LETTER, ATTACHED IMPORTANCE TO IT AND TO MRS THATCHER'S VIEW OF THE IMPORTANCE OF SINO-BRITISH RELATIONS. ZHAO HAD NOTED MRS THATCHER'S ASSURANCE THAT SHE WAS PREPARED AT A CERTAIN STAGE TO RECOMMEND THE TRANSFER OF SOVEREIGNTY OVER THE WHOLE OF HONG KONG. ZHAO AGREED TO FORMAL SUBSTANTIVE TALKS AS SOON AS POSSIBLE TO CONSIDER WAYS OF TRANSFERRING SOVEREIGNTY AND HOW CHINA AND BRITAIN COULD COOPERATE IN THE TRANSITIONAL PERIOD AND AFTER 1997. IF THE BRITISH SIDE AGREED, THE TALKS COULD BEGIN IN MAY. THE CHINESE LOOKED FORWARD TO A POSITIVE RESPONSE. AT OUR NEXT MEETING YAO GUANG AND I COULD DISCUSS AGENDA, COMPOSITION OF DELEGATIONS AND OTHER MODALITIES.
5. I THANKED YAO FOR THE LETTER, WHICH I WOULD TRANSMIT AT ONCE.
6. I OFFERED SOME PERSONAL COMMENTS, AND SAID I HAD NOTED WITH SOME PLEASURE THAT MRS THATCHER'S LETTER HAD BEEN WELL RECEIVED AND THAT THE REPLY FROM PREMIER ZHAO WAS ONE GIVEN IN A POSITIVE SPIRIT. I NOTICED THE READINESS OF THE CHINESE SIDE TO BEGIN FORMAL TALKS ON THE HONG KONG QUESTION AS EARLY AS THIS MONTH. AS MRS THATCHER'S LETTER MADE CLEAR, WE ALSO APPROACHED THE QUESTION IN A POSITIVE AND FORWARD-LOOKING SPIRIT.
7. FOR PURPOSES OF CLARIFICATION, I SAID I WOULD LIKE TO MAKE A FURTHER COMMENT. I NOTED THAT ZHAO'S REPLY NOTED MRS THATCHER'S ASSURANCE THAT SHE WAS PREPARED AT A CERTAIN STAGE TO RECOMMEND THAT SOVEREIGNTY REVERT TO CHINA. THIS MIGHT BE JUST A MATTER OF TRANSLATION, BUT IF I WERE EXPRESSING IT I WOULD SPEAK ABOUT HER ASSURANCE THAT PROVIDED CERTAIN CONDITIONS WERE MET SHE WOULD

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/RGCOMMEND

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RECOMMEND THAT SOVEREIGNTY COULD REVERT TO CHINA. I READ THE RELEVANT PASSAGE FROM HER LETTER. A SIMILAR COMMENT WAS REQUIRED ON THE PASSAGE IN ZHAO'S LETTER AGREEING TO HOLDING TALKS "ON THE METHOD OF TRANSFERENCE OF SOVEREIGNTY." TO AVOID MISUNDERSTANDING, I SHOULD PREFER THIS TO READ "TALKS ON HOW THE CONDITIONS MIGHT BE MET TO ENABLE TRANSFERENCE OF SOVEREIGNTY TO TAKE PLACE". THIS MIGHT BE A MATTER OF NO GREAT PRACTICAL SIGNIFICANCE WHEN WE GOT INTO SUBSTANTIVE TALKS, BUT IT WAS IMPORTANT THAT WE SHOULD AVOID ANY MISUNDERSTANDING. I THEN ASKED WHETHER YAO HAD ANY PROPOSALS ON MODALITIES.

8. YAO THEN LAUNCHED INTO ONE OF HIS PIONEERING REPETITIONS, OF WHICH THE MAIN POINTS WERE THAT THE CHINESE BASIC POLICY HAD BEEN MADE CLEAR IN THE SEPTEMBER MEETINGS AND THAT SOVEREIGNTY AND PROSPERITY WERE INSEPARABLY LINKED. HE PERSONALLY THOUGHT THAT ZHAO HAD REITERATED CHINA'S POSITION IN HIS LETTER. PREMIER ZHAO HAD TAKEN NOTICE THAT IN HER LETTER MRS THATCHER HAD SHOWN UNDERSTANDING OF THE CHINESE POSITION ON SOVEREIGNTY AND HAD TAKEN NOTE OF THE ASSURANCE SHE HAD MADE WITH REGARD TO THE TRANSFER OF SOVEREIGNTY. IT WAS AGAINST THIS BACKGROUND THAT PREMIER ZHAO SUGGESTED THAT CHINA AND BRITAIN SHOULD START FORMAL TALKS AS SOON AS POSSIBLE. AS TO WHAT WE WOULD DISCUSS AND HOW WE WOULD DISCUSS IT, WE WOULD HOLD FURTHER CONSULTATIONS.

9. I SAID I DID NOT WISH TO LABOUR THE POINT, BUT IT WAS IMPORTANT HE SHOULD REALISE THAT HIS DESCRIPTION OF WHAT MRS THATCHER HAD OFFERED AS AN ASSURANCE WAS NOT AN ACCURATE QUOTATION. YAO REPLIED THAT THIS WAS NOT A DIRECT QUOTATION. THERE HAD BEEN AN ASSURANCE IN MRS THATCHER'S LETTER WHICH WAS IMPORTANT SEMICOLON IT WAS AN EXPRESSION OF HER INTENT. I HAD MENTIONED CONDITIONS FOR THE TRANSFER OF SOVEREIGNTY. THOSE CONDITIONS WERE THE CONSIDERATIONS OF THE BRITISH SIDE. THEY COULD BE DISCUSSED IN TALKS.

10. YAO THEN SAID HE WISHED TO MAKE A POINT ABOUT OUR REFERENCES TO THE PEOPLE OF HONG KONG. HE REFERRED TO THE PASSAGE I HAD QUOTED FROM THE PRIME MINISTER'S LETTER ABOUT THE NEED FOR FUTURE ARRANGEMENTS TO BE ACCEPTABLE TO THE PEOPLE OF HONG KONG AS WELL AS TO OTHER PARTIES. HE SAID THAT THE GREAT MAJORITY OF HONG KONG PEOPLE WERE CHINESE. BEING CHINESE, THEY WERE CLEAR ABOUT HISTORY. THERE WAS THEREFORE NO QUESTION OF WHETHER THE ARRANGMENTS WOULD BE ACCEPTABLE TO THE HONG KONG PEOPLE OR NOT. WHEN CHINA FORMULATED ITS POLICIES TOWARDS HONG KONG IT PROCEEDED FROM THE ACTUAL CONDITIONS IN HONG KONG AND ADOPTED A SPECIAL POLICY. CHINA KNEW THAT BRITAIN UNDERSTOOD HONG KONG AND KNEW WHAT THE PEOPLE THOUGHT. BUT CHINA ALSO HAD CONTACTS WITH HONG KONG PEOPLE AND ALSO KNEW WHAT THEY THOUGHT.

-2-
SECRET

/11

SECRET

11. HE SAID HE HAD NOTED WHAT YAO SAID WITH GREAT CARE. MY REFERENCE TO THE PEOPLE OF HONG KONG WAS DERIVED FROM MRS THATCHER'S LETTER. HE COULD ASSURE HIM THAT THE BRITISH GOVERNMENT ATTACHED THE GREATEST POSSIBLE IMPORTANCE TO THE WISHES OF THE HONG KONG PEOPLE. HE WISHED TO PUT THIS ON RECORD, BUT DID NOT WISH TO GET INVOLVED IN FURTHER LONG ARGUMENT.

12. YAO ASKED WHETHER WE COULD NOW AGREE ON THIS BASIS AND DISCUSS THE AGENDA AND THE COMPOSITION OF TEAMS WHEN WE MET NEXT TIME. HE SAID HE WOULD REPORT IMMEDIATELY TO THE PRIME MINISTER AND WOULD RESPOND AS SOON AS HE RECEIVED INSTRUCTIONS.

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FUTURE OF HONG KONG

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GR 720
SECRET
DESKBY 091100Z
FM PEKING 091020Z MAY 83
TO IMMEDIATE FCO
TELNO 417 OF 9 MAY
AND TO IMMEDIATE HONG KONG.

SECRET

MIPT: FUTURE OF HONG KONG

1. FOLLOWING IS A ROUGH TRANSLATION OF ZHAO ZIYANG'S LETTER TO THE PRIME MINISTER, BASED ON THE INTERPRETER'S ON-THE-SPOT TRANSLATION AND OUR OWN HURRIED GLANCE AT THE CHINESE TEXT:

2. BEGINS. THANK YOU FOR YOUR LETTER OF 10 MARCH 1983. IT REMINDED ME OF THE MEMORABLE DAYS IN SEPTEMBER 1982 WHEN YOU VISITED CHINA AND HAD PLEASANT MEETINGS WITH CHAIRMAN DENG XIAOPING AND MYSELF AND IN A FRIENDLY AND FRANK ATMOSPHERE DISCUSSED IN DEPTH A NUMBER OF QUESTIONS INCLUDING THAT OF HONG KONG. YOU WILL RECALL THAT CHAIRMAN DENG XIAOPING AND I EXPLAINED IN DETAIL THE CONSISTENT STAND OF THE CHINESE GOVERNMENT WHICH IS THAT THE ENTIRE HONG KONG AREA (INCLUDING HONG KONG ISLAND, KOWLOON AND THE NEW TERRITORIES) HAS ALWAYS BEEN CHINESE TERRITORY. IT IS INDISPUTABLE THAT CHINA HAS INHERENT SOVEREIGNTY OVER THE WHOLE HONG KONG AREA.

3. IN THE TALKS WE ALSO TOLD YOU FORMALLY THAT THE TIME WAS NOW RIPE FOR THE SETTLEMENT OF THE HONG KONG PROBLEM, AND THAT THE CHINESE GOVERNMENT WOULD RECOVER CHINESE SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA NOT LATER THAT 1997 AND THAT THIS WOULD INVOLVE RESTORING THE EXERCISE OF THAT SOVEREIGNTY OVER THE WHOLE HONG KONG AREA. I ALSO EXPLAINED THAT THE CHINESE GOVERNMENT'S FUNDAMENTAL PRINCIPLE FOR THE SETTLEMENT OF THE HONG KONG PROBLEM WAS TO RECOVER SOVEREIGNTY WHILE MAINTAINING PROSPERITY, AND THESE WERE TWO PARTS OF AN INTEGRAL WHOLE. ONCE THE QUESTION OF RECOVERY OF SOVEREIGNTY WAS SOLVED, CHINA AND BRITAIN COULD CONTINUE TO EXPLORE THE QUESTION OF HOW TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG. ON THE ABOVE BASIS WE AGREED THAT BOTH SIDES SHOULD CONDUCT TALKS THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIMS OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG.

4. REGRETTABLY MORE THAN SIX MONTHS HAVE PASSED. THE CHINESE AND BRITISH REPRESENTATIVES HAVE HAD SEVERAL CONTACTS, BUT HAVE NOT ACHIEVED REAL PROGRESS. THE CRUX MUST BE CLEAR TO YOUR EXCELLENCY, IE. THAT THE RECOVERY OF SOVEREIGNTY OVER THE ENTIRE AREA OF HONG KONG IS THE PREMISE AND BASIS FOR FURTHER TALKS.

5. I HAVE READ AND STUDIED YOUR LETTER CAREFULLY. IN THAT LETTER YOU REFER TO THE HIGHEST IMPORTANCE YOU ATTACH TO THE DEVELOPMENT OF SINO-BRITISH COOPERATION AND TO YOUR HOPE THAT THROUGH SINO-BRITISH COOPERATION WE CAN ACHIEVE AN EARLY SETTLEMENT OF THE

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/PROBLEM

PROBLEM. I AGREE WITH THAT. I ALSO NOTE THE ASSURANCE IN YOUR LETTER THAT YOU ARE PREPARED AT A CERTAIN STAGE TO RECOMMEND TO PARLIAMENT THAT SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA SHOULD REVERT TO CHINA. THE CHINESE GOVERNMENT AGREED TO HOLD OFFICIAL TALKS AS SOON AS POSSIBLE. WITH THE COMMON AIM OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG WE SHOULD BEGIN SUBSTANTIVE TALKS ON THE FORM OF TRANSFERENCE OF SOVEREIGNTY AND HOW CHINA AND BRITAIN CAN COOPERATE IN THE TRANSITION PERIOD BETWEEN NOW AND 1997 AND AFTER 1997.

6. CHINA AND BRITAIN ARE FRIENDLY COUNTRIES ENJOYING VERY GOOD RELATIONS. THE HONG KONG QUESTION IS AN ISSUE BETWEEN CHINA AND BRITAIN LEFT OVER FROM HISTORY AND I BELIEVE THAT THIS CAN BE SETTLED BY BILATERAL DISCUSSIONS BETWEEN THE TWO GOVERNMENTS. THE SETTLEMENT OF THE HONG KONG PROBLEM COULD NOT ONLY HEAL THE HISTORICAL TRAUMA BUT WOULD ALSO GREATLY HELP SINO-BRITISH RELATIONS. THIS IS NOT JUST IN CHINESE INTERESTS BUT ALSO IN BRITAIN'S INTERESTS. OF COURSE THERE ARE STILL DIFFERENCES BETWEEN CHINA AND BRITAIN ON CERTAIN ISSUES OF PRINCIPLE. SO FAR AS THE CHINESE GOVERNMENT IS CONCERNED, I GREATLY HOPE THAT THROUGH THE COMMON EFFORTS OF BOTH SIDES THESE DIFFERENCES MAY BE GRADUALLY NARROWED, LEADING TO SMOOTH PROGRESS IN THE TALKS AND FINALLY TO A SATISFACTORY SETTLEMENT OF THE HONG KONG QUESTION.

7. IN THIS SPIRIT I PROPOSE THAT CHINESE AND BRITISH REPRESENTATIVES SHOULD CONTINUE TO MEET IN PEKING TO DISCUSS THE AGENDA FOR THE TALKS, THE COMPOSITION OF DELEGATIONS AND OTHER RELEVANT MATTERS IN PREPARATION FOR AN EARLY START OF SUBSTANTIVE TALKS.

ZHAO ZIYANG

28 APRIL 1983.

ENDS.

CRADOCK

FUTURE OF HONG KONG

IMMEDIATE

HD/HKGD

HD/FED

HD/PLANNING STAFF

HD/FUSD

PS

PS/MR HURD

PS/LORD BELSTEAD

PS/FUS

SIR J BULLARD

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MR ROBERTS NEWS D

**MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE**

MR FLOWER FUSD

MR COLES NO 10 DOWNING ST.

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GR 420
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DESKBY 091100Z
FM PEKING 091040Z MAY 83
TO IMMEDIATE FCO
TELNO 418 OF 9 MAY

RPTD INFO IMMEDIATE HONG KONG.

MY TWO IPT: FUTURE OF HONG KONG

1. THIS IS A POSITIVE RESPONSE. IT IS CLEAR THAT THE PRIME MINISTER'S MESSAGE HAS BROKEN THE DEADLOCK AND THAT THE CHINESE WISH TO GET ON WITH SUBSTANTIVE TALKS. THERE ARE, HOWEVER, PITFALLS. ZHAO'S REPLY, WHICH THE CHINESE WILL SEEK TO USE AS THE BASIS FOR THE TALKS, CONTAINS A NUMBER OF BOWS IN OUR DIRECTION, BUT DOES NOT ACCURATELY REPRESENT THE PRIME MINISTER'S LETTER AT TWO IMPORTANT POINTS (A) IN SUGGESTING THAT HER ASSURANCE IS THAT SHE IS PREPARED (NEXT FOUR WORDS UNDERLINED) AT A CERTAIN STAGE TO RECOMMEND TRANSFER OF SOVEREIGNTY, AND (B) THAT THE TALKS WOULD BE CONCERNED INTER ALIA WITH THE FORM OF TRANSFERRING SOVEREIGNTY, THEREBY BLURRING OR EVEN REMOVING THE ESSENTIAL PRECONDITION EXPRESSED IN HER LETTER. IT WAS BECAUSE OF THIS THAT I TOOK UP THESE POINTS IN MY PERSONAL COMMENTS. THIS DID NOT, HOWEVER, APPEAR TO AFFECT YAO'S ENTHUSIASM TO GET ON WITH THE JOB. HE SAID THIS AND OTHER MATTERS COULD BE DISCUSSED IN THE SUBSTANTIVE TALKS. HOWEVER WE HAVE NEVER EXPECTED OTHERWISE.

← 2. I THEREFORE RECOMMEND A WELCOMING AND POSITIVE REPLY, BUT ONE WHICH REPEATS FOR THE RECORD THE BASIS ON WHICH WE EXPECT THE TALKS TO PROCEED. I SHALL TELEGRAPH TOMORROW ON THE FORM I WOULD RECOMMEND THAT INSTRUCTIONS MIGHT TAKE.

why ? ? 3. AS REGARDS MODALITIES, I ASSUME WE WISH TO PROCEED ON THE BASIS OF MY PROPOSALS TO ZHANG WENJIN ON 5 OCTOBER (MY TELNO 620 PARA 1). THE GOVERNOR MAY WISH THE POLITICAL ADVISER TO ATTEND AS WELL AS HIMSELF. AT THIS STAGE I DOUBT WHETHER MORE DETAILED HONG KONG EXPERTISE IS NECESSARY. FROM THIS EMBASSY GALSORTHY AND EHRMAN AS WELL AS PEIRCE SHOULD ATTEND.

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4. ON TIMING, FROM THIS POSTS POINT OF VIEW IT IS LIKELY TO PROVE DIFFICULT TO BEGIN SUBSTANTIVE TALKS BEFORE THE END OF THE MONTH, BUT PERHAPS NOT IMPOSSIBLE. SINCE THE CHINESE HAVE SUGGESTED A MEETING IN MAY THERE WOULD BE MERIT IN COMPLYING. HOWEVER, MUCH WILL DEPEND ON THE GOVERNOR'S ENGAGEMENTS.

5. ON PUBLICITY,

THE CHINESE MAY WISH TO MAKE AN ANNOUNCEMENT THAT SUBSTANTIVE TALKS HAVE BEGUN. I DO NOT THINK WE NEED MAKE ANY ANNOUNCEMENT. THE GOVERNOR'S MOVEMENTS WILL ATTRACT GREAT PUBLICITY. WE COULD SAY IN ANSWER TO QUESTIONS THAT IT WAS ALWAYS ENVISAGED HE WOULD ATTEND WHEN THE SITUATION WARRANTED IT. WE HAVE NOW REACHED THIS POINT.

CRADOCK

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FUTURE OF HONG KONG

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PS/MR HURD

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SECRET

CONFIDENTIAL

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10 DOWNING STREET

Subject

V/C Monitor

From the Private Secretary

6 May 1983

Call on the Prime Minister by Sir Y.K. Pao

Thank you for your letter of 29 April. The main points made by Sir Y.K. Pao during his call on the Prime Minister this morning were as follows.

He had been asked by Peking to join the Chinese People's Consultative Committee but they had given him one or two years to decide upon his response. (The Prime Minister pointed out that the assumption behind this was that Peking regarded Y.K. Pao as a Chinese citizen.)

He said that China had decided to form one or two large companies in Hong Kong, partly to bring modern technology to China. This was being organised by a Dr. Wong. One company, called Everbright, had already acquired capital of \$300 million (it was not clear whether he meant Hong Kong or US dollars). Eight English-speaking Chinese had been earmarked to work for the company. Perhaps China's real aim in all this was to train people in the ways of Hong Kong.

The Chinese had reiterated their request that he should make a speech on the future of Hong Kong along the lines of Chinese policy. He had declined to do so.

He had recently seen one of the two Chinese Vice-Premiers whose message had been that the Hong Kong negotiations were taking time because the British Government were being slow.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

Hong Kong
SECRET

Mr. Cohen 11
No 10 D. S. G.

GPS 2750

SECRET

FM HONG KONG 050620Z MAY 83

TO PRIORITY FCO

TELEGRAM NUMBER 624 OF 5 MAY 1983

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

p. a.
AR 5/5.

MIPT: FUTURE OF HONG KONG: STRATEGY FOR SUBSTANTIVE TALKS.

1. FOLLOWING IS TEXT OF OUR REVISED DRAFT PRESENTATION.

INTRODUCTION

IN THREE DECADES HONG KONG HAS DEVELOPED FROM AN ENTREPOT AND COMMERCIAL CENTRE, TO A MAJOR LIGHT MANUFACTURING CENTRE (DOMESTIC EXPORTS ACCOUNTING FOR 65 PER CENT OF TOTAL EXPORTS), AND THEN TO A DIVERSIFIED ECONOMY WITH AN INTERNATIONAL DIMENSION (THE FINANCIAL AND ALLIED SERVICES SECTOR ACCOUNTING FOR ABOUT A QUARTER OF THE GDP, I.E. AS MUCH AS THE MANUFACTURING SECTOR). THE HONG KONG ECONOMY HAS BECOME INCREASINGLY EXTERNALLY ORIENTED: AND WITH THE GROWTH OF THE MONEY AND FOREIGN EXCHANGE MARKETS IT HAS BECOME EVEN MORE SENSITIVE THAN HITHERTO TO INTERNATIONAL AS WELL AS DOMESTIC INFLUENCES.

INHERENT ADVANTAGES

2. UNDERLYING THIS DEVELOPMENT HAVE BEEN CERTAIN ADVANTAGES -

(A) HONG KONG'S GEOGRAPHICAL POSITION:

(B) THE BIGGEST (AND ONLY DEEPWATER) PORT IN SOUTH CHINA, WITH SHIPPING, CARGO AND CONTAINER HANDLING SERVICES TO MATCH, COMPLEMENTED BY AN INTERNATIONAL AIRPORT WITH MAJOR AIRCRAFT ENGINEERING FACILITIES AND A DEVELOPED INTERNATIONAL TELECOMMUNICATIONS NETWORK:

(C) THE PROXIMITY OF DEPENDABLE SOURCES OF BASIC FOODSTUFFS, RAW MATERIALS AND CONSUMER GOODS FOR LOCAL CONSUMPTION, AND THE AVAILABILITY OF A SUPPLEMENTARY WATER SUPPLY FROM CHINA AND A RELIABLE SUPPLY OF SEMI-FINISHED INPUTS FROM JAPAN:

(D) A FLEXIBLE, MOBILE, WELL TRAINED, HIGHLY MOTIVATED AND HIGHLY PRODUCTIVE LABOUR FORCE:

(E) RESOURCEFUL ENTREPRENEURS, WHO AMORTISE THEIR CAPITAL INVESTMENTS OVER THE ECONOMIC LIFE OF THE ASSETS CONCERNED, WHO SEEK TO UTILISE CAPITAL INVESTED AS EFFICIENTLY AS POSSIBLE, AND WHO HAVE THE COURAGE TO ADOPT NEW PROCESSES AND EQUIPMENT:

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(F)

(F) A LARGE AND SKILLED PROFESSIONAL AND MANAGERIAL CLASS, WITH A HIGH LEVEL OF EDUCATION AND LINGUISTIC ABILITY. MANY MEMBERS OF THIS CLASS HAVE BEEN EDUCATED ABROAD AND HAVE MAINTAINED THEIR LINKS WITH THE COUNTRIES IN WHICH THEY WERE TRAINED:

(G) EXCELLENT WORLD-WIDE MARKETING ARRANGEMENT ON WHICH HONG KONG'S EXPORT-ORIENTED MANUFACTURING SECTOR DEPENDS.

FAVOURABLE FACTORS

3. THE NATURAL AND HUMAN ADVANTAGES WHICH THE TERRITORY ENJOYS ARE NOT SUFFICIENT IN THEMSELVES TO ACCOUNT FOR ITS DEVELOPMENT, WHICH COULD NOT HAVE BEEN ACHIEVED WITHOUT:-

(A) A COOPERATIVE RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA, BASED ON MUTUAL BENEFIT:

(B) MOST-FAVOURABLE-NATION (MFN) RIGHTS OF ACCESS TO MAJOR FOREIGN MARKETS AND RESTRAINT AGREEMENTS NEGOTIATED UNDER THE MULTI-FIBRE ARRANGEMENT (MFA):

(C) A FISCAL AND SOCIAL ENVIRONMENT ENCOURAGING ENTERPRISE, HUMAN ENDEAVOUR, AND THE SPREAD OF PROSPERITY:

(D) FREEDOM OF MOVEMENT, FREEDOM OF EXPRESSION, FREE CHOICE OF CAREER AND OCCUPATION, AND A FAMILIAR LIFE STYLE:

(E) INTERNAL POLITICAL STABILITY:

(F) CONTINUITY OF POLICY, IMPLEMENTED BY AN IMPARTIAL CIVIL SERVICE.

4. BUT THE MAINTENANCE OF (C), (D), (E) AND (F) ABOVE REQUIRES -

(I) CONSISTENT AND PREDICTABLE ADMINISTRATION:

(II) A KNOWN AND WELL DEVELOPED SYSTEM OF LAW WHOSE PRACTICE IS INTERNATIONALLY ACCEPTED AND UNDERSTOOD, BACKED UP BY

(III) THE IMPARTIAL ADMINISTRATION OF THE LAW THROUGH AN INDEPENDENT JUDICIARY:

(IV) BUDGETARY POLICIES AND A TAX REGIME WHICH ENCOURAGE BUSINESS ENTERPRISE AND FOSTER DOMESTIC AND INTERNATIONAL INVESTMENT:

(V) A CAREFULLY MANAGED MONETARY SYSTEM AND A CURRENCY WHICH IS FULLY BACKED WITH FOREIGN EXCHANGE ASSETS, FREELY CONVERTIBLE AND INTERNATIONALLY ACCEPTED AND TRADED:

(VI) AN EDUCATION SYSTEM GEARED TO PROVIDING THE MANAGERIAL, PROFESSIONAL AND TECHNICAL SKILLS REQUIRED AT ALL LEVELS.

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THE BASIS OF CONFIDENCE

5. HONG KONG WOULD RETAIN ITS NATURAL GEOGRAPHICAL ADVANTAGES WHATEVER ITS CONSTITUTIONAL STATUS OR FORM OF GOVERNMENT. BUT HONG KONG COULD NOT PRESERVE ITS PRESENT LEVEL OF PROSPERITY AND STABILITY IF THERE WERE A WITHDRAWAL OF INVESTMENT AND SKILLS, A LOSS OF HONG KONG'S RIGHTS OF ACCESS TO OVERSEAS MARKETS OR DOUBTS ABOUT THE CONVERTIBILITY AND VALUE OF THE HONG KONG DOLLAR OR THE CONTINUITY OF THE LEGAL SYSTEM.

6. THE HUMAN AND CAPITAL RESOURCES WHICH ARE ESSENTIAL TO HONG KONG'S SUCCESS ARE HIGHLY MOBILE. HONG KONG PLACES NO RESTRICTIONS UPON THE MOVEMENT OF CAPITAL. DOMESTIC AND INTERNATIONAL INVESTORS COULD AND WOULD SEEK TO LIQUIDATE THEIR ASSETS AND TRANSFER THE PROCEEDS AND CAPITAL EQUIPMENT OVERSEAS IF THERE WAS SERIOUS DOUBT ABOUT THE MAINTENANCE OF THE PRESENT BUSINESS ENVIRONMENT. PROFESSIONALLY QUALIFIED PEOPLE, WHETHER OF OVERSEAS OR HONG KONG ORIGIN POSSESS SKILLS WHICH ARE EASILY MARKETABLE ELSEWHERE. MANY OF THEM WILL REMAIN IN HONG KONG ONLY SO LONG AS THEY SEE NO THREAT TO THE PRESENT SOCIAL, LEGAL AND BUSINESS ENVIRONMENT, AND HENCE TO THE OPPORTUNITIES AVAILABLE TO THEM AND THE LIFESTYLE WHICH THEY NOW ENJOY.

7. BOTH DOMESTIC AND INTERNATIONAL INVESTORS AND THOSE WHOSE SKILLS ARE ESSENTIAL TO HONG KONG THEREFORE REQUIRE SOME GUARANTEE THAT THERE WILL BE NO FUNDAMENTAL CHANGE IN THE SYSTEMS IN FORCE OR IN THE POLICIES PURSUED. OTHERWISE, THERE WILL BE NO CONFIDENCE AND THEY WILL LEAVE.

8. IT HAS BEEN SUGGESTED THAT SUFFICIENT GUARANTEE WILL BE PROVIDED BY APPROPRIATE PROVISIONS IN THE CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA. THE DIFFICULTY FOR HONG KONG PEOPLE IS THAT IT IS NOT EASY TO SEE HOW A LIBERAL, CAPITALIST SYSTEM CAN SUCCESSFULLY EXIST WITHIN A COUNTRY OPERATING A SOCIALIST SYSTEM. THEY WOULD NEED TO SEE A LONG PERIOD OF STABILITY AND SUSTAINED ECONOMIC PROGRESS IN CHINA BEFORE THEY MIGHT OVERCOME THE GRAVE RESERVATIONS WHICH THEY HAVE TODAY ABOUT A FUTURE UNDER THE ULTIMATE AUTHORITY OF A SOCIALIST ADMINISTRATION. THESE DOUBTS ARE REINFORCED BY RECENT CHINESE HISTORY, AND IN PARTICULAR THE MEMORIES OF SOME HONG KONG INDUSTRIALISTS OF EVENTS IN SHANGHAI, AND THE EXPERIENCE OF THE CULTURAL REVOLUTION.

9. SO IF HONG KONG IS TO RETAIN INVESTMENTS AND THE SKILLED PROFESSIONALS ESSENTIAL TO ITS ECONOMY, SOME MEANS MUST BE FOUND TO SHOW THAT THE TERRITORY WILL CONTINUE TO BE INSULATED FROM THE EFFECTS OF POLITICAL CHANGES ELSEWHERE. AT PRESENT THIS INSULATION IS PROVIDED BY THE LINK WITH THE UK WHERE SIMILAR SYSTEMS AND POLICIES ARE IN FORCE, AND BY LONG EXPERIENCE OF RESPECT FOR HONG KONG'S INTERNAL AUTONOMY. OTHER FORMS OF INSULATION HAVE BEEN SUGGESTED, FOR EXAMPLE INDEPENDENCE OR UN TRUSTEESHIP, BUT IT IS CLEAR THAT THESE WOULD NOT BE ACCEPTABLE TO CHINA. THE OBVIOUS SOLUTION IS THEREFORE TO MAINTAIN THE EXISTING MEANS OF INSULATION WHICH HAS PROVED EFFECTIVE AND IS KNOWN AND ACCEPTED BY THE PEOPLE OF HONG KONG.

10. THUS THE LINK WITH THE UK ACTS AS A GUARANTEE AGAINST FUNDAMENTAL CHANGE, AND AS A MEANS OF PRESERVING CONFIDENCE. IT IS ALSO THE SOURCE OF COMMERCIAL AND OTHER RIGHTS, ESSENTIAL TO HONG KONG'S ECONOMY WHICH WOULD BE LOST IF THE LINK WERE BROKEN. THIS CAN BE ILLUSTRATED BY A NUMBER OF EXAMPLES -

(A) CURRENCY AND CONVERTIBILITY

AN INDEPENDENT AND CONVERTIBLE HONG KONG DOLLAR IS ESSENTIAL TO THE MAINTENANCE OF THE EXTERNALLY ORIENTED ECONOMY OF HONG KONG. THE OWNERSHIP AND CONTROL OF HONG KONG'S FOREIGN EXCHANGE ASSETS LIES IN HONG KONG NOT IN THE UK. BUT THE INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR ARE TAKEN FOR GRANTED, PARTLY BECAUSE IT IS MANAGED BY A GOVERNMENT IN HONG KONG DEDICATED TO FREE MARKET PRINCIPLES AND TO THE FREEDOM OF FINANCIAL FLOWS WITHIN THE INTERNATIONAL SYSTEM; AND PARTLY BECAUSE THE FINAL AUTHORITY IN THESE (AND ALL OTHER) MATTERS IN HONG KONG LIES WITH THE UK WHICH IS ITSELF FULLY INTEGRATED INTO THE INTERNATIONAL OPEN TRADING AND FINANCIAL SYSTEMS. THERE WOULD BE NO CONFIDENCE IN THE CONTINUED INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR IF THE ULTIMATE AUTHORITY RESTED WITH A GOVERNMENT DEDICATED TO A FULLY MANAGED ECONOMY AND WITH NO EXPERIENCE OF A CONVERTIBLE CURRENCY:

(B) INTERNATIONAL TRADE

HONG KONG DERIVES ITS OPEN ACCESS TO ITS MAIN MARKETS, IN PARTICULAR THE UNITED STATES AND EUROPE, FROM THE UK'S MEMBERSHIP OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE ULTIMATE GUARANTEE TO OTHER GATT MEMBERS THAT GATT RULES WILL APPLY IN HONG KONG IS THE ACCEPTANCE OF THESE RULES BY THE UK. THIS GUARANTEE WOULD BE REMOVED IF RESPONSIBILITY FOR HONG KONG LAY WITH CHINA, WHICH OPERATES A STATE MANAGED ECONOMY (AND WHICH IS NOT A MEMBER OF THE GATT). AGREEMENTS WITH HONG KONG'S MAIN TRADING PARTNERS WHICH ARE CLOSELY LINKED TO THE GATT AND WHICH APPLY TO A LARGE PROPORTION OF HONG KONG'S EXPORTS WOULD HAVE TO BE RENEGOTIATED IF THE LINK WITH THE UK WERE SEVERED. IT IS DIFFICULT TO SEE HOW HONG KONG'S TRADING PARTNERS WOULD AGREE TO HONG KONG RETAINING QUOTAS SEPARATE FROM AND ADDITIONAL TO THOSE OF CHINA IF THIS LINK WERE BROKEN:

(C) THE LEGAL SYSTEM

THE LAWS OF HONG KONG ARE BASED ON BRITISH COMMON AND STATUTE LAW, AND THE PROGRESSIVE INTERPRETATION OF THAT LAW BY COURTS IN THE UK IS ONE OF THE MAIN BASES ON WHICH THE LAW IN HONG KONG IS ADMINISTERED. THIS IS A SITUATION WELL UNDERSTOOD AND RELIED UPON BY THE INTERNATIONAL COMMUNITY TRADING IN AND INVESTING IN HONG KONG. THE JUDICIARY IS INDEPENDENT OF THE EXECUTIVE. THE GUARANTEE OF THE CONTINUED OPERATION OF THIS LEGAL SYSTEM IS THE LINK WITH THE UK WHERE THE SEPARATION OF THE JUDICIARY AND THE EXECUTIVE AND THE SAME

SYSTEM OF LAW HAVE BEEN IN FORCE FOR MANY CENTURIES. THE POLICE FORCE ARE TRAINED TO OPERATE WITHIN THE FRAMEWORK OF THE BRITISH LEGAL SYSTEM. THE CONFIDENCE WHICH THIS GIVES THAT THE BRITISH CONCEPT OF LAW WILL PREVAIL WOULD NOT BE MAINTAINED IF THE LINK WAS WITH CHINA WHICH HAS A COMPLETELY DIFFERENT CONCEPT AND SYSTEM OF LAW, AND ONE WHICH, IN MANY AREAS IMPORTANT FOR HONG KONG, IS STILL BEING DEVELOPED:

(D) THE JURISDICTIONAL LINK

SINCE IN THE CASE OF HONG KONG THE GUARANTEE CANNOT BE FOUNDED ON THE POLICIES OF AN INDEPENDENT GOVERNMENT (AS IN THE CASE OF SINGAPORE) IT MUST BE PROVIDED IN ANOTHER WAY. THE ULTIMATE GUARANTEE THAT THE POLITICAL, ECONOMIC AND SOCIAL SYSTEMS IN HONG KONG WILL NOT DIVERGE FROM THEIR PRESENT FORM IN ANY SUBSTANTIAL WAY HAS BEEN THAT FINAL AUTHORITY LIES, THROUGH THE GOVERNOR, WITH HER MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM WHERE SIMILAR SYSTEMS EXIST.

CONCLUSION

11. THE FOREGOING REPRESENTS ONLY A VERY BRIEF AND GENERAL PICTURE OF THE WAY IN WHICH THE LINK BETWEEN HONG KONG AND THE UK PRESENTLY OPERATES. THIS LINK, AND THE BRITISH ROLE IN THE ADMINISTRATION OF THE TERRITORY, AT PRESENT PROVIDE A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. WE PROPOSE IN SUBSEQUENT MEETINGS TO ENLARGE ON THESE ASPECTS OF THE ADMINISTRATIVE STATUS QUO IN HONG KONG, AND IN PARTICULAR ON THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE FABRIC OF AGREEMENT ON WHICH HONG KONG'S ROLE AS A FINANCIAL AND COMMERCIAL CENTRE DEPENDS. OUR OBJECTIVE WILL BE TO ILLUSTRATE OUR VIEW OF HOW THE AGREED COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG CAN BE ACHIEVED.

Yours

FUTURE OF HONG KONG

LIMITED

HD/HKGD

HD/FED

HD/PLANNING STAFF

HD/POSD

PS

PS/MR HURD

PS/LORD BELSTEAD

PS/PUS

SIR J BULLARD

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Mr Flower - POSD

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FM HONG KONG 050515Z MAY 83
TO PRIORITY FCO
TELEGRAM NUMBER 623 OF 5 MAY 1983
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)



Mr Coler ✓ *10*
No 10 D. St
K.A. M 5

MIPT: FUTURE OF HONG KONG: STRATEGY FOR SUBSTANTIVE TALKS.

1. FOLLOWING IS REDRAFT OF THE MAIN PAPER.
FOR CONVENIENCE NEW MATERIAL IS UNDERLINED.

INTRODUCTION

1. THE PURPOSE OF THIS PAPER IS TO PREPARE A PLAN FOR HMG'S CONDUCT OF SUBSTANTIVE NEGOTIATIONS WITH THE PRC. IT ASSUMES THAT THE CHINESE RESPONSE TO THE PRIME MINISTER'S MESSAGE ENABLES DETAILED NEGOTIATIONS TO START WITHOUT UNCONDITIONAL ACCEPTANCE OF THE CHINESE PREMISE ON SOVEREIGNTY. ON MODALITIES, IT IS BASED (NEXT WORD UNDERLINED) GENERALLY ON THE PROPOSALS WHICH WERE PUT TO THE CHINESE MFA IN OCTOBER 1982.

UK AIM

2. TO CONCLUDE AN AGREEMENT ON THE FUTURE OF HONG KONG INVOLVING THE CONTINUATION OF BRITISH ADMINISTRATION OF THE TERRITORY FOR AS LONG AS POSSIBLE BEYOND 1997.

LIKELY CHINESE AIMS

3. (FOLLOWING 29 WORDS UNDERLINED) TO OBTAIN HMG'S AGREEMENT THAT THE WHOLE OF HONG KONG MUST REVERT TO CHINA IN 1997: AND TO SECURE BRITISH COOPERATION IN EFFECTING A SMOOTH TRANSITION TO CHINESE RULE.

PLACE - PEKING

MEMBERSHIP OF BRITISH TEAM

4. AT LEAST INITIALLY THE TALKS WOULD BE THROUGH THE DIPLOMATIC CHANNEL WITH A TEAM LED BY THE AMBASSADOR. THE GOVERNOR OF HONG KONG WOULD PARTICIPATE AS NECESSARY. THE POSSIBILITY OF OTHER REPRESENTATIVES FROM HONG KONG WOULD BE KEPT IN MIND. (FOLLOWING 44 WORDS UNDERLINED) IN PARTICULAR, IT WILL BE NECESSARY TO SEEK TO INVOLVE EXCO UNOFFICIALS AT SOME STAGE, BOTH TO MEET THEIR WISH TO BE INVOLVED AND TO DEMONSTRATE TO HONG KONG PEOPLE THAT THE TALKS ARE NOT BEING CONDUCTED ENTIRELY BY EXPATRIATES ON THE BRITISH SIDE. AT A LATER STAGE MINISTERIAL PARTICIPATION MIGHT BE NECESSARY.

SECRET

/SEQUENCE

SEQUENCE OF SESSIONS

5.(A) FIRST SESSION

A PROCEDURAL (NEXT WORD UNDERLINED) MEETING INVOLVING THE AMBASSADOR AND THE MFA WOULD PROBABLY BE NECESSARY TO AGREE ON SUBSEQUENT ARRANGEMENTS. (FOLLOWING 48 WORDS UNDERLINED) IDEALLY WE SHOULD LOOK FOR SOMETHING ON THE LINES SUGGESTED BELOW. BUT WE SHOULD SEEK TO AVOID GETTING BOGGED DOWN IN PROCEDURAL ARGUMENT. IN THE EARLY STAGES IT WILL BE ENOUGH TO AGREE AT EACH MEETING THE DATE FOR THE NEXT, AND TO ALLOW A PATTERN TO DEVELOP.

(B) SECOND SESSION

THIS SHOULD BE ATTENDED BY THE GOVERNOR OF HONG KONG. OUR GUIDELINES WOULD SO FAR AS POSSIBLE FOLLOW THOSE IN ANNEX A. THE OBJECT WOULD BE (FOLLOWING 16 WORDS UNDERLINED) TO SET THE SCENE FOR SUBSEQUENT MEETINGS, TO DRAW THE CHINESE INTO DISCUSSIONS AND, WHERE NECESSARY, TO AGREE ON SUBSEQUENT DETAILED WORK. IN DOING SO WE SHOULD AVOID CONFRONTATION ON MATTERS OF PRINCIPLE, PARTICULARLY ON SOVEREIGNTY. THIS SESSION SHOULD INCLUDE A PRESENTATION BY THE GOVERNOR, SETTING OUT HOW HONG KONG OPERATES IN ORDER TO ILLUSTRATE THE VALUE OF THE PRESENT SYSTEM OF ADMINISTRATION.

(C) THIRD PHASE (WHICH MIGHT COMPRISE A NUMBER OF SEPARATE SESSIONS).

(OPEN UNDERLINING)

DURING THIS PHASE, IF NOT BEFORE, WE MUST EXPECT THE CHINESE TO MAKE A STRONG EFFORT TO DRAW US ONTO GROUND OF THEIR CHOOSING. THEY ARE LIKELY TO TAKE THE LINE THAT SOVEREIGNTY AND ADMINISTRATION ARE INSEPARABLE, AND THAT DISCUSSION SHOULD THEREFORE CONCENTRATE ON ARRANGEMENTS FOR TRANSITION AND EVENTUAL BRITISH WITHDRAWAL, AND (PERHAPS AT A LATER STAGE) ON MEASURES TO SECURE CONTINUED BRITISH INVESTMENT AND QUOTE COOPERATION UNQUOTE AFTER CHINESE CONTROL HAS BEEN RE-ESTABLISHED. WE SHOULD BE PREPARED TO LISTEN TO ANY CHINESE ARGUMENTS ON THESE LINES. BUT IN PARALLEL WE SHOULD SEEK TO CONTINUE THE PROCESS OF EDUCATING THE CHINESE ABOUT HOW HONG KONG WORKS BY MAKING DETAILED PRESENTATIONS ON SPECIFIC AREAS (E.G. THE FINANCIAL SYSTEM, INCLUDING THE ROLE OF THE HONG KONG DOLLAR: THE LEGAL SYSTEM: THE NETWORK OF TRADE AGREEMENTS ETC.). THE AIM IN EACH CASE WOULD BE TO DEMONSTRATE THE VITAL IMPORTANCE OF THE BRITISH LINK AND THE NEED TO MAINTAIN IT. (END UNDERLINING) IT MIGHT BE APPROPRIATE TO SUGGEST THAT THESE QUESTIONS COULD BE EXPLORED BY SUB-COMMITTEES BUT IT IS IN FACT DOUBTFUL WHETHER THIS SYSTEM WOULD COMMEND ITSELF TO THE CHINESE OR LEAD TO MUCH PROGRESS. (OPEN UNDERLINING) WHETHER OR NOT THERE WERE SUB-COMMITTEES, EXPERTS FROM HONG KONG MIGHT BE ADDED TO THE UK NEGOTIATING TEAM FOR DISCUSSION OF SPECIFIC TOPICS. SUPPORT FROM LONDON MIGHT ALSO BE USEFUL BUT IT IS MORE LIKELY TO BE REQUIRED AT A LATER STAGE.

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(D) FOURTH PHASE

(OPEN UNDERLINING)

IF THE CHINESE CAN BE CONVINCED THROUGH DETAILED PRESENTATIONS THAT THE MAINTENANCE OF STABILITY AND PROSPERITY REQUIRES THE CONTINUATION OF BRITISH ADMINISTRATION IT WILL STILL BE NECESSARY TO PERSUADE THEM THAT THIS CAN BE MADE POLITICALLY ACCEPTABLE TO THEM. WE CAN EXPECT THEM TO ARGUE THAT CONTINUED BRITISH ADMINISTRATION IS NOT CONSISTENT WITH CHINESE SOVEREIGNTY AND WOULD IN ANY CASE BE INTOLERABLE POLITICALLY. WE MUST BE READY TO DEMONSTRATE WITH EXAMPLES THAT SOVEREIGNTY AND ADMINISTRATION CAN BE, AND IN OTHER PARTS OF THE WORLD HAVE BEEN, SEPARATED. WE MUST ALSO INDICATE WILLINGNESS TO DISCUSS WAYS IN WHICH CHINESE POLITICAL CONCERNS MIGHT BE ACCOMMODATED. IF IN THAT CONTEXT THE CHINESE PROPOSED DISCUSSION OF SUBSTANTIVE OR SYMBOLIC CHANGES IN HONG KONG TO REFLECT THE FACT THAT SOVEREIGNTY WOULD HAVE REVERTED TO CHINA, WE SHOULD SHOW READINESS TO LISTEN TO THEIR IDEAS AND INDICATE THAT WE HAVE AN OPEN MIND. BUT SINCE OUR OBJECTIVE IS TO SECURE CHINESE AGREEMENT TO CONTINUING BRITISH ADMINISTRATION WITH AS LITTLE OUTWARD CHANGE AS POSSIBLE WE SHOULD NOT OURSELVES RAISE THE QUESTION OF CHANGES. (END UNDERLINING)

6. (OPEN UNDERLINING) IF THE CHINESE SHOWED SERIOUS INTEREST IN A PACKAGE WHEREBY CHINESE SOVEREIGNTY WAS RECOGNIZED BUT BRITISH ADMINISTRATIVE CONTROL REMAINED WE WOULD NEED TO EXPLORE MEANS OF RECORDING AN AGREEMENT TO THIS EFFECT IN A DOCUMENT WHICH WOULD PRESERVE CHINESE FACE. IF PRELIMINARY EXCHANGES WENT WELL (END UNDERLINING) WE MIGHT NEED TO RAISE THE LEVEL OF THE TALKS. BUT THE TIMING OF MINISTERIAL INVOLVEMENT IN THE TALKS (OPEN UNDERLINING) (AS OPPOSED TO MINISTERIAL INTERVENTIONS OUTSIDE THE FORMAL FRAMEWORK OF THE TALKS - SEE PARA 8 BELOW)(END UNDERLINING) WOULD NEED VERY CAREFUL CONSIDERATION.

AGREEMENT

7. THE NORMAL PROCEDURE WOULD BE:

- (I) INITIALLING OF A DRAFT AGREEMENT, SUBJECT TO RATIFICATION.
- (II) FORMAL SIGNATURE.
- (III) PASSAGE OF THE NECESSARY BILL THROUGH PARLIAMENT.
- (IV) EXCHANGE OF RATIFICATIONS.

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OTHER METHODS

8. THROUGHOUT THE SERIES WE SHOULD KEEP IN MIND THE POSSIBILITY OF USING SUPPLEMENTARY METHODS (E.G. MINISTERIAL MESSAGES OR VISITS/ AND UNOFFICIAL INTERMEDIARIES) IN ORDER TO OVERCOME OBSTACLES OR CLARIFY OUR POSITION.

CONSULTATION WITH EXCO

9. (OPEN UNDERLINING) IN ORDER TO RETAIN THE CONFIDENCE OF THE PEOPLE OF HONG KONG IT WOULD BE ESSENTIAL TO MAINTAIN CLOSE CONSULTATION WITH EXCO THROUGHOUT THE TALKS AND TO ENSURE THAT THEIR ADVICE WAS TAKEN AT ALL IMPORTANT POINTS. (END UNDERLING)

YOUDE

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

COPIES TO

SIR I SINCLAIR LEGAL ADVISER
MR BURROWS LEGAL ADVISERS
MR ROBERTS NEWS D
MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

Mr Flower - PUSD

Mr Coles - No 10 D. St ✓

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The National Archives

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FILE

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Subject: Hong Kong

see Master

10 DOWNING STREET

From the Private Secretary

4 May 1983

Dear John,

CALL ON PRIME MINISTER BY SIR S Y CHUNG

Thank you for your letter of 29 April. Sir S.Y. Chung called on the Prime Minister today. I enclose a record of the conversation. Our press section will brief the press on the call along the lines of paragraph 3 of your letter.

Your ever

John Wiles.

J.E. Holmes, Esq.,
Foreign and Commonwealth Office.

S E C R E T

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND
SIR S.Y. CHUNG AT 1700 HOURS ON 4 MAY 1983 AT 10 DOWNING ST.

Present

Prime Minister
Mr. Coles

Sir S.Y. Chung

* * * * *

Sir S.Y. Chung said that since he had met the Prime Minister last December there had not been much movement on the problem of the future of Hong Kong but the direction of the movement had been right. In December, the Hang Seng Index had been around 700. It was now over 1,000. The panic of October/November was over. The Chinese had taken a few significant steps. In particular, they had made it very clear that they had no intention of regaining sovereignty before 1997. Chinese propaganda had not been as bad as he had feared. People in Hong Kong now expected that the negotiations would be long drawn out and last for anything up to four years. They were prepared to wait for two or three years and meanwhile carry on business as usual. If there was then no solution they would still have some ten years to make their plans. So the urgency had gone out of the situation.

The fact that the Hong Kong dollar had fallen in value while the Hang Seng Index had risen had several explanations. People who had earlier bought property in Hong Kong with their spare money now tended to buy abroad. Dollars deposited in Hong Kong were subject to tax which could be avoided by overseas investment. The inflow of money into the colony in the 1970s, largely for investment in property, had now become an outflow as investors took their profits or cut their losses. If Hong Kong's exports improved this outflow could be balanced. There were some signs of an

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improvement but not yet a steady trend. In any case, it was perhaps good that the Chinese should see the Hong Kong dollar weakening, provided this was not too pronounced.

There had been a perhaps significant change in Chinese language about the future of Hong Kong. Earlier they had talked of Hong Kong people ruling Hong Kong in the future. Now they talked about "Hong Kong systems" ruling Hong Kong.

Two months ago he had been approached by the new Deputy Director of the new Chinese News Agency. Another member of the unofficials had received a similar approach. Sir S.Y. Chung himself had been invited to advise the Chinese leadership on the affairs of Hong Kong and to join the Chinese People's Consultative Committee. He would have given a negative response but before he had been able to do so his interlocutor had said that he fully realised that neither HMG nor Sir S.Y. Chung himself would consider it appropriate to accept the invitation now. Nevertheless, the invitation was being extended so that acceptance could be considered when the time was ripe.

The Prime Minister said that the Chinese appeared to be implying that Sir S.Y. Chung was a citizen of China. How did he interpret this move?

Sir S.Y. Chung said that one possible interpretation was that the Chinese were laying the groundwork for the Hong Kong people to organise the local level of the Consultative Committee in Hong Kong. The Deputy Director had made further important points. He had totally denied the rumour that the Chinese would take action on Hong Kong in September (sic). He had stressed that the United Kingdom and China had a great deal to gain from continuing their present friendly relations to their mutual benefit. He had asked whether the forthcoming British Election would

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influence the Prime Minister's approach to negotiation. (Sir S.Y. Chung had replied that the Conservative Party was highly likely to win the Election but if the Chinese counted on the Labour Party getting in and adopting a different attitude to Hong Kong, they might be disappointed.)

The Prime Minister said that she felt that the Chinese had not honoured the outcome of her talks in Peking last September. They now knew from her letter to the Chinese Premier that she felt that way. Recent reports seemed to indicate a greater Chinese understanding of Hong Kong's position and the nature of its success.

Sir S.Y. Chung said that he believed that the Chinese reply to the Prime Minister's letter would come later rather than sooner. But in the last two months the signs had been better. The Governor interpreted the leakage of the Prime Minister's letter as a Chinese desire to test, by a circuitous route, the reactions of the Chinese people. If those reactions were good, the Chinese leadership would be inclined to respond positively.

On 16 May a group of thirteen or fourteen young Hong Kong professionals, including three unofficials, were going to Peking at Chinese invitation. He had discussed strategy with the group. They had agreed not to present a solution for the Hong Kong problem - for Peking would only attack any solution they presented. But they would make the point that if the Chinese took over Hong Kong, confidence would evaporate. There was therefore a need for a guarantee. If the Chinese accepted this need, then the way would be open for later discussion of British administration constituting that guarantee.

In conclusion, Sir S.Y. Chung thanked the Prime Minister for the stand she had taken in the negotiations and the trust she had placed in the unofficials. The Prime Minister said

/ that she

S E C R E T

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that she had no hesitation in keeping the unofficials fully informed and was most grateful for their helpful advice.

The conversation ended at 1740 hours.

A. J. C.

4 May 1983



Foreign and Commonwealth Office

London SW1A 2AH

4 May 1983

Dear John,

You may find it helpful to have a note of the main points raised by Sir S Y with Sir A Acland and Mr Pym before he calls on the Prime Minister this afternoon. Sir S Y concentrated on the following three issues:

- (i) He was worried about careless statements made by backbenchers and opposition spokesmen in the House of Commons. The Unofficials understood the difference between Government statements and those made by MPs but the Hong Kong man in the street did not. He wanted the Government to control what was said in the House. He referred also to the recent visit by Roland Moyle MP to Hong Kong, in which he had appeared persuaded by the Unofficials of the correctness of the Government line, but had then spoilt an otherwise good press conference (and thereby damaged confidence) by one critical remark about the Prime Minister's attitude. Sir S Y also hinted, without being specific, /as a/that people in Hong Kong were disappointed by what they saw / difference in the line taken by the Government over Hong Kong from that taken over, for example, the Falklands and Gibraltar. He referred in particular to the Commons debate on the dependent territories on 15 April (I enclose a sidelined Hansard extract). Mr Pym said in reply that it was impossible to control what was said in the House, as Sir S Y would understand. The important point was for the Government to present its line as effectively as possible (Mr Pym thought it better not to refer to the fact that he will be briefing the opposition leaders on Privy Councillor terms about our policy).
- (ii) It was important for Britain to show that it attached importance to the future of Hong Kong and was listening to Hong Kong views. The people of Hong Kong saw that large numbers of delegations went to Peking and were received at a high level. It would be helpful if some delegations also came to London and were similarly received. Mr Pym welcomed this idea. He hoped Sir S Y and the Governor would get together to organise this.

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- (iii) The Unofficials had been kept informed by the Governor and had in turn fed in to him information they received from their Chinese contacts. But the Unofficials wanted more than consultation. They wanted to be fully involved in decision-making, for example in formulating options as well as pronouncing on them. To that end, it would be helpful if the Unofficials could be given some of the information available from London, eg from secret Intelligence. Mr Pym said that he would consider this, but there were obvious constraints on sharing Intelligence information (although he acknowledged that the record of the Unofficials in keeping confidential what they were told had been good).

Apart from these specific points, Sir S Y appeared reasonably pleased with the Government's position. He thought that the Chinese had in the face of British firmness retreated a little way. For example, they now no longer talked of the possibility of taking Hong Kong back before 1997, short of a drastic change in circumstances. This was helpful. He said that the people of Hong Kong were prepared for a protracted negotiation if necessary. As far as confidence was concerned, the initial panic was over but there was inevitably a continuing slow seepage of confidence. Business investment continued at a reasonably satisfactory level, but people were gradually beginning to take steps to protect their own position, for example putting spare money into property elsewhere rather than in Hong Kong itself.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street



14 MAY 1963

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14 MAY 1963

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Hong Kong

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FM FCO 031300Z MAY 83

TO PRIORITY HONG KONG

TELEGRAM NUMBER 414 OF 3 MAY

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MIPT : FUTURE OF HONG KONG : FOLLOWING ARE TEXTS OF MAIN PAPER

AND ANNEXES A AND C

FUTURE OF HONG KONG

UK/CHINA TALKS - FORWARD STRATEGY.

INTRODUCTION

1. THE PURPOSE OF THIS PAPER IS TO PREPARE A PLAN FOR HMG'S CONDUCT OF SUBSTANTIVE NEGOTIATIONS WITH THE PRC. IT ASSUMES THAT THE CHINESE RESPONSE TO THE PRIME MINISTER'S MESSAGE ENABLES DETAILED NEGOTIATIONS TO START WITHOUT UNCONDITIONAL ACCEPTANCE OF THE CHINESE PREMISE ON SOVEREIGNTY. ON MODALITIES, IT IS BASED ON THE PROPOSALS WHICH WERE PUT TO THE CHINESE MFA IN OCTOBER 1982.

UK AIM.

2. TO CONCLUDE AGREEMENT ON THE FUTURE OF HONG KONG INVOLVING THE CONTINUATION OF BRITISH ADMINISTRATION OF THE TERRITORY FOR AS LONG AS POSSIBLE BEYOND 1997.

PLACE - PEKING.

MEMBERSHIP OF BRITISH TEAM

3. AT LEAST INITIALLY THE TALKS WOULD BE THROUGH THE DIPLOMATIC CHANNEL WITH A TEAM LEAD BY THE AMBASSADOR. THE GOVERNOR OF HONG KONG WOULD PARTICIPATE AS NECESSARY. THE POSSIBILITY OF OTHER REPRESENTATIVES FROM HONG KONG WOULD BE KEPT IN MIND. AT A LATER STAGE MINISTERIAL PARTICIPATION MIGHT BE NECESSARY.

SEQUENCE OF SESSIONS

4. (A) FIRST SESSION - PROCEDURAL FOLLOWING AGREEMENT TO START SUBSTANTIVE TALKS, A PROCEDURAL ROUND INVOLVING THE AMBASSADOR AND THE MFA WOULD PROBABLY BE NECESSARY TO AGREE ON SUBSEQUENT ARRANGEMENTS. WE SHOULD AIM AT THESE FOLLOWING THE PATTERN OUTLINED BELOW.

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(B)SECOND SESSION

THIS SHOULD BE ATTENDED BY THE GOVERNOR OF HONG KONG. OUR GUIDELINES WOULD SO FAR AS POSSIBLE FOLLOW THOSE IN ANNEX A. THE OBJECT WOULD BE AGREE ON SUBSEQUENT DETAILED WORK, AVOIDING CONFRONTATION ON MATTERS OF PRINCIPLE, PARTICULARLY ON SOVEREIGNTY. THIS SESSION SHOULD INCLUDE A PRESENTATION BY THE GOVERNOR, SETTING OUT HOW HONG KONG OPERATES IN ORDER TO ILLUSTRATE THE VALUE OF THE PRESENT SYSTEM OF ADMINISTRATION.

(C)THIRD PHASE (SEPARATE SESSIONS AS REQUIRED)

THIS WOULD CONCENTRATE ON SPECIFIC AREAS (CURRENCY LAWS, TRADE, EXTERNAL RELATIONS, FREEDOM OF MOVEMENT, CITIZENSHIP, ETC). IT MIGHT BE APPROPRIATE TO SUGGEST THAT THESE QUESTIONS COULD BE DEALT WITH BY SUB-COMMITTEES BUT IT IS IN FACT DOUBTFUL WHETHER THIS SYSTEM WOULD COMMEND ITSELF TO THE CHINESE OR WOULD LEAD TO MUCH PROGRESS. AT THIS STAGE, SUPPORT FOR THE UK NEGOTIATING TEAM MIGHT BE NECESSARY FROM LONDON BUT THIS WOULD MORE PROBABLY COME IN THE NEXT PHASE. AT THIS POINT WE MIGHT FIND IT USEFUL TO HAVE A QUESTIONNAIRE TO PUT TO THE CHINESE IN RESPECT OF THEIR OWN PROPOSALS. AN OUTLINE, BASED ON OUR EXISTING KNOWLEDGE OF THEIR VIEWS, IS AT ANNEX C. THE OBJECT WOULD BE BOTH TO POINT OUT WEAKNESSES IN THE CHINESE PLAN AND TO IDENTIFY COMMON GROUND.

(D)DISCUSSION OF PRINCIPLES

IF BROAD AGREEMENT COULD BE REACHED ON THE CONTINUATION OF THE PRESENT DETAILED SYSTEMS IN HONG KONG, WE SHOULD ENTER THE MOST DIFFICULT PHASE, WHERE WE SHOULD BE OBLIGED TO RETURN TO THE QUESTION OF SOVEREIGNTY. IN THIS ROUND, THE UK, WHILE STILL RESERVING ITS LEGAL POSITION, WOULD NEED TO BROACH THE IDEA OF A PACKAGE IN WHICH CHINESE SOVEREIGNTY WAS RECOGNISED BUT BRITISH ADMINISTRATIVE (OVERALL) CONTROL REMAINED. THIS WOULD BRING THE TEAMS UP AGAINST MAJOR ISSUES SUCH AS THE APPOINTMENT OF THE GOVERNOR, REPRESENTATION OF HONG KONG OVERSEAS, CITIZENSHIP AND DEFENCE. IF THE CHINESE WERE PREPARED TO CONTEMPLATE A DEAL OF THIS SORT, WE MIGHT WELL NEED TO RAISE THE LEVEL OF THE TALKS. THIS WOULD HOWEVER NEED TO BE VERY CAREFULLY CONSIDERED, BECAUSE THIS PHASE COULD IN ITSELF BE VERY PROTRACTED AND WE WOULD NEED

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IF POSSIBLE TO AVOID MINISTERS BECOMING INVOLVED IN DEADLOCK AT AN EARLY STAGE.

(E) AGREEMENT

THE NORMAL PROCEDURE WOULD BE:

(I) INITIALLING OF A DRAFT AGREEMENT, SUBJECT TO RATIFICATION.

(II) FORMAL SIGNATURE.

(III) PASSAGE OF THE NECESSARY BILL THROUGH PARLIAMENT.

(IV) EXCHANGE OF RATIFICATIONS.

OTHER METHODS.

5. THROUGHOUT THE SERIES WE SHOULD KEEP IN MIND THE POSSIBILITY OF USING SUPPLEMENTARY METHODS (EG MINISTERIAL MESSAGES OR VISITS: UNOFFICIAL INTERMEDIARIES) IN ORDER TO OVERCOME OBSTACLES OR CLARIFY OUR POSITION.

DISCUSSION WITH EXCO 6. CONTINUOUS REPORTS TO EXCO AND REVIEWS OF OUR POSITION WITH THEM WOULD BE NECESSARY.

ANNEX A

FUTURE OF HONG KONG: SUBSTANTIVE TALKS: UK INITIAL PRESENTATION

1. THE EXCHANGES WOULD PROBABLY BEGIN WITH A REHEARSAL BY THE CHINESE OF THEIR FORMAL POSITION ON SOVEREIGNTY, ON FAMILIAR LINES, INCLUDING THE POINTS THAT SOVEREIGNTY AND ADMINISTRATION WERE INDIVISIBLE AND THAT CHINA COULD NOT ALLOW OTHERS TO ADMINISTER HONG KONG ON ITS BEHALF. THE CHINESE MIGHT GO ON TO LAY DOWN SOME OF THEIR GENERAL PRINCIPLES FOR A FUTURE SETTLEMENT, IE THAT HONG KONG PEOPLE SHOULD GOVERN HONG KONG, THAT A SPECIAL ADMINISTRATIVE REGION SHOULD BE ESTABLISHED AND THAT CERTAIN SYSTEMS WOULD REMAIN UNCHANGED.

2. THE AMBASSADOR SHOULD RESPOND BY:

(A) INDICATING A FULL GRASP OF THE CHINESE POSITION:

(B) MAKING CLEAR THE BRITISH POSITION, IE THAT, AS DESCRIBED IN THE PRIME MINISTER'S LETTER, WE COULD BE FLEXIBLE ON SOVEREIGNTY PROVIDED THE REST OF THE PACKAGE WAS SATISFACTORY:

(C) MAKING PROPOSALS ON HOW THE TALKS SHOULD PROCEED.

(A) AND (B) ABOVE WOULD BE A REAFFIRMATION OF THE MESSAGE IN THE PRIME MINISTER'S LETTER TO ZHAO, ADDING THAT WE WERE NOT LOOKING TO THE PAST (IE THE TREATIES) BUT TO THE FUTURE.

3. THE AMBASSADOR WOULD THEN INVITE THE GOVERNOR TO DELIVER HIS

PRESENTATION, USING THE FOLLOWING FORMULA: 'WE HAVE LISTENED WITH INTEREST TO WHAT THE CHINESE SIDE HAS SAID ABOUT THE FUTURE ADMINISTRATION OF HONG KONG AND WE SHOULD LIKE IN DUE COURSE TO DISCUSS THE QUESTION OF ADMINISTRATIVE CHANGES IN MORE DETAIL. TO TAKE ONE ELEMENT OF WHAT YOU HAVE SAID, 'HONG KONG PEOPLE SHOULD RUN HONG KONG', THAT IS A PROPOSITION TO WHICH WE HAVE NO OBJECTION IN PRINCIPLE. INDEED, IF HISTORICAL AND POLITICAL CIRCUMSTANCES WERE DIFFERENT, HONG KONG WOULD LONG AGO HAVE BECOME INDEPENDENT.

BUT HONG KONG IS A SPECIAL CASE AND ITS UNIQUE STATUS IS SOMETHING THAT BOTH SIDES SHOULD EXAMINE TOGETHER IN THE COURSE OF THESE TALKS. AS A FIRST STEP, I SHOULD LIKE TO ASK THE GOVERNOR OF HONG KONG TO DELIVER A SHORT PRESENTATION ON HOW HONG KONG WORKS.'

4. THE GOVERNOR WOULD THEN SPEAK (SEE ANNEX B).

5. THE AMBASSADOR WOULD SUM UP AS FOLLOWS:

'BOTH SIDES AGREE THAT A SOLUTION TO THE PROBLEM OF THE FUTURE OF HONG KONG SHOULD BE SUCH AS TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG. SINCE THE CHINESE SIDE HAS STATED THAT IN ITS PROPOSALS THE 'SYSTEMS' OF HONG KONG WOULD REMAIN UNCHANGED, WE ASSUME THAT THE CHINESE SIDE RECOGNISE THAT THIS IS ESSENTIAL IN ORDER TO OBTAIN THIS OBJECT. A SIMPLE TRANSFER OF CONTROL OVER HONG KONG TO PEKING WOULD NOT ENABLE CONFIDENCE TO BE MAINTAINED IN THE HONG KONG ECONOMY, AND THIS WOULD NOT ENABLE PROSPERITY AND STABILITY TO BE MAINTAINED. THERE ARE TOO MANY DOUBTS ABOUT THE CONTINUITY OF CHINESE POLICY WHICH ARE FOUNDED IN RECENT CHINESE HISTORY AND IN PARTICULAR THE EXPERIENCE OF THE CULTURAL REVOLUTION. IT IS INEVITABLE TOO THAT THERE SHOULD BE DOUBTS WHETHER A COUNTRY WITH A SOCIALIST SYSTEM COULD ABSORB A REGION WITH A LIBERAL CAPITALIST SYSTEM WITHOUT ENDURING FUNDAMENTAL CHANGE IN THE LATTER. IT IS NOT SUGGESTED THAT THIS CONSIDERATION WILL APPLY FOR EVER: BUT IT CERTAINLY DOES APPLY AT PRESENT.

6. THE QUESTION THEREFORE IS HOW TO GUARANTEE THE CONTINUITY OF THE SYSTEMS AFTER 1997. THE BRITISH SIDE CANNOT SEE HOW A SUFFICIENT GUARANTEE CAN BE GIVEN UNLESS AN ARRANGEMENT IS REACHED WHICH

ALLOWS THE UK A CONTINUING ADMINISTRATIVE ROLE IN HONG KONG SUFFICIENT TO INSPIRE CONFIDENCE THAT THE SYSTEMS WILL NOT BE CHANGED, THOUGH WE ALL SHOULD AGREE THAT THERE WOULD BE INCREASED SCOPE FOR HONG KONG PEOPLE TO TAKE PART. IT IS RECOGNISED THAT TO MAKE THIS ACCEPTABLE TO THE CHINESE GOVERNMENT, IT WOULD HAVE TO BE COUPLED TO AN ACCEPTANCE BY BRITAIN OF CHINESE SOVEREIGNTY OVER THE WHOLE OF HONG KONG. AS WE HAVE MADE CLEAR THIS WOULD HAVE TO BE PART OF AN OVERALL PACKAGE WHICH PARLIAMENT AND THE PEOPLE OF HONG KONG COULD ACCEPT.

7. WE APPRECIATE THAT THIS VIEW CAUSES DIFFICULTY FOR THE CHINESE GOVERNMENT. BUT WE HOPE THEY WILL SHOW UNDERSTANDING OF OUR POSITION, WHICH IS BASED ON PRACTICAL CONSIDERATIONS. SPECIFICALLY WE SUGGEST THAT WE SHOULD NEXT DISCUSS:

(I) HOW GUARANTEES COULD BE GIVEN FOR THE FUTURE CONTINUITY OF THOSE SYSTEMS IN HONG KONG:

(II) WHAT PRACTICAL CHANGES MIGHT BE NECESSARY IN SPECIFIC AREAS, EG CURRENCY, LAWS, TRADE, SOCIAL SYSTEM AND WAY OF LIFE, ETC.'

ANNEX C

QUESTIONNAIRE ON CHINESE PROPOSALS

1. LEGAL SYSTEM

(A) WOULD HONG KONG'S PRESENT LAWS CONTINUE IN FORCE?

(B) IF SO, WHAT WOULD BE THE PROCEDURE FOR AMENDING THEM OR FOR INTRODUCING NEW LEGISLATION?

(C) IF NOT, WOULD CHINESE LAW REPLACE THE PRESENT BRITISH LAWS?

(D) WHAT COURTS WOULD BE MAINTAINED IN THE TERRITORY TO ADMINISTER THE LAW?

(E) WHAT ARRANGEMENTS WOULD BE MADE FOR THE INDEPENDENCE OF THE JUDICIARY?

(F) HOW WOULD BILLS BE HANDLED?

(G) WOULD THERE BE ANY FUNDAMENTAL LAW GUARANTEEING:

(I) FREE MOVEMENT OF GOODS IN AND OUT OF HONG KONG.

(II) FREEDOM TO EMIGRATE, AND, APART FROM NORMAL IMMIGRATION CONTROLS, FREE MOVEMENT OF PERSONS IN AND OUT OF HONG KONG.

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- (III) FREEDOM OF THE PRESS AND SPEECH.
- (IV) FREEDOM OF ASSEMBLY, PROTEST, PETITION, ETC.
- (V) BASIC HUMAN RIGHTS?

2. ECONOMY

- (A) HOW WOULD THE FREE MARKET SYSTEM BE GUARANTEED?
- (B) WHAT ARRANGEMENTS WOULD GOVERN AN INDEPENDENT CONVERTIBLE HONG KONG CURRENCY? WHAT AUTHORITY WOULD SUPERVISE IT? HOW WOULD OUTSIDE INTERFERENCE BE PREVENTED?
- (C) WHAT ARRANGEMENTS WOULD GOVERN HONG KONG'S PARTICIPATION IN INTERNATIONAL TRADING AGREEMENTS? HOW WOULD HONG KONG QUOTAS (EG FOR TEXTILES) BE KEPT SEPARATE FROM THOSE OF THE PRC?
- (D) WHAT WOULD BE THE SYSTEM OF BANKING SUPERVISION? HOW WOULD ITS INDEPENDENCE BE GUARANTEED?
- (E) WHAT GUARANTEES WOULD THERE BE FOR FREE MOVEMENT OF CAPITAL INTO AND OUT OF HONG KONG? HOW WOULD FOREIGN INVESTORS BE ASSURED OF FREE REPATRIATION OF DIVIDENDS ETC?

3. PUBLIC SERVICE

- (A) WHAT ARRANGEMENTS WOULD GUARANTEE THE INDEPENDENCE OF THE PUBLIC SERVICE? HOW WOULD SENIOR OFFICIALS IN THE CIVIL SERVICE, POLICE, ETC BE APPOINTED?
- (B) WHAT ARRANGEMENTS WOULD GOVERN PENSIONS?

4. LAW AND ORDER

- (A) WHAT WOULD BE THE CONTROLLING AUTHORITY FOR THE POLICE?
- (B) WHAT ARRANGEMENTS WOULD GOVERN MILITARY ASSISTANCE TO THE POLICE? HOW WOULD PUBLIC CONFIDENCE BE MAINTAINED IF THIS CAME FROM THE PRC?

5. IMMIGRATION AND CITIZENSHIP

- (A) WHAT ARRANGEMENTS WOULD CONTROL IMMIGRATION FROM CHINA?
- (B) WHAT CITIZENSHIP ARRANGEMENTS WOULD THERE BE FOR HONG KONG RESIDENTS? HOW COULD EXCLUSIVE PRC CITIZENSHIP MAINTAIN CONFIDENCE?

6. EXTERNAL RELATIONS

- (A) WHAT WOULD BE THE ARRANGEMENTS FOR REPRESENTATION OF HONG KONG OVERSEAS?
- () HOW WOULD HONG KONG RESIDENTS BE PROTECTED? WHAT WOULD BE THEIR CITIZENSHIP STATUS? WHAT ABOUT EXISTING BDTCS?

P Y M

FUTURE OF HONG KONG

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PP HONG KONG

GRS 138

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FM FCO 031015Z MAY 83

TO PRIORITY HONG KONG

TELEGRAM NUMBER 413 OF 3 MAY

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MY TELNO 390: FUTURE OF HONG KONG: STRATEGY FOR SUBSTANTIVE TALKS.

1. WE SAID THAT WE WERE WORKING ON OUR OVERALL STRATEGY IF SUBSTANTIVE TALKS GOT UNDERWAY AND ON A CRITIQUE OF THE CHINESE OWN PLAN.
2. MIFT CONTAINS TEXTS OF THE FOLLOWING DRAFTS:
 - A) A MAIN PAPER, SETTING OUT THE POSSIBLE COURSE OF TALKS. PARTICULARLY IN THE LATER STAGES THIS IS OBVIOUSLY SPECULATIVE.
 - B) ANNEX A. THIS CONTAINS THE PROPOSED LINE TO TAKE AT THE FIRST SESSION AT WHICH THE GOVERNOR WOULD BE PRESENT. IT IS BASED ON PEKING TELNO 327.
 - C) ANNEX C. AN OUTLINE QUESTIONNAIRE ON THE CHINESE PLAN.
3. ANNEX B WOULD BE THE PRESENTATION ON HONG KONG. THIS IS STILL UNDER REVISION (YOUR TELNO 509).
4. GRATEFUL FOR COMMENTS.

PYM

FUTURE OF HONG KONG

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PRIME MINISTER'S MEETING WITH SIR S Y CHUNG, SENIOR UNOFFICIAL
MEMBER OF THE EXECUTIVE COUNCIL, AT 5 PM ON 4 MAY 1983 : FUTURE
OF HONG KONG

POINTS TO MAKE

1. Glad to continue our meetings to discuss the future of Hong Kong. Pleased that since our last meeting EXCO have continued to play such an important role.
2. We remain fully committed to achieving a solution that maintains stability and prosperity and is acceptable to people in Hong Kong as well as to Parliament.
3. Progress bound to be slow. The Chinese have not helped by dragging their feet. But that does not alter our aim.
4. Wanted, in my message to Zhao, to show that I am not in a position to meet the Chinese premise on sovereignty but that we are serious about starting detailed negotiations.
5. Hope that Chinese response will be favourable. But if not, shall continue to look for ways to make progress towards the agreed objectives. Look forward to keeping in close touch with you in either event, and welcome prospect of you and other Unofficials visiting London with the Governor within the next month or two.
6. [Possible participation in Peking talks. An additional point will be provided when the PM's views are known].
Before deciding on whether Unofficials should participate in talks with China, must first await reply to my message and assess its contents.

SECRET



File

7

10 DOWNING STREET

From the Private Secretary

3 May 1983

FUTURE OF HONG KONG: POSSIBLE INVOLVEMENT OF EXCO UNOFFICIALS IN
THE NEGOTIATIONS IN PEKING

Thank you for your letter of 27 April which the Prime Minister saw over the weekend.

The Prime Minister considers that for the time being we should go no further with the Unofficials (or with Sir S. Y. Chung during his visit this week) than to say that we shall await the Chinese reply to her message and assess its contents before considering further the question of involving the Unofficials in the negotiations.

Mrs. Thatcher has further commented that the line which the Unofficials are now taking about involvement in the negotiations goes much further than S. Y. Chung's earlier remarks to her.

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

John Holmes, Esq.,
Foreign and Commonwealth Office.

SECRET

(for mtg. follow on) 6/5



Foreign and Commonwealth Office

London SW1A 2AH

6B

29 April 1983

Dear John,

Future of Hong Kong: Visit of Sir Y K Pao

The Prime Minister is seeing Sir Y K Pao on 5⁶ May. The following is what we know of Sir Y K's recent contacts with the Chinese. The Ambassador in Peking is not aware of Sir Y K having visited China since last September. The Governor of Hong Kong, however, has reported that Sir Y K met Vice Premier Yao Yilin in Tokyo a few weeks ago, and that the two had a brief exchange on Hong Kong. In addition, immediately before his visit to London, Sir Y K will be in Shanghai for the launching of a ship. It is possible that while there he will see the Mayor, Wang Daohan, who has on occasions spoken to visitors about Hong Kong.

No information about the talks on the future has been passed to Sir Y K from our side. But both the Ambassador and the Governor consider it a possibility that the Chinese may indirectly or directly have informed Sir Y K of the Prime Minister's letter to Premier Zhao. The Ambassador has warned against anything being said to him here which he might subsequently misrepresent to the Chinese, so distracting their attention from the content of the Prime Minister's message. But, if Sir Y K mentions it, there would seem to be no harm in confirming, in strict confidence, that there has indeed been a message, the purpose of which was to set out our position clearly and to encourage the Chinese to begin serious negotiations.

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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29 APR 1993

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Foreign and Commonwealth Office

London SW1A 2AH

29 April 1983

Dear Sir,

Call on Prime Minister by Sir S Y Chung,
Senior Official, 4 May 1983

Sir S Y Chung, who will be in London on a private visit to receive honorary distinctions from engineering institutions, is calling on the Prime Minister at 5 pm on 4 May. He will also see Mr Pym and Lord Belstead. I enclose a brief. The visit will provide a useful opportunity to reassure Sir S Y that HMG attaches importance to close cooperation with the Unofficials and that the hiatus in the talks with the Chinese does not mean that we are weakening in our objectives. This is a point on which the Governor has placed particular stress.

The brief refers to the Governor's suggestion that Sir S Y Chung might take part, on a selective basis, in the talks with the Chinese in Peking. We have written separately about this. The brief will need completing when the Prime Minister's views on the point are known.

The Governor has also emphasised the need for a positive public line to be taken about Sir S Y Chung's visit. He has suggested that our comment to the press on the visit should emphasise the importance which Ministers attach to their meetings with Sir S Y. He would like it added that Ministers have discussed the situation fully with him and that they assured him that HMG remain fully committed to the pursuit of the agreed objectives of holding talks with the Government of the PRC in order to maintain the stability and prosperity of Hong Kong. We agree with the Governor that this would be useful. Unless you see any objection, FCO News Department will take this line. It would be helpful if the No 10 press office did the same for the call on the Prime Minister.

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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PP PEKING

GRS 151

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FM FCO 291715Z APR 83

TO PRIORITY PEKING

TELEGRAM NUMBER 267 OF 29 APRIL 1983,

INFO PRIORITY HONG KONG.

PERSONAL FOR AMBASSADOR

MY TELNO 231: FUTURE OF HONG KONG: VISIT BY HAL MILLER MP

1. MILLER HAS GIVEN US A REPORT ON HIS VISIT TO CHINA. THE MAIN POINTS OF INTEREST WERE:

(I) LIAO CHENGZHI TOLD MILLER THAT THE PRIME MINISTER'S MESSAGE WAS VERY MUCH APPRECIATED AND THAT THEY WERE NOW PREPARING A REPLY.

(II) LIAO DENIED FIRMLY THAT THEY WERE INTENDING TO MAKE A UNILATERAL DECLARATION. HE WAS ANGRY WITH THOSE WHO HAD SPREAD THE 'RUMOUR'.

(III) THE CHINESE WERE PREPARED FOR THE NEGOTIATIONS TO LAST A LONG TIME (LIAO SPOKE OF FOURTEEN MONTHS).

(IV) LIAO UNDERSTOOD THE POSITION OF PARLIAMENT BUT WAS STRONGLY OPPOSED TO ELECTIONS IN HONG KONG OR TO THE IDEA OF THE DISTRICT BOARD'S 'VOTING' ON A SINO/BRITISH AGREEMENT ON HONG KONG.

2. A FULL RECORD OF MILLER'S CONVERSATIONS WILL BE SENT TO YOU BY BAG.

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Prime Minister.

Foreign and Commonwealth Office

Agree the line at
the end of the letter?

London SW1A 2AH

27 April 1983

A.S.C. $\frac{27}{4}$

① Wait for reply.

② Then to assess Chinese reaction.

Dear John,

N.B. This is much further than S.Y. suggested to me. ms

Future of Hong Kong: Possible Involvement of EXCO Unofficials
in the Negotiations in Peking

There has been an exchange with the Governor and the Ambassador in Peking about the possible involvement of EXCO Unofficials in the negotiations in Peking. You may recall that an idea somewhat on these lines was originally put to the Prime Minister by Sir S Y Chung (your letter of 20 December 1982). The Prime Minister replied that the talks which had so far taken place were hardly of a type to warrant that.

The Unofficials, and Sir S Y in particular, are keen to be involved as closely as possible in the negotiations and they have now returned to the charge. The Governor's strong view is that if they were excluded because HMG objected this would have a very damaging political impact in Hong Kong. There is no doubt of the Unofficials' sensitivity. We must also keep in mind the importance of a good relationship between Sir E Youde and the Unofficials and the need to keep the Unofficials on our side as much as possible.

On the other hand, HMA Peking has put forward a number of counter arguments:

- (a) the Chinese would probably object to the idea. It would certainly complicate and could even slow or delay the substantive talks which we hope the Prime Minister's letter to Premier Zhao will effect;
- (b) if the Chinese should agree, Sir S Y's presence could well put a brake on any possible flexibility by the Chinese or could assist them in seeking to drive wedges between him and us;

/(c) once



- (c) once Sir S Y had taken part in one negotiating session, it would be very difficult to exclude him from future sessions. This could affect our tactical freedom of manoeuvres in the talks;
- (d) the role of the Unofficials is an advisory one. To build them into HMG's negotiating team would alter this role radically. It could strengthen their belief that they had a power of control over HMG's decisions.

These are strong arguments. There is no need to take any firm decisions before we have received a reply to the Prime Minister's message and see what form, if any, the negotiations are likely to take; but it would be helpful for the Governor to be able to say something to the Unofficials soon, to allay the pressure. A line is also needed for Sir S Y Chung's visit next week.

Mr Pym suggests the following:

- (i) No firm decisions can be taken until we see the Chinese reply and are able to study its implications;
- (ii) But we see potential problems in participation by the Unofficials, at least in the early stages of any negotiations: the Chinese would almost certainly object and this could sour the atmosphere; and if they agreed they would be tempted to use the Unofficials' presence to drive wedges between us and them;
- (iii) Nevertheless we certainly see value in participation by Sir S Y, with the Governor, in an early presentation to the Chinese on Hong Kong. We would envisage this as separate from but parallel to the negotiations themselves. This would need to be made clear to the Chinese.
- (iv) Meanwhile there is of course no objection to Unofficials paying private visits to Peking at any time.

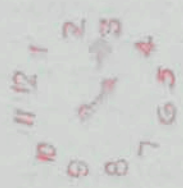
I would be grateful if you could let me know the Prime Minister's views.

Tom eve
John Holmes
(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street



27 APR 1968



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MFJ

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26 April 1983

Future of Hong Kong: Chinese Breaches
of Confidence

Thank you for your letter of 25 April. The Prime Minister agrees with the recommendation of the Foreign and Commonwealth Secretary that, at least for the time being we should not remonstrate with the Chinese about the recent leak of Mrs. Thatcher's message to the Chinese Premier.

AJC

John Holmes Esq
Foreign and Commonwealth Office.

SECRET

NR



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

Agree that, at least by the
time being, we do not protest
to the Chinese about these leaks?

25 April, 1983

A.J.C. 25/4

Yes
MS

Dear John,

Future of Hong Kong: Chinese Breaches of Confidence

I promised you further advice on whether representations should be made to the Chinese over a leak about the Prime Minister's message to the Chinese Premier. So far there has been no press report of this but meanwhile Hong Kong have reported (Hong Kong telnos 536 and 537) that the Hong Kong Economic Journal have printed a fairly detailed account of some of the exchanges between our Ambassador in Peking and Vice Foreign Minister Yao Guang. Hong Kong have firm evidence that this came from an official source in China.

The report is sufficiently accurate to carry conviction but it adds some assorted points, in particular the assertion that the Ambassador had hinted that we would be ready to concede sovereignty in return for the continuation of British administration. It also tries to put the blame for lack of progress on British intransigence.

There are obviously arguments for remonstrating with the Chinese both in order to make clear that confidentiality must be preserved and in order to put the record straight on the sovereignty point. However the Ambassador advises strongly against, at any rate at this stage. He points out that because the report has appeared in a Hong Kong paper, we could not pin the Chinese down as being the originators without declaring the source of our information (the wife of the owner of the Economic Journal). The Governor has made clear that he would be very reluctant to see this source compromised since she may be helpful in the future.

We could of course protest anyway, emphasising that we were not responsible for the leak and that the detail in it suggests that it must have come from someone with access to the Chinese records of the conversations. However the likelihood is that we would make little headway. Sir P Cradock also argues that we would be unwise to sour the atmosphere at a time when we are expecting a reply to the Prime Minister's message. There have been a number of indications that the Chinese regard the Prime Minister's message as a helpful move. We shall of course need to ensure that they do not try to misrepresent it as offering a concession but the most important objective must be to get substantive talks going.

SECRET



Mr Pym therefore believes that we should not instruct Sir P Cradock to remonstrate at this stage, pending the reply from the Chinese Premier. If this proves to be unsatisfactory, or if the South China Morning Post finally splash the leak by the New China News Agency, we may need to reconsider.

Yours ever

J E Holmes

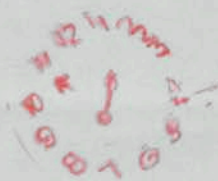
(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

Hong Kong : Future of P.T. 6,

25 APR 1965



GRS 240
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FM HONG KONG 191035Z APR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 537 OF 19 APRIL
INFO IMMEDIATE PEKING

MIPT: FUTURE OF HONG KONG: HONG KONG ECONOMIC JOURNAL ARTICLE

1. WE KNOW FROM SALLY LIN (WHOSE HUSBAND IS OWNER AND EDITOR OF THE HONG KONG ECONOMIC JOURNAL AND WHO PLAYS AN ACTIVE ROLE IN THE PAPER'S AFFAIRS HERSELF) THAT SHE HAS VERY RECENTLY RECEIVED A LETTER FROM A RELATIVE OF HER MOTHER'S WHO IS AN OFFICIAL IN CHINA AND A CCP MEMBER, AND THAT THIS LETTER DEALS WITH THE QUESTION OF THE NEGOTIATIONS ON THE FUTURE. THE ARTICLE REPORTED IN MY TELEGRAM UNDER REFERENCE IS EVIDENTLY BASED ON THIS LETTER.

2. THE ARTICLE CONTAINS A NUMBER OF REASONABLY ACCURATE POINTS REFLECTING THE COURSE OF SINO-BRITISH CONTACTS UP TO LAST JANUARY/FEBRUARY WITH SOME POINTS INTRODUCED FROM ELSEWHERE. THERE CAN BE NO DOUBT THAT THIS IS A DELIBERATE LEAK ON THE PART OF THE CHINESE. IT WOULD NOT HAVE BEEN POSSIBLE, IN THE ABSENCE OF SUCH A LEAK, FOR THE HONG KONG ECONOMIC JOURNAL TO PUT TOGETHER SUCH AN ACCOUNT FROM INFORMATION ALREADY AVAILABLE. NOR WOULD A CHINESE OFFICIAL PROVIDE INFORMATION OF THIS KIND EXCEPT ON INSTRUCTIONS FROM HIGHER AUTHORITY.

3. THE CHOICE OF THE HONG KONG ECONOMIC JOURNAL AS A VEHICLE IS ALSO LIKELY TO HAVE BEEN DELIBERATE. THE PAPER IS KNOWN TO BE INDEPENDENT AND HAS PREVIOUSLY CARRIED ARTICLES CRITICAL OF CHINESE POSITIONS. IT WILL THEREFORE BE EASIER FOR THE CHINESE TO BRUSH ASIDE ANY COMPLAINTS ABOUT BREACH OF CONFIDENTIALITY THAN IT WOULD HAVE BEEN IF THE PIECE HAD APPEARED IN ONE OF THE COMMUNIST PAPERS.

4. IT WOULD BE HELPFUL TO HAVE THE AMBASSADOR'S COMMENTS. BUT AS SEEN FROM HERE THIS LEAK IS OF A PIECE WITH THEIR ACTION OVER THE PRIME MINISTER'S MESSAGE, AND THEIR MOTIVES ARE LIKELY TO BE SIMILAR.

YOUDE

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FM HONG KONG 191025Z APR 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 536 OF 19 APRIL 1983

INFO IMMEDIATE PEKING

FUTURE OF HONG KONG: PRESS REPORTS

TODAY'S ECONOMIC JOURNAL'S (INDEPENDENT) FRONT PAGE LEAD IS A STORY UNDER THE HEADLINE QUOTE CHINA REJECTS CONFIDENTIAL BRITISH PROPOSALS UNQUOTE. QUOTING QUOTE SOURCES CLOSE TO CHINESE OFFICIALS UNQUOTE THE JOURNAL ASSERTS THAT BRITAIN PUT FORWARD A SECRET PROPOSAL ON HONG KONG'S FUTURE THROUGH THE BRITISH EMBASSY IN PEKING LAST OCTOBER. THE PROPOSAL CONCENTRATED ON THE MAINTENANCE OF HONG KONG'S STABILITY AND PROSPERITY AND DID NOT (NOT) DEAL WITH THE QUESTION OF SOVEREIGNTY. THE BRITISH SIDE INSISTED THAT THE TALKS BE CONDUCTED WITHOUT PRECONDITIONS. HOWEVER, SIR P CRADOCK HAD HINTED ORALLY TO ZHANG WENJIN DURING THEIR PRELIMINARY CONTACTS THAT THE BRITISH MIGHT RECOGNISE CHINA'S SOVEREIGNTY OVER HONG KONG IN RETURN FOR RETAINING ADMINISTRATIVE CONTROL AFTER THE EXPIRY OF THE NEW TERRITORIES LEASE.

2. THE ARTICLE SAYS THAT THE CHINESE SIDE DELAYED GIVING A REPLY TO THESE PROPOSALS UNTIL LATE JANUARY THIS YEAR, WHEN YAO GUANG TOLD SIR P CRADOCK ORALLY THAT THE PROPOSALS WERE UNACCEPTABLE. THE BRITISH SIDE EXPRESSED DISSATISFACTION THAT THE CHINESE HAD DELAYED THEIR REPLY FOR THREE MONTHS AND THAT THE CHINESE HAD NOT RESPECTED THE CONFIDENTIALITY OF THE DISCUSSIONS. YAO GUANG EXPLAINED THAT THE MAIN REASON FOR THE DELAY WAS PERSONNEL CHANGES. HE ALSO SAID THAT THE VIEWS EXPRESSED BY SENIOR OFFICIALS WERE NO MORE THAN REITERATIONS OF CHINA'S PUBLIC STAND ON THE QUESTION AND THAT THERE WAS NO BREACH OF THE AGREEMENT ON CONFIDENTIALITY. CHINA'S OPEN DECLARATION OF HER POSITION WOULD IN FACT BE BENEFICIAL TO THE PROGRESS OF THE TALKS.

3. YAO GUANG IS ALSO SAID TO HAVE STRESSED THAT SOVEREIGNTY WAS NON-NEGOTIABLE AND THAT THE CHINESE SIDE COULD NOT PERMIT ANY FORM OF BRITISH CONTROL AFTER 1997. THE TALKS WOULD THEREFORE CONCENTRATE ON HOW TO MAINTAIN HONG KONG'S PROSPERITY BETWEEN NOW AND 1997, ON THE BASIS THAT SOVEREIGNTY LAY WITH CHINA. IN THE CHINESE VIEW THE TRANSITIONAL PERIOD BEFORE HONG KONG REVERTED TO CHINA REFERRED TO THE 14 YEARS BEFORE 1997 AND NOT TO THE POST-1997 PERIOD. ON THE PREMISE THAT BRITAIN ACCEPTED CHINESE SOVEREIGNTY, THE CHINESE WERE ALSO PREPARED TO DISCUSS WITH THE BRITISH SIDE REFORMS TO THE EXECUTIVE AND LEGISLATIVE COUNCILS AND THE QUESTION OF HONG KONG'S RESERVES. IN OTHER WORDS CHINA WAS PREPARED TO DISCUSS WITH BRITAIN ANY MATTERS RELATING TO THE TRANSITIONAL PERIOD BEFORE 1997. THE QUESTION OF HONG KONG'S FUTURE AFTER 1997 WAS A DOMESTIC MATTER FOR CHINA AND DID NOT CONCERN OTHER COUNTRIES.

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RESTRICTED

4. ON THE FURTHER CONDUCT OF THE TALKS, THE ARTICLE SAYS THAT THE CHINESE SIDE HAS NOT CHOSEN ITS NEGOTIATING TEAM BECAUSE THE TALKS ARE STILL AT A PRELIMINARY STAGE AND BECAUSE THEY ARE WAITING TO SEE WHO WILL SUCCEED SIR P CRADOCK WHO IS DUE TO RETIRE IN OCTOBER. THE GOVERNOR WOULD NOT BE ABLE TO TAKE PART AS A REPRESENTATIVE OF HONG KONG, BECAUSE THE TALKS ARE BETWEEN THE CHINESE AND BRITISH GOVERNMENTS.

5. ON THE SELF RULE PROPOSAL, THE SOURCES ARE QUOTED AS SAYING THAT THE CHINESE GOVERNMENT HOPED THAT HONG KONG CHINESE WOULD PROGRESSIVELY TAKE OVER THE SENIOR POSITIONS WITHIN THE HONG KONG GOVERNMENT WITHIN SEVEN OR EIGHT YEARS. PROMOTION OF LOCAL CHINESE INTO THESE POSTS SHOULD BEGIN WITHIN TWO OR THREE YEARS. BY 1997 THE CHINESE FLAG WOULD HAVE REPLACED THE BRITISH FLAG, AND THE GOVERNOR, THE SECRETARY FOR SECURITY AND THE COMMANDER, BRITISH FORCES WOULD HAVE TO RETURN TO BRITAIN. THE ARTICLE ALSO SUGGESTED THAT THE CHINESE WISHED THE CHARTERED BANK AND THE HONG KONG AND SHANGHAI BANK TO CONTINUE ISSUING HONG KONG'S BANKNOTES. IF THEY DID NOT CO-OPERATE, CHINA WOULD CONSIDER INVITING US AND JAPANESE BANKS TO HELP THE BANK OF CHINA ISSUE LOCAL CURRENCY.

6. IN CONCLUSION, THE SOURCES ARE QUOTED AS SAYING THAT THE LACK OF PROGRESS IN THE TALKS IS DUE TO OBSTACLES RAISED BY BRITAIN. CHINA IS SHOWING ITS CONCERN FOR THE WELL BEING OF HONG KONG PEOPLE BY INVITING A SERIES OF DELEGATIONS TO PEKING TO PRESENT THEIR VIEWS. BRITAIN HAD UNDER-ESTIMATED THE FIRMLINESS OF CHINA'S STAND ON SOVEREIGNTY, AND HAD MISTAKENLY THOUGHT THAT SOVEREIGNTY MIGHT BE A BARGAINING COUNTER IN THE NEGOTIATIONS. CHINA WAS CONFIDENT THAT A SOLUTION WOULD BE FOUND, BUT WOULD NOT BE THE DEMANDEUR, EVEN THOUGH AN EARLY SOLUTION WOULD BE IN HONG KONG'S BEST INTERESTS. THE SOURCES ARE QUOTED AS HAVING SAID QUOTE CHINA IS NOT ARGENTINA AND HONG KONG IS NOT THE FALKLANDS UNQUOTE. THIS IS INTERPRETED AS MEANING THAT CHINA'S POSITION IS BOTH QUOTE REASONABLE AND BACKED BY STRENGTH UNQUOTE (THE ORIGINAL CHINESE INVOLVES A PLAY ON WORDS).

7. FULL TRANSLATION FOLLOWS BY BAG.

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Henry King
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PP HONG KONG

GRS 366

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FM FCO 221930Z APRIL 83

TO PRIORITY HONG KONG

TELEGRAM NUMBER 390 OF 22 APRIL

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MCLAREN'S LETTER OF 25 MARCH, YOUR TELNO 509 AND PEKING TELNOS 326, 327 AND 328: FUTURE OF HONG KONG. STRATEGY FOR SUBSTANTIVE TALKS

A.S.C. 25/4.

f.a.

1. WE LOOK FORWARD TO SEEING THE REVISED DRAFT PAPER (YOUR TELNO 509). WE SHALL NOT SEND DETAILED COMMENTS BEFORE THEN. MEANWHILE OUR GENERAL THOUGHTS ARE AS FOLLOWS.
2. WE AGREE THAT IT IS IMPORTANT TO WORK OUT IN ADVANCE A POSSIBLE OVERALL STRATEGY FOR THE START OF SUBSTANTIVE TALKS. WE ARE WORKING ON THIS, TAKING ACCOUNT OF THE IDEAS IN PEKING TELNO 327 AND YOUR PAPER. THE HYPOTHESIS IN PARAGRAPH 1 OF TELNO 327 SEEMS THE BEST WORKING BASIS BUT WE HAVE TO ACCEPT THAT THINGS COULD TURN OUT VERY DIFFERENTLY. THE LINE WHICH WE TAKE WITH THE CHINESE WILL NEED TO BE GEARED TO THIS.
3. WE AGREE THAT IT IS USEFUL TO WORK OUT WITH EXCO A SET OF ARGUMENTS TO ILLUSTRATE THE VALUE OF BRITISH ADMINISTRATION. WE NOTE FROM YOUR TELNO 509 THAT YOU SEE THIS AS A QUARRY FROM WHICH A SPEAKING NOTE MIGHT BE DRAWN. WE STRONGLY AGREE WITH THIS BASIC APPROACH AND THINK IT PARTICULARLY IMPORTANT THAT EXCO SHOULD BE UNDER NO ILLUSIONS ABOUT THE STATUS OF THE PAPER.
4. THIS IS PARTLY BECAUSE WE AGREE WITH PEKING ON THE NEED, PARTICULARLY IN THE FIRST ROUND, TO AVOID TOO DISPUTATIOUS A NOTE AND TO CONCENTRATE ON INVOLVING THE CHINESE IN DISCUSSION OF DETAIL WHICH, MORE EFFECTIVELY THAN STRAIGHT ASSERTIONS, WOULD FURNISH CONCRETE EXAMPLES OF THE NEED FOR THE BRITISH LINK AS AN ESSENTIAL GUARANTEE OF NON-INTERFERENCE. IN PARTICULAR, WE AGREE WITH THE AMBASSADOR THAT REFERENCES TO THE CONSTITUTIONAL LINK WITH THE UK NEED TO BE VERY CAREFULLY PRESENTED. OTHERWISE THE CHINESE MAY TAKE IT THAT WE ARE ARGUING FOR THE RETENTION OF SOVEREIGNTY AS PART OF THE ULTIMATE PACKAGE, WHICH THEY COULD SEE

SECRET

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AS GOING BACK ON THE LINE IN THE PRIME MINISTER'S MESSAGE.

5. IN PARA 5 OF HIS TELNO 699 OF 27 OCTOBER, THE AMBASSADOR SUGGESTED THAT WE MIGHT PREPARE A CRITIQUE BASED ON WHAT WE KNOW OF THE CHINESE PROPOSALS AS AN ALTERNATIVE TO OR PART OF THE PRESENTATION. WE ARE WORKING ON THIS TOO AND SHOULD BE GRATEFUL FOR YOUR AND PEKING'S CONTRIBUTIONS.

PYM

FUTURE OF HONG KONG

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FM PEKING 210800Z APR 83
TO ROUTINE FCO
TELNO 355 OF 21 APRIL
RPTD INFO HONG KONG.

YOUR TELNO 369: FUTURE OF HONG KONG: SIR Y K PAO

1. AS FAR AS WE ARE AWARE SIR Y K PAO HAS NOT VISITING PEKING SINCE LAST SEPTEMBER. IN THE PAST HE HAS BEEN A REGULAR VISITOR AND WE SHOULD NOT BE SURPRISED IF HE WERE TO COME HERE SOON, PERHAPS SHORTLY AFTER HIS TRIP TO LONDON. IF SO, HE COULD NO DOUBT TALK TO CHINESE LEADERS ABOUT HIS CALLS ON THE PRIME MINISTER AND THE SECRETARY OF STATE. THEY MAY TELL HIM, IF HE DOES NOT ALREADY KNOW, ABOUT THE PRIME MINISTER'S LETTER TO ZHAO.

2. PAO HAS HIS OWN FISH TO FRY AND IS TOTALLY UNSUITABLE AS AN INTERMEDIARY. HE CANNOT BE RELIED ON TO REPORT ACCURATELY TO ONE SIDE WHAT HAS BEEN SAID TO HIM BY THE OTHER. THEREFORE HOPE THAT MINISTERS WILL TAKE AS CAUTIOUS AND ANODYNE A LINE AS POSSIBLE IN SPEAKING TO HIM. HE MAY HAVE HIS OWN IDEAS, AND WILL PERHAPS REVIVE HIS IDEA OF A UK/HONG KONG LOAN TO CHINA. IT IS IMPORTANT THAT NOTHING SHOULD BE SAID TO HIM WHICH HE MIGHT PICK UP AND USE, PROBABLY IN DISTORTED FORM, WITH THE CHINESE. THE LAST THING WE NEED IS FOR PAO TO DISTRACT THEIR ATTENTION FROM THE MESSAGE IN THE PRIME MINISTER'S LETTER.

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TO IMMEDIATE HONG KONG

TELEGRAM NUMBER 375 OF 20 APRIL

AND TO PEKING

FUTURE OF HONG KONG : HONG KONG TELNOS 513 AND 521 AND

PEKING TELNO 346 : PRIME MINISTER'S MESSAGE

1. THANK YOU FOR THESE HELPFUL COMMENTS.
2. THE PRIME MINISTER AGREES THAT ANY INITIAL PRESS ENQUIRIES SHOULD BE MET WITH REFUSAL TO COMMENT ON THE GROUNDS THAT THE TALKS WITH THE CHINESE SHOULD BE KEPT CONFIDENTIAL. IF THE PRESS BEGIN TO GIVE THE STORY PROMINENCE, OR THEIR ENQUIRIES BECOME PERSISTENT, IT WILL BE NECESSARY TO MAKE IT CLEAR THAT THE CHINESE HAVE BEEN TOLD ON SEVERAL OCCASIONS THAT THE QUESTION OF SOVEREIGNTY IS NOT IN THE GOVERNMENT'S GIFT AND THAT PARLIAMENT ALONE HAS THE POWER TO DECIDE ON THIS.
3. AS FOR COMPLAINING TO THE CHINESE, WE AGREE WITH HMA PEKING THAT WE SHOULD NOT REPEAT NOT, RUSH IN. OBVIOUSLY WE SHOULD NEED TO CONSIDER VERY CAREFULLY BOTH THE CONTENTS OF ANY PRESS STORY AND THE DEGREE TO WHICH IT WAS DIRECTLY ATTRIBUTABLE TO THE CHINESE GOVERNMENT. WE SHOULD ALSO TAKE INTO ACCOUNT THE CURRENT STATE OF PLAY ON A RESPONSE TO THE PM'S MESSAGE. WE CERTAINLY DO NOT WANT TO PREJUDICE THE SUBSTANCE OF THE DIALOGUE WITH THE CHINESE. AT THE SAME TIME WE CANNOT EXCLUDE THE POSSIBILITY THAT A SERIOUS BREACH OF CONFIDENTIALITY, IN PARTICULAR A DIRECTLY ATTRIBUTABLE DISTORTION OF THE PM'S POSITION ON SOVEREIGNTY, MIGHT MAKE IT NECESSARY TO RAISE THE MATTER IN PEKING.
4. WE HAVE JUST SEEN HONG KONG TELNOS 536 AND 537 ON THE ARTICLE IN THE NEW ECONOMIC JOURNAL. WE EXPECT TO SUBMIT TO MINISTERS ON WHETHER TO REMONSTRATE WITH THE CHINESE, ON THE BASIS OF YOUR AND PEKING'S COMMENTS.

PYM

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PART 5 ends:-

Hong Kong tel no 536, 19 April 1983

PART 6 begins:-

FCO to Hong Kong tel no 374, 20 April
1983

