

PREM 19/1059

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Future of Hong Kong.

New Territorial Leases.

HONG KONG

Part 1: June 1979

PART 10

Part 10: November 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
3-11-83							
9-11-83							
11-11-83							
14-11-83							
15-11-83							
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14-12-83							
16-12-83							
20-12-83							
22-12-83							
28-12-83							
30-12-83							
- Pt Ends -							

PREM 19/1059



PART 10 ends:-

DB to ASC 30/12/83

PART 11 begins:-

ASC to FCO 3/1/84

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FM HONG KONG 300800Z DEC 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 2037 OF 30 DECEMBER
INFO IMMEDIATE PEKING

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M.I.P.T.

FUTURE OF HONG KONG: SUBMISSION TO MINISTERS - WORKING
PAPER ON FUTURE SECURITY.

BEGINS

DRAFT SUBMISSION TO MINISTERS
THE FUTURE SECURITY OF HONG KONG

THE PROBLEM

1. THE SECURITY ISSUE HAS COME TO THE FORE EARLIER THAN ANTICIPATED BECAUSE THE CHINESE HAVE NOW INDICATED THEIR INTENTION TO STATION MAINLAND FORCES IN THE SAR. WE MUST NOW DECIDE WHAT LINE TO TAKE AT THE JANUARY 1984 ROUND OF TALKS IN RESPECT OF SECURITY FOR THE SAR. A WORKING PAPER SHOULD BE SUBMITTED TO THE CHINESE AS SOON AS POSSIBLE IN ORDER TO INFLUENCE THEIR THINKING AND PRE-EMPT FURTHER UNILATERAL STATEMENTS ADVERSE TO OUR POSITION.

RECOMMENDATION

2. IT IS RECOMMENDED THAT A WORKING PAPER SHOULD BE SUBMITTED TO THE CHINESE AS FOLLOWS:

(TEXT BEGINS)

THE CHINESE PROPOSAL

1. THERE WOULD BE A HIGH DEGREE OF AUTONOMY FOR THE SAR, BUT NATIONAL DEFENCE WOULD BE THE RESPONSIBILITY OF THE CENTRAL GOVERNMENT. ARMED FORCES STATIONED IN HONG KONG WILL NOT INTERFERE WITH THE INTERNAL AFFAIRS OF THE REGION AND THEIR MILITARY EXPENSES WILL BE BORNE BY THE CENTRAL GOVERNMENT. THE SAR WILL ASSUME THE RESPONSIBILITY OF KEEPING SOCIAL ORDER IN THE REGION.

IMPLICATION

2. THE BRITISH GARRISON AS PRESENTLY CONSTITUED WOULD BE WITHDRAWN.

3. TO DISCHARGE ITS OBLIGATIONS FOR "SOCIAL ORDER", WITHOUT SEEKING ASSISTANCE FROM THE CENTRAL GOVERNMENT, THE SAR MUST MAINTAIN ITS OWN INTERNAL SECURITY FORCE. THE POLICE WOULD BE RESPONSIBLE FOR THE MAINTENANCE OF LAW AND ORDER. THEY WOULD ALSO HAVE A CAPABILITY TO DEAL WITH EMERGENCIES: BUT THEY WOULD NEED, AS NOW, RECOURSE TO A SECURITY FORCE TO ASSIST THEM IN DEALING WITH EMERGENCIES AND TO COUNTER ILLEGAL IMMIGRATION. AS THE SECURITY FORCE WILL HAVE A ROLE PRIMARILY LIMITED TO INTERNAL SECURITY IT WOULD BE SMALLER THAN THE PRESENT GARRISON.

IT WOULD BE LOCALLY RAISED AND MADE EFFECTIVE PRIOR TO 1997.

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TEXT ENDS

PRESENTATION.

PRESENTATION OF WORKING PAPER

3. THE POINTS TO BE MADE ON HANDING OVER THE PAPER TO THE CHINESE AND WHEN IT IS INTRODUCED IN THE TALKS WOULD BE THAT THE PROPOSAL TO STATION MAINLAND FORCES IN THE SAR WOULD BE A VERY SENSITIVE ISSUE AND COULD GIVE THE IMPRESSION THAT HONG KONG WAS A PLACE TO BE OCCUPIED; EVEN A TOKEN FORCE WOULD IMPLY THAT THE SAR ENJOYED ITS HIGH DEGREE OF AUTONOMY ON SUFFERANCE ONLY. ON THE OTHER HAND, THE CREATION OF THE INTERNAL SECURITY FORCE TO SUPPORT THE POLICE, TOGETHER WITH A STATEMENT TO THE EFFECT THAT MAINLAND FORCES WILL NOT BE STATIONED IN THE SAR, WOULD CONFIRM THE INTENTION TO LEAVE UNCHANGED HONG KONG'S PRESENT SOCIAL AND ECONOMIC SYSTEMS AND LIFESTYLE. THE CONSIDERATIONS OF TIME AND DISTANCE WHICH HAVE CAUSED BRITISH FORCES TO HAVE TO BE STATIONED IN HONG KONG WOULD NOT APPLY TO THE CENTRAL GOVERNMENT IN MEETING ITS OBLIGATIONS FOR NATIONAL DEFENCE. IT WOULD ALSO BE NECESSARY TO BE READY TO EXPAND ON THE ROLE OF THE SECURITY FORCES SHOULD THE CHINESE ASK FOR DETAILS.

THE ARGUMENT

4. WE NEED TO:

A. EXPLOIT THE OPENINGS PROVIDED BY THE PROPOSAL THAT THE SAR SHOULD BE RESPONSIBLE FOR SOCIAL ORDER; AND THE STATEMENT THAT THERE WILL BE NO INTERFERENCE WITH ITS INTERNAL AFFAIRS:

B. CONVINCED THE CHINESE THAT THE PROPOSAL TO STATION MAINLAND FORCES (INCLUDING WARSHIPS) IN THE SAR WILL DAMAGE CONFIDENCE AND BE AGAINST THE INTERESTS OF ALL PARTIES; AND

C. PERSUADE THEM TO OUR OWN PREFERRED LINE, BUT AT THE SAME TIME BE CLEAR ABOUT THE OPTIONS OPEN TO US IN NEGOTIATIONS IF, AS MAY WELL BE THE CASE, THEY INSIST ON STATIONING SOME FORCES TO MEET THEIR ESSENTIAL NATIONAL DEFENCE OBLIGATIONS.

OUR AIM SHOULD BE TO PERSUADE THEM OF BOTH THE ADVISABILITY AND PRACTICABILITY OF THE SAR MAINTAINING ITS OWN INTERNAL SECURITY FORCES ON A SCALE ADEQUATE TO HANDLE ALL SITUATIONS SHORT OF EXTERNAL ATTACK, AND THUS GIVE THE CHINESE NO EXCUSE FOR INTERVENTION IN INTERNAL AFFAIRS. THIS AIM SHOULD BE COMPREHENSIBLE TO THE CHINESE GOVERNMENT IN THAT WE WOULD IN EFFECT BE SEEKING ROUGHLY THE FIRST TWO TIERS OF THEIR OWN THREE TIER SYSTEM OF POLICE, ARMED POLICE AND ARMY.

5. THERE WOULD BE NO PROSPECT OF SECURING CHINESE AGREEMENT IF WE SOUGHT TO PASS OFF ANY FORM OF BRITISH GARRISON AS PART OF THE SAR'S OWN INTERNAL SECURITY FORCE. ANY SUGGESTION THAT A SECURITY FORCE MIGHT BE RECRUITED EXTERNALLY (FROM GURKHAS OR ELSEWHERE) IS UNLIKELY TO BE ACCEPTABLE TO THE CHINESE: IT COULD LEAD TO THE RECRUITMENT OF EXPATRIATES FROM MAINLAND CHINA; AND IT WOULD BE INCONSISTENT WITH THE PRINCIPLE OF THE PEOPLE OF HONG KONG RUNNING THEIR OWN AFFAIRS. IF, HOWEVER, WE ARE SUCCESSFUL IN SECURING AGREEMENT TO THE INTERNAL SECURITY FORCE

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IT MAY THEN BE POSSIBLE TO PERSUADE THE CHINESE THAT SOME BRITISH ADVISORS AND OTHER TRAINING ASSISTANCE COULD BE OF CONTINUING BENEFIT BEYOND 1997.

6. OUR NEGOTIATING POSITION SHOULD THEREFORE BE TO SEEK AGREEMENT:

A. IN THE FIRST INSTANCE TO THE RAISING AND TRAINING OF THE INTERNAL SECURITY FORCE PRIOR TO 1997 COUPLED TO A PUBLIC STATEMENT THAT NO MAINLAND FORCES (INCLUDING WARSHIPS) WILL BE STATIONED IN THE SAR. FAILING THAT,

B. TO THE INTERNAL SECURITY FORCE, WITH MAINLAND PRESENCE IN THE SAR RESTRICTED TO A PEOPLE'S LIBERATION ARMY (PLA) LIAISON OFFICE. AS A FALL BACK POSITION WE COULD CONCEDE A REQUIREMENT FOR A TOKEN MAINLAND PRESENCE LOCATED WELL AWAY FROM THE URBAN AREAS FOR THE ESSENTIAL PURPOSES OF NATIONAL DEFENCE: FOR EXAMPLE, EXTERNAL COMMUNICATIONS, EARLY WARNING OR PERIODIC VISITS BY WARSHIPS.

C. FINALLY (AS THE THE VERY MINIMUM BEFORE WE RESERVE AND RECONSIDER OUR POSITION), TO A TOKEN MAINLAND PRESENCE AND A STRENGTHENED HONG KONG POLICE FORCE WITH AN EFFECTIVE CAPABILITY TO HANDLE INTERNAL SECURITY PROBLEMS WITHOUT THE NEED FOR ASSISTANCE OUTSIDE THE POLICE FORCE.

7. THE IMPLICATIONS FOR HMG OF AGREEING TO TUVIS NEGOTIATING POSITION ARE TWOFOLD:

A. FIRST, IT INVOLVES A WILLINGNESS TO ACCEPT A PHASED WITHDRAWAL OF THE BRITISH GARRISON IN THE LATER YEARS IF AN INTERNAL SECURITY FORCE IS AGREED AND CIRCUMSTANCES JUSTIFY IT. ALTHOUGH HMG WOULD REMAIN RESPONSIBLE IN ALL RESPECTS FOR SECURITY UP TO 1997, AND WOULD NEED TO MAINTAIN A BALANCED FORCE WITH SUFFICIENT STRENGTH AND FLEXIBILITY TO CATER FOR ANY INTERNAL SECURITY SITUATION IN HONG KONG, THE RANGE OF POSSIBILITIES WOULD BE WIDE. ON THE ONE HAND THE THREAT OF PRC INSPIRED DISORDER POST AN AGREEMENT WILL (SUBJECT TO ANY MAVERICK ACTION BY THE CHINESE) BE MUCH REDUCE, ON THE OTHER IF THE AGREEMENT CAUSES THE ECONOMY TO DETERIORATE THERE COULD BE SUBSTANTIAL UNREST. NEVERTHELESS IT WILL BE NECESSARY, IF THE SECURITY FORCE IS TO BE FULLY EFFECTIVE WHEN THE GARRISON LEAVES, FOR IT GRADUALLY TO ASSUME RESPONSIBILITY FOR ITS ROLE (FROM THE GARRISON) BEFORE 1997. IN THIS CONNECTION THERE MAY BE ADVANTAGES IN OUR NEGOTIATORS INDICATING THE POSSIBILITY OF A PHASED WITHDRAWAL, BUT ONLY TO TIP THE BALANCE IN FAVOUR OF AN AGREEMENT TO OUR PREFERRED LINE.

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B. SECONDLY, IF A SATISFACTORY AGREEMENT IS REACHED, THE PROBLEMS OF RAISING THE INTERNAL SECURITY FORCE AND, AS NECESSARY, ENHANCING THE POLICE MUST BE ADDRESSED AS A MATTER OF URGENCY IF WE ARE TO ENSURE A SMOOTH TRANSITION. IT WILL BE DIFFICULT IN THE TIME FRAME AVAILABLE TO RECRUIT, TRAIN AND GIVE EXPERIENCE TO THE FIRST GENERATION LEADERSHIP: THERE WILL BE A NUMBER OF OTHER AGENCIES COMPETING FOR SIMILAR TALENT: SOME LOCAL CITIZENS MAY BE RELUCTANT TO COMMIT THEMSELVES FOR FEAR OF COMPROMISING THEIR FUTURE AND THAT OF THEIR FAMILIES: AND THE POLICE WILL FACE PROBLEMS OVER LOCAL RECRUITMENT AND RETENTION IN AN INCREASINGLY LOCALISED FORCE. HOWEVER, IF THE TOTAL PACKAGE NEGOTIATED IS GENERALLY ACCEPTABLE TO THE PEOPLE OF HONG KONG, AND PROVIDED THAT THE NECESSARY RESOURCES ARE MADE AVAILABLE AND AN EARLY START IS MADE, THEN THE PROFESSIONAL MILITARY AND POLICE JUDGEMENT IS THAT REASONABLE, SATISFACTORY ARRANGEMENTS CAN BE MADE IN THE TIME AVAILABLE. INDEED, IF WE ARE TO AVOID PUTTING AT RISK THE FUTURE STABILITY OF THE SAR, WE HAVE NO ALTERNATIVE BUT TO GIVE A HIGH PRIORITY TO THESE TASKS IN THE COMING YEARS.

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Mr. Butler

Sir A. Acland hopes that you will be able to ring Lord Cromer, explain that our approach to his son has produced nothing and ask whether he is sure that his son was the source of the information.

A.J.C. 5/11.

MR COLES (on return)

attached

You will find in your tray a letter recording the conversation between the Prime Minister and the Foreign and Commonwealth Secretary about Robin McLaren which records that I obtained Lord Cromer's consent for an approach to his son by Sir Edward Youde. When I spoke to him Lord Cromer said that his son was the source for what was said in the letter about Mr. McLaren and was expecting to be approached.

Sir Antony Acland telephoned me at home on Christmas Eve and said that Sir E. Youde had approached Lord Cromer's son, who had said that he had never met Robin McLaren and could not substantiate what was said in his father's letter. So the mystery becomes deeper than ever. Sir Antony Acland and I agreed that we would take no further action until there was an opportunity to discuss the matter with Sir E. Youde when he came to London in January. I have not told the Prime Minister of the outcome of Sir E. Youde's approach to Lord Cromer's son.

3.12.83
S.R. 3/11.

ROBIN BUTLER

30 December 1983



10 DOWNING STREET

Mr Gles

Action required on the
OD (K) paper on which
the PM has commented
extensively.

I checked orally with the PM
that she was content
for the Unofficial paper +
assessment to go, on the
basis set out in my
letter to FCO below.

JMB
30/12



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10 DOWNING STREET

cc CO FCO
MoS, FCO (Mr Luce) LPO
LOD
DTI
LPSO
MOD
HMT
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From the Private Secretary

30 December 1983

Future of Hong Kong

The Prime Minister was grateful for your Secretary of State's minute of 23 December on the future of Hong Kong, to which was attached a paper for OD(K) and a paper for Unofficials.

John Coles will be writing to you next week with the Prime Minister's comments on the paper for the sub-committee. As regards the paper for Unofficials the Prime Minister agrees that it should be handed over together with the attached assessment of the Chinese position, subject to the following additions to the assessment:-

- i) Insert before the last sentence of paragraph 4 - "All of this was subject to the condition that a satisfactory agreement as defined above should be reached."
- ii) Insert at the end of the second sentence of paragraph 6 - "within the terms of the instructions which EXCO saw when they last visited No.10."

Generally the Prime Minister feels that conditionality has not been sufficiently emphasised. She would like to see the basic framework reaffirmed in a covering letter to accompany the papers for Unofficials.

I am sending copies of this letter to the Private Secretaries to the members of OD(K) and to Richard Hatfield (Cabinet Office).

David Barclay



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10 DOWNING STREET

From the Private Secretary

30 December 1983

Mr Cole: to see o.r.

A.S.C. 3/1.

The Prime Minister was grateful for your Secretary of State's minute of 23 December with which he enclosed a draft paper by the Governor on constitutional and governmental development.

The Prime Minister has read the draft paper with interest. She considers that it would be wrong to magnify the obstacles to the extension of democracy. She has pointed out that Zimbabwe had never had full elections before, but voted in strength when given the opportunity to do so.

David Barclay

Peter Ricketts Esq
Foreign and Commonwealth Office.

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TO IMMEDIATE FCO
TELEGRAM NUMBER 2034 OF 29 DECEMBER 1983
INFO IMMEDIATE PEKING

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FUTURE OF HONG KONG: CONSTITUTIONAL AND GOVERNMENTAL
DEVELOPMENT.

THE FOLLOWING IS THE TEXT OF THE DRAFT EXCO PAPER.

BEGINS :

INTRODUCTION

1. THIS PAPER IS DESIGNED TO PROVIDE A BASIS FOR A DISCUSSION ON THE CHANGE TO A MORE REPRESENTATIVE SYSTEM OF GOVERNMENT IN HONG KONG AND SETS OUT SOME OPTIONS FOR POSSIBLE REFORMS TO THE CONSTITUTIONAL AND GOVERNMENTAL STRUCTURE OF HONG KONG.

2. THE INCREASING INTEREST IN THE ISSUE

(A) IN RECENT YEARS, THERE HAS BEEN INCREASING INTEREST IN SOME GROUPS IN HONG KONG IN THE POSSIBILITY OF ELECTIONS TO THE LEGISLATIVE COUNCIL, OR AT LEAST HAVING THE MEMBERS OF THE LEGISLATIVE COUNCIL SELECTED ON A MORE FORMAL AND VISIBLY REPRESENTATIVE BASIS THAN THE PRESENT APPOINTED SYSTEM. THIS IS PARTLY THE RESULT OF THE INCREASING MATURITY OF HONG KONG SYSTEM, NOTABLY THOUGH THE EMERGENCE OF AN ARTICULATE PROFESSIONAL MIDDLE CLASS MANY OF WHOM WERE EDUCATED IN THE US, CANADA AND UK.

(B) THE APPROACH OF 1997 AND THE NEGOTIATIONS ON THE FUTURE HAVE ALSO STIMULATED PUBLIC DEBATE ON CONSTITUTIONAL AND GOVERNMENTAL ISSUES. THE CHINESE HAVE INDICATED PUBLICLY THEIR INTENTION OF CONSULTING THE PEOPLE OF HONG KONG ON THE MINI-CONSTITUTION FOR THE SPECIAL ADMINISTRATIVE REGION (SAR) WHICH THE CHINESE INTEND HONG KONG TO BECOME POST-1997.

(C) THE CHINESE SIDE IN THE TALKS HAVE ALSO EXERTED PRESSURE ON THE BRITISH SIDE TO PRODUCE IDEAS ON THE CENTRAL CONSTITUTIONAL ISSUES. THERE HAVE ALSO BEEN INDICATIONS THAT THE CHINESE UNDERSTAND THAT HONG KONG CANNOT REMAIN STATIC UP TO 1997 AND THAT THE QUESTION OF ITS DEVELOPMENT BETWEEN NOW AND 1997 WILL HAVE AN IMPORTANT BEARING ON THE SUCCESS OF ANY POST-1997 ARRANGEMENTS WHICH MAY BE AGREED.

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THE PURPOSE OF CHANGE

3. THE PURPOSE OF CHANGE WOULD BE :

(A) TO KEEP PACE WITH THE NATURAL DEVELOPMENT OF HONG KONG SOCIETY.

(B) IF THE LINK OF AUTHORITY WITH THE U.K. IS TO BE SEVERED TO PROVIDE HONG KONG WITH AS STRONG AND STABLE INDIGENOUS SOURCE OF POLITICAL AUTHORITY AS POSSIBLE.

(C) TO ENSURE THAT ANY NEW SYSTEM WAS IN PLACE BEFORE THAT LINK OF AUTHORITY WAS SEVERED.

POSSIBLE COURSES OF ACTION

4. THERE ARE TWO POSSIBLE COURSES OF ACTION:

A. PROGRESSIVE DEVELOPMENT, BUILDING ON EXISTING INSTITUTIONS:

I. THE SELECTION OF THE UNOFFICIAL MEMBERSHIP OF THE LEGISLATIVE COUNCIL IN PART THROUGH ELECTIONS FROM AN ELECTORAL COLLEGE MADE UP OF PEOPLE WHO HAD THEMSELVES BEEN DIRECTLY ELECTED TO LOWER LEVEL BODIES (REGIONAL COUNCILS AND DISTRICT BOARDS) AND IN PART THROUGH ELECTIONS FROM IDENTIFIED FUNCTIONAL GROUPS SUCH AS INDUSTRIAL ASSOCIATIONS, THE UNIVERSITIES, THE MEDICAL PROFESSION, LABOUR BOARDS AND SO ON. THE RELATIONSHIP WITH THE ADMINISTRATION WOULD BE RETAINED BY THE MEMBERSHIP ON THIS COUNCIL OF A FEW KEY OFFICIALS.

II. THE UNOFFICIAL MEMBERSHIP OF THE EXECUTIVE COUNCIL COULD, FOLLOWING THE SAME PRINCIPLE OF PROGRESSIVE DEVELOPMENT BASED ON EXISTING INSTITUTIONS, BE PARTLY ELECTED BY THE LEGISLATIVE COUNCIL FROM AMONG THEIR OWN MEMBERS: TO RETAIN A LINK WITH THE ADMINISTRATION THREE OR FOUR EX-OFFICIO MEMBERS FROM THE SENIOR CIVIL SERVICE AS AT PRESENT WOULD BE USEFUL. THERE WOULD ALSO BE ADVANTAGE IN HAVING ONE OR TWO RESERVED SEATS FOR FUNCTIONAL BODIES (E.G. THE NOTE ISSUING BANKS OR A REPRESENTATIVE OF OVERSEAS COMPANIES IN HONG KONG). - SEE PARA 6(E)

III. THE POST OF GOVERNOR OR CHIEF EXECUTIVE TO BE FILLED THROUGH A CONSULTATIVE PROCESS, CONFIRMED BY ELECTION, AGAIN ON AN ELECTORAL COLLEGE BASIS SIMILAR TO THAT PROPOSED FOR THE LEGISLATIVE COUNCIL.

B. TO MOVE DIRECTLY TO THE INTRODUCTION OF A FULLY ELECTIVE SYSTEM BASED ON ADULT SUFFRAGE INVOLVING:

(I) DIRECT ELECTIONS OF ALL UNOFFICIAL MEMBERS OF THE LEGISLATIVE COUNCIL:

(II) UNOFFICIAL MEMBERS OF THE EXECUTIVE COUNCIL TO BE ELECTED BY THE LEGISLATIVE COUNCIL:

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(111) THE GOVERNOR TO BE DIRECTLY ELECTED.

5. ONCE A SYSTEM OF INDIRECT ELECTION TO THE LEGISLATIVE AND EXECUTIVE COUNCILS FROM A BODY OF CANDIDATES WHO HAD THEMSELVES BEEN DIRECTLY ELECTED TO LOWER LEVEL BODIES HAD BEEN ESTABLISHED, THE WAY WOULD STILL BE OPEN TO MOVE TOWARDS FULL DIRECT ELECTIONS AT A LATER DATE IF THIS COURSE WAS FAVOURED BY THE HONG KONG COMMUNITY.

FACTORS TO BE TAKEN INTO ACCOUNT

6. IN ASSESSING THE RELATIVE MERITS OF THE ABOVE OPTIONS, THE FOLLOWING FACTORS NEED TO BE TAKEN INTO ACCOUNT:

(A) THE ELECTIVE SYSTEM IN HONG KONG IS IN ITS INFANCY. OF THE 2.7 MILLION QUALIFIED TO REGISTER ONLY 33 PER CENT HAVE DONE SO AND OF THOSE ONLY 39 PER CENT PARTICIPATED IN 1981/82 URBAN COUNCIL AND DISTRICT BOARD ELECTIONS.

(B) IT IS LIKELY TO TAKE TIME FOR A SUFFICIENTLY LARGE BODY OF SUITABLY QUALIFIED CANDIDATED FOR ELECTION TO EMERGE.

(C) THE ATTITUDE OF THE CHINESE GOVERNMENT. THIS HAS ALWAYS BEEN CONSIDERED A MAJOR OBSTACLE TO THE INTRODUCTION OF A MORE REPRESENTATIVE SYSTEM OF GOVERNMENT IN HONG KONG. THE CHINESE HAVE NOW INDICATED THAT THEY ENVISAGE SOME FORM OF ELECTIVE OR CONSULTATIVE PROCESS FOR THE ELECTION OF THE GOVERNOR/CHIEF EXECUTIVE POST - 1997. THE CHINESE HAVE ALSO SUPPORTED CALLS BY GROUPS IN HONG KONG FOR A GREATER DEGREE OF DEMOCRACY. DURING HIS MEETING WITH SIR P CRADOCK ON 19 DECEMBER, JI PENGFEI SPECIFICALLY SAID THAT QUOTE DEMOCRACY SHOULD BE PROMOTED UNQUOTE BUT APPEARED TO BE OPPOSED TO THE IMMEDIATE INTRODUCTION OF ELECTIONS IN HONG KONG. HOWEVER, THE CHINESE WOULD NOT NECESSARILY SEEK TO FRUSTRATE ALL MOVES IN THE DIRECTION OF GREATER DEMOCRACY.

(D) IT WILL BE NECESSARY TO AVOID A RAPID POLARISATION OF THE COMMUNITY, WITH THE DANGER OF POLITICAL RIVALRIES (E.G. PRO-CHINA AND PRO-TAIWAN) IRRELEVANT TO HONG KONG'S REAL CONCERNS.

(E) THE ADVANTAGE IN TERMS OF STABILITY IN BUILDING AS FAR AS POSSIBLE ON EXISTING INSTITUTIONS.

POSSIBLE NEXT STEPS

7. MEMBERS ARE CONSIDERING XCX(83)..... ON THE FURTHER DEVELOPMENT OF THE DISTRICT ADMINISTRATION SYSTEM. THE PROPOSAL TO EXTEND THE ELECTIVE SYSTEM AT URBAN COUNCIL LEVEL THROUGH THE ESTABLISHMENT OF A SECOND REGIONAL COUNCIL WITH AT LEAST HALF ITS MEMBERS DIRECTLY ELECTED WOULD CREATE A TERRITORY-WIDE CONSTITUENCY BASED ELECTIVE SYSTEM AT BOTH DISTRICT BOARD AND URBAN COUNCIL LEVEL. THE SAME CONSTITUENCIES, OR COMBINATIONS OF THEM, COULD BE

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THE BASIS FOR DIRECT ELECTIONS. ALTERNATIVELY MEMBERS ELECTED FROM THESE CONSTITUENCIES TO REGIONAL COUNCILS AND DISTRICT BOARDS COULD PROVIDE THE MEMBERSHIP OF THE ELECTORAL COLLEGE MENTIONED IN PARA 5(B)1 ABOVE. REPRESENTATIVE ORGANISATIONS FOR INDUSTRY, COMMERCE AND THE PROFESSIONS ALREADY EXIST. IT MIGHT BE NECESSARY TO ARRANGE FOR SOME COLLABORATION AMONG THEM FOR THE PURPOSE OF ELECTING MEMBERS TO THE LEGISLATIVE COUNCIL.

8. WHATEVER METHOD IS ADOPTED THERE WOULD NEED TO BE A CHANGE IN THE GOVERNOR'S RELATIONSHIP WITH THE EXECUTIVE COUNCIL. HE WOULD STILL CHAIR THE COUNCIL BUT AS CHIEF EXECUTIVE OF THE GOVERNMENT HE WOULD BE BOUND TO ACCEPT AND IMPLEMENT THE COUNCIL'S DECISIONS, UNLESS THERE WERE AREAS RESERVED FOR HIS PERSONAL DECISION BY LAW. SINCE NO GOVERNOR HAS GONE AGAINST THE ADVICE OF THE EXECUTIVE COUNCIL IN LIVING MEMORY THIS WOULD ONLY FORMALISE AN EXISTING SITUATION.

TIMESCALE

9. WHICHEVER METHOD OR COMBINATION OF METHODS IS CHOSEN, THE NEW SYSTEM SHOULD BE IMPLEMENTED DURING THE COURSE OF THE NEXT DECADE. THIS WOULD ENSURE THAT CHANGES WERE BROUGHT ABOUT WHILE THE PRESENT ADMINISTRATION ENJOYED FULL AUTHORITY TO ACT. THE LINK OF AUTHORITY WITH THE UK COULD NEVERTHELESS REMAIN UNBROKEN UNTIL 1997. THE URBAN COUNCIL AND DISTRICT BOARD ELECTIONS IN 1985 AND 1986 PROVIDE A READY MADE OPPORTUNITY FOR LAUNCHING THE FIRST STEP IN A SEQUENCE OF WIDENING THE ROLE OF ELECTIONS IN THE TERRITORY. MEASURES TO EXTEND THE ELECTED PROCESS TO THE LEGISLATIVE COUNCIL, THE EXECUTIVE COUNCIL AND FINALLY TO THE SELECTION OF THE GOVERNOR COULD FOLLOW PROGRESSIVELY THEREAFTER.

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市政局主席 張有興



Hilton Cheong-Leen, OBE, JP
Chairman

December 29, 1983

The Right Honourable Margaret Thatcher, MP
Prime Minister
c/o Government House
HONG KONG

Dear Prime Minister,

I take the liberty of attaching an advance copy of
----- a statement I shall make at the Annual Conventional Debate
of the Urban Council to be held on January 10, 1984 on the
subject of the future of Hong Kong,

It is respectfully suggested that paragraphs 9 to
12 be the bottomline in the negotiations leading up to any
agreement which might be arrived at between Britain and
China.

Sincerely

Hilton Cheong-Leen

Hilton Cheong-Leen

c.c. His Excellency the Governor)
Sir Edward Youde, GCMG, MBE) w/encl.

市政局 · 香港愛丁堡廣場

Urban Council Chambers, Edinburgh Place, Hong Kong.

Motion Speech by Hilton Cheong-Leen
at the Urban Council Annual Conventional Debate
on Tuesday, 10th January 1984

The Statement of Aims for 1984 has been through all the Select Committees and is now to be debated for adoption.

2. I shall leave it to Members to express their views as they see fit on those parts of the Statement of Aims in which they are interested.

3. During this Annual Conventional Debate, it is also customary for Members to speak on matters outside the scope of the Council. No doubt, Members will fully avail themselves of the opportunity to do so.

4. On a general note, it has been for many years the Council's conscious aim to build up through its various subsidies and programmes a strong sense of community spirit and involvement, and a sense of belonging and of commitment

/to

to Hong Kong. With the setting up of the ten urban District Boards and the close cooperation which we have with the Boards, the Council is even more firmly committed to this aim. This is all the more necessary by reason of the Sino-British negotiations on the future of Hong Kong.

Sino-British Negotiations on Hong Kong's Future

5. The next round of talks on Hong Kong's future will take place in Peking on January 25-26.

6. Although I have no knowledge of the details of the discussions, I wish, however, to express my personal assessment of the feelings and aspirations of the majority of Hong Kong 5.5 million citizens.

7. First of all, British colonialism no matter how benevolent and efficient it is, should in due course be replaced by self-administration by Hong Kong people. It would appear that this view is well accepted by Britain.

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8. Secondly, China's current leadership is sincere in its desire to give Hong Kong people self-administration and to allow the present systems to continue for 50 years after 1997. The details on the draft Hong Kong mini-constitution will have to be carefully studied by Hong Kong community leaders.

9. Thirdly, Britain has a binding political obligation and responsibility to the 3 million Hong Kong people who by 1997 will still have claim to British Nationality. Britain can under no circumstances abrogate her political responsibility to these 3 million people after 1997. It is essential that the British links in Hong Kong after 1997 should be of such a nature that most of these people can be given time to be absorbed in the post-1997 Hong Kong body politic. It is hoped that Hong Kong will continue its international ties with the British Commonwealth in some form of "Associated Territory" status after 1997.

10. Fourthly, the New Territories lease will expire in 1997 and the New Territories will automatically revert to China. In order to allow time to resolve the question of these 3 million Hong Kong British Citizens, both Britain and China should come to an agreement whereby sovereignty on Hong Kong Island and the Kowloon Peninsula would finally revert back to China 30 years after 1997. Such an agreement would go a long way towards regaining the confidence of local entrepreneurs in taking a long-term investment view of Hong Kong and in bringing back to Hong Kong some of the US\$7,000 million which one international news magazine has reported to have taken flight from Hong Kong last year.

11. Fifthly, between now and 1997, Hong Kong should move towards self-administration along the Singapore model - as has been advocated by Peking leaders to various Hong Kong groups - so that by 1997, the entire territory of Hong Kong Island, Kowloon and the New Territories will be

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governed by Hong Kong people and the Governor or Chief Minister or whatever name is decided upon will be a Hong Kong citizen elected by Hong Kong people.

12. Sixthly, Hong Kong should by then have its own flag as the premier flag for the whole territory, with British representation in Hong Kong taking the form of a Governor-General or a High Commissioner or the equivalent, and such person could by convention be a Hong Kong born personality.

13. In any event, whatever the current state of the Sino-British negotiations on Hong Kong's future, we the people of Hong Kong must remain strong and united and be prepared to face the future with confidence. We will contribute our best efforts towards China's four modernizations programme while preserving our own unique life-style and the Hong Kong system for another 50 years after 1997.

/14.

14. There may be only 5.5 million people in Hong Kong, but there is but one Hong Kong in the whole world and we are all committed to preserving Hong Kong's stability and prosperity and way of life for a very long time to come..

15. I so move.

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10 DOWNING STREET

From the Private Secretary

28 December 1983

Thank you for your letter of 20 December to John Coles, with which you enclosed a despatch from Sir Percy Cradock on the Hong Kong negotiations. The Prime Minister has read this with considerable interest.

MR. D. BARCLAY

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

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PM/83/102

PRIME MINISTER

Future of Hong Kong

- You will see that not what I do Prime Minister ①*
- Conditionally - has been expressed with no*
- Agree that the Governor should hand over papers B and C attached to EXCO?*
- DMS 23/12*
1. At its meeting on 13 December OD(K) agreed that the Unofficial members of the Hong Kong Executive Council should be invited to London for a further round of consultations with Ministers on the future of Hong Kong. The Sub Committee also invited me to circulate a number of papers for consideration before the Unofficials' visit.
 2. As I promised when we met on Thursday, I now attach two of these papers which have been agreed with the Governor of Hong Kong and the Ambassador in Peking. They are:
 - (i) a paper for the Sub-Committee, reviewing the current position and the way ahead in the negotiations with the Chinese Government:
 - (ii) a paper addressing the same issues to be shown to the Unofficials and used as a basis for discussion with them.
 3. The first paper describes briefly the development of negotiations and the factors affecting the British and Chinese positions. It analyses the position of the EXCO Unofficials and the approach to be adopted during their visit; discusses in detail the tactics for the months ahead; and addresses the issues of 'acceptability' and local government in Hong Kong.
 4. The text prepared as a discussion paper for EXCO reviews the course of the negotiations since September 1982 and considers what alternative objective might be set if it is accepted that continuing British administration after 1997 is no longer attainable. Annexed to it is an assessment of the Chinese position on the future of Hong Kong, analysing the modifications to that position during the course of the negotiations, the degree of Chinese flexibility and likely Chinese action in the



event of confrontation.

5. The Governor will arrive in London on 13 January from New York, where he will have been leading a trade delegation. Some of the Unofficials will be with him while others will come directly from Hong Kong. The Governor considers strongly that EXCO should see the discussion paper before his departure from Hong Kong and have an opportunity fully to discuss and digest its implications. This would mean putting the paper to them in the week beginning 2 January.

6. I am sure that the Governor is right to want the Unofficials to see the paper in good time so that they can reflect carefully on the issues it raises. I should be grateful to know whether you are content that the Governor may hand over the paper for EXCO.

7. I am copying this minute to the other members of OD(K) and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

23 December, 1983

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FUTURE OF HONG KONG: POLICY REVIEW

Development of Negotiations

1. The Chinese position has not altered in essentials since the Prime Minister's visit to Peking in September 1982. They stated then that they intended to recover sovereignty and control by 1997 and to establish Hong Kong as a Special Administrative Region of the PRC within the Chinese constitution. Even at that stage it seemed probable that they would not agree to any authoritative role for Britain continuing after 1997. But this was by no means clear and given Hong Kong's concern to maintain the status quo, (strongly endorsed by the Executive Council) our negotiating objective over the next few months was to establish whether a sovereignty/administration deal could be struck. The Chinese insistence on explicit acceptance of their premise on sovereignty delayed this process and substantive talks only began on the basis of a conditional assurance from the Prime Minister to the Chinese Premier that, if an arrangement acceptable to the two governments and to the people of Hong Kong could be agreed, she would be prepared to recommend a transfer of sovereignty to Parliament.

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2. The first few rounds of substantive discussion in the summer showed that the Chinese would not agree to continuing British administration. They maintained that the essential purpose of the negotiation was to agree on smooth arrangements for a transition to Chinese sovereignty including the right of administration with protection for undefined British "interests". In October 1983 Ministers agreed with EXCO against this background that we should examine whether a satisfactory arrangement could be built on the basis of the Chinese proposals, still with the condition that if the final package was not acceptable HMG would not be prepared to recommend it to Parliament.

3. This move produced progress towards detailed discussion but only after we had refined our position to spell out that, still under the same conditions, we did not intend for the purpose of the negotiations to make any proposals involving an authoritative link between Hong Kong and the UK after 1997.

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4. On that basis, genuinely detailed discussion began at the seventh round in December and the Chinese offered comments on three of the working papers which we had already submitted. This more forthcoming attitude was reflected in their propaganda which, during the autumn, changed from a strongly hostile tone to a theme of reassurance for the people of Hong Kong that the establishment of a Special Administrative Region would not threaten the essentials of their way of life and that there would be continuity in the territory's economic, legal and social systems. There are however still criticisms of HMG and warnings that we have no right to be consulted on internal arrangements in Hong Kong after 1997.

Factors affecting the British and Chinese Positions

5. This evolution has reflected the consistent balance of strength in the negotiation. The Chinese are ultimately able to impose their will on Hong Kong. They reject our view of the validity of the 19th Century Treaties. These are thus a bargaining card only in the sense that we can insist that Parliament must judge an overall package before sovereignty could be given up. The current Chinese administration under Deng Xiaoping though pragmatic to the extent of being ready to see a capitalist regime continue in Hong Kong, strongly shares the nationalist feeling of all Chinese administrations since 1911 in seeing the recovery of Hong Kong as a step in the "sacred task" of reunifying China. China values the economic benefits which it obtains from Hong Kong but does not value them above national pride. The Chinese do not accept the argument that the people of Hong Kong have an overriding right to decide their future. In the Chinese view they are Chinese first and Hong Kong people second: their wishes must be subordinated to those of the people of China as a whole. - not linked called - hence the S.A.R.

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6. We have one positive card in the negotiations: the fact that the Chinese would like our cooperation, and it will be necessary if stability and prosperity are to be preserved. They would much prefer not to be obliged to impose a solution on Hong Kong, which would destroy confidence, remove most of the economic benefits and leave them with a major problem in administering a recalcitrant population. This explains their contradictory themes of insisting that Britain gives up its "colonial" power in 1997 and of

threatening intervention if there are major disturbances in Hong Kong (by implication caused directly or indirectly by HMG). They will aim to get our cooperation on their terms but may be prepared to adjust their position to some extent. They will not, however, give ground on principle in order to obtain it. In the last resort they would seek to settle the question without it.

Position of Hong Kong Executive Council

7. EXCO, in particular the Chinese Unofficial members, clearly agreed to our move in October with mixed feelings. They were prepared to recognise that it was important to keep the talks going and so far as possible to avoid confrontation with China in order to maintain confidence in Hong Kong. But a number of them remained extremely sceptical about the chances of negotiating an agreement on the basis of the Chinese proposals which would maintain confidence. Some of them saw the move not as likely to lead to an acceptable agreement but as a good way of demonstrating that the Chinese would not provide any satisfactory guarantees and of placing HMG and the Hong Kong Government in a more publicly presentable position in which to reject the Chinese ideas.

8. The progress in the talks since October has not lessened EXCO's concern. They made clear then their strong preference for continuing British administration. They still believe that only that would provide really satisfactory assurances for continuity in Hong Kong. Although they received our assessment in November that the Chinese would not agree to British administration, they make a distinction between a tactical shift which took account of this and a decision by HMG to abandon British administration as an objective. They are concerned that the clarifications which we have subsequently made of our move in October, although still on a conditional basis, have made it more difficult to withdraw and to take up a position under which we would reject the Chinese proposals as insufficient to command confidence.

9. EXCO have requested a clear statement of HMG's current objectives, if we have in fact abandoned the continuation of British administration as an aim. They have asked:

(a) If we are working simply for the highest degree of autonomy on

the basis of the Chinese proposals, what precise assurances would HMG try to build into an arrangement in order to maximise the incentive to the Chinese to observe that autonomy and minimise the opportunities for interference? Are there particular points which we would regard as essential for that autonomy? Would we make them sticking points in a negotiation and refuse to associate ourselves with any Chinese plan which did not contain them?

- (b) How would HMG see an agreement with China on Hong Kong being monitored and enforced after 1997? What action would HMG take if China broke it?

Paper for EXCO

10. The separate paper for EXCO and annexed assessment examine the position frankly. It concludes that there is no realistic point in continuing to seek British administration. Given that, it poses the alternatives of breaking off the talks and continuing on our present course. It discusses a redefinition of our objective: to agree with the Chinese Government that after 1997 there should be full internal autonomy for Hong Kong, consistent with the assumption by China of sovereignty and the right of administration. This would require changes from the present systems to be confined to those which would be consistent with the resumption of Chinese sovereignty and of the right of administration. We should aim to ensure that such an agreed arrangement would be as specific and detailed and as binding as possible on the Chinese Government.

11. The paper for EXCO examines the chances of obtaining an acceptable arrangement by continuing on our present course of building on the Chinese proposals. It notes that we are still at an early stage in establishing how much can be built into an arrangement. It discusses a number of key elements for inclusion in any agreement. It notes that it might be impossible to negotiate a satisfactory package with the Chinese and that new decisions would be required in that event. Finally the annexed assessment considers the implications of confrontation, resulting either from suspension of talks now or a later refusal to accept Chinese proposals.

Discussion with EXCO

12. The Governor's assessment is that, if they believe that HMG would be prepared to reject an unsatisfactory package, EXCO would probably agree to continue to support negotiation on the present basis. When they visit London in mid-January, however, they are likely to need very strong persuasion and to be brought face to face with the reality of China's dominant position and the need to negotiate a settlement which will provide the best possible deal for the great majority of the population who have nowhere else to go. It will of course be necessary to acknowledge the sincerity of EXCO's concern to get an arrangement which will inspire confidence. But Ministers may have to impress upon them that it would be irresponsible to decide now that we cannot usefully pursue talks on the present lines, before we know better what can be built on the Chinese proposals; and that a balanced long-term view may well point to settling for the best we can get from Peking rather than standing out, however honourably, for more. The latter course might win short term approval in Hong Kong but would almost certainly be worse for the territory in the end because it would involve first confrontation with Peking and then an imposed solution. It has to be faced in either event that many people would leave Hong Kong, the economy would decline and immigration problems for the UK would ensue. While HMG would continue to press strongly for the best possible arrangement and there could be circumstances in which HMG would have to dissociate itself from a Chinese plan, EXCO should be under no illusion that we could expect to get all our requirements built into it. At the same time we must also keep in mind that what may be negotiable with the Chinese may fail to command confidence in Hong Kong and thus, even if endorsed by HMG, would not avoid the collapse of the economy and the departure from Hong Kong of those who are able to leave. The concern of EXCO is not to make difficulties for HMG but to ensure that HMG are fully aware of the risks involved and that they will not be accused later in the day of having failed to bring them to HMG's attention.

Tactics

13. If it is agreed that we should continue to probe and attempt to build on the Chinese proposals our tactics over the next nine months

will need very careful planning and monitoring. We need to take account of the following factors:

- (a) Our need for an arrangement which will command the maximum confidence in Hong Kong and will meet our publicly declared objective of acceptability to the people of Hong Kong.
- (b) The need for Parliamentary endorsement of any arrangement.
- (c) The Chinese "deadline" of September 1984, when they intend to announce their "plan";
- (d) The Chinese are now prepared to comment on our working papers. Although at the last round they appeared to relax the clear distinction which they had earlier drawn between matters falling within their right of administration and "British interests" they may well revert to this.
- (e) The Chinese intention to keep the drafting of a basic law (or "mini-constitution") for Hong Kong to themselves, with undefined "discussion" with the people of Hong Kong. (This would take place after September 1984). The Chinese now say that they would include in the basic law points on which they had reached agreement with us; but the risk of our appearing to be squeezed out remains.

14. When we began to probe the Chinese proposals, our initial aim was to build up section by section a framework of agreed points, starting with less contentious areas and concluding with the most difficult-central constitutional issues including the position of the Governor. Sir Percy Cradock and the Governor agree that, although we have been able to note some common ground, we are unlikely to make much progress unless we speed up the process of discussion and put in all our working papers, including the more contentious ones, quickly. If we do not make clear our own ideas on the constitutional issues soon, our chances of influencing the Chinese on this and other key areas will diminish. It was apparent from the Ambassador's farewell calls on Chinese leaders that the Chinese are currently receptive to our ideas and are keen to learn the extent of them. It is therefore in our interests to push ahead as quickly as we can with feeding in our thoughts on areas of major concern. To this end we should aim to submit at least one major working paper in advance of the next round. We must make the most of the Chinese statement in the December round of talks that "current practices" might continue after 1997 until the SAR decided

to replace them. The Chinese have asked for the rest of our working papers before the next round of 25/26 January. That is impracticable but we could reasonably aim to get them in after that session. They should include the following subjects: Future Constitutional Development; Defence and Internal Security; the Future of the Civil Service; and Citizenship and Nationality after 1997. It will be necessary in preparing the working papers and the statements to be made by the British delegation in the early round of the next phase to take full account of the assurances which HMG will wish to seek as a guarantee of the final settlement - hence the need to decide now on what those assurances will be. (The points to be discussed with EXCO under this head are set out in paras 5 to 7 of the discussion paper). The next series of papers will in consequence raise more difficult issues and the course of the talks is likely to become more bumpy as a result: on the other hand they will provide us with a chance to make clear points which will be necessary in order to maintain confidence in Hong Kong. An important example would be the question of stationing of troops in Hong Kong.

Chinese Deadline of September 1984

15. It is clear that the Chinese intend to make a public statement on Hong Kong in September 1984. They have stated that they would prefer to make a joint statement with us, but if, for whatever reason, that is impossible, they will make a unilateral statement anyway. In either situation their present intention is probably that the statement should be along the lines of their 12 point plan, perhaps with some additions, but without going into much detail. This will have a major bearing on our tactics in the talks. We shall have to monitor progress very carefully and to time our moves in order to avoid being left at a disadvantage by the Chinese deadline. There are a number of possibilities:

- (a) To reach agreement with the Chinese before September 1984. This would be the best outcome, provided that the resulting arrangement was comprehensive and satisfactory to us. It would enable us to issue a definitive joint statement describing the arrangement. The pace of the negotiations however may not permit this. Because the issues discussed will become more complex, both sides will need to take high

level decisions. We face in addition the need for Parliament to endorse an arrangement. Therefore if the negotiations are still proceeding satisfactorily but are not complete by September we may have to settle for:

- (b) An interim bilateral statement, or
- (c) Separate but complementary Chinese and British interim statements. In either case we should aim to say that we had reached full agreement on certain points and that it was intended that discussion should continue on the remaining points. But to avoid the risks posed by the Chinese deadline, we shall need to keep our options open and be ready to take the initiative in putting forward proposals either for a comprehensive joint declaration describing a package deal or for interim joint or complementary statements.

16. In any event we must avoid finding ourselves in the late summer bogged down in discussion and possible dispute on key issues to the extent that the Chinese decide to go ahead with a statement on their own. They might include in such a statement those of our suggestions which suited them. The resulting package would be fuller than the proposals they have made public so far and to that extent an improvement. But this would not be enough for confidence. Any arrangement for Hong Kong must have two elements: the maximum specific assurance that current systems will continue and existing freedoms be maintained: and enshrinement in a bilateral understanding which would be seen placing a commitment on the Chinese.

Eventual Agreement or Arrangement

17. Both the content and form of the eventual agreement will be important. There are a number of possibilities:

- (a) One, and in our view the best, would be a formal legally binding treaty registrable at the UN. This would describe in detail the principles determining the future arrangements for the administration of Hong Kong after 1997. The Constitutional and other implications of such an agreement are still under study. It is however very unlikely that the Chinese will agree to that. They regard the preparation of the "mini-constitution" for Hong Kong as

their affair and will resist our involvement in it. They will try to whittle any agreement down to an acknowledgement of their sovereignty on our part, an undertaking on theirs to look after our "interests" and a joint undertaking to cooperate in a smooth transition. But we must make it clear that any agreed arrangement should include assurances of Hong Kong's effective autonomy and Chinese non-interference for 50 years after 1997. One way of doing this would be:

(b) a joint declaration referring to a more detailed statement, possibly a unilateral Chinese one, as its Annex which would describe the essential continuity of systems, freedoms and laws etc in some detail. This would have the advantage that, unlike a formal agreement, it would not require immediate Parliamentary legislation on a transfer of sovereignty although general endorsement by Parliament of the package would be necessary.

18. While we must try to make any arrangement as binding as possible, we shall also need to get international support for Hong Kong's autonomy and to encourage other governments to impress this on China. This will need a sustained diplomatic effort. The most practical context will be the negotiation of agreements for continuation of Hong Kong's special status in international economic relations, eg the special regimes enjoyed under GATT and the multi-fibre arrangement. Under the GATT and under GSP agreements such arrangements could continue only so long as Hong Kong's autonomous status persisted. This point should be brought firmly home to China.

Public Position of HMG and the Hong Kong Government

19. So far we have stuck to the principle of confidentiality in the talks and have not responded to Chinese declarations of their aims. This has been necessary to avoid pushing the Chinese into unnecessarily hard attitudes, and to take account of adjustments in our own negotiating position. It is however likely to become increasingly untenable, and positively dangerous as a public announcement of an arrangement approaches. Expectations in Hong Kong, which started high, have now slumped. There is concern about the lack of any clear statement of HMG's aims in the negotiations. While few people believe that the Chinese plan will work, there is a

growing feeling that there is little which HMG can do to prevent it being imposed. We shall need to explain our own adjusted objectives, not merely to EXCO and to LEGCO, but in outline to the Hong Kong people as a whole and convince them that there is still a future for Hong Kong. This will apply also to the line we take in Parliament. In other words, if we assess that Hong Kong's long term interests will in practice best be met by an arrangement based on the Chinese plans we shall need to prepare Hong Kong and UK opinion for it. While discussions continue in Peking, great care will be required not to present any public statement in a confrontational fashion. To do so would generate a public argument with the Chinese, sour the atmosphere of the talks and thus reduce their chances of success.

Acceptability

20. People in Hong Kong are likely to demand an opportunity to voice opinions on any agreement reached with the Chinese Government. Public opinion in the UK will be less concerned (at least initially) but there could be considerable pressure in Parliament for a convincing demonstration that HMG's undertaking on acceptability had been honoured. The degree of pressure will depend partly on whether EXCO Unofficials, and to a lesser extent those of LEGCO, are prepared to endorse an arrangement. Carrying EXCO with us therefore must remain a priority in our tactics on acceptability. But other means of testing opinion need to be reviewed, although it will not be possible to decide finally on the form of such a test until the form which that agreement will take is clear, and the time at which the test will be required is known.

21. One of our objectives must be to counter Chinese attempts to conduct their own survey of opinion (and thus improve their claim to involvement in Hong Kong before 1997). That would almost certainly rule out any type of assessment of acceptability conducted jointly with the Chinese. Our own arrangements must be convincing, while taking realistic account of likely Chinese sensibilities.

22. A referendum is unlikely to be practicable. Even if questions intelligible to the population at large could be devised, given the complexity of the agreement it would be very difficult to make a

simple vote a valid test of opinion and there would be great difficulty in deducing from it the true views of a society as disparate as that of Hong Kong. Moreover the Chinese, who challenge HMG's right to represent the people of Hong Kong (and that of the Hong Kong people to override the views of the people of China as a whole), would be likely to seek to frustrate or manipulate the referendum process, to the extent that it would cease to be a convincing demonstration of opinion.

23. On the other hand if the Chinese were prepared to acquiesce it would be possible to conduct a consultative process over a period of a few months involving a wide range of associations, councils and district boards. This might be carried out after the initialling of an agreement but before signature. It could involve the issue of a "green paper" describing the proposed arrangement in general. The mechanics of such an exercise would need careful handling. In order to make the results of the consultation acceptable in Parliament it might well be that a Parliamentary Committee would wish to take part in the consultative process in Hong Kong although we should not want to encourage this. But we should avoid anything on the lines of a Rhodesian "Pearce Commission" which would smack of colonial manipulation.

24. The bodies consulted in this way are partly elected. On present plans the elected component will be increased in 1985 and 1986 (see the separate paper on constitutional and governmental development). If the test could wait until 1985 it could take advantage of the proposed increase in the elected membership of the District Boards.

Government Structures and Development of Autonomy in Hong Kong up to 1997

25. Hong Kong has already developed considerable effective autonomy. This has led to important modifications to the normal colonial pattern. Looking to the future, we need to consider how local and central government should evolve further to respond to popular demand and to strengthen confidence in Hong Kong that a

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local administration will be established before 1997 which can remain genuinely autonomous and resist Chinese interference after that date. A separate paper on this subject is in preparation.

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FUTURE OF HONG KONG: POLICY REVIEW: DISCUSSION PAPER FOR EXCO

INTRODUCTION

1. The purpose of this paper is to help members prepare for their discussions with Ministers in January. It reviews the course of the negotiations since September 1982 and provides an up-to-date assessment of the Chinese position. It considers what alternative objective might be set if it is accepted that continuing British Administration after 1997 is no longer attainable and suggests that this should be full internal autonomy for Hong Kong consistent with the assumption by China of sovereignty and the right of administration. It identifies the essential elements of autonomy, and sets out the assurances which might realistically be sought. The paper then sets out two alternative policy options for consideration. In conclusion it seeks to identify the major questions of public presentation which will need to be covered in the review.

ASSESSMENT OF THE TALKS

2. A detailed assessment of the Chinese position in the negotiations and the degree of flexibility in it was contained in memorandum XCX (83) 79 of 23 November 1983. A revised and up-dated account which includes a summary account of the negotiations so far is annexed. It is clear from this assessment of the position taken by the Chinese in the talks, from Chinese discussions with other countries on the Hong Kong issue, from Chinese public statements and propaganda that they are adamant in their insistence that sovereignty and administration over the whole of Hong Kong must revert to China in 1997 and that no link of authority or accountability between Hong Kong and HMG will be acceptable to them after that date.

BRITISH ADMINISTRATION

3. In her message of 14 October the Prime Minister recorded the sincere view of the British side that a continuation of British Administration is the best and surest basis for the continued stability and prosperity of Hong Kong and stated that this view had not changed. However the experience of the past 15 months, and in particular of the seven rounds of formal talks since July, leads to

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the inescapable conclusion that the Chinese will not accept the continuation of British Administration after 1997 in any form. It is also clear that there is no prospect of changing that position through argument. Nor is it realistic to believe that the Chinese position could be changed by confrontation. They have made it abundantly clear that recovery of sovereignty is an overriding national objective, rooted in a deep historical sense of humiliation over the events which led to a part of Chinese territory being administered by a foreign power. They do not accept that achievement of this objective is inconsistent with continued stability and prosperity in Hong Kong. However genuine their attachment to the latter aim, in the event of a choice national reunification must take priority. The recovery of sovereignty over Hong Kong is thus more important to the Chinese leadership, whether under Deng Xiaoping or any conceivable successor, than the maintenance of the territory's stability and prosperity, and the economic benefits they gain from it.

ALTERNATIVE OBJECTIVE

4. If continuing British Administration is no longer obtainable, the best possible alternative must clearly be sought. It is suggested that the objective should be full internal autonomy for Hong Kong, consistent with the assumption by China of sovereignty and the right of administration. This would include freedom for the territory to conduct its own external affairs in the economic, trade and cultural fields, backed by assurances against interference sufficient to maintain domestic and international confidence.

5. The key elements in arrangements for autonomy should include:

(a) The administration of the future SAR would have freedom to determine its own domestic policies.

(b) There should be evolution of the system of Government gradually over the years up to 1997 in a manner which would strengthen its ability to resist interference. This would be maintained after 1997 with only such changes as were essential to take account of the formal transfer of sovereignty and the right of administration to China.

(c) The present systems would be maintained. In particular the legal systems including the independent judiciary and the corpus of

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Hong Kong's laws would be unchanged, except that the final court of appeal would be in Hong Kong, that the legal instruments giving expression to the colonial link would be abolished, and that quote colonial unquote phraseology would be removed from the laws.

(d) The freedoms which all Hong Kong residents now enjoy would continue to be guaranteed by law.

(e) There would be continuity in the Civil Service. Hong Kong civil servants serving on permanent and pensionable terms in 1997 would, if they wished, continue to serve in Hong Kong after 1997 until they reached the normal age of retirement. Overseas officers would continue to be employed: they would owe their loyalty to the Government of the SAR.

(f) While external defence would be the responsibility of the Chinese Government, no Chinese troops would be stationed permanently in Hong Kong: their absence would symbolize the Chinese intention to allow full autonomy. The Hong Kong Administration would be fully responsible for the internal security of the territory.

(g) Hong Kong would continue to have the right to determine its own external trade policies and maintain and develop economic relations with foreign countries and territories. The Hong Kong SAR would be free to join or continue membership of international organisations and to take part in multilateral and bilateral agreements in relevant fields in its own right. It would be free to maintain its own offices abroad for these purposes.

6. None of these elements is inconsistent with the recovery by China of sovereignty, including the right of administration. But the key to the maintenance of confidence will lie less in the statement of the proposed arrangements than in the additional elements which can be obtained to bolster confidence that the agreed assurances will in fact be maintained and that the Chinese will not interfere. If any link of authority must be ruled out, then the people of Hong Kong will look to:-

(a) The extent to which an arrangement with China commits the Chinese to respect the autonomy of the territory:

(b) The possible status of the UK in the matter of future observance of the terms of an arrangement:

(c) The degree of international backing which can be obtained for the new autonomous status of Hong Kong:

(d) The internal strength of the Government structure which it is

proposed should exist in Hong Kong after 1997.

7. In the light of the Chinese position as described in the annexed assessment it can be said that:-

(I) on (a) in para 6, while the Chinese will not concede that the details of post-1997 arrangements are a matter for agreement between the two Governments it will be our aim to include in the bilateral arrangement as specific and substantive a declaration as possible by the Chinese side of their proposed arrangements for autonomy, and of the intended duration for 50 years. Where the form of arrangement is concerned, our preference would be for a formal, legally binding treaty, registerable at the United Nations as an international agreement. The constitutional and other implications of this are still under study.

(II) on (b), the UK could base its representations to the Chinese Government, and its appeal to the international community, on the undertakings contained in the bilateral arrangement, if those undertakings were not observed. In addition, since the Chinese maintain that British interests in Hong Kong will be protected, they may be ready to agree that there would be an official British representative in Hong Kong with the right to look after these interests. We shall need to examine carefully whether, and if so how far, the British representatives responsibilities might be extended beyond consular, economic and trade matters.

(III) We would put pressure on Hong Kong's major trading partners to make clear to the Chinese Government that they would maintain their bilateral trade agreements with the SAR, and give their backing to private trade and investment there only so long as Hong Kong's autonomy was respected by the People's Republic of China: and that the same would apply to Hong Kong's continued participation in international economic agreements such as the GATT and the MFA (assuming this is eventually agreed by all concerned). Failure to respect Hong Kong's autonomy would in consequence lead to a substantial reduction in foreign exchange income, (and in associated benefit for China).

(IV) on (d), the governmental structure would, if it were developed along the lines envisaged, be a source of internal strength. Though they could not be eliminated entirely, the opportunities for interference would be minimised. The presence of a substantial

numbers of overseas civil servants, including in the judiciary, would be an additional barrier against interference.

(V) In addition, it might be possible to secure agreement to the establishment of independent advisory commissions (for example in the legal and economic fields), and to obtain British representation on those commissions.

8. The fact that the Chinese still hope to reach an agreement with Taiwan at a later date might provide some additional degree of assurance, since if they violated an agreement with Hong Kong it would almost certainly rule out the possibility of a subsequent agreement with Taiwan for a long time thereafter.

OPTIONS

9. Against this background, two options are now available.

10. OPTION A. To decide now that the best package likely to be obtainable, including such assurances as can be negotiated on the lines of paras 6 and 7 above, would be insufficient to command confidence, and that there is therefore no point in continuing with the talks on the present basis. To tell the Chinese, in consequence, that their principles are unacceptable and that no package can be constructed on the basis of them that will ensure the future stability and prosperity of Hong Kong. On these grounds to insist either

(I) On full British Administration

or

(II) On a continuation of the British link of authority.

COMMENT

11. Either (I) or (II) would lead to immediate confrontation. In our judgement the Chinese would break off the talks. The intensive propaganda campaign would restart and there is a strong possibility that the Chinese would announce their plan immediately. If the resulting situation in Hong Kong became unstable, there is a chance that the Chinese would carry out their threat to take over control of the colony at an earlier date than 1997. This option would not

win us international support. It would prevent HMG from doing anything to ameliorate the lot of Hong Kong inhabitants after 1997. It would make Hong Kong very difficult to govern in the transitional period. It would be likely to provoke a considerable outflow of Hong Kong inhabitants. To take such a course at this stage, moreover, having proposed full discussion of the Chinese plan and being only at an early stage of substantive discussion, would lead to Chinese accusations of bad faith, to which there would be no answer.

12. OPTION B. To continue the present process of exploration and quote construction unquote on the basis of the Chinese proposals in pursuit of the objective in para 4 above and subject always to the reservations in the Prime Minister's letter of March 10 and her message of October 14, and to do our utmost to obtain a satisfactory package, including assurances on the lines of paras 5 to 7 above. This would entail putting in the remaining working papers as quickly as possible in order to influence Chinese thinking in detailed areas while it is still in the formative stage. It would be necessary to submit soon a number of papers dealing with key issues, in particular constitutional arrangements, defence, internal security and the public service.

COMMENT

13. This course would enable the Council and Ministers to take an overall view of the outcome of the negotiations before assessing whether that outcome was acceptable. Conditionality would be retained: the ultimate right to reject the final package as unacceptable would remain. The decision would have to be taken by Ministers in the light of the circumstances at the time. Given the Chinese intention to make a formal announcement of their position in September 1984 a decision would be needed by the later Summer of 1984 so that HMG could determine whether they could agree to join with the Chinese in a joint announcement or not.

THE SEPTEMBER 1984 DEADLINE

14. As the annex makes clear, the Chinese are publicly committed to

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some form of announcement in September 1984. Its precise terms will no doubt depend on how much progress can be made by then. But at present the Chinese clearly envisage announcing their 12 point plan in September, perhaps with some elaboration, but without going into much detail. Should HMG then be unable to secure a definitive joint announcement on acceptable lines at that stage every effort should be made to persuade the Chinese not to couch any unilateral announcement in terms which could give the impression that they intended to impose a settlement irrespective of the views of HMG. In such circumstances we should seek to defuse the Chinese statement so as to make it as harmless as possible.

15. Ji Pengfei has now told us that talks would continue beyond an initial agreement. It is conceivable that the Chinese might be brought to agree, assuming that progress was being made, that a definitive joint declaration should come at a later stage than the September 1984 announcement. HMG would of course decide on the acceptability of the final package at the conclusion of the talks before subscribing to a final arrangement.

16. If nonetheless the Chinese insisted on a formal unilateral announcement in September 1984 of arrangements which were unacceptable to HMG it might be necessary to make it clear to the Chinese that while the talks had been valuable they had not so far produced results which HMG could endorse: that the British side were ready to continue talking but could not co-operate with the Chinese plan: and that in the meantime HMG would conscientiously carry out their responsibilities for the administration of the territory. This would in effect allow the Chinese to continue the process of deciding the future arrangements for Hong Kong alone. It would be necessary for HMG to give a public account of its position. There would be a grave risk of confrontation, even if it was not of our seeking.

17. The implications of confrontation, either as a result of a scenario outlined above or as a consequence of option A (paras 10-11), are examined in more detail in the annex to this paper. It also draws attention to the immediate risks involved in endorsing an agreement which did not contain sufficient assurances to command

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confidence in Hong Kong

PUBLIC PRESENTATION

18. The forthcoming review will need to cover the question of HMG's and HKG's public posture. The persistence of the Chinese in making known their own plans and seeking public support for them with no indication of HMG's objective is creating an increasing credibility gap in Hong Kong. The issues which will need to be covered therefore include:

(a) The advantages and disadvantages of maintaining the present low profile. The former include the maintenance of the present non-confrontational atmosphere: The latter include the danger that the talks will be increasingly perceived as irrelevant and that Hong Kong opinion will come to accept that the Chinese will decide unilaterally what will happen after 1997.

(b) The possibility of making known more at least in general terms what HMG's aims in the negotiations now are, on the lines of paras 4 and 7 above. The means available range from ministerial speeches or statements to unattributable briefings for reliable journalists. It would be necessary to weigh the advantages against the risk of acrimonious public debate with the Chinese. The more authoritative the statement the greater the impact in Hong Kong, but also the more likely that there would be an adverse reaction from the Chinese.

(c) In this context, whether the LEGCO members of UMELCO should be encouraged in future to speak their minds regarding future arrangements for Hong Kong, in particular the need for the people of Hong Kong to be given the best possible assurances that the present systems will be maintained and the present freedoms of Hong Kong people will be preserved. It would be important to respect their wish that their efforts should be co-ordinated, and with those of HMG and the HKG.

19. Subject to the decisions taken on the general strategy now to be pursued, it should be possible, and will probably be desirable to make known by these means the general objectives which HMG are pursuing. While discussions continue in Peking great care will be required not to present any public statement in a confrontational fashion. To do so would generate a public argument with the

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Chinese, sour the atmosphere of the Peking talks and thus reduce their chances of success.

HONG KONG DEPARTMENT

22 DECEMBER 1983

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PM/83/103

PRIME MINISTER

There is no point in
magnifying the difficulties.
had never Prime Minister
had an election before but
with strength - To note
no. 23/12

Future of Hong Kong: Constitutional and Governmental Development

1. At the OD(K) meeting on 13 December, you asked that among the papers commissioned in preparation for the visit of Unofficial members of the Executive Council in January, there should be one examining the scope for increasing internal self-government in Hong Kong. We had another talk about all this yesterday afternoon.
2. As I said at the OD(K) meeting, the Governor has been giving careful thought to this for some time. I enclose a copy of Hong Kong telno 1973 which sets out a draft paper which he has prepared. As you will see the Governor examines the question from the point of view both of demand for increased representational government in the territory and of improving our position as we approach 1997 in order to put autonomy on as sound a basis as possible by that date. As I explained on Thursday, we face at least the minimum need to design a mechanism to replace the present system for appointment of the Governor. It would obviously be helpful if the new arrangements could be engineered from Hong Kong rather than from Peking. This is much more easily said than done.
3. The Governor puts considerable emphasis on the need to build on Hong Kong's existing institutions and to retain continuity. For that reason he favours a system of collegiate, rather than direct election, whereby various boards and councils produce the indirectly elected Legislative Council which in turn would elect a Governor. Sir Percy Cradock has been considering the same questions and has, in his preliminary comments, come down in favour of direct elections.



3. There is, I think, much sound sense in the Governor's draft paper. But, as I explained on Thursday, I am not yet quite so convinced of the wisdom of going too far down the democratic road. In Sir Percy Cradock's last round of informal talks in Peking, there was some signs of Chinese reservations on this point - for example, from Ji Pengfei. And we both, I think, have some anxieties about the risk that elections might stir up conflict in Hong Kong itself. Even so, we cannot escape the need to suggest some mechanism to replace existing procedures, so as to avoid leaving a constitutional vacuum which the Chinese could exploit.

4. This is a key question in our strategy for the future of Hong Kong and we must consider it with great care. I believe that includes getting the views of the Hong Kong Executive Council. We shall have a chance of talking to them in January but the Governor feels strongly that these discussions will only be productive if EXCO have had a chance to consider the issue beforehand on the basis of a discussion paper.

5. As I explained, I wanted you to see now the full paper with the Governor's ideas. But I am sure that it would not be right for him to put it to EXCO until we have had more time to consider it. I have, therefore, asked Sir E Youde to recast the paper in shorter and more interrogative form, rather than as proposals for a set course of action. He will report EXCO's views after their discussion and we can then decide what we might put to colleagues on this subject before the meeting of OD(K) on 11 January.

6. I should add that while I am against rushing things, I believe that we should aim to reach agreement at least on certain basic points quickly. The negotiations require this. Sir P Cradock and the Governor are agreed that it is important for us to keep up the momentum by putting in further working papers on central issues, including future constitutional arrangements for Hong Kong. We shall need to know our own minds, and to agree with EXCO at any rate on the

/outline



outline of our objectives so that we can at an early stage in the talks put in a paper which will describe the arrangements which we would envisage as a substitute for the present constitutional link with the UK. This would include in principle at least the manner in which a Governor/Chief Executive would be appointed.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
23 December 1983

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TELEGRAM NUMBER 1973 OF 19 DECEMBER 1983

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FUTURE OF HONG KONG: CONSTITUTIONAL AND GOVERNMENTAL DEVELOPMENT

1. THE FOLLOWING IS THE DRAFT OF A PAPER ON CONSTITUTIONAL AND GOVERNMENTAL DEVELOPMENT IN HONG KONG. SOME COMMENT ON IT WILL FOLLOW IN A SEPARATE TELEGRAM.

INTRODUCTION

1. THIS PAPER DISCUSSES A SCHEME UNDER WHICH PROGRESS TOWARDS A SELF SUSTAINING AND REPRESENTATIVE GOVERNMENT STRUCTURE COULD BE MADE IN HONG KONG. IT COVERS MEANS BY WHICH THE MEMBERSHIP OF BOTH THE LEGISLATIVE AND EXECUTIVE COUNCILS COULD BE FORMED BY AN ELECTIVE PROCESS, AND THE ELECTION AND APPOINTMENT OF A GOVERNOR OR CHIEF EXECUTIVE.

THE PRESENT POSITION

2. THE GOVERNOR IS APPOINTED BY THE QUEEN AND DERIVES HIS AUTHORITY FROM THE LETTERS PATENT, WHICH ESTABLISH THE BASIC FRAMEWORK OF THE ADMINISTRATION OF HONG KONG. TOGETHER WITH THE ROYAL INSTRUCTIONS, WHICH LAY DOWN PROCEDURES TO BE FOLLOWED, THEY FORM THE CONSTITUTION OF HONG KONG. THE LETTERS PATENT CREATE THE OFFICE OF GOVERNOR AND COMMANDER IN CHIEF AND DEAL WITH THE CONSTITUTION OF THE EXECUTIVE AND LEGISLATIVE COUNCIL AND THE GOVERNOR'S POWERS IN RESPECT OF LEGISLATION, DISPOSAL OF LAND, THE APPOINTMENT OF JUDGES AND PUBLIC OFFICERS. THE ROYAL INSTRUCTIONS DEAL WITH THE APPOINTMENT OF MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS. THE EXECUTIVE COUNCIL CONSISTS OF FOUR EX OFFICIO MEMBERS (THE CHIEF SECRETARY, COMMANDER OF BRITISH FORCES, THE FINANCIAL SECRETARY AND THE ATTORNEY GENERAL, TOGETHER WITH OTHER MEMBERS APPOINTED BY THE GOVERNOR ON THE INSTRUCTIONS OF THE SECRETARY OF STATE. THERE ARE 11 APPOINTED MEMBERS, 9 UNOFFICIAL AND TWO OFFICIAL.

3. THE LEGISLATIVE COUNCIL CONSISTS OF 3 EX-OFFICIO MEMBERS (THE CHIEF SECRETARY, THE FINANCIAL SECRETARY AND THE ATTORNEY GENERAL), 15 NOMINATED OFFICIAL MEMBERS AND 29 NOMINATED UNOFFICIAL MEMBERS. ALL MEMBERS, APART FROM THE GOVERNOR AND OTHER EX-OFFICIO MEMBERS, ARE APPOINTED BY THE GOVERNOR WITH THE APPROVAL OF THE SECRETARY OF STATE.

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4. THE EXECUTIVE COUNCIL'S ROLE IS TO ADVISE THE GOVERNOR, WHO IS REQUIRED BY THE ROYAL INSTRUCTIONS TO CONSULT IT ON ALL IMPORTANT MATTERS OF POLICY. ITS PROCEEDINGS ARE CONFIDENTIAL. THE ROLE OF THE LEGISLATIVE COUNCIL IS PRIMARILY TO ENACT LEGISLATION, INCLUDING LEGISLATION FOR THE APPROPRIATION OF PUBLIC FUNDS. ITS PROCEEDINGS ARE PUBLIC.

5. THE URBAN COUNCIL AND THE DISTRICT BOARDS ARE THE ONLY BODIES WITH ELECTED MEMBERS. THE FIRST URBAN COUNCIL ELECTIONS WERE HELD IN 1935. THE FIRST DISTRICT BOARD ELECTIONS WERE IN 1981/92. THE URBAN COUNCIL HAS 30 MEMBERS, HALF OF WHOM ARE ELECTED AND HALF NOMINATED BY THE GOVERNOR. IT HAS EXECUTIVE POWERS IN SUCH AREAS AS PUBLIC SANITATION, HYGIENE IN RESTAURANTS AND FOOD SHOPS, RECREATION AND CULTURAL ACTIVITIES, MARKETS, PARKS AND PLAY-GROUNDS. IT IS FINANCIALLY AUTONOMOUS, DERIVING ITS INCOME FROM RATES, FROM ENTRANCE FEES TO ITS FACILITIES AND LICENCE FEES. ITS JURISDICTION IS RESTRICTED TO THE URBAN AREA (I.E. HONG KONG ISLAND, KOWLOON AND NEW KOWLOON - SEE MAP AT ANNEX A).

6. THE 19 DISTRICT BOARDS HAVE ELECTED, NOMINATED UNOFFICIAL AND OFFICIAL MEMBERS. IN ADDITION, ELECTED RURAL COMMITTEE CHAIRMEN AND URBAN COUNCILLORS ARE EX-OFFICIO MEMBERS OF THE BOARDS. ALTOGETHER A TOTAL OF 174 MEMBERS ARE ELECTED OUT OF A TOTAL UNOFFICIAL MEMBERSHIP OF 324. THE BOARDS VARY IN SIZE, BUT THERE ARE ROUGHLY EQUAL NUMBERS OF ELECTED AND APPOINTED UNOFFICIAL MEMBERS ON EVERY BOARD. THE DISTRICT BOARDS ARE ADVISORY, BUT HAVE BEEN ALLOCATED SMALL SUMS OF PUBLIC FUNDS FOR LOCAL CULTURAL AND RECREATIONAL ACTIVITIES AND MINOR ENVIRONMENTAL WORKS.

7. THE DISTRICT ADMINISTRATION SCHEME, IN ADDITION TO CREATING THE DISTRICT BOARDS, CREATED A UNIFIED FRANCHISE FOR BOTH DISTRICT BOARDS AND URBAN COUNCIL ELECTIONS ON A CONSTITUENCY BASIS. ALL RESIDENTS OVER 21 WHO HAVE LIVED IN HONG KONG FOR AT LEAST 7 YEARS ARE ELIGIBLE TO REGISTER AS ELECTORS. ANY ELECTOR WHO HAS BEEN IN HONG KONG FOR 10 YEARS OR MORE MAY BE A CANDIDATE IN ANY CONSTITUENCY PROVIDED HIS NOMINATION IS SUPPORTED BY 10 ELECTORS OF THAT CONSTITUENCY.

THE NEED FOR DEVELOPMENT

8. THERE ARE INCREASING DEMANDS IN SOME QUARTERS FOR DEMOCRACY IN HONG KONG OR AT LEAST FOR EARLY MOVES TOWARDS SELECTING THE MEMBERS OF THE LEGISLATIVE AND EXECUTIVE COUNCILS ON A MORE FORMALLY AND VISIBLY REPRESENTATIVE BASIS THAN THE PRESENT APPOINTED SYSTEM. THESE DEMANDS HAVE BEEN PARTLY ENGENDERED BY THE INCREASING MATURITY OF HONG KONG SOCIETY, NOTABLY THROUGH THE EMERGENCE OF AN ARTICULATE PROFESSIONAL MIDDLE CLASS, MANY OF WHOM WERE EDUCATED IN THE UNITED STATES, CANADA AND BRITAIN. THE APPROACH OF 1997 AND THE NEGOTIATIONS ON THE FUTURE HAVE ALSO STIMULATED PUBLIC DEBATE ON CONSTITUTIONAL AND GOVERNMENTAL ISSUES.

9. UNDER THE PRESENT SYSTEM THE LINK OF AUTHORITY WITH BRITAIN IS BOTH THE SOURCE OF THE GOVERNOR'S AUTHORITY AND PROVIDES THE ASSURANCE THAT HIS AUTHORITY (WHICH IS IN THEORY ALMOST UNLIMITED) WILL BE EXERCISED IN ACCORDANCE WITH THE LARGELY CUSTOMARY, UNWRITTEN CONSTRAINTS WHICH IN THE BRITISH SYSTEM ARE THE GUARANTEES OF THE RIGHTS AND FREEDOMS OF THE INDIVIDUAL. IF THE LINK WITH BRITAIN IS TO BE BROKEN, AND THE APPOINTED SYSTEM ENDED, A NEW SOURCE OF AUTHORITY WILL BE NEEDED TO PROVIDE THE POLITICAL INSTITUTIONS OF GOVERNMENT.

10. THE ATTITUDE OF THE CHINESE GOVERNMENT HAS ALWAYS BEEN CONSIDERED A MAJOR OBSTACLE TO THE INTRODUCTION OF A MORE REPRESENTATIVE FORM OF GOVERNMENT IN HONG KONG. THE CHINESE HAVE NOW INDICATED THAT THEY ENVISAGE SOME FORM OF ELECTIVE OR CONSULTATIVE PROCESS FOR THE SELECTION OF THE GOVERNOR/ CHIEF EXECUTIVE POST 1997. THE CHINESE HAVE ALSO SUPPORTED CALLS BY GROUPS IN HONG KONG FOR A GREATER DEGREE OF DEMOCRACY. IT MAY THEREFORE BE THAT THE CHINESE WOULD NOT NECESSARILY SEEK TO FRUSTRATE ALL MOVES IN THE DIRECTION OF GREATER DEMOCRACY.

THE ESSENTIAL REQUIREMENTS

11. TO GIVE IT THE GREATEST INTERNAL STRENGTH HONG KONG WILL NEED A REPRESENTATIVE STRUCTURE WHICH TAKES ACCOUNT OF THE DISTINCTIVE FEATURES OF ITS OWN SOCIETY AND THE PRESENT STATE OF ITS POLITICAL DEVELOPMENT. IN SPITE OF ITS SUPERFICIAL WESTERN ASPECT THERE ARE STILL STRONG CHINESE TRADITIONS IN THE COMMUNITY. IN AS FAR AS THERE HAS BEEN A PUBLIC POLITICAL PROCESS IN HONG KONG THE COMMUNITY HAS SUPPORTED POLICY FORMATION BASED ON CONSULTATION AND CONSENSUS AND NOT ON AN ADVERSORIAL PARTY SYSTEM AS IN THE UNITED KINGDOM. GIVEN THE EXTREMELY DELICATE STATE OF PUBLIC CONFIDENCE IT WILL BE VITAL TO MAINTAIN STABILITY DURING THE PROCESS OF CHANGE. IT WILL BE EASIER TO MAINTAIN THIS STABILITY IF THE INSTITUTIONS OF GOVERNMENT, EVEN THOUGH DERIVED FROM AN ELECTIVE SYSTEM, REMAIN FAMILIAR AND IF THE NEW STRUCTURE IS BUILT PROGRESSIVELY ON WHAT ALREADY EXISTS. ANY ATTEMPT TO RUSH THE PROCESS AND IMPOSE SUDDEN AND DRAMATIC CHANGE COULD PROVE DISASTROUS. THERE IS MORE THAN A DECADE TO GO BEFORE 1997 AND THERE IS TIME TO DEVELOP THE PROCESS OVER THIS PERIOD.

12. THERE ARE ALSO LIMITING FACTORS TO BE TAKEN INTO ACCOUNT. THESE ARE AS FOLLOWS:

(A) THE ELECTIVE SYSTEM IN HONG KONG IS IN ITS INFANCY. 900,000 OUT OF 2.7 MILLION QUALIFIED TO REGISTER HAVE DONE SO. OF THOSE WHO REGISTERED 39.8 PER CENT PARTICIPATED IN THE 1981/82 URBAN COUNCIL AND DISTRICT BOARD ELECTIONS.

(B) MOVING TOO QUICKLY COULD LEAD TO RAPID POLARISATION OF THE COMMUNITY AND MIGHT CREATE A DANGER OF POLITICAL RIVALRIES. (E.G. BETWEEN PRO-TAIWAN AND PRO-CHINA ELEMENTS) IRRELEVANT TO HONG KONG'S REAL CONCERNS.

(C) CHINESE SENSITIVITIES MUST BE TAKEN INTO ACCOUNT. AT THE SAME TIME CHECKS AND BALANCES MUST BE BUILT IN TO MINIMIZE OPPORTUNITIES FOR CHINESE INTERFERENCE.

(D) THE PROPORTION OF THE POPULATION TAKING PART IN ELECTNNS IS STILL SMALL: AND MANY COMMUNITY LEADERS WOULD NOT BE WILLING TO SUBMIT THEMSELVES TO ELECTION OUTSIDE THEIR SOCIAL AND PROFESSIONAL GROUP. UNTIL HONG KONG HAS GAINED GREATER EXPERIENCE AND PUBLIC SUPPORT FOR THE ELECTIVE PROCESS, DIRECT ELECTIONS BASED ON UNIVERSAL ADULT SUFFRAGE WOULD BE LIKELY TO PRODUCE DISTORTED REPRESENTATIONAL STRUCTURES. TO ENSURE THAT ALL SECTORS OF SOCIETY WERE FAIRLY REPRESENTED, THE CONSTITUENCIES WOULD NEED TO BE FUNCTIONALLY AS WELL AS TERRITORIALLY BASED.

(E) POWER MUST BE DIFFUSED TO PREVENT DOMINATION AND MANIPULATION BY ANY PARTICULAR INTEREST GROUP.

13. IN CONSEQUENCE IT WILL NOT BE PRACTICABLE TO MOVE RAPIDLY AND DIRECTLY TO A FULL SCALE PARLIAMENTARY AND GOVERNMENTAL SYSTEM ON THE U.K. MODEL. IN ANY CASE, THE EXACT FORM OF THE FINAL STRUCTURE WITH WHICH HONG KONG SHOULD MAKE THE TRANSITION IN 1997 SHOULD BE FOR THE HONG KONG COMMUNITY TO DECIDE. WHILE THEREFORE PROPOSALS FOR CHANGE SHOULD ALLOW FOR PROGRESSIVE MOVEMENT TOWARDS A FULLY ELECTIVE SYSTEM THEY SHOULD NOT NOW DECREE IT.

PROPOSALS FOR CHANGE

PROPOSALS ALREADY BEING CONSIDERED

4. A REVIEW OF THE DISTRICT ADMINISTRATION SYSTEM IS ALREADY IN PROGRESS. THE REVIEW IS CONSIDERING WHETHER THE DISTRICT BOARDS SHOULD BECOME BY STAGES ENTIRELY ELECTED AND IN WHAT AREAS THEY MIGHT BE GIVEN LOCAL EXECUTIVE POWERS. IT IS ALSO CONSIDERING THE EXTENSION OF THE ELECTIVE SYSTEM AT THE URBAN COUNCIL LEVEL TO THE REST OF THE TERRITORY THROUGH THE ESTABLISHMENT OF A SECOND REGIONAL COUNCIL WITH AT LEAST HALF ITS MEMBERS ELECTED BY DIRECT FRANCHISE. THIS WOULD CREATE A CONSTITUENCY BASED ELECTIVE SYSTEM AT BOTH DISTRICT BOARD AND REGIONAL COUNCIL (URBAN COUNCIL) LEVEL THROUGHOUT THE TERRITORY. EXECUTIVE COUNCIL WILL BE CONSULTED ON THIS SCHEME IN JANUARY 1984 AND, SUBJECT TO THEIR ADVICE CHANGES COULD BE INTRODUCED AT THE TIME OF THE NEXT DISTRICT BOARD ELECTIONS IN 1985 AND THE NEXT URBAN COUNCIL ELECTIONS IN 1986.

THE NEXT STEPS

LEGISLATIVE COUNCIL.

15. FOR THE REASONS GIVEN IN PARAGRAPH 11 ABOVE, TO MOVE IMMEDIATELY TO A DIRECTLY ELECTED LEGISLATIVE COUNCIL WOULD NOT BE A PRACTICAL OPTION. THE MEMBERSHIP OF THE LEGISLATIVE COUNCIL COULD HOWEVER BE GENERATED IN PART THROUGH ELECTIONS BY AN ELECTORAL COLLEGE OF DISTRICT BOARD AND REGIONAL COUNCIL.

MEMBERS: AND IN PART THROUGH ELECTIONS FROM IDENTIFIED FUNCTIONAL GROUPS SUCH AS INDUSTRIAL ASSOCIATIONS, THE UNIVERSITIES, THE MEDICAL PROFESSION, LABTUR BOARDS AND SO ON. OFFICIAL MEMBERS WOULD CONTINUE TO ATTEND WITH THE RIGHT TO SPEAK AND PRESENT LEGISLATION. SUCH A PROCESS WOULD DIFFUSE POLITICAL POWER WIDELY IN THE COMMUNITY AND AVOID THE RISKS OF MANIPULATION.

EXECUTIVE COUNCIL

16. THE NEXT STEP WOULD BE TO PROVIDE A MEANS OF CREATING THE EXECUTIVE COUNCIL OTHER THAN BY SIMPLE APPOINTMENT.

CONSISTENT WITH THE PRINCIPLE OF DEVELOPING EXISTING INSTITUTIONS, THE EXECUTIVE COUNCIL MIGHT BE MADE UP AS FOLLOWS:

7 OR 8 MEMBERS ELECTED BY THE LEGISLATIVE COUNCIL FROM AMONG THEIR OWN NUMBER.

3 OR 4 EX OFFICIO MEMBERS FROM THE SENIOR CIVIL SERVICE AS AT PRESENT.

2 RESERVED SEATS , ONE FOR A REPRESENTATIVE OF ONE OF THE NOTE ISSUING BANKS AND ONE FOR A REPRESENTATIVE OF OVERSEAS COMPANIES ESTABLISHED IN HONG KONG.

THE POSSIBILITY OF A MINISTERIAL SYSTEM ALONG THE LINES OF THE UK CABINET, GIVING UNOFFICIAL MEMBERS OF EXCO RESPONSIBILITY FOR GOVERNMENT PORTFOLIOS HAS BEEN CONSIDERED. SUCH A PROPOSAL WOULD BE A RADICAL DEPARTURE FROM THE EXISTING INSTITUTIONS WHICH WOULD INTRODUCE AN ADDITIONAL ELEMENT OF UNCERTAINTY TO THE POLITICAL SCENE AT A TIME WHEN THERE ARE ALREADY MORE THAN ENOUGH UNCERTAINTIES. IT COULD NOT IN ANY CASE BE INTRODUCED UNTIL POLITICAL FIGURES CARRYING TERRITORY WIDE AUTHORITY HAD BEEN IDENTIFIED. AT LEAST AT THE FIRST STAGE OF REFORM, IT WILL BE PREFERABLE TO RETAIN THE PRESENT SYSTEM WHEREBY GOVERNMENT DEPARTMENTS ARE SUPERVISED BY SENIOR OFFICIALS OF THE GOVERNMENT SECRETARIAT (THE LOCAL EQUIVALENT OF PERMANENT SECRETARIES) WHO SUBMIT PROPOSALS TO THE EXECUTIVE COUNCIL FOR ENDORSEMENT, AMENDMENT, OR REJECTION, AND AS MEMBERS OF LEGISLATIVE COUNCIL ANSWER FOR GOVERNMENT POLICY AND SPONSOR BILLS.

GOVERNOR.

17. THERE IS NO PARTY POLITICAL PROCESS IN HONG KONG WHICH COULD GENERATE A CHOICE BETWEEN A FEW OBVIOUS CANDIDATES OF TERRITORY-WIDE POLITICAL STATURE OR A CHOICE BASED ON CANDIDATES WHO WILL THEMSELVES HAVE EMERGED FROM THE ELECTIVE PROCESS.

THE DANGERS OF SIMPLE DIRECT ELECTION TO THE POST OF GOVERNOR ARE THE SAME AS FOR THE LEGISLATIVE COUNCIL. TO SURVIVE, THE GOVERNOR WOULD NEED TO BE NOT ONLY SUFFICIENTLY INDEPENDENT TO GIVE ASSURANCE TO THE PEOPLE OF HONG KONG BUT ALSO ACCEPTABLE TO PEKING AS NOT HOSTILE TO THEIR INTERESTS. CANDIDATES FOR THE POST ARE MOST LIKELY TO BE FOUND IN LEGCO BUT THERE COULD BE OCCASIONS WHEN A CANDIDATE MIGHT BE FOUND NOT IN THE ELECTED BODIES BUT OUTSIDE, ON THE STRENGTH OF HIS OR HER STANDING IN THE COMMUNITY GENERALLY. THESE CONSIDERATIONS SUGGEST AN

ARRANGEMENT WHEREBY A LOCAL CONSULTATIVE PROCESS WOULD LEAD TO A CHOICE CONFIRMED BY ELECTION.

18. AN ELECTION FOR THE POST OF GOVERNOR BASED ON THE LEGISLATIVE COUNCIL ALONE WOULD NOT GIVE HIM SUFFICIENT AUTHORITY AND STANDING IN THE COMMUNITY, BUT THE BODY OF ELECTORS SHOULD NOT BE SO LARGE AS TO RULE OUT A PRIOR STAGE OF INFORMED CONSULTATION. A COLLEGIATE ELECTION BY ALL MEMBERS OF THE EXECUTIVE COUNCIL, LEGISLATIVE COUNCIL AND THE ELECTED MEMBERS OF THE REGIONAL COUNCILS AND DISTRICT BOARDS WOULD BEST SERVE THE PURPOSE. EVEN NOW, THIS ELECTORATE WOULD COMPRISE NEARLY 200 MEMBERS. IT WOULD GROW SUBSTANTIALLY IN THE NEXT FEW YEARS ASSUMING THE REVIEW MENTIONED IN PARAGRAPH 12 ABOVE RESULTS IN THE INCREASE IN THE NUMBER OF ELECTED MEMBERS OF DISTRICT BOARDS OVER THE NEXT DECADE: AND TO THE EXTENT THAT AN ELECTORAL COLLEGE OF PROFESSIONAL AND COMMERCIAL ASSOCIATIONS HAD BEEN ESTABLISHED TO GENERATE MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS.

19. ONCE THE COLLEGIATE ELECTIVE SYSTEM FOR LEGCO AND THE GOVERNOR WERE ESTABLISHED, IT WOULD BE FOR CONSIDERATION WHETHER THERE SHOULD BE A FURTHER MOVE TO DIRECT ELECTIONS BY ALL REGISTERED VOTERS. BUT THIS CONSIDERATION WOULD HAVE TO TAKE INTO ACCOUNT THE FACTORS SET OUT IN PARAS 11 AND 12.

20. THE GOVERNOR WOULD NEED A DEPUTY TO ACT IN CASE OF ILLNESS, ABSENCE OR DEATH. HE COULD BE ELECTED BY THE SAME PROCESS. THE DEPUTY WOULD BE A MEMBER OF THE EXECUTIVE COUNCIL AND PRESIDE IN THE ABSENCE OF THE GOVERNOR.

21. THERE WOULD NEED TO BE A CHANGE IN THE GOVERNOR'S RELATIONSHIP WITH THE EXECUTIVE COUNCIL, HE WOULD STILL CHAIR THE COUNCIL BUT AS CHIEF EXECUTIVE OF THE GOVERNMENT HE WOULD BE BOUND TO ACCEPT AND IMPLEMENT THE COUNCIL'S DECISIONS, UNLESS THERE WERE AREAS RESERVED FOR HIS PERSONAL DECISION BY LAW. SINCE NO GOVERNOR HAS GONE AGAINST THE ADVICE OF THE EXECUTIVE COUNCIL IN LIVING MEMORY THIS WOULD ONLY FORMALISE AN EXISTING SITUATION. MOREOVER THE EXECUTIVE COUNCIL WOULD ITSELF HAVE BEEN LARGELY ELECTED BY THE LEGISLATIVE COUNCIL AND WOULD THUS HAVE A POLITICAL LEGITIMACY IN ITS OWN RIGHT.

22. THE RELATIONSHIP OF THE GOVERNOR TO THE JUDICIARY WOULD BE SUBSTANTIALLY UNCHANGED.

CONSULTATION AND IMPLEMENTATION

23. AS MENTIONED ABOVE, THE ELECTIONS IN 1985 AND 1986 PROVIDE A READY MADE OPPORTUNITY FOR LAUNCHING THE FIRST STEP IN THE SEQUENCE OF WIDENING THE ROLE OF ELECTIONS IN THE TERRITORY. PARAGRAPH 13 REFERS TO THE REVIEW OF DISTRICT ADMINISTRATION WHICH

IS IN PROGRESS. THERE IS ALREADY STRONG EVIDENCE TO SUGGEST THAT A STRENGTHENING OF THE ELECTED ELEMENT WOULD BE SUPPORTED. AN ANNOUNCEMENT OF THE PROPOSAL TO INCREASE THE PROPORTION OF ELECTED MEMBERS IN DISTRICT BOARDS, COULD BE MADE IN EARLY 1984. THIS WOULD BE FOLLOWED BY PUBLIC DISCUSSION BEFORE NECESSARY CHANGES WERE MADE IN THE RELEVANT LEGISLATION IN THE MIDDLE OF THE YEAR. THE CREATION OF A SECOND REGIONAL COUNCIL WITH ELECTED MEMBERS, COULD BE PROPOSED EITHER AT THE SAME TIME OR IN THE GOVERNORS ADDRESS TO THE LEGISLATIVE COUNCIL IN THE AUTUMN OF 1984. THIS SECOND REGIONAL COUNCIL FILLS A GAP IN THE PATTERN OF LOCAL GOVERNMENT AND IMPLEMENTATION WOULD BE STRAIGHT FORWARD, SINCE THE ELECTIONS WOULD BE ON A FRANCHISE AND CONSTITUENCY BASIS ALREADY ESTABLISHED.

24. THERE WOULD THEN NEED TO BE A FURTHER ANNOUNCEMENT ON THE PROPOSED ESTABLISHMENT OF COLLEGIATE ELECTIONS TO THE LEGISLATIVE AND EXECUTIVE COUNCILS AND THE EVENTUAL ELECTION OF THE GOVERNOR. THIS TOO WOULD BE FOLLOWED BY A PERIOD OF PUBLIC DISCUSSION BEFORE THE NECESSARY LEGISLATION WAS INTRODUCED INTO THE LEGISLATIVE COUNCIL. THE INTRODUCTION OF THIS ELECTIVE PROCESS WOULD NEED TO BE PROGRESSIVE, IN ORDER TO CONSOLIDATE EACH STAGE BEFORE MOVING ON TO THE NEXT. IT COULD REASONABLY BE COMPLETED BY THE END OF THIS DECADE. SOME CHANGES COULD BE BROUGHT IN AT EARLIER STAGES, E.G. THE ELECTION BY THE LEGISLATIVE COUNCIL OF ITS OWN SPEAKER, AND THE INCREASING APPOINTMENT OF LEGCO MEMBERS FROM AMONG ELECTED MEMBERS OF DISTRICT BOARDS AND THE REGIONAL COUNCILS. THE FORMAL REQUIREMENT FOR THE GOVERNOR TO ACCEPT THE ADVICE OF THE EXECUTIVE COUNCIL COULD ALSO BE INTRODUCED AS SOON AS IT HAD BECOME AN ELECTED BODY ALTHOUGH IT WOULD BE NECESSARY TO RESERVE THE GOVERNOR'S AUTHORITY IN RESPECT OF DEFENCE, SECURITY AND EXTERNAL RELATIONS AS LONG AS HONG KONG REMAINED A DEPENDENT TERRITORY.

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FUTURE OF HONG KONG

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- ED/PUSD
- D/ED/PUSD(MR FLOWER)
- RESEARCH DEPT(MR WALKER)
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AN ASSESSMENT OF THE CHINESE POSITION ON THE FUTURE OF HONG KONG
CHRONOLOGY OF THE TALKS

1. Agreement for the talks was reached during the Prime Minister's September 1982 visit to Peking. A joint statement was approved announcing that the two sides would hold talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong. The Chinese leaders made it clear in their talks with the Prime Minister in September 1982 that they sought recovery of sovereignty and administration over all Hong Kong after 1997. Deng Xiaoping indicated that he considered this to be the premise for negotiations.

2. From the first contacts on the subject in October 1982, the Chinese pressed for UK affirmation of the premise for entering formal talks. The British position was that HMG would be prepared to consider recommending a transfer of sovereignty to Parliament if administrative arrangements were made which would command confidence and would be acceptable to the people of Hong Kong: and that the maintenance of confidence required the maintenance of British administration. Sterile wrangling ensued until the Prime Minister's letter of 10 March 1983 to Premier Zhao Ziyang which slightly strengthened her original assurance on sovereignty. She said that provided agreement could be reached between the UK and Chinese Governments on administrative arrangements which would guarantee Hong Kong's future prosperity and stability and would be acceptable to Parliament and to the people of Hong Kong as well as to the Chinese Government, the Prime Minister would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong would revert to China. The Chinese then agreed to open formal talks, but argument about the agenda caused further delay. The compromise reached placed post-1997 arrangements as the first item followed by arrangements in the period up to 1997 and finally questions relating to transfer of sovereignty.

3. During the first four rounds of talks (July to September) the British side argued steadily for continuing British administration, whilst the Chinese demanded explicit UK affirmation of agreement to transfer sovereignty and all associated administrative rights over

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the whole of Hong Kong. Breakdown of the talks threatened by the end of September. Following consultations in London on 6-8 October the text of a message from the Prime Minister, delivered on 14 October, was agreed. The Prime Minister proposed, in pursuance of her earlier letter and without prejudice to any final agreement, that the two sides should examine the Chinese proposals to see if on that basis arrangements of lasting value for Hong Kong could be built. If the resulting package was satisfactory the British Government was prepared to recommend it to Parliament. It was subsequently made clear to the Chinese that for the purposes of discussion HMG were no longer insisting on British administration as a prerequisite.

4. Deep Chinese suspicions of British motives remained. The Chinese were then formally told on 28 November that in pursuing the discussions proposed in the Prime Minister's message of 14 October, HMG envisaged no link of authority or accountability between Britain and Hong Kong after 1997, would make no proposal conflicting with the Chinese premise and saw the UK role as one of assistance not authority. The first substantial discussion of detail was thus made possible at the 7/8 round.

But if this was subject to the condition that a satisfactory agreement or defined close should be reached

THE CHINESE POSITION

5. The following are the most important elements in the Chinese position. it is clear that they have been laid down from the top and that they are basic principles for the Chinese.

- (a) sovereignty and the right of administration over the whole of Hong Kong must revert to China by 1997. British administration or co-administration in any form are unacceptable:
- (b) After 1997 Hong Kong will be established as a Special Administrative Region (SAR) of China under Article 31 of the Chinese constitution. The National People's Congress (NPC) will lay down a basic law for the Hong Kong SAR under that article.
- (c) The Chinese 12 point plan (see appendix A) will form the basis of this law.

In addition the Chinese have made it clear that their policies and guidelines for Hong Kong after 1997 will be announced publicly not later than September 1984. The Chinese hope for agreement with the UK before then, but failing that will issue a unilateral statement.

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within the terms of the instructions A 3qf6
which Eric saw when
the plan noted No. 10

6. Prior to the 7th round (7/8 December) deep Chinese mistrust of British ambitions and intentions regarding Hong Kong was clearly evident. These suspicions seem to have been largely dissipated by the Ambassador's clarificatory statement of 28 November about the future British role. As a result the rigid Chinese position of insistence upon explicit affirmation by the British side of the Chinese premise that sovereignty and the power of administration would revert to China in 1997 has been relaxed. The 7th round of talks showed the first real discussion of detail of the Chinese plan.

7. A number of points have become clearer as a result of the last round and discussions since then:

- (a) The Chinese 12 point plan as announced by Yao Guang on 14 November is at appendix A. A note detailing additional elements of Chinese policy as enunciated in subsequent discussion is at appendix B.
- (b) The Chinese have offered substantial comment on the first three working papers submitted. Inevitably not all the detail has been to our liking, but a number of points in our working papers have been accepted. (A list of working papers so far submitted is at appendix C and the texts of the first three working papers identifying those elements so far accepted by the Chinese at appendix D). The Chinese have told us that our working papers are helpful and have promised comment on outstanding ones. The charge that our working papers contained 'excessive detail' had not been repeated and we now have a good chance of discussing detailed arrangements over a wide area of Hong Kong's various systems. The Chinese are no longer drawing their earlier sharp distinction between those matters relating to Hong Kong's future which they considered their internal affairs and on which they will listen to HMG's comments but decide for themselves and those more limited areas affecting British interests in Hong Kong over which more genuine negotiation would be possible. Zhao Ziyang has told the Ambassador that anything can be discussed if it does not conflict with the premise, and that points of agreement will be reflected in the basic law.
- (c) The Chinese have informally drawn our attention to Yao Guang's 8

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December statement that it was not impossible that current practice in those areas for which the future SAR would be responsible could continue unchanged after 1997 until the SAR Government decided otherwise. This too is an important improvement on the earlier Chinese position that such discussion was impossible because all relevant decisions were for the future SAR to take. It may be possible to develop this.

MODIFICATIONS TO THE CHINESE POSITION

8. Since September 1982 the Chinese side, while remaining wholly inflexible on basic principle, has nevertheless modified its stance in response to UK argument on a number of occasions: The Prime Minister's letter of 10 March persuaded the Chinese to enter formal talks although the Chinese demand for explicit affirmation of their premise was not met:

- (b) The Chinese revised their original position on the agenda to meet our wishes:
- (c) The Prime Minister's message of 14 October and the clarification about the future British role delivered on 28 November made possible detailed discussion at the seventh round despite the fact that the Chinese had earlier maintained that the British side should first explicitly affirm the Chinese premise.
- (d) It is impossible to assess the exact degree to which the Chinese may have modified their ideas on detailed arrangements as this detail was not made known to us before we expressed our own ideas. However discussion of the first three working papers submitted shows that a considerable number of points in those papers now figure in the elaborated Chinese plan. It is reasonable to suppose that this has to some extent been influenced in a direction favourable to us.
- (e) Recent contacts, though not yet entirely conclusive, tend to show that the Chinese are relatively open-minded and receptive to our ideas so long as our proposals do not conflict with fundamental Chinese principles. Zhao Ziyang said this explicitly. Recent discussion has shown signs of flexibility, eg over continuity in the civil service and appointment of judges.

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DEGREE OF FLEXIBILITY IN THE CHINESE POSITION

9. The Chinese are publicly committed to an announcement of their policies in September 1984. Some announcement at that time is now inevitable. Its precise terms will no doubt depend on how much progress is made in the talks in the meantime. But the Chinese clearly envisage announcing their 12 Point Plan in September. They are also keen to reach a bilateral agreement by then. There are however indications that failing conclusion of such an agreement, the talks could continue beyond the September announcement.

10. The Chinese have made clear that the basic elements in their position (see para 5 above) are matters of principle and not negotiable. All the evidence suggests that they mean this and our assesment is that they will not modify these basic elements. However there may well be scope for modification of some of the detail contained in the 12 Point Plan and subsequent Chinese explanations of its implications. We are however unlikely to establish this until the Chinese have reacted to our counter-suggestions. This process may take some rounds of discussions. This process may take some rounds of discussion. We are still at an early stage in that process.

IMPLICATIONS OF CONFRONTATION

11. In our judgement there is no possibility that the Chinese would back down on their principles if faced with confrontation. Indeed it would be political suicide for any Chinese leader to be seen to yield to British pressure on these points, to which the Chinese are already publicly committed. Deng Xiaoping has said repeatedly that he is not prepared to be another Li Hungzhang (the eminent Chinese statesman who signed the New Territories lease). If he were to give way it is questionable whether even he could survive. We see no prospect of any successor to Deng, whether supporter or opponent of his policies, taking a softer line on Hong Kong.

12. These considerations rule out any Chinese concessions resulting from confrontation. On the contrary confrontation would be likely to produce a hardening of the Chinese position to the point of total rigidity. Hostile Chinese propaganda would be resumed with

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more intensity and there is a strong likelihood that the Chinese would formally announce their proposals well before the September 1984 date, quite possibly immediately. In that event the scope for negotiations would be further reduced since the Chinese would almost certainly refuse to retreat from any points which had been included in a unilateral announcement. Confidence would collapse with resultant consequences for the economy. A considerable outflow of Hong Kong inhabitants would ensue. Local Government would become increasingly difficult. If the situation in Hong Kong became unstable, there is a chance that the Chinese would carry out their threat to take control of the territory before 1997.

13. The implications of a confrontation are therefore grave. If the outcome of the negotiations was unsatisfactory, these implications would have to be balanced against the immediate consequences involved in accepting an agreement which did not command confidence in Hong Kong. These consequences would themselves include a rapid decline in the economy, serious and increasing difficulty in administering the territory and accelerated preparations for departure on the part of those people in a position to leave.

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Foreign and Commonwealth Office

London SW1A 2AH

PO/83/3

22 December 1983

Prime Minister ②

For information. Premier Zhao's message
to you is in para 3 of the telegram
immediately below.

Dear John,

DMS
23/12Future of Hong Kong: Sir P Cradock's meeting with Premier ZhaoJiyang

You will have seen Peking telnos 1387 and 1388 reporting and commenting on this meeting. The first telegram under reference included the text of a message to the Prime Minister from Premier Zhao.

The message strikes a generally positive note. It glosses over the conditionality of the Prime Minister's messages in its reference to "the removal of the principal obstacle to progress". But it is encouraging that it should express such confidence in the achievement of an agreement. There is a clear intention to maintain the pressure on us and speed up the momentum of the negotiations.

The discussion contained other encouraging points. Premier Zhao expressed willingness to discuss with us anything which did not impinge on basic principle. Subject only to that, he emphasised, China would be reasonable and responsive in its approach. He confirmed that whatever is agreed with us would be enshrined in the basic law or "mini-constitution" for Hong Kong as a Special Administrative Region of China. On a number of points of potential difficulty there was at least a hint of Chinese flexibility. These included the difficult question of the stationing of a Chinese garrison in Hong Kong, though Sir P Cradock notes that Zhao was touchy about China's right to have troops there.

Sir P Cradock again pressed home the importance of maximum continuity in Hong Kong's structures if confidence was to be maintained.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private SecretaryA J Coles Esq
10 Downing Street

HONG KONG: future Pt 10

Foreign and Commonwealth Office

London SW1A 1AA



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TO IMMEDIATE FCO

TELEGRAM NUMBER 1387 OF 21 DECEMBER

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: MEETING WITH ZHAO ZIYANG

1. I HAD AN HOUR YESTERDAY AFTERNOON (20 DECEMBER) WITH PREMIER ZHAO ZIYANG. GALSORTHY AND PLUNT WERE ALSO PRESENT.
2. I CONVEYED TO ZHAO THE PRIME MINISTER'S PERSONAL GREETINGS AND ASKED THAT HE SHOULD PASS ON HER PERSONAL GOOD WISHES TO DENG XIAOPING. I SAID THAT THE PRIME MINISTER HAD HOPED THAT BEFORE I LEFT I WOULD BE ABLE TO CALL ON CHINESE LEADERS FOR A DISCUSSION ON HONG KONG'S FUTURE AND WE WERE GRATEFUL THAT THESE CALLS HAD BEEN MADE POSSIBLE. IN RESPONSE ZHAO ASKED ME TO CONVEY GREETINGS AND GOOD WISHES FROM HIMSELF AND CHINESE LEADERS TO THE PRIME MINISTER AND TO THANK HER FOR HER CONTRIBUTION TO SINO-BRITISH RELATIONS.
3. ZHAO ALSO ASKED ME TO CONVEY HIS THANKS AND APPRECIATION TO THE PRIME MINISTER FOR HER MESSAGE OF 14 OCTOBER. HE APPRECIATED THE EFFORTS SHE HAD MADE TO PROMOTE THE SMOOTH PROGRESS OF THE TALKS. THE CHINESE WERE SATISFIED WITH PROGRESS MADE. HE ASKED ME TO CONVEY THE FOLLOWING MESSAGE TO THE PRIME MINISTER: THE CHINESE GOVERNMENT THOUGHT THAT WITH REGARD TO THE NEGOTIATIONS ON THE HONG KONG QUESTION, WITH THE REMOVAL OF THE PRINCIPAL OBSTACLE TO PROGRESS, IT WOULD NOW BE POSSIBLE AND NECESSARY TO EXPEDITE THE PACE OF DISCUSSIONS SO AS TO LEAD TO AGREEMENT AT AN EARLY DATE. THIS WOULD BE BENEFICIAL TO CONFIDENCE IN HONG KONG AND THUS TO STABILITY AND PROSPERITY THERE. SO LONG AS BOTH SIDES HELD SINCERE AND COOPERATIVE ATTITUDES IT WOULD NOT BE DIFFICULT TO SETTLE THE SPECIFIC PRACTICAL QUESTIONS. HE REMEMBERED THAT IN HER MESSAGE THE PRIME MINISTER HAD SAID THAT WITH STATESMANSHIP ON BOTH SIDES IT WOULD BE POSSIBLE TO REACH AGREEMENT. HE APPRECIATED THIS AND HOPED THAT THE BRITISH SIDE WOULD CONTINUE TO VIEW THE TALKS IN THE CONTEXT OF THE OVERALL WORLD SITUATION AND FRIENDLY SINO-BRITISH RELATIONS. HE WAS SURE IT WAS ENTIRELY POSSIBLE TO REACH AGREEMENT.
4. I THANKED ZHAO FOR HIS REMARKS AND MESSAGE WHICH I UNDERTOOK TO PASS ON . I SAID THAT WE TOO BELIEVED IT TO BE IN THE INTERESTS OF ALL INVOLVED TO SETTLE TO THE BENEFIT OF BOTH SIDES. OUR APPROACH TO THE TALKS WAS ON THE BASIS OF THE PRIME MINISTER'S MESSAGE. WE WERE TRYING TO BUILD ON THE CHINESE PLAN. IF A SATISFACTORY CONCLUSION COULD BE REACHED, THE CHINESE SIDE COULD BE SURE OF OUR FULL COOPERATION.
5. I REFERRED TO THE USEFUL CONVERSATIONS I HAD HAD WITH WU ZUEQIAN AND JI PENGFEI. I SAID THAT IN BOTH THESE MEETINGS I HAD ELABORATED THE SAME THEME: THE AGREED BASIS OF OUR PRESENT DISCUSSIONS WOULD ENTIRELY SATISFY CHINESE OBJECTIVES

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/ OF PRINCIPLE.

OF PRINCIPLE. WHAT REMAINED WERE MATTERS NOT ABSOLUTELY CRUCIAL TO THOSE PRINCIPLES BUT NEVERTHELESS VERY IMPORTANT FOR THE ECONOMIC SUCCESS OR OTHERWISE OF THE SAR. WE THEREFORE HOPED THAT THE CHINESE SIDE WOULD LISTEN TO OUR PROPOSALS AND TAKE ACCOUNT OF THEM IN DRAWING UP THE BASIC LAW. I NOTED THAT AGREEMENT HAD ALREADY BEEN REACHED ON A NUMBER OF POINTS AND SAID THAT I ASSUMED THAT THESE WOULD BE INCORPORATED IN THE BASIC LAW.

6. I THEN REFERRED TO THE IMPORTANCE OF CONTINUITY. CHANGES SHOULD NOT BE MADE EXCEPT WHERE THEY WERE ABSOLUTELY NECESSARY TO MEET CHINESE PRINCIPLES. THERE SHOULD BE NO CHANGE FOR THE SAKE OF CHANGE. WE SHOULD BE AS PRECISE AS POSSIBLE IN STATEMENTS OF WHAT WAS TO BE ESTABLISHED. I DREW ATTENTION TO MY COMMENTS IN OTHER DISCUSSIONS ON THE NEED FOR CONTINUITY IN THE CIVIL SERVICE. WE HOPED THAT ALL CIVIL SERVANTS, WHETHER OF LOCAL OR OVERSEAS ORIGIN, WOULD BE ABLE TO STAY ON AND COMPLETE THEIR CAREERS IN THE NORMAL WAY. THEIR LOYALTIES WOULD NATURALLY BE TO THE SAR NOT TO ANYBODY ELSE. I SAID I HAD BEEN ENCOURAGED TO HEAR FROM JI PENGFEI THAT THOSE WHO HELD HONG KONG IDENTITY CARDS AS WELL AS UK PASSPORTS WOULD BE PERMITTED TO STAY ON AND RISE UP TO AND INTO THE MOST SENIOR CIVIL SERVICE POSTS.

I URGED THE CHINESE SIDE TO BEAR IN MIND THE IMPORTANCE OF CONTINUITY, SUBJECT OF COURSE TO MEETING THEIR FUNDAMENTAL PRINCIPLES. I SAID THAT IT LAY IN THE TWO SIDES' HANDS TO MAKE THE FUTURE HONG KONG A GREAT SUCCESS. THIS WOULD ALSO BE AN INTERNATIONAL SUCCESS. IT WOULD COST THE CHINESE NOTHING BUT WOULD MEAN EVERYTHING TO HONG KONG. IT WAS A BIG OPPORTUNITY.

7. ZHAO SAID THAT AS ONE WHO HAD SERVED LONG IN CHINA I WOULD BE WELL AWARE OF CHINESE POLICIES. CHINA FOLLOWED PRINCIPLE BUT WAS ALSO VERY REASONABLE AND PRACTICAL. SO LONG AS FUNDAMENTAL CHINESE PRINCIPLES WERE NOT IMPAIRED, THE CHINESE SIDE WAS READY TO LISTEN TO WHATEVER SUGGESTIONS WE MIGHT HAVE CONCERNING THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG AND WOULD TAKE THEM INTO ACCOUNT. WE SHOULD SEE THAT CHINA WAS VERY FLEXIBLE AND OPEN-MINDED. CHINA AIMED TO RECOVER SOVEREIGNTY INCLUDING THE RIGHT OF ADMINISTRATION WHILST MAINTAINING STABILITY AND PROSPERITY. ZHAO POINTED OUT HOWEVER THAT THE RECOVERY OF SOVEREIGNTY WAS THE PREMISE. ON THAT BASIS CHINA WOULD DO WHATEVER WAS POSSIBLE TO MAINTAIN STABILITY AND PROSPERITY. UNNECESSARY CHANGES WOULD NOT BE MADE SO LONG AS THE ARRANGEMENTS FOR HONG KONG WERE CONSISTENT WITH THE CHINESE PREMISE AND CONDUCTIVE TO THE MAINTENANCE OF STABILITY AND PROSPERITY. IT WAS POSSIBLE THAT OUR VIEWS WOULD DIFFER ON SPECIFIC QUESTIONS. THESE COULD BE DISCUSSED THROUGH NEGOTIATION. AS LONG AS BOTH SIDES ABIDED BY THE FUNDAMENTAL PRINCIPLES AND CHERISHED THE AIM OF MAINTAINING STABILITY AND PROSPERITY, AN AGREEMENT WOULD EVENTUALLY BE REACHED. ZHAO SAID THAT THE ISSUES OF GREATEST CONCERN TO THE CHINESE SIDE, NAMELY SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION, WERE KNOWN TO US. HE HOPED THAT WE WOULD IDENTIFY OUR POINTS OF MAJOR CONCERN SOON IN A STRAIGHTFORWARD AND FRANK WAY.

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/ THIS WOULD

THIS WOULD BENEFIT THE TALKS. SO LONG AS OUR SUGGESTIONS DID NOT IMPAIR CHINESE PRINCIPLES IT MIGHT BE POSSIBLE TO AGREE ALL OR PART OF SUCH SUGGESTIONS. THERE MIGHT OF COURSE ALSO BE AREAS WHERE WE DID NOT AGREE. MUTUAL UNDERSTANDING AND TRUST WOULD BE INCREASED. THE RATE OF TALKS WOULD BE ACCELERATED. ZHAO REFERRED TO OUR RECENT COMMENTS ON THE CIVIL SERVICE AND THE ELECTION OF JUDGES: THE CHINESE SIDE WAS CONSIDERING THEM.

8. I REPLIED THAT WE WOULD TRY TO PUT THESE ISSUES AS SOON AS POSSIBLE TO THE CHINESE SIDE. I WAS ENCOURAGED BY ZHAO'S COMMENTS. IN THEIR SPIRIT THERE WAS ONE POINT WHICH, ALTHOUGH RAISED IN EARLIER DISCUSSIONS, I WISHED TO REPEAT. I REFERRED TO THE POSSIBILITY THAT THE CHINESE INTENDED TO STATION TROOPS IN HONG KONG. I SAID THAT WE DID NOT DISPUTE THE CHINESE RIGHT TO STATION TROOPS IN ANY PART OF CHINESE TERRITORY. THIS WAS NOT AT ISSUE. HOWEVER I ASKED ZHAO TO REFLECT VERY CAREFULLY ON THE EFFECT UPON THE INHABITANTS OF HONG KONG AND THE OUTSIDE WORLD OF A DECISION TO STATION THEM IN HONG KONG. IT WOULD DAMAGE THE SAR'S CREDIBILITY AS AN AUTONOMOUS REGION AND LEAD TO THE CONCLUSION THAT THE HONG KONG ISSUE HAD BEEN SOLVED NOT THROUGH FRIENDLY RELATIONS BUT BY MILITARY MEANS. THIS WOULD BE VERY DAMAGING.

9. ZHAO SAID THAT ONE ASPECT OF CHINA'S SOVEREIGNTY OVER HONG KONG WOULD BE CHINA'S RIGHT TO STATION TROOPS THERE. IT WAS A CHINESE PRINCIPLE THAT HONG KONG'S FOREIGN AFFAIRS AND DEFENCE WOULD BE THE CENTRAL GOVERNMENT'S RESPONSIBILITY. HOWEVER, CONCRETE DISCUSSIONS ON THIS ISSUE COULD BE CONDUCTED. IT WAS NOT NECESSARILY THE CASE THAT CHINESE TROOPS WOULD BE SENT TO HONG KONG ON THE DAY OF RESUMPTION OF SOVEREIGNTY. IT HAD BEEN MADE CLEAR THAT DEFENCE WAS THE CENTRAL GOVERNMENT'S RESPONSIBILITY, PUBLIC ORDER THAT OF THE SAR POLICE. TROOPS STATIONED IN HONG KONG FOR NATIONAL DEFENCE WOULD NOT INTERFERE IN THE SAR'S INTERNAL AFFAIRS. THEIR FUNCTION WOULD NOT BE THE SAME AS THE PLA ON THE MAINLAND.

10. ZHAO RECALLED THAT A FURTHER ISSUE OF CONCERN TO THE UK WAS WHETHER OUR AGREEMENT WOULD BE REFLECTED IN THE BASIC LAW. HE CONFIRMED THAT IT WOULD BE. ON THE METHOD OF DISCUSSIONS HE SAID THAT WE HELD DIFFERENT VIEWS. CHINA CONSIDERED THAT WE SHOULD JUST DISCUSS IMPORTANT QUESTIONS LEAVING ASIDE EXCESSIVE DETAIL. TO DO OTHERWISE WOULD TAKE TOO MUCH TIME AND WOULD IMPINGE UPON THE SAR'S AUTONOMY. IF THE BASIC LAW CONTAINED MORE DETAIL, LIMITATIONS ON THE SCOPE AND FUNCTION OF THE FUTURE SAR WOULD BE SET. ON CONTINUITY, HE UNDERSTOOD THAT THIS WAS A QUESTION OF GREAT CONCERN. IN VIEW OF THE PROGRESS MADE, HE SUGGESTED THAT IT MIGHT BE BENEFICIAL IF WHILE DISCUSSING POST-1997 ARRANGEMENTS QUESTIONS AFFECTING THE TRANSITIONAL PERIOD WERE ALSO DISCUSSED. COMBINING THESE TWO AREAS WOULD CREATE BETTER UNDERSTANDING OF CONTINUITY AND WOULD ALSO ENABLE DISCUSSION OF HOW THE TWO SIDES COULD BEST COOPERATE IN THE TRANSITIONAL PERIOD TO MAINTAIN STABILITY AND PROSPERITY. HE HOPED THAT BOTH SIDES WOULD MAKE EFFORTS AND COOPERATE TO

MAINTAIN STABILITY AND PROSPERITY IN THIS PERIOD AND ALSO THAT THE UK WOULD CONTINUE TO PLAY A POSITIVE ROLE IN HELPING HONG KONG'S ECONOMIC DEVELOPMENT.

11. I SAID THERE WAS ONLY TIME LEFT FOR ME TO MAKE BRIEF COMMENTS, AS FOLLOWS:

(A) TROOPS: WE DID NOT DISPUTE CHINA'S RIGHT TO STATION TROOPS IN HONG KONG. IT WAS A QUESTION OF HOW THAT RIGHT MIGHT BE EXERCISED AND THE EFFECT OF EXERCISING IT. WE UNDERSTOOD THAT PUBLIC ORDER WOULD BE THE RESPONSIBILITY OF THE SAR POLICE. I NOTED THAT CHINESE TROOPS IN HONG KONG WOULD NOT HAVE THE SAME FUNCTION AS THE PLA. NEVERTHELESS I URGED THE CHINESE SIDE TO THINK VERY CAREFULLY ABOUT THE EFFECT OF STATIONING TROOPS:

(B) BASIC LAW: I WAS GRATEFUL FOR ZHAO CONFIRMATION THAT OUR AGREEMENT WOULD BE REFLECTED IN THE BASIC LAW:

(C) METHOD OF TALKS: I SAID THAT OUR WORKING PAPERS WERE CONCERNED ONLY WITH THE MOST IMPORTANT PRINCIPLES IN EACH AREA. A CERTAIN DEGREE OF PRECISION WAS NECESSARY IF CONFIDENCE, AND THEREFORE PROSPERITY, WERE TO BE RETAINED. WE DID NOT DISPUTE THAT THE SAR SHOULD HAVE A HIGH DEGREE OF AUTONOMY AND SHOULD BE ABLE TO TAKE ITS OWN DECISIONS OVER LARGE AREAS. BUT WE MUST BE SURE OF THE STARTING POINT OR CONFIDENCE WOULD NOT CONTINUE. THIS WOULD NOT PREVENT THE SAR MAKING CHANGES LATER:

(D) AGENDA ORDER: I ACCEPTED THAT A NUMBER OF ISSUES SEEMED TO OVERLAP. HOWEVER UNTIL WE KNEW WHAT HONG KONG WAS TRANSITING TO, WE COULD NOT DECIDE UPON TRANSITIONAL ARRANGEMENTS:

(E) UK INTERESTS: WE CONSIDERED IT MOST IMPORTANT THAT HONG KONG SHOULD FLOURISH. THERE WAS NO POINT IN HAVING INTERESTS IN A DEAD CITY. CONFIDENCE WAS ALL IMPORTANT.

12. SEE MIFT FOR COMMENT.

CRADOCK

FUTURE OF HONG KONG

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LEGAL ADVISER(SIR IAN SINCLAIR)

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FM PEKING 210600Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1388 OF 21ST DEC 83

INFO IMMEDIATE HONG KONG

MIPT: CALL ON ZHAO ZIYANG

COMMENT

1. ZHAO WAS RELAXED AND FRIENDLY, AND SHOWED A DETAILED KNOWLEDGE OF THE SUBJECT. HE WAS AT PAINS TO ACKNOWLEDGE THE VALUE OF THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER. HE REPEATED THAT THE CHINESE SIDE WERE WILLING TO DISCUSS ANYTHING WITH US SO LONG AS THEIR BASIC PRINCIPLES WERE NOT INFRINGED. HE CLEARLY WISHED TO GIVE AN IMPRESSION OF CONSIDERABLE FLEXIBILITY, THOUGH HE DID POINT TO THE POSSIBILITY THAT THE VIEWS OF THE TWO SIDES WOULD DIFFER ON SOME THINGS.

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SECRET

/ AFTER

SECRET

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CRADOCK

FUTURE OF HONG KONG

LIMITED

ED/EKD

ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

SIR C TICKELL

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BUCKINGHAM PALACE

PS/LORD PRESIDENT OF THE COUNCIL

PS/HOME SECRETARY

PS/CHANCELLOR OF THE EXCHEQUER

PS/LORD PRIVY SEAL

PS/SECRETARY FOR TRADE AND
INDUSTRY

COPIES TO: (VIA ADR)

MR ROBERTS NEWS DEPT

MR BURROWS LEGAL ADVISERS

MR COLES NO 10 DOWNING ST

SIR A PARSONS " "

MR MARTIN ASSESSMENT STAFF
CABINET OFFICE

MR GOODALL CABINET OFFICE

MR BRENNAN " "

PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL

2
SECRET

SUBJECT
c. Master Set



B/F to 66
AJC
completed
o/r

10 DOWNING STREET

From the Principal Private Secretary

22 December, 1983

Dear Brian,

During the Prime Minister's talk with the Foreign and Commonwealth Secretary this evening, they referred to Mr. Robin McLaren.

The Prime Minister said that she was disturbed about the number of sources from which there had been adverse reports on Mr. McLaren. She felt that the number of reports made it incumbent on the Government to make thorough inquiries.

The Foreign and Commonwealth Secretary said that he had himself seen Mr. Murray-Jones and had sought the view of Sir Edward Youde who had no reason to doubt Mr. McLaren's loyalty. Sir Edward Youde had not felt able to seek an assessment from Mr. Colvin because of the latter's association with an American bank. But it was relevant that Lord MacLehose had specifically asked for Mr. McLaren to go to Hong Kong and had had a high opinion of him.

If it was agreed that, if further inquiries were to be made into the allegations in Lord Cromer's letter of 15 December, it would be necessary to seek Lord Cromer's permission for an approach to his son; and I was asked to seek Lord Cromer's consent for this. The Foreign and Commonwealth Secretary said that he would find out more from Sir Edward Youde about why the latter felt unable to approach Mr. Colvin. The Prime Minister said that she assumed that a thorough check had been made about the security papers on Mr. McLaren's background to ensure that nothing adverse was shown; and the Foreign and Commonwealth Secretary said that he would confirm this.

Yours ever, Robin Butler

P.S. There have been two developments since I dictated this letter. First, you have told me that the check referred to in the last sentence has been carried out. Second, I have spoken to Lord Cromer who confirmed that there was no objection to his son being approached, indeed that his son was expecting it. I will leave it to you to set action in hand on this.

B. Fall, Esq.,
Foreign and Commonwealth Office

FERS.

CONFIDENTIAL

Subject
C. Lester Set



File

WJ

10 DOWNING STREET

From the Principal Private Secretary

22 December, 1983

HONG KONG

The Foreign and Commonwealth Secretary discussed with the Prime Minister this afternoon the proposal that Sir Edward Youde should give EXCO a paper on the current state of negotiations with China for discussion before EXCO came here next month. He would be showing the Prime Minister a draft of this before the holiday. The Foreign and Commonwealth Secretary said that it had also been suggested that it would be worth sounding EXCO on the ways of developing democratic government in Hong Kong. The Prime Minister agreed that papers should be given to EXCO on both these matters.

F. E. R. B. O. C. R.

B. Fall, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

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British Consulate-General

Gold Fields House Sydney Cove Sydney 2000 New South Wales

Telex 20680 (Answer back AA 20680)

Cable Address Britn

Telephone 27-7521

A. J. Coles Esq.
Prime Minister's Office
10 Downing Street
LONDON

Your reference

Our reference

Date

22 December 1983.

C/F.

I note to the F/C.O. about Dr. Henning
using the bag. Pl. attach papers.

pt + A.J.C. 3/1

Dear John,

I enclose a copy of a self-explanatory letter from a Mr. Roger Henning of Henning International in Sydney, addressed to Martin Berthoud, who is on mid-tour leave.

My instinct is to disbelieve those who make the assertions contained in the first paragraph of this letter, but given the claims he makes later, I thought I might take advantage of knowing you and of being an Old Boy of No. 10 myself, and bend the rules a little and send you the letter for the Prime Minister without insisting that it be unsealed. I should be grateful to know what you would like us to do with any further letters from him.

Yours ever,

D. Pragnell

D. Pragnell

Encl.



HENNING INTERNATIONAL

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

RH:ng

CONFIDENTIAL

21 December, 1983

Dear Prime Minister,

Following our meeting with John Coles I have quietly proceeded to examine the Hong Kong situation without further reference to you.

Since then a number of things have emerged.

First, we have found that every member of the Chinese business community in Hong Kong has a differing opinion on the situation.

Those that we did discuss have remained pessimistic. One of our people has recently spent three weeks in Hong Kong and Macau and we have learnt that even entrenched, wealthy Hong Kong residents have now invested in Perth, Western Australia business operations.

It is obvious that the decline in confidence will not be stemmed unless there is a successful image-making campaign undertaken to successfully promote a compromise.

In our opinion, backed up by the observations recorded from other sources, your British PR machine in Hong Kong is too stiff and not in a position to come up with a campaign to gain support from the rest of the free world and to help convince the Chinese to retain British administration.

You hit it on the nail when you described the success of Hong Kong as being "the magic of the mix of British administrative and financial skills with the cultural benefits of the Chinese influence."

From our experience in dealing with image-makers in Hong Kong, we believe the thrust should come from a source outside of Hong Kong.

There is a need for media visits to Hong Kong from the United States, countries in Europe as well as the UK.

However, it is pointless having visits made by influential writers unless you are able to present them with a palatable alternative.

Material needs to be developed that can be made available to all media visitors to Hong Kong with emphasis on a theme of "joint co-operation" between the British Government and the Government of the Peoples Republic.

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CONFIDENTIAL

21 December, 1983

It will take time to formulate a PR policy which will provide the hooks to capture the support of western media representatives and to persuade the Chinese authorities that perhaps they need to look again.

One impeccable source in the United States with superb contacts in Hong Kong, Taiwan, Korea and with family inside China has advised me that the US Government plans to take advantage of the decline in confidence in Hong Kong.

He informs me that the US Government is planning to turn Guam into a fully fledged tax haven with all the benefits that are available in the Dutch antilles.

He says the US IRS are planning to approve very liberal methods of operation in Guam which will benefit accounting firms, banks, lawyers and others who wish to transfer money with ease, speed and without trace.

Moves are also afoot to establish Macau as a financial centre with incentives to banking organisations and manufacturers to move their operations to Macau.

I intend to visit Hong Kong early in the New Year and would appreciate any update on the situation that may be beneficial and help me to come up with suggestions that may assist you.

I have kept up-to-date with media coverage of the situation but have had no further official input following our last meeting.

There is a solution to the situation and in my opinion a starting point to open up more sensible communication is to focus attention through the international media on the benefits of the existing system of government in Hong Kong.

Should it be necessary for John Coles or anyone else to brief me further could you kindly note my home telephone number is Sydney (02) 46-4058 and from Boxing Day for about three weeks I will be at my holiday retreat on the Central Coast (043) 42-4533.

I will only make contact when there is something of substance to report and will continue to use your diplomatic bag for this purpose.

The situation remains extremely sensitive because of our involvement in South and South-East Asia and Japan but I am convinced positive results can be achieved.

...../3



.....3

CONFIDENTIAL

21 December, 1983

May I extend to you, Mr Thatcher and the twins our best wishes for a very happy festive season. May your Christmas be peaceful and relaxed with your family and we hope that you have a very happy 1984.

Sincerely and with best wishes

(ROGER HENNING)
Managing Director

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

PRIAR BOND
AUSTRALIA



HENNING INTERNATIONAL

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

65c

RH:ng

21 December, 1983

CONFIDENTIAL

Dear Mr Berthoud,

During my last meeting with your Prime Minister I was advised to communicate

The enclosed letter is for Mrs Thatcher and I would appreciate it if you could send it off

Should there be any difficulty in regard to this request could you please contact John Coles who is her Private Secretary responsible for political affairs.

He was involved in an hour long conference I had with Mrs Thatcher on my last visit to London.

I can call him at Number 10 if there is any reason for the enclosed envelope being delayed and have him call you.

I realise this is an unusual request and enclose some information regarding Henning International. I am a personal friend of the Thatcher family and this can be quickly established.

Should you need to contact me at any time outside of office hours my home telephone number is (02) 46-4058. From Boxing Day for about three weeks I will be at my Central Coast retreat on (043) 42-4533.

May we extend to you, your family and staff greetings for a very happy Christmas and a prosperous 1984.

Sincerely and with best wishes

(ROGER HENNING)
Managing Director

Mr Martin S Berthuoud
Consul General
British Consulate-General
Goldfieds House
Alfred Street
SYDNEY NSW 2000

encls.

**CLOSED UNDER THE
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ACT 2000**

CHRISTINE LOH
OFFICE: 5-293311

December 21, 1983

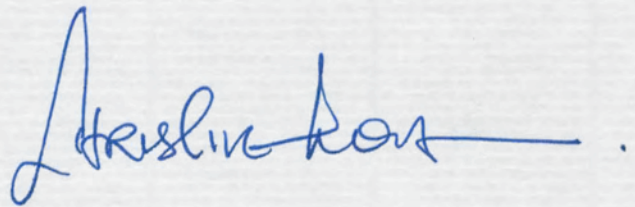
Mr.A.J. Coles
Private Secretary
10 Downing Street
London
England

Dear Mr. Coles,

Thank you for seeing me when I was in London.
We have returned from Peking and I am enclosing our
position paper for you. It is substantially the same
one as what I showed you with a few additions.

Wishing you a very happy New Year.

Best reagards,

A handwritten signature in blue ink, appearing to read "Christine Loh", with a long horizontal flourish extending to the right.

Encl.

POSITION PAPER

1. We are very happy to be in Peking, and to have the opportunity to meet with representatives of the Chinese Government. We are grateful to the New China News Agency for extending the invitation to us, and we welcome the opportunity to exchange views with Chinese officials on the situation in Hong Kong, and on what means need to be adopted to safeguard Hong Kong's stability and prosperity.

2. We are pleased that the Chinese and British Governments are holding diplomatic discussions with the common goal of maintaining stability and prosperity in Hong Kong. These discussions have the support of Hong Kong people, since cooperation between the governments of the People's Republic of China and the United Kingdom is essential to safeguard Hong Kong's stability and prosperity. If China and Britain do not cooperate with each other, Hong Kong will suffer. The weakness of the Hong Kong dollar and the recent difficulties of some property companies and banks in Hong Kong are clear signs of the fragility of Hong Kong's stability and prosperity.

3. We all live and work in Hong Kong, and most of us were born there. Therefore we know Hong Kong quite well, perhaps even better than the people at the negotiating table, none of whom consider Hong Kong their home. We want these negotiations to succeed, because our livelihood and our future, as well as the future of our children, depend on it.

4. In the course of over a hundred years, Hong Kong has become a modern, sophisticated and very complex society. It is the world's third largest financial centre and is a hub of commerce, communications and transport. The continuation of this success is dependent on the maintenance of its social, economic and legal systems, its pool of experts, managers and planners, its status as a free and politically neutral port, minimal government intervention and the speed with which decision-makers can adapt to changes.

5. A very important factor necessary to maintain Hong Kong's prosperity is the recognition of Hong Kong as a separate entity under many international treaties and by many international bodies. This, coupled with Hong Kong's ability to run its own affairs, has enabled Hong Kong to play a major role within the international financial community. Without these assets Hong Kong, which has almost no natural resources, would be reduced to a barren rock.

6. Hong Kong's affiliation with the General Agreement on Tariffs and Trade (GATT) is one of its most important ties within a vast international trading structure. The recognition of Hong Kong as a separate customs area under GATT has enabled Hong Kong to obtain a favourable trading position. Hong Kong has also been able to negotiate and use substantial textile quotas within the framework of the Multi-Fibre Arrangement (MFA). These agreements are vital to Hong Kong, since 60 percent of its exports go to the United States and the European Economic Community, and 25 percent of its gross domestic product is from manufacturing, which accounts for 40 percent

of its work force. In addition, the Hong Kong dollar is a freely convertible currency and the Hong Kong passport is a widely recognized and accepted travel document.

7. For Hong Kong to remain stable and prosperous, it will be necessary to retain the current economic, social and legal systems in Hong Kong, and for Hong Kong to retain its status in the international community. The mechanisms are delicate and the slightest change may bring about irreparable damage.

Hong Kong's Future

8. We believe that both the Chinese and British Governments have a responsibility to the people of Hong Kong. By resuming the exercise of sovereignty, China will be assuming ultimate responsibility for the territory. The complex society that Hong Kong has developed into, with its manifold problems, will become China's problems. Of course, we believe Hong Kong people are willing and able to run Hong Kong, but this cannot be done without the support of the Chinese government and an appropriate constitutional framework.

9. Similarly, the British government has an obligation to the people of Hong Kong. It has the responsibility to see that it does not hurt Hong Kong by an abrupt withdrawal. Any change must be gradual, and the British government has a responsibility not to create a vacuum when it departs, since that may well lead to confusion if not chaos.

10. Like people everywhere, Hong Kong people desire to administer

their own affairs. We therefore support the Chinese government's policy that Hong Kong should become a self-administering territory within the People's Republic of China. We believe that, with the goodwill of the Chinese and British governments, this policy can be properly implemented and can result in the maintenance of stability and prosperity in Hong Kong. It will also benefit the five and a half million people of Hong Kong, who can work for a more just society and can have a greater sense of belonging, commitment and pride.

11. However, if the policy is not properly implemented, it will bring misfortune to the people of Hong Kong. In addition, there may even be regional and international repercussions.

12. While the policy of self-administration appears simple, it presents many pitfalls. Its success is dependent on confidence of the people of Hong Kong not only in themselves but in the Chinese government as well. Such confidence is directly related to Hong Kong people's perception of China's political and economic developments and the possibility of China interfering with Hong Kong's internal affairs.

Hong Kong's Worries

13. At present, there is deep-seated distrust of the Chinese Communist Party among many people in Hong Kong and overseas. This is a result of historical developments over the last few decades, and must be acknowledged in the spirit of seeking truth from facts. The Chinese authorities can only earn the confidence of people in

Hong Kong through sustained and consistent acts over a long period of time and not by rhetoric.

14. There has been a fundamental change in China's policies since the Cultural Revolution ended. It is the fervent wish of the people of Hong Kong that there will no longer be major political upheavals in China in future. If Hong Kong had been involved in the tragedies that devastated China in the 1950s and 1960s, it would be a very different place today. Additionally, uncertainty over China's future leadership, the bureaucratic nature of its political system, and the differences in the economic systems between Hong Kong and China, have all aroused the concern of the people of Hong Kong. That is why Hong Kong people believe it is necessary to protect Hong Kong from future political upheavals in China.

15. We find it encouraging that various Chinese leaders have made statements to the effect that the social, economic and legal systems in Hong Kong will remain unchanged. However, such statements are not enough. Uncertainty over the territory's future may seriously retard economic development. For example, all land leases in the New Territories expire in 1997. Unless the holders of these leases know that they can be renewed, development in the New Territories may be retarded. The New Territories account for over 90 percent of Hong Kong's land area. And because there is no legal guarantee that the holders of land leases will be able to extend them beyond 1997, banks will be reluctant to finance industrial or housing projects whose terms extend beyond 1997.

16. Another problem is that of civil servants. If the current Hong Kong government's authority is to lapse in the foreseeable future, it may find it difficult to attract capable people into the civil service. Uncertainty about career prospects and future pension rights may deter potential candidates from joining the civil service.

17. The above are some of the problems confronting Hong Kong today. They cannot wait for 13 years and must be solved soon. Resolution of such problems requires cooperation between China and Britain. We suggest that China and Britain issue a joint communique on ways of resolving such problems.

18. In addition, we feel that any policies China is considering for Hong Kong should be thoroughly discussed by Hong Kong people before they are put into effect.

General Principles

19 We understand the Chinese government's policy on Hong Kong is :

- to maintain its stability and prosperity
- to preserve its current social, economic and legal systems
- to give self-administrative rights to Hong Kong
- to vest authority in a local government that is representative of the Hong Kong people.

20. In order for these policies to be properly implemented, we believe it will be useful for the following measures to be adopted:

(a) The status of Hong Kong as a self-administering territory should be explicitly stated in the Chinese Constitution. To maintain international confidence in the long-term future of Hong Kong, the Constitution should specify that there will be no abrogation of the status without the consent of the people of Hong Kong. The Constitution should define the relationship between the Chinese government and the Hong Kong government.

(b) To further instill confidence in the people of Hong Kong, a special constitution for Hong Kong should be drafted with the participation of Hong Kong people and made public to the international community. The validity of this constitution should be recognized by the Constitution of the People's Republic of China.

(c) The future government of Hong Kong should be elected by the people of Hong Kong to ensure that it is accountable to the people. The present Hong Kong government is based on a system of appointments. Although many of the individuals have contributed significantly to Hong Kong, they owe their office to the people who appointed them and therefore cannot be considered to be true representatives of the Hong Kong people.

(d) The future government should have powers at least as wide as those of the current Hong Kong government. It should have full authority in the running of internal affairs as well as having certain powers covering external relations, especially economic affairs. This is necessary to enable Hong Kong to maintain its position as an international centre of commerce and finance. Only in this way will Hong Kong be able to retain its position in the international financial community, and be able to react speedily to world developments.

(e) The transition towards self-administration should be gradual, step by step, rather than overnight on July 1, 1997. Reassurance must be given to the people of Hong Kong that there will not be abrupt changes in 1997 and that sufficient time will be allowed for the emergence of community leaders. As the Chinese saying goes, "It takes 10 years to grow a tree, but 100 years to produce capable people." We are not saying that it will take 100 years for Hong Kong to be ready for self-administration, but we believe it may take a very long time.

(f) A joint communique should be issued by China and Britain containing the two governments' determination to work together to maintain Hong Kong's stability, up to and beyond 1997, together with specific measures that are to be adopted.

A Hong Kong Model

21. We believe that if the policy of self-administration is properly implemented, the future Hong Kong should have the following characteristics:

- (a) A constitution that will
 - (i) Deliniate the authority of the Hong Kong government.
 - (ii) protect human rights as provided for by the United Nations Universal Declaration on Human Rights.
 - (iii) Uphold the power of judicial review of the exercise of governmental powers, and
 - (iv) provide a framework for administration.

- (b) A political system that will provide for
 - (i) a government that is accountable to and representative of the people of Hong Kong, based on free elections,
 - (ii) a government that is autonomous in principle and practice
 - (iii) a government that is based on the principle of separation of powers among the executive, legislature and judiciary.

- (c) A legal system that will uphold
 - (i) the fundamental principle of the rule of law
 - (ii) the principles entrenched in the Hong Kong constitution

- (d) An economic system that provides for
 - (i) continuation of capitalism and a free market economy
 - (ii) protection of individual economic rights, proprietary interest and enterprise

Interim Measures

22. We hope that the Chinese and Britain governments will be willing to help Hong Kong people to attain self-administration and will agree to prepare the people of Hong Kong for this purpose as soon as possible. During the period when Hong Kong is preparing for self-government, we propose that the following measures be adopted:

- (a) To sure that community leaders who genuinely represent the people will emerge, free elections should be progressively implemented including introduction of elected members to the Legislative Council with the ultimate objective of having a totally elected government, including the chief executive.

(b) For continuity to be maintained in the civil service, the present Hong Kong government should take steps to groom local people to take over more and more senior positions.

(c) To provide a detailed framework for Hong Kong's self-administration, a constitution-drafting committee, consisting of elected representatives of Hong Kong, should be set up to draft the Hong Kong constitution with the assistance of the Chinese and British governments.

(d) To ensure that there are no abrupt changes, the official British presence in Hong Kong should only be reduced step by step.

(e) To obtain international recognition of Hong Kong's special position, China and Britain should make efforts to obtain the cooperation of other countries so that Hong Kong's participation in international agreements and organizations will continue to be recognized. In addition, these countries will have to be persuaded to recognize Hong Kong's future government and its autonomous status, the future Hong Kong passport, currency, etc.

23. It is envisaged that the new self-administration government of Hong Kong may need assistance in its early years in order to function properly. We believe it is desirable to secure the British government's willingness to make available at the request of the Hong Kong government a small number of experienced administrators who will form a consultative panel in Hong Kong. During this time, the new Hong Kong government will be able to call upon these British officials for advice.

24. The above are our views on steps that need to be taken to safeguard Hong Kong's prosperity and stability. We welcome the opportunity to establish a dialogue between the people of Hong Kong and the Chinese government.

SECRET



10 DOWNING STREET

From the Private Secretary

21 December 1983

See Peter,

HONG KONG

Three matters arose during Richard Evans' call on the Prime Minister this morning which I should bring to your attention.

First, the Prime Minister mentioned that, while at CHOGM, the Tongan representative had said to her that the Chinese were using the same arguments over Hong Kong, and in exactly the same order, that they had used earlier in connection with Shanghai. Mrs. Thatcher would be grateful if some research could be carried out on this point and if she could receive your comments in due course.

Secondly, the Prime Minister has noted from recent telegrams that the Chinese are reluctant to envisage progress towards democratic institutions in Hong Kong before 1997. She finds it a little curious that this subject should have arisen so soon after she herself asked, at the last meeting of OD(K), that a paper on democracy in Hong Kong should be produced. She wonders whether there is any connection between these two matters. Again, I should be grateful for your comments.

Finally, the Prime Minister said that she had noted that in a recent conversation Sir Percy Cradock had told the Chinese that we envisaged British troops withdrawing from Hong Kong by 1997. Mrs. Thatcher said that she could envisage circumstances in which it might be necessary to retain British troops in Hong Kong and Kowloon after 1997, though she accepted that Sir Percy Cradock was speaking in the context of the "conditional" negotiations which were taking place at present, i.e. that if a satisfactory agreement could be worked out on the basis of the Chinese proposals, sovereignty and the right of administration would have to be conceded (subject to the approval of the British Parliament).

*you see
see below.*

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

Hong Kong Future Pt II

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FM PEKING 210600Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1388 OF 21ST DEC 83

INFO IMMEDIATE HONG KONG

MIPT: CALL ON ZHAO ZIYANG

COMMENT

1. ZHAO WAS RELAXED AND FRIENDLY, AND SHOWED A DETAILED KNOWLEDGE OF THE SUBJECT. HE WAS AT PAINS TO ACKNOWLEDGE THE VALUE OF THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER. HE REPEATED THAT THE CHINESE SIDE WERE WILLING TO DISCUSS ANYTHING WITH US SO LONG AS THEIR BASIC PRINCIPLES WERE NOT INFRINGED. HE CLEARLY WISHED TO GIVE AN IMPRESSION OF CONSIDERABLE FLEXIBILITY, THOUGH HE DID POINT TO THE POSSIBILITY THAT THE VIEWS OF THE TWO SIDES WOULD DIFFER ON SOME THINGS.

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CRADOCK .

NNNN

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1387 OF 21 DECEMBER

INFO IMMEDIATE HONG KONG

ms

FUTURE OF HONG KONG: MEETING WITH ZHAO ZIYANG

1. I HAD AN HOUR YESTERDAY AFTERNOON (20 DECEMBER) WITH PREMIER ZHAO ZIYANG. GALSORTHY AND BLUNT WERE ALSO PRESENT.
2. I CONVEYED TO ZHAO THE PRIME MINISTER'S PERSONAL GREETINGS AND ASKED THAT HE SHOULD PASS ON HER PERSONAL GOOD WISHES TO DENG XIAOPING. I SAID THAT THE PRIME MINISTER HAD HOPED THAT BEFORE I LEFT I WOULD BE ABLE TO CALL ON CHINESE LEADERS FOR A DISCUSSION ON HONG KONG'S FUTURE AND WE WERE GRATEFUL THAT THESE CALLS HAD BEEN MADE POSSIBLE. IN RESPONSE ZHAO ASKED ME TO CONVEY GREETINGS AND GOOD WISHES FROM HIMSELF AND CHINESE LEADERS TO THE PRIME MINISTER AND TO THANK HER FOR HER CONTRIBUTION TO SINO-BRITISH RELATIONS.
3. ZHAO ALSO ASKED ME TO CONVEY HIS THANKS AND APPRECIATION TO THE PRIME MINISTER FOR HER MESSAGE OF 14 OCTOBER. HE APPRECIATED THE EFFORTS SHE HAD MADE TO PROMOTE THE SMOOTH PROGRESS OF THE TALKS. THE CHINESE WERE SATISFIED WITH PROGRESS MADE. HE ASKED ME TO CONVEY THE FOLLOWING MESSAGE TO THE PRIME MINISTER: THE CHINESE GOVERNMENT THOUGHT THAT WITH REGARD TO THE NEGOTIATIONS ON THE HONG KONG QUESTION, WITH THE REMOVAL OF THE PRINCIPAL OBSTACLE TO PROGRESS, IT WOULD NOW BE POSSIBLE AND NECESSARY TO EXPEDITE THE PACE OF DISCUSSIONS SO AS TO LEAD TO AGREEMENT AT AN EARLY DATE. THIS WOULD BE BENEFICIAL TO CONFIDENCE IN HONG KONG AND THUS TO STABILITY AND PROSPERITY THERE. SO LONG AS BOTH SIDES HELD SINCERE AND COOPERATIVE ATTITUDES IT WOULD NOT BE DIFFICULT TO SETTLE THE SPECIFIC PRACTICAL QUESTIONS. HE REMEMBERED THAT IN HER MESSAGE THE PRIME MINISTER HAD SAID THAT WITH STATESMANSHIP ON BOTH SIDES IT WOULD BE POSSIBLE TO REACH AGREEMENT. HE APPRECIATED THIS AND HOPED THAT THE BRITISH SIDE WOULD CONTINUE TO VIEW THE TALKS IN THE CONTEXT OF THE OVERALL WORLD SITUATION AND FRIENDLY SINO-BRITISH RELATIONS. HE WAS SURE IT WAS ENTIRELY POSSIBLE TO REACH AGREEMENT.
4. I THANKED ZHAO FOR HIS REMARKS AND MESSAGE WHICH I UNDERTOOK TO PASS ON. I SAID THAT WE TOO BELIEVED IT TO BE IN THE

~~I THANKED ZHAO FOR HIS REMARKS AND MESSAGE WHICH I UNDERTOOK~~
TO PASS ON. I SAID THAT WE TOO BELIEVED IT TO BE IN THE
INTERESTS OF ALL INVOLVED TO SETTLE TO THE BENEFIT OF BOTH SIDES.
OUR APPROACH TO THE TALKS WAS ON THE BASIS OF THE PRIME MINISTER'S
MESSAGE. WE WERE TRYING TO BUILD ON THE CHINESE PLAN. IF A
SATISFACTORY CONCLUSION COULD BE REACHED, THE CHINESE SIDE
COULD BE SURE OF OUR FULL COOPERATION.

5. I REFERRED TO THE USEFUL CONVERSATIONS I HAD HAD WITH
WU ZUEQIAN AND JI PENGFEI. I SAID THAT IN BOTH THESE MEETINGS
I HAD ELABORATED THE SAME THEME: THE AGREED BASIS OF OUR
PRESENT DISCUSSIONS WOULD ENTIRELY SATISFY CHINESE OBJECTIVES
OF PRINCIPLE. WHAT REMAINED WERE MATTERS NOT ABSOLUTELY
CRUCIAL TO THOSE PRINCIPLES BUT NEVERTHELESS VERY IMPORTANT FOR
THE ECONOMIC SUCCESS OR OTHERWISE OF THE SAR. WE THEREFORE HOPED
THAT THE CHINESE SIDE WOULD LISTEN TO OUR PROPOSALS AND
TAKE ACCOUNT OF THEM IN DRAWING UP THE BASIC LAW. I NOTED THAT
AGREEMENT HAD ALREADY BEEN REACHED ON A NUMBER OF POINTS AND
SAID THAT I ASSUMED THAT THESE WOULD BE INCORPORATED IN THE
BASIC LAW.

6. I THEN REFERRED TO THE IMPORTANCE OF CONTINUITY. CHANGES
SHOULD NOT BE MADE EXCEPT WHERE THEY WERE ABSOLUTELY NECESSARY
TO MEET CHINESE PRINCIPLES. THERE SHOULD BE NO CHANGE FOR THE
SAKE OF CHANGE. WE SHOULD BE AS PRECISE AS POSSIBLE IN STATEMENTS
OF WHAT WAS TO BE ESTABLISHED. I DREW ATTENTION TO MY COMMENTS
IN OTHER DISCUSSIONS ON THE NEED FOR CONTINUITY IN THE CIVIL
SERVICE. WE HOPED THAT ALL CIVIL SERVANTS, WHETHER OF LOCAL OR
OVERSEAS ORIGIN, WOULD BE ABLE TO STAY ON AND COMPLETE THEIR
CAREERS IN THE NORMAL WAY. THEIR LOYALTIES WOULD NATURALLY
BE TO THE SAR NOT TO ANYBODY ELSE. I SAID I HAD BEEN ENCOURAGED
TO HEAR FROM JI PENGFEI THAT THOSE WHO HELD HONG KONG IDENTITY
CARDS AS WELL AS UK PASSPORTS WOULD BE PERMITTED TO STAY ON AND
RISE UP TO AND INTO THE MOST SENIOR CIVIL SERVICE POSTS.

I URGED ~~THE CHINESE~~ ^{THE CHINESE} SIDE TO BEAR IN MIND THE IMPORTANCE OF
CONTINUITY, SUBJECT OF COURSE TO MEETING THEIR FUNDAMENTAL
PRINCIPLES. I SAID THAT IT LAY IN THE TWO SIDES' HANDS TO MAKE
THE FUTURE HONG KONG A GREAT SUCCESS. THIS WOULD ALSO BE AN
INTERNATIONAL SUCCESS. IT WOULD COST THE CHINESE NOTHING BUT
WOULD MEAN EVERYTHING TO HONG KONG. IT WAS A BIG OPPORTUNITY.
7. ZHAO SAID THAT AS ONE WHO HAD SERVED LONG IN CHINA I WOULD
BE WELL AWARE OF CHINESE POLICIES. CHINA FOLLOWED PRINCIPLE BUT
WAS ALSO VERY REASONABLE AND PRACTICAL. SO LONG AS FUNDAMENTAL
CHINESE PRINCIPLES WERE NOT IMPAIRED, THE CHINESE SIDE WAS
READY TO LISTEN TO WHATEVER SUGGESTIONS WE MIGHT HAVE CONCERNING
THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG AND
WOULD TAKE THEM INTO ACCOUNT. WE SHOULD SEE THAT CHINA WAS
VERY FLEXIBLE AND OPEN-MINDED. CHINA AIMED TO RECOVER
SOVEREIGNTY INCLUDING THE RIGHT OF ADMINISTRATION WHILST
MAINTAINING STABILITY AND PROSPERITY. ZHAO POINTED OUT HOWEVER
THAT THE RECOVERY OF SOVEREIGNTY WAS THE PREMISE. ON THAT
BASIS CHINA WOULD DO WHATEVER WAS POSSIBLE TO MAINTAIN STABILITY
AND PROSPERITY. UNNECESSARY CHANGES WOULD NOT BE MADE SO
LONG AS THE ARRANGEMENTS FOR HONG KONG WERE CONSISTENT WITH
THE CHINESE PREMISE AND CONDUCTIVE TO THE MAINTENANCE OF
STABILITY AND PROSPERITY. IT WAS POSSIBLE THAT OUR VIEWS WOULD
DIFFER ON SPECIFIC QUESTIONS. THESE COULD BE DISCUSSED
THROUGH NEGOTIATION. AS LONG AS BOTH SIDES ABIDED BY THE FUND-
AMENTAL PRINCIPLES AND CHERISHED THE AIM OF MAINTAINING

~~AMENTAL PRINCIPLES AND CHERISHED THE AIM OF MAINTAINING~~
STABILITY AND PROSPERITY, AN AGREEMENT WOULD EVENTUALLY BE
REACHED. ZHAO SAID THAT THE ISSUES OF GREATEST CONCERN TO THE
CHINESE SIDE, NAMELY SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION,
WERE KNOWN TO US. HE HOPED THAT WE WOULD IDENTIFY OUR POINTS OF
MAJOR CONCERN SOON IN A STRAIGHTFORWARD AND FRANK WAY.

THIS WOULD BENEFIT THE TALKS . SO LONG AS OUR SUGGESTIONS DID
NOT IMPAIR CHINESE PRINCIPLES IT MIGHT BE POSSIBLE TO AGREE
ALL OR PART OF SUCH SUGGESTIONS. THERE MIGHT OF COURSE ALSO
BE AREAS WHERE WE DID NOT AGREE. MUTUAL UNDERSTANDING AND
TRUST WOULD BE INCREASED. THE RATE OF TALKS WOULD BE ACCELERATED.
ZHAO REFERRED TO OUR RECENT COMMENTS ON THE CIVIL SERVICE AND
THE ELECTION OF JUDGES: THE CHINESE SIDE WAS CONSIDERING THEM.

8. I REPLIED THAT WE WOULD TRY TO PUT THESE ISSUES AS SOON AS
POSSIBLE TO THE CHINESE SIDE. I WAS ENCOURAGED BY ZHAO'S COMMENTS.
IN THEIR SPIRIT THERE WAS ONE POINT WHICH, ALTHOUGH RAISED IN
EARLIER DISCUSSIONS, I WISHED TO REPEAT. I REFERRED TO THE
POSSIBILITY THAT THE CHINESE INTENDED TO STATION TROOPS IN
HONG KONG. I SAID THAT WE DID NOT DISPUTE THE CHINESE RIGHT TO
STATION TROOPS IN ANY PART OF CHINESE TERRITORY. THIS WAS NOT
AT ISSUE. HOWEVER I ASKED ZHAO TO REFLECT VERY CAREFULLY ON THE
EFFECT UPON THE INHABITANTS OF HONG KONG AND THE OUTSIDE
WORLD OF A DECISION TO STATION THEM IN HONG KONG. IT WOULD
DAMAGE THE SAR'S CREDIBILITY AS AN AUTONOMOUS REGION AND LEAD
TO THE CONCLUSION THAT THE HONG KONG ISSUE HAD BEEN SOLVED NOT
THROUGH FRIENDLY RELATIONS BUT BY MILITARY MEANS. THIS WOULD
BE VERY DAMAGING.

9. ZHAO SAID THAT ONE ASPECT OF CHINA'S SOVEREIGNTY
OVER HONG KONG WOULD BE CHINA'S RIGHT TO STATION TROOPS THERE.
IT WAS A CHINESE PRINCIPLE THAT HONG KONG'S FOREIGN AFFAIRS
AND DEFENCE WOULD BE THE CENTRAL GOVERNMENT'S RESPONSIBILITY.
HOWEVER, CONCRETE DISCUSSIONS ON THIS ISSUE COULD BE
CONDUCTED. IT WAS NOT NECESSARILY THE CASE THAT CHINESE TROOPS
WOULD BE SENT TO HONG KONG ON THE DAY OF RESUMPTION OF
SOVEREIGNTY. IT HAD BEEN MADE CLEAR THAT DEFENCE WAS THE
CENTRAL GOVERNMENT'S RESPONSIBILITY, PUBLIC ORDER THAT OF THE
SAR POLICE. TROOPS STATIONED IN HONG KONG FOR NATIONAL
DEFENCE WOULD NOT INTERFERE IN THE SAR'S INTERNAL AFFAIRS.
THEIR FUNCTION WOULD NOT BE THE SAME AS THE PLA ON THE MAINLAND.

10. ZHAO RECALLED THAT A FURTHER ISSUE OF CONCERN TO THE UK
WAS WHETHER OUR AGREEMENT WOULD BE REFLECTED IN THE BASIC LAW.
HE CONFIRMED THAT IT WOULD BE. ON THE METHOD OF DISCUSSIONS
HE SAID THAT WE HELD DIFFERENT VIEWS. CHINA CONSIDERED THAT
WE SHOULD JUST DISCUSS IMPORTANT QUESTIONS LEAVING ASIDE
EXCESSIVE DETAIL. TO DO OTHERWISE WOULD TAKE TOO MUCH TIME AND
WOULD IMPINGE UPON THE SAR'S AUTONOMY. IF THE BASIC LAW
CONTAINED MORE DETAIL, LIMITATIONS ON THE SCOPE AND FUNCTION
OF THE FUTURE SAR WOULD BE SET. ON CONTINUITY, HE UNDERSTOOD
THAT THIS WAS A QUESTION OF GREAT CONCERN. IN VIEW OF THE PROGRESS
MADE, HE SUGGESTED THAT IT MIGHT BE BENEFICIAL IF WHILE
DISCUSSING POST-1997 ARRANGEMENTS QUESTIONS AFFECTING THE
TRANSITIONAL PERIOD WERE ALSO DISCUSSED. COMBINING THESE TWO
AREAS WOULD CREATE BETTER UNDERSTANDING OF CONTINUITY AND WOULD
ALSO ENABLE DISCUSSION OF HOW THE TWO SIDES COULD BEST COOPERATE
IN THE TRANSITIONAL PERIOD TO MAINTAIN STABILITY AND PROSPERITY.
HE HOPED THAT BOTH SIDES WOULD MAKE EFFORTS AND COOPERATE TO
MAINTAIN STABILITY AND PROSPERITY IN THIS PERIOD AND ALSO THAT

~~MAINTAIN STABILITY AND PROSPERITY IN THIS PERIOD~~ AND ALSO THAT THE UK WOULD CONTINUE TO PLAY A POSITIVE ROLE IN HELPING HONG KONG'S ECONOMIC DEVELOPMENT.

11. I SAID THERE WAS ONLY TIME LEFT FOR ME TO MAKE BRIEF COMMENTS, AS FOLLOWS:

(A) TROOPS: WE DID NOT DISPUTE CHINA'S RIGHT TO STATION TROOPS IN HONG KONG. IT WAS A QUESTION OF HOW THAT RIGHT MIGHT BE EXERCISED AND THE EFFECT OF EXERCISING IT. WE UNDERSTOOD THAT PUBLIC ORDER WOULD BE THE RESPONSIBILITY OF THE SAR POLICE. I NOTED THAT CHINESE TROOPS IN HONG KONG WOULD NOT HAVE THE SAME FUNCTION AS THE PLA. NEVERTHELESS I URGED THE CHINESE SIDE TO THINK VERY CAREFULLY ABOUT THE EFFECT OF STATIONING TROOPS:

(B) BASIC LAW: I WAS GRATEFUL FOR ZHAO CONFIRMATION THAT OUR AGREEMENT WOULD BE REFLECTED IN THE BASIC LAW:

(C) METHOD OF TALKS: I SAID THAT OUR WORKING PAPERS WERE CONCERNED ONLY WITH THE MOST IMPORTANT PRINCIPLES IN EACH AREA. A CERTAIN DEGREE OF PRECISION WAS NECESSARY IF CONFIDENCE, AND THEREFORE PROSPERITY, WERE TO BE RETAINED. WE DID NOT DISPUTE THAT THE SAR SHOULD HAVE A HIGH DEGREE OF AUTONOMY AND SHOULD BE ABLE TO TAKE ITS OWN DECISIONS OVER LARGE AREAS. BUT WE MUST BE SURE OF THE STARTING POINT OR CONFIDENCE WOULD NOT CONTINUE. THIS WOULD NOT PREVENT THE SAR MAKING CHANGES LATER:

(D) AGENDA ORDER: I ACCEPTED THAT A NUMBER OF ISSUES SEEMED TO OVERLAP. HOWEVER UNTIL WE KNEW WHAT HONG KONG WAS TRANSITING TO, WE COULD NOT DECIDE UPON TRANSITIONAL ARRANGEMENTS:

(E) UK INTERESTS: WE CONSIDERED IT MOST IMPORTANT THAT HONG KONG SHOULD FLOURISH. THERE WAS NO POINT IN HAVING INTERESTS IN A DEAD CITY. CONFIDENCE WAS ALL IMPORTANT.

12. SEE MIFT FOR COMMENT.

CRADOCK

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read with interest



Foreign and Commonwealth Office

Prime Minister.

London SW1A 2AH

You will wish to read this

excellent - but not comforting - 20 December 1983

account in full. I have asked
that it should be sent to you after

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Dear John, the immediate Christmas holiday.
A.S.C. $\frac{12}{12}$

Sir P Cradock's Despatch of 12 December on the Hong Kong
Negotiations

The Foreign Secretary has read with interest the enclosed despatch by Sir P Cradock, who leaves Peking in a few days. He believes that the Prime Minister and other members of OD(K) might also find it interesting, particularly at the present time when we are looking afresh at our strategy in the talks and the way ahead. As well as summarising the past and present positions it takes a hard-headed look at the future and the realities facing us. It will be invaluable for the review which we are now conducting.

We do not propose that this despatch be distributed beyond the Foreign and Commonwealth Office, the Cabinet Office and the members of OD(K). It has of course been copied to the Governor in Hong Kong who may send us comments of his own. Sir Geoffrey has sent a telegram to the Ambassador thanking him for it and for his outstanding work as leader of our negotiating team during the past 15 months.

I am copying this letter and enclosure to Private Secretaries to members of OD(K) and to Richard Hatfield (Cabinet Office).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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THE HONG KONG NEGOTIATIONS

SUMMARY

1. The despatch reviews the negotiations to date and offers a forecast. (Para 1)
2. Difficult negotiations with radically differing approaches by the two parties. The Chinese premise and the letter of 10 March. (Paras 2 and 3)
3. The fight for continuing British administration. The Chinese make their plans known. The message of 14 October avoids a breakdown. (Paras 4-6)
4. Persisting Chinese suspicions of our motives met by the statement of 28 November on the British role. Detailed discussion finally begins. (Paras 7-9)
5. The Chinese attitude explained. Political and emotional factors paramount. Ignorance, suspicion and impatience. The Taiwan factor. (Paras 11 and 12)
6. Chinese leaks. Strength of Chinese position. Value of British cards. (Paras 13 and 14)
7. Present position. Possible assurances. Value of self rule. (Paras 15-17)
8. Prospects. Likelihood of agreement that may not be acceptable to Hong Kong opinion or attractive to British opinion. Steady degradation of the choice. (Paras 18 and 19)
9. Problems arising from planned Chinese announcement in September 1984. (Para 20)



10. Three ultimate courses. Cooperation likely to be the least bad. (Paras 21-23)

11. Conclusion. A bleak prospect but still much to play for. No alternative policy would have brought a substantially different situation. (Para 24)

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BRITISH EMBASSY,
PEKING.

12 December 1983

The Rt Hon Sir Geoffrey Howe QC MP
etc etc etc
Foreign and Commonwealth Office
LONDON SW1

Sir

THE HONG KONG NEGOTIATIONS

1. I shall be leaving Peking later this month and handing over my task as leader of the British delegation to the Sino-British talks on the future of Hong Kong to the next Ambassador. In this despatch I review the negotiations to date and assess their prospects.

Retrospect

2. Although there was a long prelude, from 1979-1982, in which our concern over Hong Kong's future grew and from time to time we broached the issue with the Chinese, agreement for talks was not reached until the Prime Minister's visit to Peking in September 1982. She and Deng Xiaoping then approved a joint statement to the effect that the two sides would hold talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong. In one form or another the talks have now lasted well over a year. They have proved very difficult, which is not surprising, given the historical background, the differing political systems represented by the two sides and, over this issue at least, their great disparity in strength. But a further and major complicating factor has been the difference in approach. Broadly, we have sought detailed discussion without /preconditions

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preconditions, with the hope of educating the Chinese on the complexity of Hong Kong and bringing them to realise the necessity for a strong British administrative element and reliable political insulation from the mainland if the essential features of Hong Kong are to be preserved after the expiration of the New Territories Lease in 1997. For us, means of assuring continued prosperity has been the objective; if an agreement could be reached to ensure this, transfer of sovereignty would be the corollary. For the Chinese the political objective of resuming sovereignty including the right of administration has been paramount. They have consistently erected premises or preconditions of political principle which have to be met before detailed discussion can be permitted; and even where considerable progress on our part has been made towards meeting these preconditions, they have tended to be elusive on practical detail. In one sense the history of the negotiations to date has been one of an attempt to communicate. And even now, after some 14 months, this communication is still fragmentary.

3. During their discussions with Mrs Thatcher in September 1982 the Chinese leaders made it clear that they sought the recovery of sovereignty and administration over all Hong Kong after 1997. Indeed, Deng Xiaoping indicated that he saw this as the premise for negotiation. From the first contacts on the subject in October 1982 the Chinese Foreign Ministry pressed for British acceptance of this premise before formal talks could begin. The opening British position, as expressed by Mrs Thatcher in

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September, was that we were prepared to consider making recommendations to Parliament on the transfer of sovereignty if satisfactory administrative arrangements could be made. But that was not enough for the Chinese. After a long and sterile period of wrangling, extended as a result of personnel changes in the Foreign Ministry, the first move towards bridging the gap was made in the Prime Minister's letter of 10 March to Premier Zhao Ziyang. This letter, slightly strengthening the original statement of September 1982, said that provided 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, the Prime Minister would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong would revert to China. This letter did not commit us to any transfer of sovereignty: it made transfer contingent on satisfactory administrative arrangements being achieved; as we saw it, it was a means of finessing the Chinese precondition without making irrecoverable concessions.

4. This letter was sufficient to bring the Chinese to agree to the opening of formal talks and, after some delicate manoeuvring, to agree to an agenda. But it rapidly became apparent that we had not gone far enough. We argued the need for continuing British administration if confidence in Hong Kong was to be preserved; and we invited the Chinese to join us in a study of present arrangements

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in Hong Kong in order to convince them of the force of this proposition. The Chinese flatly rejected these persuasions and re-emphasised the need for agreement to a transfer not just of titular sovereignty but also of all associated administrative rights. Argument on this basis continued from July to September 1983 and brought the talks near to breakdown.

5. Throughout this period, and indeed from early 1982 onwards, the Chinese, through remarks to eminent visitors, or to journalists, or in meetings with delegations of Hong Kong Chinese, were gradually making their plan for Hong Kong after 1997 known. In its latest most authoritative form this was to become known as the 12-point plan. In essence the Chinese envisaged a Special Administrative Region under Article 31 of their Constitution. Over wide areas the Hong Kong way of life and administrative systems would remain unchanged or little changed. The Special Administrative Region would enjoy a high degree of autonomy, though it was far from clear how the confidence critical to prosperity was to be preserved under the new dispensation. The region was to be governed by Hong Kong Chinese, though foreigners might also be employed. The prescription was vague and superficially attractive.

6. In October, with breakdown threatening and Chinese hostile propaganda intensifying, discussion was held in London with the Governor of Hong Kong and unofficial members of EXCO, and as a result we carried out what might be called the second finesse. A message from the Prime Minister, delivered on 14 October, recalled

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her letter of 10 March and offered to build on the Chinese proposals to see whether on that foundation arrangements of lasting value for the people of Hong Kong could be built. If the result was satisfactory, the Prime Minister was ready to recommend a bilateral agreement enshrining these results to Parliament for their approval. The message picked out certain features of the Chinese proposals that seemed to us encouraging, eg references to autonomy for the Hong Kong people, to a continuing important British role in Hong Kong after 1997, and a guarantee that the special post-1997 arrangements could be maintained for 50 years. It made clear that this exploration of the Chinese proposals was without prejudice to any final agreement, and, like the letter of 10 March, preserved the ultimate right to withdraw if the results of the exploration proved unsatisfactory. But it indicated a willingness if our conditions were met to recommend a transfer of the right of administration as well as sovereignty. In subsequent explanations we made clear that for the purposes of discussion we were no longer insisting on British administration as a prerequisite and pointed out that since on their own admission the Chinese proposals were indissolubly linked to their premise, we were going as close as we could to meeting the Chinese demand of explicit affirmation of the premise.

7. This message, more grudgingly received by the Chinese than it deserved, did permit us to begin some slightly more detailed examination of the proposed arrangements for Hong Kong after 1997; but it was clear that considerable suspicion of our intentions

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lingered: were, for instance, our references to a considerable British role or strong British link with Hong Kong after 1997 meant to disguise some continuing tie of authority? Moreover, on various pretexts, the Chinese still shrank from clarifying their own plans over large areas and seemed to hanker for a bilateral Sino-British agreement only in broad principle.

8. It was in answer to these continuing doubts and reservations that we formally told the Chinese on 28 November that, in pursuing the discussions proposed in the Prime Minister's message of 14 October, we envisaged no link of authority or accountability between Britain and Hong Kong after 1997; we would make no proposal conflicting with the reservation of sovereignty and the right of administration to China; we saw our role as one of assistance, not authority. Any overseas officers who continued to serve in Hong Kong as government officials would be in the employment of the Hong Kong Special Administrative Region and owe their loyalty to it. They would not be appointed by the British Government or responsible to London.

9. This final assurance seemed to do the trick and at the Seventh Round on 7 and 8 December the Chinese for the first time began serious detailed comment on the implications of their 12-point plan for Hong Kong, answering questions we had raised in a series of working papers, beginning with that on the legal system. This comment confirmed that some essential aspects of the Hong Kong systems would remain unchanged after 1997 under the Chinese plan; at the same time there were, inevitably, some

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unwelcome clarifications, eg that judges should be elected by the legislature and the apparent Chinese intention to station some troops in Hong Kong. The Chinese promised similar further detailed discussion to cover the whole area of the 12-point plan.

The Chinese Attitude

10. The above is a very condensed summary of many months of delicate and painful manoeuvres. The key to them is the Chinese attitude and an understanding of it is crucial not only to analysis of the past but also of any provision for the future. The Chinese approach to the issue is essentially political and emotional. They wish to recover national territory. They wish to expunge the humiliations of the Opium Wars. They recall these as not only bad in themselves, but bad as the prelude to a whole series of depredations and humiliations inflicted by foreigners on China under the Qing dynasty. These emotions are deep and real and it would be fatal to underestimate them. Deng Xiaoping, who is the principal author of Chinese policy on this question, has repeatedly said he will not go down in history as another Li Hong Zhang (the eminent Qing statesman who signed the lease of the New Territories). The Chinese leaders are well aware of the economic benefits flowing to them from Hong Kong at present and naturally would like to secure them for the future; but they have made it clear that, faced with a choice between prosperity and national reunification, they will go for the latter. Moreover, the choice appears less sharp to them than for us. They have announced a plan for Hong Kong which, coming from them, is

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surprisingly liberal, in essence the concept of a capitalist system surviving in Hong Kong as an enclave in a surrounding socialist economy. They do not recognise the vital defects of their plan: that it lacks real guarantees or adequate detail; and they are reluctant to admit that the history of China over the last 30 years is bound to arouse deep suspicion of the durability of any Peking assurances on the part of the inhabitants of Hong Kong. They are convinced that their plan for Hong Kong will be sufficient to preserve its prosperity, whatever the British may say. At the decision-making levels they remain also deeply ignorant of Hong Kong and suspicious of our motives: they continue to believe that we extract revenue from Hong Kong; and that we recently manipulated the fall in the Hong Kong dollar as a means of bringing pressure on Peking. They find our declarations of our moral responsibility to the people of Hong Kong baffling and hypocritical; and they continue to think that in the end it is British economic interests we are concerned about and that we can be satisfied with some suitable commercial or financial quid pro quo

11. Deng himself is not only suspicious and ill-informed but impatient. At 80 he realises he has little time left. He would like to accomplish something Mao could not, the recovery of some lost Chinese territory. Taiwan is for the present unattainable, but Hong Kong is within reach; and particularly at the present time when he faces internal opposition over Party rectification, he needs tangible successes. We must accept that he will insist on some announcement by the Chinese side in September 1984.

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12. The Chinese wish to recover Taiwan, more important to them even than Hong Kong, is often adduced as a factor in our favour. To some extent it is: if Chinese recovery of Hong Kong provoked economic failure there it would be a public fiasco which would dispel any remaining illusions in Taiwan about reunification with the motherland. But for reasons given above, the Chinese leaders do not believe Hong Kong will go wrong or that confidence will disappear; and any doubts they may feel on this score are probably outweighed by what they see as the political benefits of a public demonstration of national will and ability to lay hands on some piece of terra irredenta.

13. One other aspect of Chinese policy calls for comment: their habit of speaking publicly in the course of a negotiation that, by agreement, is secret. There are, I think, two broad explanations. First, they assert a right to communicate directly with their compatriots in Hong Kong and no doubt see this as a mean of bringing pressure on them and outflanking the British position. They have also encouraged a series of deputations from Hong Kong who, overawed by their surroundings or out of a desire to please, have rarely said anything out of line with what their hosts wanted to hear. The second reason, I think, is that the Chinese do not regard Hong Kong as a proper subject for negotiation with a foreign power. The land, as they see it, is theirs and it remains only for them to make their decisions known. Public statements by them in the course of the negotiations demonstrate this view and also, no doubt, strike Chinese leaders like Deng as a kind of poetic justice for the dictation their ancestors had to submit to from the British in the 19th century.



14. The Chinese position is both tough and rigid. They are aware of its underlying strength. They know that they have only to wait until 1997, at which time 92 percent of Hong Kong passes to them without effort and the remaining 8 percent is unviable on its own. They also know that Hong Kong, even at present, is indefensible against China, though of course they are unwilling to move at once unless they have the excuse of clearly deteriorating public order in the territory. They also have the advantage of putting forward a plan (Hong Kong people governing Hong Kong) which is irreproachable in international terms and of dealing in Hong Kong with a population of their own race whom they can hope either to intimidate or seduce. Our cards, on the other hand, are the present demonstrable success of Hong Kong in our hands and the fact that the Chinese would like to maintain prosperity if they can do so without upsetting their nationalist aims. For that they need British cooperation both in the period before 1997 and in the international negotiations that will be necessary in order to secure for the new government adequate access to international markets. These cards have their value, though we should be unwise to set that value too high.

Present Position

15. The present position is that we seem to have done enough in the way of meeting the Chinese preconditions to permit us to embark at last on detailed discussion of the Chinese plan and its implications. We have so far obtained affirmation of continuity in a number of aspects of the existing Hong Kong systems;

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but we are uncertain how far the Chinese are prepared to modify their plans in answer to our suggestions and criticisms. They earlier asserted that the arrangements for Hong Kong after 1997 were largely a matter for China alone to decide; that they were prepared to listen to our suggestions but would make up their own minds. Only over a narrow area, affecting British economic interests, were they prepared to undertake genuine negotiation. It is not certain how rigidly they will maintain this distinction; and some of their most recent remarks suggest that there is some room for persuasion; but we cannot yet assess how much. Our detailed discussions have so far been mainly confined to the easier areas, ie the legal and financial systems and external economic relations. We have not yet tackled the difficult central questions, eg constitutional issues, the administration and the civil service, defence and internal security, nationality. There is also uncertainty over the precise effect of our discussions on the Basic Law which the Chinese will eventually pass to form the constitution of the new Special Administrative Region of Hong Kong. We hope we are providing the fine print for this law, but shall need a Chinese assurance that the result of our discussions will indeed be recommended to the National People's Congress as the Basic Law.

16. It is clearly in our interests to push ahead in the new more cooperative atmosphere, give as much clarity and precision as we can to the vaguely enunciated principles of the Chinese 12-point plan, and see what is the best structure we can build on this

/foundation



foundation. We are, in fact, committed to such a course by the Prime Minister's message of 14 October. But in so doing we need harbour no illusions of what we are likely to achieve. We cannot expect to move the Chinese on their main principles. The most we can hope for is some filling out of detail in a practical and helpful way, some bending of their less important points in our direction and the construction of a certain degree of assurance that the post-1997 regime for Hong Kong will have a chance of enduring: for example, the enshrining of the result of our negotiations in a formal bilateral agreement; the insertion in that agreement of the Chinese assurance that the new arrangements will last 50 years; if possible, the continuation in office of a good number of British officials after 1997 (though this will probably be very difficult to achieve); and the setting up of independent supervisory commissions to oversee such fields as finance and law. It may also be possible to enlist the support of major trading partners, in particular the United States and the European Community, by provisions that the access of the new Hong Kong to their markets will continue only so long as there is no violation of the bilateral Sino-British agreement.

Development of Self Rule

17. There is also one feature of Chinese policy that could be helpful. This is that they seem to envisage a development of self rule in Hong Kong in the period between now and 1997, perhaps based on elections. Hitherto, we have avoided this, the normal development in dependent territories, because of a well-based

/belief



belief that the Chinese would think we were guiding Hong Kong towards independence and a fear that there would be a clash between KNT and Communist supporters. Although the Chinese are, no doubt, thinking only in terms of a situation where the ultimate fate of Hong Kong as a Special Administrative Region is settled, there are advantages in this for us. The more Hong Kong has representative institutions, the more these institutions can share the burden of representing the wishes of the people of Hong Kong to Peking; and the more difficult it will be for Peking to represent any failure of policy there as being a deliberate plot by HMG.

Prospects

18. If all goes well, we have therefore the chance of constructing a tolerable edifice on the basis of the Chinese plan. But when that has been said we must face the possibility that the best we can do will remain unacceptable to Hong Kong opinion and unattractive to British opinion, particularly if that opinion is unaware of the realistic alternative against which any final package is to be judged. We have been compelled progressively to lower our sights. We are already prepared to contemplate abandoning any British link of authority with Hong Kong, seeking only the best degree of autonomy for the territory we can achieve. We must recognise, however, that this degree of autonomy may look inadequate to us. We may not achieve all the assurances mentioned in para 16 above. The Chinese may insist on definitions too restrictive to meet our and Hong Kong's requirements, eg the

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possible stipulation that any British who remain in official posts after 1997 may do so only as advisers. On the other hand, they may refuse to provide detail we regard as essential.

Whatever progress we make, there is likely in the end to be a dangerous imprecision over many areas of the post-1997 arrangements.

19. This steady degradation of the choice will impose great strains in EXCO and also present us with very unpalatable decisions. We shall retain the right to reject the Chinese terms and, in effect, choose confrontation. But the alternative to confrontation could now well prove to be cooperation in carrying out a Chinese plan in which we lack real confidence.

20. It would be profitless to try to forecast the precise course of negotiations. But we are likely to be increasingly affected in coming months by the Chinese intention to announce their plan in September 1984, by which time any agreement is extremely unlikely. This will make it necessary to concentrate detailed discussion on the key central issues, so that we can make the maximum impact on the 12-point plan and add as much helpful detail as possible before the announcement. It will also make it necessary to consider some parallel announcement on our own side at the same time. This would presumably indicate that we were exploring the Chinese plan, had found many areas with which we could agree, but that there remained other areas requiring further discussion. If these remaining questions could be satisfactorily resolved, we would be prepared to extend our cooperation. Such an announcement would mitigate the effect of the Chinese

/announcement



announcement and keep the door open for further work. There would be a good chance the Chinese would not break off talks in such a situation.

21. Looking further down the road, there would seem to be three possible courses. In the first place, and assuming the final package, whether it was the 12-point plan or something more detailed, was unsatisfactory, we could assert the right we have reserved to ourselves throughout and simply reject it. We should, however, be clear about the likely consequences of this. Rejection and the ensuing confrontation would not cause the Chinese to back down. Concessions by them on the main points of principle would be suicidal for their leaders. On the contrary, confrontation would provoke a stiffening in the Chinese position and perhaps even, if there were to be unrest in Hong Kong, intervention on their part earlier than 1997. In any event, confrontation would not prevent us having to return 92 percent of the territory in 1997 under a treaty which we have throughout maintained to be valid. It would not win us international support. It would prevent us from doing anything to ameliorate the lot of the Hong Kong inhabitants after 1997 and, more immediately, it would make Hong Kong very difficult to govern in the period running up to 1997. It would be likely to provoke a considerable outflow of Hong Kong inhabitants, with resultant immigration problems for the UK and it would inflict lasting damage on Sino-British relations. It may exert a superficial attraction, given Chinese intransigence, but there is no future for Hong Kong in it.

/22. A



22. A second, related but milder course, would be not to reject the final package, but to tell the Chinese, and to say publicly if necessary, that we remained anxious to cooperate with China in securing the future of Hong Kong, and were prepared to go on discussing the Chinese proposals in the hope of building a workable and acceptable package, but that hitherto we had been unable to achieve this. We would then maintain this posture of willingness but inability to cooperate in the hope that the Chinese position would change. In the meantime, we should decline to cooperate with the Chinese plan, in effect allowing them to get on with the business of deciding what Hong Kong would be like in 1997, and confining our attention to holding things together as best we could in the remaining 13 years. Such a course might lead to full confrontation if the Chinese chose to play it that way, as they well might. On the other hand, they might stop short of this, and treat us as an unhelpful irrelevance getting in their way in Hong Kong. Either way they would announce their plans unilaterally. Many of the disadvantages of full confrontation would apply in this situation also. Again, we should be unable to do anything to mitigate the lot of Hong Kong inhabitants after the handover. We would face similar immigration and attendant political problems at home. We would usher in a period of prolonged strain in Sino-British relations. By our refusal to be associated with the post-1997 arrangements in any way, we would greatly reduce their attractions and thereby inflict extra economic damage on the territory. I see this course as essentially only a

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variant of full confrontation. Its only attraction would be in a situation in which the Chinese insisted on terms so vague or so unpalatable that we could not accept them or put them to Parliament, but in which we wished to give them the maximum possible opportunity to think again or, after a pause, resume practical cooperation with us. In practice, it would probably merge into full confrontation.

23. The third course, which I recognise will only be possible if the Chinese can be persuaded to take it with us, is that we should do all we can in negotiation and subsequently in cooperation with the Chinese to make their plan as tolerable as possible. By this I mean seek the maximum degree of autonomy, the maximum continuity and the maximum guarantees consistent with cooperation. We should thereby be discharging our responsibility to the inhabitants of Hong Kong as best we could. We should be giving the Special Administrative Region as fair a wind as possible. And we should avoid lasting damage to Sino-British relations. But the disadvantages should not be underestimated. We should be involved in the unpalatable business of pushing through a plan which we knew to be far from ideal. We should certainly be accused of a sell-out. We must expect a rundown in the Hong Kong economy, for which the Chinese would blame us, and we must expect also even in this case some outflow of Chinese inhabitants and attendant immigration problems at home. Hong Kong would become increasingly difficult to administer and, even given our wish to cooperate, the Chinese would be unlikely to prove easy bedfellows.

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It would scarcely be a diplomatic triumph but, to my mind, it is likely to be the least bad of the courses that may eventually confront us.

Conclusion

24. I am conscious that the above is a bleak analysis, but this is a subject on which there are emphatically no easy answers. If it is any comfort, I should add that I do not know of any other strategy, or stratagem, we could have adopted that would have brought us to a substantially different situation. Given the lease and the terminal date of 1997, the Macao option of doing nothing about Hong Kong was never practicable. When we began to broach the issue in 1979, we lost some tricks through failure to open a dialogue with the Chinese at the time when their ideas were taking shape. Later, when negotiations began, our long fight for British administration may well have hardened the Chinese stand over the employment of UK personnel after 1997. But I doubt whether fundamentals have been affected. There was one idea evolved in early 1983, that we should renounce the three treaties, thereby removing the terminus ad quem of the New Territories Lease and depending entirely on Chinese tolerance rather like Macao. It is just possible that had this been tried, not in 1983 but in 1979, it would have produced a different outcome. But one has only to outline such a proposal to recognise its political impracticability: it would have meant abandoning without having tried them a whole series of what at the time seemed defensible positions and flinging ourselves entirely on Chinese mercies. So that there has been a kind of fatality about the negotiations: given the historical

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background and the relative strength of the parties, they were probably bound to reach something like the present situation. But we have kept them going by great exertions and it is in our interest to keep them going as long as we possibly can. We cannot at this stage prejudge the outcome. The question is how far, now that their main nationalist aims are likely to be achieved, the Chinese will go in order to enlist our full cooperation and ensure Hong Kong's prosperity. Perhaps not very far. Our scope for manoeuvre has progressively lessened and in our own terms we have for some time now been engaged on a damage limitation exercise. But it is still an exercise of immense importance with a great deal to play for. It will continue to demand and deserve all our patience, imagination and skill.

25. I am sending a copy of this despatch to the Governor, Hong Kong.

I am, Sir
Yours faithfully

Henry Gurnea

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TELEGRAM NUMBER 1380 OF 20TH DEC 83

IMMEDIATE

INFO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG: MEETING WITH JI PENGFEI.

ms

COMMENT

1. ALTHOUGH PHYSICALLY FRAIL (HE APPEARED TO HAVE MILD PARKINSONS DISEASE), JI WAS LUCID AND MENTALLY VERY ALERT. HE WAS SHARP AND KNEW THE DETAIL OF THE PROBLEM.

2. ALTHOUGH BECAUSE OF THE DINNER SOME OF THE EXCHANGES WERE A LITTLE DISORDERLY, THEY WERE, ON THE WHOLE, ENCOURAGING. JI ADOPTED NO RIGID POSITION ABOUT BEING UNWILLING TO LISTEN TO OUR IDEAS AND PROPOSALS. THE ARGUMENT THAT THESE WERE INTERNAL CHINESE MATTERS AND NO CONCERN OF OURS WAS NOT ADVANCED. HE SHOWED NO DISPOSITION TO ARGUE AGAINST OUR MAIN THESIS THAT CHANGE UNNECESSARY TO SATISFY CHINESE PRINCIPLES SHOULD BE AVOIDED.

3. ON DETAIL, THERE WERE SOME SIGNS OF A DISPOSITION TO COMPROMISE. ON THE QUESTION OF SENIOR CIVIL SERVANTS (ADVISERS), JI INDICATED A POSSIBLE WAY OUT, USING THE DUAL NATIONALITY LOOPHOLE. ON THE ELECTION OF JUDGES, HE PROPOSED AN IDEA WHICH TO US HERE DOES NOT SEEM IMPOSSIBLE.

4. ALL THIS IS ENCOURAGING. ON THE NEGATIVE SIDE WERE SOME OF HIS COMMENTS ON THE DEVELOPMENT OF FULL DEMOCRACY IN HONG KONG BEFORE 1997. IT RATHER LOOKS AS IF THE CHINESE DO NOT WISH TO SEE A FULLY DEMOCRATIC SYSTEM IN PLACE BEFORE THEY ARE IN A POSITION TO OVERSEE IT. THIS, HOWEVER, IS NO REASON NOT TO PURSUE THE THEME, SINCE THE CHINESE WILL BE ON PRETTY WEAK GROUND, HAVING THEMSELVES SAID THAT DEMOCRACY IS THE ULTIMATE AIM IN THE SAR.

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FM PEKING 200755Z DEC 83

TO IMMEDIATE FCO

IMMEDIATE

TELEGRAM NUMBER 1379 OF 20TH DEC 83

INFO IMMEDIATE HONG KONG

MIPT : DINNER WITH JI PENGFEI: CHINESE GARRISON

1. DURING DINNER I TOLD JI PENGFEI THAT AWE WERE EXTREMELY CONCERNED AT THE SUGGESTION THAT THE CHINESE MIGHT WISH TO STATION TROOPS IN HONG KONG. WE DID NOT DISPUTE THEIR RIGHT TO STATION TROOPS IN ANY PART OF CHINA THEY THOUGHT FIT. BUT WE THOUGHT THAT TO DO SO IN HONG KONG WOULD HAVE A SERIOUS EFFECT, AND WOULD COMPLETELY UPSET THE GENERAL CHINESE WISH TO GIVE THE APPEARANCE OF AUTONOMY. IT WOULD THEREBY HAVE A BAD ECONOMIC EFFECT. IT WOULD SEEM AS THOUGH THE SETTLEMENT IN HONG KONG HAD NOT BEEN BROUGHT ABOUT BY PEACEFUL AND FRIENDLY NEGOTIATIONS BUT AS A RESULT OF SOME MILITARY DECISION. I ASKED HIM ON A FRANK AND FRIENDLY BASIS TO CONSIDER THIS MOST CAREFULLY. JI ASKED RATHER MILDLY WHETHER WE THOUGHT THAT SUCH A DECISION WOULD REALLY HAVE THIS EFFECT. IF A GOOD AGREEMENT HAD BEEN REACHED AND CHINA THEN STATIONED TROOPS IN HONG KONG WE DID NOT BELIEVE IT WOULD HAVE SUCH A SERIOUS EFFECT. I SAID THAT IT WOULD SEEM TO MANY TO NEGATE THE EFFECTS OF SUCH AN AGREEMENT.

2. JI SAID THAT IT WOULD NOT BE CHINA'S INTENTION TO GIVE PUBLICITY TO HER SENDING TROOPS. THEY WOULD NOT ENTER HONG KONG WITH SLOGANS OF LIBERATION ON THEIR LIPS. BRITISH TROOPS WOULD PRESUMABLY BE WITHDRAWN BY THEN, AND THAT IN ITSELF WOULD ATTRACT PUBLICITY. IT WAS JUST A MATTER OF THE FORM IN WHICH IT WAS DONE. PEOPLE WOULD NOT GAIN THE IMPRESSION THAT THE PLA HAD COME TO CHASE THE BRITISH OUT. IT WAS NOT A QUESTION OF PRINCIPLE, JUST THE METHOD.

3. I SAID THAT IT WOULD BE IMPOSSIBLE TO SEND TROOPS WITHOUT PUBLICITY. I CONFIRMED THAT BRITISH TROOPS WOULD NOT REMAIN AFTER 1997. I SAID THAT I WAS GLAD TO HEAR THAT THIS WAS NOT A QUESTION OF PRINCIPLE: IT SHOULD ON THAT ACCOUNT BE EASIER TO SETTLE. OUR VERY STRONG VIEW, SPEAKING FRANKLY, WAS THAT THE STATIONING OF CHINESE TROOPS WOULD HAVE A BAD EFFECT, AND WOULD NOT BE WORTH IT. I RECALLED THAT THE VICE MINISTER

~~THE STATIONING OF CHINESE TROOPS WOULD HAVE A BAD EFFECT~~
AND WOULD NOT BE WORTH IT. I RECALLED THAT THE VICE MINISTER
HAD SAID THAT HONG KONG WOULD HAVE ITS OWN RESPONSIBILITY FOR
THE MAINTENANCE OF PUBLIC ORDER. JI OBJECTED THAT THE PLA
WOULD NOT INTERFERE WITH INTERNAL AFFAIRS: THEY WOULD
ONLY BE THERE FOR NATIONAL DEFENCE PURPOSES. THE PLA WOULD
BE MUCH LESS IN NUMBER THAN THE 3000 OR SO BRITISH TROOPS NOW
IN HONG KONG. HOWEVER HE HAD TAKEN NOTE OF OUR IDEA AND
WOULD THINK ABOUT IT. HE WISHED TO ASSURE US THAT THERE
WOULD BE NO IMPRESSION THAT THE PLA WAS LIBERATING HONG KONG:
IF TROOPS WERE SENT THE REASONS WOULD BE MADE CLEAR TO PEOPLE.

4. I REPEATED THAT THE SENDING OF TROOPS WOULD FATALLY IMPAIR
THE CREDIBILITY OF A SETTLEMENT. JI SAID THAT IT WOULD BE
A QUESTION OF NATIONAL DEFENCE, WHICH WOULD REMAIN THE
RESPONSIBILITY OF THE CENTRAL GOVERNMENT. THE SAR WOULD NOT
BE ASKED TO BEAR ANY EXPENSE. I SAID THIS WAS NOT THE
PROBLEM. IT WAS THE QUESTION OF THE IMPACT OF SUCH A DECISION
ON PEOPLE. I HOPED THE CHINESE WOULD THINK VERY CAREFULLY
ABOUT IT. JI SAID THAT THEY WOULD CONSIDER CAREFULLY WHAT WE
HAD SAID.

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See para. 4 overleaf.

INFO IMMEDIATE HONG KONG

MIPT: DINWER WITH JI PENGFEI

1. THE CONVERSATION CONTINUED OVER DINNER. JI BEGAN BY ASKING HOW WE SHOULD TACKLE THE SECOND ITEM ON THE AGENDA, NAMELY THE TRANSITION PERIOD. SOME OF THE MATTERS WHICH WE WERE ALREADY DISCUSSING AFFECTED THIS ITEM. I SAID THAT WE HAD TO KNOW EXACTLY WHAT HONG KONG WAS TRANSITING TO BEFORE WE COULD TACKLE THE TRANSITIONAL PERIOD. WE WOULD, HOWEVER, BE ADDRESSING THE QUESTION OF THE CENTRAL ADMINISTRATIVE ORGANS FOR HONG KONG IN A WORKING PAPER SOON.

2. I REVERTED TO THE QUESTION OF THE ELECTION OF JUDGES, WHICH I SAID WOULD BE BAD AT ANY TIME. WE NEEDED TO KEEP THE JUDICIARY SEPARATE FROM THE LEGISLATIVE AND EXECUTIVE ORGANS. JI SAID THAT IT OUGHT TO BE POSSIBLE TO HAVE A SYSTEM WHEREBY CANDIDATES WERE RECOMMENDED BY THE JUDGES THEMSELVES TO PARLIAMENT WHO WOULD THEN CHOOSE THEM. I REPEATED THAT WE SHOULD HAVE NO CHANGE, FOR THE SAKE OF CHANGE, SINCE SUCH CHANGE WOULD GIVE A GENERAL IMPRESSION OF INSECURITY. JI OBJECTED THAT IF WE ESTABLISHED A SYSTEM WHEREBY THE LEGISLATIVE ORGANS WAS THE HIGHEST ORGAN OF STATE AND THE EXECUTIVE AND LEGISLATIVE ORGANS WERE ELECTED THEN THE PRINCIPLE JUDGES WOULD HAVE TO BE ELECTED BY THESE ORGANS. BUT IF CANDIDATES WERE RECOMMENDED BY OTHER JUDGES THIS WOULD ENSURE THAT THE RIGHT TYPE OF PEOPLE WERE PUT FORWARD. HE ADDED THAT THE BASIC LAW WOULD STIPULATE THAT THE LEGISLATIVE, EXECUTIVE AND JUDICIAL ORGANS WOULD BE SEPARATE. I OBSERVED THAT THIS WAS VERY IMPORTANT. JI SAID THAT FOR THIS REASON IT WOULD NOT DO FOR THE EXECUTIVE ORGANS SIMPLY TO APPOINT PRINCIPAL JUDGES. ONLY THE LEGISLATURE COULD APPOINT THEM AFTER RECOMMENDATION BY OTHER JUDGES.

3. I ASKED WHY THE CHINESE DID NOT ACCEPT THE PROPOSAL IN OUR WORKING PAPER. AN INDEPENDENT COMMISSION WOULD PUT FORWARD THE NAMES AND THEN THEY WOULD BE FORMALLY APPOINTED BY THE GOVERNOR. JI SAID THAT HIS PROPOSAL THAT CANDIDATES SHOULD BE RECOMMENDED BY JUDGES WAS NOT VERY DIFFERENT FROM THIS BUT THAT IT WOULD NOT BE APPROPRIATE FOR THE HEAD OF THE SAR TO APPOINT THEM, SINCE THIS WOULD CONFUSE THE EXECUTIVE WITH THE JUDICIARY. THE HEAD OF THE SAR COULD NOT HAVE THIS FUNCTION. WE SUGGESTED TO JI THAT THE MAIN SOURCE

HAVE THIS FUNCTION. WE SUGGESTED TO JI THAT THE MAIN SOURCE OF DIFFICULTY WAS THE CONCEPT OF ELECTION. BY THE END OF THE CONVERSATION HE SEEMED TO BE REFERRING MORE TO A FORMAL APPOINTMENT BY THE LEGISLATURE OF CANDIDATES PUT FORWARD BY THE JUDGES THEMSELVES. YAO GUANG OBSERVED THAT THE PRESENT JUDICIAL COMMISSION IN HONG KONG WAS A RELATIVELY NEW BODY.

4. JI WENT ON TO SPEAK ABOUT THE LARGER QUESTION OF DEMOCRACY. HE SAID THAT THE FIRST GOVERNMENT OF THE SAR MIGHT BE PRODUCED BY CONSULTATION RATHER THAN ELECTION, BUT THERE WOULD HAVE TO BE A STIPULATION IN THE BASIC LAW THAT AN ELECTORAL SYSTEM WOULD BE INTRODUCED. I SAID WE DID NOT SEE ANY GREAT DIFFICULTY IN HOLDING ELECTIONS IN HONG KONG. IT COULD BE DONE BEFORE 1997. JI INTERJECTED IMMEDIATELY THAT THIS WOULD NOT DO (NA BU XING). IN ANSWER TO MY QUESTION HE SAID THAT THIS WAS BECAUSE THE TIME WAS NOT YET RIPE; IT WOULD CREATE CONFUSION. I SAID THAT IF THE CHINESE SIDE WAS SAYING ELECTIONS WERE DESIRABLE AND WE THOUGHT IT COULD BE DONE BEFORE 1997, THEN SURELY IT SHOULD BE DONE. IF DEMOCRACY WAS A GOOD THING THEN THE SOONER IT WAS BROUGHT IN THE BETTER. JI RETURNED NO DIRECT ANSWER. HE SAID ONLY THAT HAVING SOLVED THE PRINCIPLES IN THE TALKS THE NEGOTIATIONS COULD NOW PROCEED MUCH MORE EASILY.

5. JI SAID THAT AFTER A GENERAL AGREEMENT ON HONG KONG OUR DISCUSSIONS WOULD HAVE TO CONTINUE. THE CHINESE SIDE WERE APPROACHING ALL THESE DISCUSSIONS WITH A FRIENDLY ATTITUDE IN THE HOPE OF REACHING A FULL SOLUTION. WHEN WE HAD SIGNED AN AGREEMENT WE WOULD BE ABLE TO ACCOUNT TO OUR TWO PEOPLES. HOWEVER ON DETAILED QUESTIONS DISCUSSIONS WOULD HAVE TO CONTINUE THEREAFTER. THESE DISCUSSIONS SHOULD BE PURSUED TO A SUCCESSFUL CONCLUSION SO AS TO MAINTAIN COOPERATION. THE CHINESE DID NOT THINK THAT WE SHOULD CEASE DISCUSSIONS AT THE POINT OF SIGNING AN AGREEMENT. BRITAIN WOULD BE RESPONSIBLE FOR HONG KONG UNTIL 1997, AND CHINA WOULD NOT INTERFERE IN OUR ADMINISTRATION OF HONG KONG. BRITAIN WOULD HAVE FULL RESPONSIBILITY UNTIL THEN. AFTER CHINA RECOVERED SOVEREIGNTY IN 1997 THERE WOULD STILL BE MUCH TO DO BY WAY OF MAINTAINING STABILITY AND PROSPERITY AND CHINA HOPED TO HAVE BRITISH COOPERATION. THEY WOULD COOPERATE WITH BRITAIN IN TURN. BRITISH INTERESTS WOULD BE WELL PROTECTED.

6. I SAID THAT OUR MAIN INTEREST WAS IN SEEING HONG KONG FLOURISHING, SINCE THERE WAS NO POINT IN HAVING INTERESTS IN A DEAD CITY. JI SAID THAT THIS WAS ALSO A CHINESE INTEREST. I SAID THAT WE TOO WANTED A GOOD AGREEMENT, AND IF IT WAS SATISFACTORY WE WOULD GIVE OUR FULL COOPERATION. THERE WAS STILL MUCH TO BE DISCUSSED AND SETTLED: THE PROCESS WOULD COST CHINA NOTHING BUT WOULD BRING MANY BENEFITS. OUR WORKING PAPERS WERE ALL DEALING WITH MATTERS OF PRINCIPLE, AND CERTAINLY NOT EXCESSIVE DETAIL. I AGREED THAT WE SHOULD NEED TO GO ON TALKING FOR A CONSIDERABLE TIME TO COME.

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MY TELNOS 1714 AND 1973 (PARAGRAPHS 14 AND 23)

FUTURE OF HONG KONG: CONSTITUTIONAL AND GOVERNMENTAL DEVELOPMENT.

FOLLOWING THE REVIEW ANNOUNCED IN PARA 103 OF MY ADDRESS TO LEGCO ON 5 OCTOBER 1983, I NOW PROPOSE, AS A FIRST STEP, TO PUT TO EXECUTIVE COUNCIL ON 3RD JANUARY PROPOSALS FOR THE CREATION OF A REGIONAL COUNCIL TO SERVE THE NEW TERRITORIES AND FOR CHANGES IN THE COMPOSITION AND PROBABLY FUNCTIONS OF THE DISTRICT BOARDS. (NEW TERRITORIES IN THIS CONTEXT MEANS THE ADMINISTRATIVE AREA WHICH IS NOT COINCIDENT WITH THE QUOTE LEASED AREA UNQUOTE).

2. THE FUNCTIONS OF THE NEW TERRITORIES COUNCIL WILL BE SIMILAR TO THOSE OF THE URBAN COUNCIL, I.E. ENVIRONMENTAL PUBLIC HEALTH, SANITATION AND HYGIENE; RECREATION, AMENITIES AND ENTERTAINMENT; AND PROVISION OF CULTURAL SERVICES. AS IN THE URBAN AREA, DISTRICT BOARD CONSTITUENCIES WILL BE GROUPED TOGETHER TO CONSTITUTE ELECTORAL DISTRICTS FOR THE RETURN OF ELECTED COUNCILLORS. THE SECOND COUNCIL MAY HAVE TO BE LARGER THAN THE PRESENT URBAN COUNCIL, BUT THE RATIO OF ELECTED TO NOMINATED MEMBERS WOULD BE 1:1. INCOME FOR THE NEW COUNCIL WILL BE A PROPORTION OF THE NEW TERRITORIES RATES. ADMINISTRATIVE ARRANGEMENTS AND STATUTORY POWERS WILL BE SIMILAR TO THOSE PRESENTLY APPLYING TO THE URBAN COUNCIL.

3. FOR THE DISTRICT BOARDS, I AM PROPOSING TO DOUBLE THE NUMBER OF ELECTED MEMBERS TO GIVE THE BOARDS A MORE REPRESENTATIVE STATUS. NOMINATION OF APPOINTED MEMBERS WILL CONTINUE, BUT THE RATIO WILL BE 2 ELECTED MEMBERS TO 1 APPOINTED. OFFICIAL MEMBERS WILL, IN FUTURE, BE 'IN ATTENDANCE' ONLY WITH THE EXCEPTION OF THE DISTRICT OFFICER WHO WILL BECOME EX-OFFICIO VICE CHAIRMAN AFTER THE NEXT DISTRICT BOARD ELECTIONS IN 1985 WHEN THE BOARDS WILL ELECT THEIR OWN CHAIRMEN.

~~4. EXTENSION OF THE FUNCTIONS OF DISTRICT BOARDS REQUIRES FURTHER~~

4. EXTENSION OF THE FUNCTIONS OF DISTRICT BOARDS REQUIRES FURTHER EXAMINATION AND IS BEING CONSIDERED. INVOLVEMENT IN BUILDING MANAGEMENT, URBAN RENEWAL, LOCAL HAWKER CONTROL AND THE USE OF LOCAL FACILITIES SUCH AS COMMUNITY HALLS AND SPORTS GROUNDS ARE POSSIBILITIES I HAVE IN MIND.

5. CERTAIN CONSEQUENTIAL CHANGES TO THE ORGANISATION OF GOVERNMENT'S OWN INTERNAL ADMINISTRATION WILL BE NECESSARY. FOR INSTANCE, THE CULTURAL SERVICES DIVISION OF THE URBAN SERVICES DEPARTMENT WILL BE MERGED WITH THE RECREATION AND CULTURE DEPARTMENT TO CENTRALISE RESPONSIBILITY FOR PLANNING AND MANAGING FACILITIES IN THE FIELDS OF RECREATION AND CULTURE AND PROMOTION OF ACTIVITIES AND TRAINING PROGRAMMES. RESPONSIBILITY FOR PUBLIC HEALTH, REFUSE COLLECTION, ETC. WILL REMAIN WITH THE URBAN SERVICES DEPARTMENT, TO BE RE-TITLED THE PUBLIC HEALTH DEPARTMENT. BOTH THESE NEW DEPARTMENTS WILL HAVE REGIONAL DIVISIONS PROVIDING SUPPORTING SERVICES FOR THE TWO REGIONAL COUNCILS AND A CENTRAL CORE TO HANDLE TERRITORY-WIDE MATTERS. THE NEED FOR ORGANISATIONAL CHANGES AT POLICY SECRETARY LEVEL TO TAKE ACCOUNT OF THE NEW ARRANGEMENTS WILL ALSO BE NECESSARY, BUT HAVE YET TO BE WORKED OUT IN DETAIL.

7. AS TO TIMING, MY INTENTION IS THAT CHANGES IN THE COMPOSITION AND FUNCTIONS OF THE DISTRICT BOARDS SHOULD TAKE PLACE IN MARCH 1985, WHEN THE NEXT ELECTIONS ARE DUE. AT THE SAME TIME, A WHOLLY (NEXT WORD UNDERLINED) NOMINATED NEW TERRITORIES COUNCIL WOULD BE SET UP TO BE REPLACED BY THE HALF ELECTED/HALF NOMINATED COUNCIL, (PARA 2 ABOVE) IN MARCH 1986, THE DATE SCHEDULED FOR THE NEXT ELECTIONS FOR THE PRESENT URBAN COUNCIL.

7. IF EXECUTIVE COUNCIL APPROVES AN INTER-DEPARTMENTAL WORKING PARTY WOULD BE SET UP TO WORK OUT THE REQUIRED ADMINISTRATIVE PROPOSALS AND LEGISLATIVE CHANGES. FOR THE TIMING OF ANNOUNCEMENTS SEE PARA 23 OF MY TEL NO 1973.

YOUDE

CCN: LAST TWO PARAS TO READ 6 AND 7

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Hong Kong

10 DOWNING STREET

From the Private Secretary

20 December 1983

The Prime Minister has asked me to bring to the attention of the Foreign and Commonwealth Secretary the enclosed copy of a letter which she has received from the Earl of Cromer.

Mrs. Thatcher would be grateful for Sir Geoffrey Howe's comments both on the general suggestions made about our negotiations with the Chinese and on the reference in page 2 to the lack of confidence caused by the Political Adviser in Hong Kong who is said to disseminate widely in the Colony his personal support for unilateral disarmament.

BE ✓
The Prime Minister thinks that this latest reference to the Political Adviser, on top of the earlier ones, gives ground for concern. She would be grateful for an account of Sir Geoffrey Howe's current thinking about this problem in the light of the contacts which he had earlier with Mr. Murray Jones.

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

NR

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Prime Minister.A. J. C. 27
12.FOREIGN AND COMMONWEALTH SECRETARY

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FUTURE OF HONG KONG: DEFENCE AND INTERNAL SECURITY

Thank you for your minute of 15th December. I of course agree that we must firmly resist any suggestion that Chinese troops should be stationed in Hong Kong after 1997; and I am glad that Sir P Cradock is to take this up with the Chinese leaders during his farewell calls. But I think we need to be very cautious about any indication that we would be ready to withdraw our own garrison in advance of 1997 since we must remain responsible for Hong Kong's defence and security until then.

2. As you suggest, our officials are already well ahead with a joint paper on possible post-1997 defence and security arrangements for Hong Kong. I think these will inevitably involve the withdrawal of our own forces. If satisfactory alternative security arrangements for the future can be agreed with the Chinese, then it might well be sensible to use the interim period for a gradual reduction of our own garrison, as the new security force develops and becomes more effective. But I do not think we should even start to hint at this now. To do that would be to broach transitional arrangements before we had reached an understanding on what we were transitting to. This would not be consistent with how we are playing the wider negotiating hand.

3. Immediately, our first requirement is surely to clear our own minds on what sort of post-1997 arrangements we would like the Chinese to accept. I agree that a word on the way ahead could then, in the light of the paper, be useful.

4. I am sending a copy of this minute to the Prime Minister and to Sir Robert Armstrong.

Ministry of Defence
19th December 1983

Hong Kong
Future
PK-10.

1 JUL 1983





10 DOWNING STREET

Prime Minister.

This letter from the Earl of
Cromer contains :-

(a) some general suggestions
about our negotiations with the
Chinese

(b) a bitter criticism of
Mr. MacLaren (the Political
Advisor).

May I ask the Foreign Secretary
to his comments on both?

(I will let you have a copy of
the letter.)

Yours m

A.F.C. $\frac{19}{12}$.

GR 1800

SECRET

SECRET

FM PEKING 160930Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1367 OF 16TH DEC 83

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: LUNCH WITH YAO GUANG

1. I HAD YAO GUANG TO LUNCH TODAY: HIS INTERPRETER AND GALSWORTHY WERE ALSO PRESENT.

2. YAO BEGAN BY SAING THAT IF OUR IDEA WAS THAT WE SHOULD REACH A BILATERAL AGREEMENT AFTER COMPLETING THE THREE ITEMS ON THE AGENDA OF OUR TALKS THEN WE HAD A PRETTY HEAVY PROGRAMME PARTICULARLY AS THE BRITISH PARLIAMENT WENT INTO RECESS IN ABOUT JULY. WE NEEDED TO SPEED UP OUR DISCUSSIONS ON ARRANGEMENTS AFTER 1997, AND WE SHOULD BE GIVING THOUGHT NOW TO THE SECOND ITEM ON THE AGENDA, NAMELY THE TRANSITION PERIOD. HE HOPED THAT THE BRITISH SIDE WOULD ACCELERATE THE PRESENTATION OF THEIR WORKING PAPERS. I REPLIED THAT WE HOPED TO GET SOON TO THE CENTRAL ISSUES, BUT PAPERS ON THESE WOULD NEED CAREFUL PREPARATION. YAO SAID THAT HE UNDERSTOOD THAT WE WOULD NEED A CERTAIN TIME TO FORMULATE OUR IDEAS AND SUGGESTIONS. BUT SURELY WE KNEW WHAT THE BROAD LINES WERE EVEN IF THE MAIN ELEMENTS WERE NOT YET FINALISED. I HAD SPOKEN TO FOREIGN MINISTER WU OF "SEVERAL IMPORTANT AREAS" WHICH CONCERNED US. WHICH AREAS WERE THESE? IF THIS COULD BE MADE CLEAR EVEN WHILE DISCUSSIONS WERE PROCEEDING ON OUR WORKING PAPERS THEN THE CHINESE SIDE WOULD PAY ATTENTION TO THESE AREAS SO AS TO FACILITATE DISCUSSION.

3. I REPLIED THAT I HAD SPOKEN TO THE FOREIGN MINISTER OF SEVERAL SUCH AREAS, SUCH AS THE LAW AND THE CIVIL SERVICE TO ILLUSTRATE A GENERAL PRINCIPLE, THAT OF THE NEED FOR CONTINUITY. THERE SHOULD BE AS LITTLE CHANGE AS POSSIBLE IN MATTERS WHICH DID NOT AFFECT THE CHINESE BASIC PRINCIPLE. I COULD NOT GIVE AN EXHAUSTIVE LIST, BECAUSE NEW THINGS KEPT CROPPING UP IN THE TALKS, FOR INSTANCE THE QUESTION OF STATIONING TROOPS IN HONG KONG WHICH HAD BEEN RATHER UNEXPECTED. MY POINT WAS THAT THE AGREED BASIS ON THE PRESENT DISCUSSIONS ALREADY ASSURED THE CHINESE THAT THEIR FIRST PRINCIPLE OF SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION WOULD BE MET, AND WE THEREFORE HAD TO GIVE ATTENTION TO THE SECOND PRINCIPLE WHICH WAS TO ENSURE PROSPERITY. FLEXIBILITY WAS VERY IMPORTANT AND WOULD COST THE CHINESE SIDE NOTHING: INDEED IT WOULD GAIN THEM MUCH.

SECRET

4. YAO SAID THAT THE 12 POINT PLAN WAS DESIGNED TO ENSURE CONTINUITY . HE REALISED THAT WE WANTED FURTHER CLARIFICATION AND HAD EXPRESSED AN INTEREST IN THE GUARANTEES WHICH COULD BE GIVEN FOR THE IMPLEMENTATION OF THE POLICY. BUT THE CHINESE SIDE STILL WISHED TO KNOW WHAT OUR MAIN WORRIES WERE SO AS TO MAKE SURE THAT THEY GAVE THESE AREAS APPROPRIATE CONSIDERATION. COULD HE SUM UP THE WORRIES WE HAD HITHERTO EXPRESSD AS

- 1) CONTINUITY IN THE LAW
- II) CIVIL SERVICE
- III) ELECTION OF PRINCIPAL JUDGES.

HE REALISED THAT THIS WAS NOT EXHAUSTIVE BUT THESE WERE POINTS HE HAD NOTED. FOR INSTANCE ON THE CIVIL SERVICE THE CHINESE SIDE HAD SAID THAT OVERSEAS CIVIL SERVANTS COULD STAY ON AS ADVISERS WHEREAS WE THOUGHT THEY NEEDED TO STAY ON AS OFFICIALS.

5. I SAID THAT HIS SUMMING UP DEMONSTRATED THE DANGERS OF SUCH AN EXERCISE: HE HAD LEFT OUT THE VERY IMPORTANT QUESTION OF STATIONING TROOPS IN HONG KONG. ALL THESE WERE AREAS ABOUT WHICH WE WERE WORRIED, BUT THERE WERE ALSO OTHERS. WE HAD FOR INSTANCE NOT YET COME TO THE QUESTION OF HOW CENTRAL GOVERNMENT INSTITUTIONS WOULD BE ORGANISED AND WHAT THEIR RELATIONSHIP WOULD BE TO PEKING. HOWEVER I WELCOMED WHAT HE HAD SAID ABOUT THE OBJECT OF THE 12 POINT PLAN BEING TO ENSURE CONTINUITY.

6. YAO SAID THAT ON STATIONING TROOPS, THE 12 POINT PLAN MADE IT CLEAR THAT DEFENCE AND FOREIGN AFFAIRS WERE THE RESPONSIBILITY OF CENTRAL GOVERNMENT, AND IT WAS IN THE LIGHT OF THIS THAT THEY HAD DISCUSSED STATIONING TROOPS IN HONG KONG. I SAID THAT WE DID NOT DISPUTE THEIR RIGHT TO STATION TROOPS ANYWHERE IN CHINA. BUT HAVING THE RIGHT AND ACUTALLY EXERCISING IT WERE TWO DIFFERENT THINGS. I STRONGLY HOPED THAT THE CHINESE SIDE WOULD THINK OF THE EFFECTS OF PUTTING TROOPS IN HONG KONG. YAO DID NOT RESPOND FURTHER ON THIS POINT.

7. HE WENT ON TO SAY THAT HE UNDERSTOOD OUR STATEMENT IN THE NEGOTIATIONS THAT WE WOULD NOT MAKE PROPOSALS WHICH CONTRAVENED THE PRINCIPLE OF CHINESE RESUMPTION OF SOVEREIGNTY AND ADMINISTRATION. HE COULD SAY FRANKLY THAT SO LONG AS WE DID NOT CONTRAVENE THESE PRINCIPLES WE COULD DISCUSS ANY PROBLEMS RELATED TO THE FUTURE OF HONG KONG. AS IF TO STRESS THIS HE REPEATED IT A SECOND TIME.

8. HE THEN ASKED ON THE LEGAL SYSTEMS IN WHAT AREAS WE THOUGHT THE CHINESE WERE PROPOSING TOO MUCH CHANGE. I REPLIED THAT I HAD COVERED THIS IN MY SPEECH ON THE SECOND DAY OF THE 7TH ROUND. THE CHINESE SIDE HAD SAID THAT SENIOR JUDGES WOULD BE ELECTED BY THE LEGISLATURE: HOWEVER OUR WORKING PAPER CONTAINED A SPECIFIC PROPOSAL WHICH WOULD HAVE PROVIDED CONTINUITY. WE THOUGHT THE CHANGE PROPOSED WAS UNNECESSARY.

WE WERE ALSO CONCERNED ABOUT THE STATEMENT THE "OTHER LAWS" WHICH IMPAIRED CHINESE SOVEREIGNTY WOULD BE ABOLISHED. YAO REPLIED THAT IN THIS RESPECT THE CHINESE WERE MAINLY REFERRING TO TERMINOLOGY: HE DID NOT THINK THAT THEY PROPOSED ABOLISHING LAWS, WHICH WOULD CONTRAVENE THE POLICY OF MAINTAINING CAPITALISM. I SAID THAT IF IT WAS A QUESTION OF TERMINOLOGY ALONE THERE WOULD BE LITTLE PROBLEM: WE HAD OURSELVES PROPOSED CHANGES TO TERMINOLOGY. BUT ABOLISHING LAWS WOULD BE DIFFERENT AND WOULD BRING GREAT UNCERTAINTY. I ADDED THAT WE ALSO WISHED TO KNOW HOW OTHER JUDGES APART FROM PRINCIPAL JUDGES WOULD BE APPOINTED: JUDGES IN HONG KONG MUST KNOW THEIR FUTURE. FURTHERMORE THE CHINESE HAD REFERRED IN THIS CONTEXT TO POINT 4 OF THEIR PLAN WHICH RELATED TO ADVISERS. A JUDGE COULD NOT BE AN ADVICER: HE MUST JUDGE. WE THEN EXPLAINED IN DETAIL WHY IT WOULD NOT BE POSSIBLE TO FIND ENOUGH JUDGES FROM HONG KONG ALONE BECAUSE OF ITS SMALL SIZE, AND THAT GIVEN THE TIME IT TOOK FOR SOMEONE TO REACH THE POSITION OF JUDGE FOLLOWING A LEGAL CAREER EVEN A DECISION NOW TO START TRAINING EXTRA PEOPLE WOULD ONLY PRODUCE JUDGES IN 20-25 YEARS TIME. HE SEEMED TO TAKE THIS ON BOARD.

9. HE THEN ASKED ABOUT OUR VIEWS ON THE CIVIL SERVICE. I SAID THAT THE GENERAL IDEA WAS THAT CIVIL SERVANTS WHETHER OF LOCAL OR OVERSEAS ORIGIN SHOULD STAY ON IN HONG KONG AND COMPLETE THEIR CAREERS. WE REGARDED THIS AS ESSENTIAL. IT BECAME APPARENT FROM YAO'S RESPONSE THAT HE HAD MISINTERPRETED OUR USE OF THE PHRASE "CIVIL SERVANTS SHOULD REMAIN AT THEIR POSTS" AND THOUGHT WE MEANT THAT THOSE POSTS AND THE PEOPLE IN THEM SHOULD AS IT WERE BE FROZEN FROM THAT POINT ON. HE PROTESTED THAT SINCE THERE WOULD HAVE TO BE SOME CHANGES IN THE CENTRAL ADMINISTRATIVE STRUCTURE IT WAS NOT POSSIBLE TO SAY THAT PEOPLE SHOULD REMAIN AT THEIR POSTS. I SAID THAT WE DID NOT IN ANY WAY ENVISAGE FREEZING THE STRUCTURE OF GOVERNMENT. THE STRUCTURE WAS IN ANY CASE IN A PROCESS OF CONSTANT EVOLUTION. THERE WERE BOUND TO BE CHANGES BEFORE 1997 AND THERE WOULD PROBABLY BE CHANGES THEREAFTER AS WELL. WHAT WE MEANT WAS THAT PEOPLE SHOULD CONTINUE TO SERVE AS CIVIL SERVANTS AND SHOULD COMPLETE THEIR CAREERS IN THE NORMAL WAY. YAO SAID THAT FOR THE CHINESE SIDE THE KEY QUESTION WAS OFFICIALS OF SECRETARY OR DEPUTY SECRETARY LEVEL. WHEN THEY SPOKE OF ADVISERS THEY WERE REFERRING TO ADVISERS TO PEOPLE AT THAT LEVEL OR TO THE HEAD OF THE SAR. ANYONE BELOW THIS LEVEL COULD CERTAINLY REMAIN AT THEIR POSTS. WE EXPLAINED THE IMPRACTICALITIES OF THIS, MAINLY ON THE GROUNDS THAT PEOPLE OF TALENT WOULD NOT CONTINUE TO SERVE IF THEIR PROSPECTS WERE LIMITED TO SERVICE BELOW DEPUTY SECRETARY LEVEL.

10. YAO THEN ASKED WHAT WE WANTED. I SAID THAT WE WANTED PEOPLE TO BE ALLOWED TO CONTINUE TO SERVE IN HONG KONG AFTER 1997. WE COULD NOT PREDICT EXACTLY WHAT FORM OF ORGANISATIONAL STRUCTURE THE HONG KONG GOVERNMENT WOULD THEN HAVE, BUT WE WISHED TO PRESERVE AS MUCH TALENT AS WE COULD. LOYALTIES WOULD

OF COURSE BE TO THE SAR GOVERNMENT. YAO ASKED WHETHER WE WOULD THINK THAT THE CHIEF SECRETARY, SHOULD HE BE A FOREIGNER IN 1997, SHOULD CONTINUE TO SERVE. I REPLIED THAT IF HE WAS A FOREIGNER, WHICH WAS BY NO MEANS CERTAIN, THE SAME PRINCIPLE SHOULD APPLY TO HIM. THERE SHOULD BE NO ABRUPT CHANGES IN 1997. BY DEFINITION HOWEVER THE CHIEF SECRETARY WAS A SENIOR OFFICIAL AND WOULD INEVITABLY ON APPOINTMENT HAVE ONLY A LIMITED PERIOD TO GO BEFORE REACHING RETIREMENT AGE. I STRESSED THAT THIS WAS A CENTRAL AREA OF CONCERN AND THAT I HOPED THE CHINESE SIDE WOULD SHOW FLEXIBILITY. YAO SAID THAT HE NOW HAD A CLEARER IDEA OF WHAT WE WERE SEEKING. THE PROBLEM MIGHT BE LINKED TO DISCUSSION OF NATIONALITY AND ALSO TO DISCUSSION OF ITEM TWO, THE TRANSITIONAL PERIOD. I SAID I HOPED THE CHINESE WOULD KEEP AN OPEN MIND ON THIS QUESTION. HE AGREED.

11. YAO SAID THAT HE WOULD REPORT AND REFLECT ON WHAT I HAD SAID ON THE LEGAL SYSTEM, CIVIL SERVICE AND APPOINTMENT OF JUDGES.

12. I THEN ASKED HIM WHETHER THE CHINESE SIDE INTENDED TO RECOMMEND TO THE NPC AREAS ON WHICH HE HAD REACHED AGREEMENT FOR INCLUSION IN THE BASIC LAW. HE CONFIRMED THAT THIS WAS THEIR INTENTION. IN THIS CONTEXT HE ASKED WHETHER WE SHOULD AT SOME STATE ATTEMPT TO SUMMARISE AREAS ON WHICH WE HAD REACHED AGREEMENT. I SAID THAT I THOUGHT WHEN WE HAD COVERED A FEW MORE WORKING PAPERS WE MIGHT TRY TO DO THIS, PERHAPS IN STATEMENTS DURING THE TALKS. I DID NOT WANT TO WASTE TOO MUCH TIME ON IT BY TRYING TO DRAFT A FORMAL DOCUMENT, BUT TO CHECK OUR COMMON UNDERSTANDING WOULD BE USEFUL.

13. I ASKED HIM WHAT THE CHINESE SIDE MEANT WHEN THEY SAID THEY WOULD BE SUBMITTING IDEAS TO THE HONG KONG PEOPLE FOR DISCUSSION. IT WOULD NOT DO IF WE REACHED AN AGREEMENT, AND IT WAS SUBSEQUENTLY CHANGED. YAO SAID THAT PERSONALLY HE THOUGHT THE DRAFTING OF THE BASIC LAW WOULD COME AFTER A BILATERAL AGREEMENT. THE BASIC LAW WOULD BE DRAWN UP IN THE LIGHT OF THE BILATERAL AGREEMENT AND THE CHINESE WOULD THEN SOLICIT OPINIONS IN HONG KONG. ALL THIS WOULD, HOWEVER, COME ONE OR TWO YEARS LATER. IT WOULD BE THE BASIC POLICIES AND NOT THE BASIC LAW WHICH WOULD BE ANNOUNCED IN SEPTEMBER. HE THOUGHT THERE WAS NOT LIKELY TO BE MUCH CONTRADICTION BETWEEN WHAT WE AGREED NOW AND OPINIONS EXPRESSED IN HONG KONG, AT LEAST ON BASIC PRINCIPLES. MAYBE SOME DETAILS WOULD BE FURTHER DEVELOPED. I SAID WE COULD NOT BE EXPECTED TO SIGN A BLANK CHEQUE. YAO SAID THAT WE SHOULD NOT WORRY, SINCE THE CHINESE MEANT WHAT THEY SAID.

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WE SHOULD BE PARTNERS NOT OPPONENTS. HE NOTED THAT THERE WAS NOW A STRONG DEMAND FOR DEMOCRATIC REFORM IN HONG KONG, AND HONG KONG PEOPLE TOOK THE VIEW THAT THEY HAD FREEDOM BUT NOT DEMOCRACY. I SAID THAT WE MIGHT PERHAPS DEAL WITH THIS BY PROVIDING A GOOD MEASURE OF DEMOCRACY BEFORE 1997. YAO DID NOT RESPOND DIRECTLY THOUGH HE APPEARED UNPERTURBED BY THE SUGGESTION.

COMMENT

14. THIS WAS ANOTHER CHEERFUL SESSION, THOUGH THE CHINESE ARE CLEARLY BECOMING NERVOUS ABOUT TIMING. IT IS ALARMING THAT THEY ARE EVIDENTLY THINKING OF TRYING TO CONCLUDE AN AGREEMENT AND EVEN OF ITS BEING SUBMITTED TO PARLIAMENT BEFORE SEPTEMBER. THIS HARDLY SEEMS POSSIBLE. IT IS HOWEVER ENCOURAGING THAT YAO SAID FIRMLY THAT THE AREAS OF AGREEMENT WHICH WE REACHED WOULD BECOME PART OF THE BASIC LAW. I ALSO THINK THAT FOLLOWING THIS MEETING WE UNDERSTAND EACH OTHER BETTER ON QUESTIONS OF CONTINUITY IN THE LAW AND IN THE CIVIL SERVICE.

15. THIS CONVERSATION HAS REINFORCED MY VIEW THAT WE NEED TO GET AHEAD WITH MAXIMUM SPEED ON THE IMPORTANT WORKING PAPERS SO AS TO MAKE SURE THAT OUR IDEAS ARE INJECTED INTO CHINESE THINKING AT AN EARLY STAGE. IT IS FAIRLY CLEAR THAT THEY ARE NOW WORKING ACTIVELY ON THEIR PLANS.

CRADOCK

FUTURE OF HONG KONG

LIMITED

ED/EKD

ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

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MR BURROWS LEGAL ADVISERS

MR COLES NO 10 DOWNING ST

SIR A PARSONS " "

MR MARTIN ASSESSMENT STAFF
CABINET OFFICE

MR GOODALL CABINET OFFICE

MR BRENNAN " "

PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL

5

SECRET

FUTURE OF HONG KONG ADVANCE COPIES 10



PS
PS/FUS
PS/MR LUCE
MR DONALD
HD/HKD
HD/FED

COPY TO:
MR COLES, No. 10 DOWNING ST
Mr Roberts, News D.

~~RESIDENT CLERK~~

SECRET
FM HONG KONG 160540Z DEC 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1959 OF 16 DECEMBER
INFO PRIORITY PEKING

ADVANCE COPY
IMMEDIATE

Read in full.

MY TELNO 1914 AND YOUR 1322: FUTURE OF HONG KONG: "UMELCO".

1. I SPOKE ACCORDINGLY TO UMELCO IN STRICT CONFIDENCE THIS MORNING AND ALSO TOLD THEM, IN ADVANCE OF THE ANNOUNCEMENT, OF THE CONSULTATIONS WHICH EXCO UNOFFICIALS WOULD HAVE WITH MINISTERS IN LONDON IN JANUARY.

2. IT WAS A TENSE AND IN SOME PARTS EMOTIONAL MEETING. SOME OF THEM TOOK MUCH HARDER THAN I EXPECTED THE CONFIRMATION THAT THE CHINESE ARE NOT PREPARED TO ACCEPT THE CONTINUATION OF BRITISH ADMINISTRATION AFTER 1997.

3. ALL WERE CONCERNED TO KNOW, IF THE OBJECTIVE OF CONTINUING BRITISH ADMINISTRATION WERE NOT ACHIEVABLE, WHAT THE OBJECTIVES WOULD THEN BE. THEY URGED STRONGLY THAT THERE SHOULD BE AN AGREED LINE FOR THEM TO TAKE SO THAT THEY DID NOT PUT THEMSELVES IN A FALSE POSITION IN RELATION TO THE PEOPLE OF HONG KONG. I TOLD THEM THAT THE QUESTION OF OUR PUBLIC STANCE WOULD BE ONE OF THE ISSUES WHICH WOULD NEED TO BE CONSIDERED IN LONDON. THEY ACCEPTED THAT IT WOULD NOT BE PRUDENT TO COME TO ANY CONCLUSIONS ON THIS ISSUE BEFORE THEN.

4. TO ENCOURAGE THEM A LITTLE I EMPHASISED THAT SOVEREIGNTY HAD NOT BEEN CONCEDED AND THAT IT REMAINED THE OBJECTIVE TO SEEK A SETTLEMENT WHICH WOULD BE ACCEPTABLE TO THE PEOPLE OF HONG KONG. THERE WAS STILL A LOT TO PLAY FOR.

5. THE MEETING AT LEAST REMOVED THE CREDIBILITY GAP BUT IT ALSO CONFIRMED THE STRONG ATTACHMENT OF ALL MEMBERS PRESENT TO THE BRITISH CONNECTION. THE THOUGHT THAT THE SEARCH FOR AN ACCEPTABLE SOLUTION WOULD GO ON CHEERED THEM A LITTLE, BUT NOT MUCH.

YOUDE

NNNN

From: The Rt. Hon. The Earl of Cromer

Beaufield House, ^{59A}
St. Saviour,
Jersey,
Channel Islands



15 December 1983.

STRICTLY PERSONAL AND CONFIDENTIAL

ms

Dear Prime Minister,

You once told me not to hesitate to get in touch with you if I had some advice to proffer, so I am venturing to take you at your word, on a Privy Counsellorship basis, in a field with which you would probably not associate me but which I mentioned to you the other evening at the Buckingham Palace Diplomatic Reception.

HONGKONG

My elder son, Errington, who has lived in the Far East for some fifteen years, the last five of which in Hongkong, has recently been home on a brief Leave and I think it may be of interest to you to be aware of what he told me but I should make it clear that the initiative to write to you stems from me and not from him. Some five years ago Errington was instructed to start from scratch Inchcape (China) Ltd. as Inchcapes were not one of the old China Houses. By spending a great deal of time in China, by last year he had built up the turnover of sales to China of Inchcape (China) from zero to \$75 million for the year and had been responsible for setting up a couple of years ago the first joint venture enterprise between the Chinese and any Western capitalist enterprise. He thus has wide contacts in China.

He tells me that he believes that the crise de nerfs displayed in the Colony last September was certainly in part due to two particular factors as well as indicating the generally highly sensitive mood of the Hongkong business community. The first was the rumour in the Colony that Sir Percy Craddock was retiring as he is held in highest esteem as a thorough professional of wide experience and great capability. When it was announced that Craddock was returning to serve you at No. 10 there was widespread relief. The second was that it was believed in the Colony that our negotiating mission was being selected more on linguistic ability than on negotiating experience whilst the Chinese team had been selected on proven negotiating prowess in having negotiated Chinese entry into the UN, despite not having a word of English amongst them

There remains concern over our negotiating mission. It is thought that the inclusion in the delegation of Sir Edward Youde as Governor of Hongkong is an affront to Chinese "face" as they do not recognise such a title. The Chinese have subtle ways of signifying their standpoint as the following incident would seem to bear out. Entirely by chance Errington found himself on the same aircraft flying from



Peking to Hongkong with Sir Edward Youde who was also returning to the Colony at the conclusion of a recent round of negotiations. Sir Edward was seen off from Peking by a very junior Chinese official. On the aircraft Sir Edward had been allotted a single seat in Row B whilst his 'bag-carrier' had been allocated a seat several rows away. Only after a row and with the reluctant co-operation of an American tourist were the seats changed. On this journey it is apparently necessary to land at Tianjin to clear Chinese Immigration and Customs. Here some American and Chinese business men were led off to receive VIP treatment in the VIP Lounge while their formalities were looked after for them, whilst there was no-one to meet Sir Edward who had to queue up with the tourists and others who were on the flight. The interpretation of this behaviour is of course obvious.

Unfortunately, as you are doubtless aware, Sir Edward has not yet succeeded in establishing confidence in the Colony itself; maybe, given time this would improve but time is not on our side. Further lack of confidence is caused by the Governor's Political Adviser, a Mr. Maclaren, who widely disseminates in the Colony his personal support for unilateral disarmament. It goes without saying that morale in the Colony is of highest importance if there is not to be an ugly exodus when the Union Jack has in due course to be hauled down. There appears to be a general feeling in the Colony that the UK is not taking the future of Hongkong sufficiently seriously and is treating these highly important negotiations on a routine level appropriate to some rather unimportant trade negotiations.

Although personally knowing nothing of Hongkong it does occur to me to suggest to you, with great respect, that some of these criticisms would appear to have some substance. Being aware, as we all are, of the importance that the Chinese place on "face" one would have thought that the Governor of Hongkong by virtue of his Office was the last person to include in the negotiating mission although obviously he would have much invaluable advice to offer whilst based in Hongkong to the Head of our Negotiating Mission. I would suggest that Chinese "face" would call for a Head of Mission of past-Cabinet or proconsular status, or at least a man of outstanding public eminence.

The working out of the new Constitution, for this is what is involved, would, I suggest, be best carried out by an outstanding constitutional lawyer, or possibly academic. What is obviously called for is a mind of great professional ingenuity



with a strong bent for obfuscation. I cannot believe that any solution lies in detailed discussion of 'the small print' ab initio. These negotiations so far transcend the ordinary run-of-the-mill negotiations that there is plenty of past precedent for calling in from outside the Service the best brains in the country, e.g. Lord Monkton and the Indian Princes, and others.

If this new approach to the composition of a new Mission were to appeal to you one immediately comes to the question of possible candidates and in this I would be hesitant to make any suggestions as No. 10 is obviously best equipped in this respect. For Head of Mission, age is if anything an advantage as the Chinese evidently respect age. I would have someone in mind such as Alec Home, Hartley Shawcross (who incidentally knows China well), Sir Zelman Cowen, or Sir Patrick Neill (All Souls) although anyone of the calibre you need would require a great deal of persuading to take on such an arduous challenge.

As to the Lawyer, I am sure that the Lord Chancellor might well have suggestions.

You must forgive me, Prime Minister, for this unsolicited intervention but it occurred to me that these thoughts might constructively augment what you are receiving through the normal official channels.

Yours sincerely
Rowley Cross

P.S. The continuing fall in the £/\$ rate I find rather disturbing as a threat to your most successful containment of inflation particularly with the prospects of considerable pressure on the price of oil this coming Spring. So many of our basic imports are today priced in \$

The Rt. Hon. Margaret Thatcher M.P.,
Prime Minister,
10 Downing Street,
LONDON SW1

✓

SECRET

59

Prime Minister.

A.S.C. 15/12.

A.S.C. 19/12.

h-a.



FCS/83/267

SECRETARY OF STATE FOR DEFENCE

Future of Hong Kong: Defence and Internal Security

1. You will have noted from recent reports on our negotiations with China over the future of Hong Kong that questions directly relating to defence have been raised for the first time. At the last round of talks, on 7/8 December, the Head of the Chinese negotiating team implied that China planned to station a garrison of the People's Liberation Army in Hong Kong after 1997. I enclose Peking telegram number 1322, which gives the fullest available account of the words he used.

2. Our Ambassador in Peking, who is about to leave his post, has already proposed that in his farewell calls on Chinese leaders he should question this intention, pointing out the grave damage that this would do to confidence in Hong Kong. He has now also suggested in the enclosed telegram number 1330 that it would be helpful, in any discussion over the proposed PLA pressure in Hong Kong after 1997, if he could indicate that we were considering the possibility of withdrawing British troops from the territory well before 1997. The Governor has acknowledged that the issue would need to be considered, but he pointed out that his Executive Council would need to be consulted.

3. I understand that our officials already have in preparation a joint paper covering all aspects of Hong Kong's defence and internal security after 1997. On the question of a withdrawal before 1997 the main input will come from your side, and I think that in the light of the Ambassador's suggestion we need to address this issue with urgency. Once the joint paper has been submitted it may be helpful if we were to have a word together about the next steps. I do

/not

SECRET



not believe that we can get a decision on so complex a matter in time for the Ambassador to use in his farewell calls, but it will be an important consideration in the context of the review which we are preparing on the negotiations in general.

4. I am sending a copy of this minute to the Prime Minister.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
15 December 1983

SECRET

GR 155
SECRET
DESKBY 091000Z
FM PEKING 090900Z DEC 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1322 OF 9 DECEMBER
INFO IMMEDIATE HONG KONG

41K K01014
RECEIVED
1983

1369

YOUR TELNO 859: FUTURE OF HONG KONG: SEVENTH ROUND OF TALKS
1. THE FULL TEXT OF YAO'S REMARKS ON DEFENCE OF THE SAR
(VIRTUALLY IDENTICAL TO THAT REPORTED IN MY TELNO 1314) —
READS AS FOLLOWS: QUOTE DEFENCE OF HONG KONG SAR WILL BE THE
RESPONSIBILITY OF THE CENTRAL GOVERNMENT. EITHER QUOTE THE
TROOPS UNQUOTE OR QUOTE TROOPS UNQUOTE STATIONED IN HONG KONG
WILL NOT INTERFERE IN THE INTERNAL AFFAIRS OF THE SAR.
MILITARY COSTS WILL BE BORNE BY THE CENTRAL GOVERNMENT: PUBLIC
ORDER IN THE SAR WILL BE THE VRESPONSIBILITY OF THE SAR GOVERNMENT
UNQUOTE. THE PRECISE TRANSLATION OF THE CHINESE QUOTE
ZHU JUN UNQUOTE IS QUOTE THE FORCES STATIONED IN UNQUOTE,
BUT THIS PHRASE IS COMMONLY TRANSLATED AS QUOTE GARRISON UNQUOTE.
IT IS NOT HOWEVER CLEAR WHETHER THE DEFINITE ARTICLE SHOULD BE
USED OR NOT, OWING TO THE IMPRECISION OF THE CHINESE LANGUAGE.

ms

CRADOCK

FUTURE OF HONG KONG

LIMITED

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HD/FED
HD/PLANNING STAFF
HD/PUSD
D/HD/PUSD(MR FLOWER)
RESEARCH DEPT(MR WALKER)
LEGAL ADVISER(SIR IAN SINCLAIR)
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SECRET

SECRET

GR 180

SECRET

FM PEKING 120651Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1330 OF 12TH DEC 83

INFO IMMEDIATE HONG KONG

MY TELNO 1325. FUTURE OF HONG KONG: CALLS ON LEADERS.

1. IT OCCURS TO ME THAT IT WOULD BE VERY HELPFUL IN ANY DISCUSSION OVER A PROPOSED PLA PRESENCE IN HONG KONG AFTER 1997 IF I COULD INDICATE THAT WE WERE CONSIDERING THE POSSIBILITY OF WITHDRAWING BRITISH TROOPS FROM HONG KONG WELL BEFORE 1997. THIS WOULD COUNTER ANY CHINESE ARGUMENT THAT IF BRITISH TROOPS ARE STATIONED IN HONG KONG NOW THERE IS NO REASON WHY THE PLA SHOULD NOT BE STATIONED THERE AFTER 1997. IT WOULD ALSO LEAD NATURALLY TO A STATEMENT OF OUR INTENTION TO BUILD UP AN INTERNAL SECURITY FORCE IN HONG KONG TO HANDLE SECURITY THERE WITHOUT ANY OUTSIDE PRESENCE. IT WOULD OBVIOUSLY NOT BE THE FIRST POINT I MADE ON THE TOPIC BUT IT WOULD BE SOMETHING TO DRAW ON IF THE DISCUSSION REQUIRED IT.

2. I REALISE THIS IS RUNNING VERY FAST. BUT THE SOONER WE CAN PREVENT THE IDEA OF A PLA PRESENCE IN HONG KONG TAKING ROOT THE BETTER.

CRADOCK

FUTURE OF HONG KONG

LIMITED

ED/ED

ED/FED

ED/PLANNING STAFF

ED/FUSD

D/ED/FUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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Hong Kong: Inland Pt 11



11/11/11

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SECRET

6850 - 1

DD 141330Z PEKING

GRS 733

SECRET

DESKBY 141330Z

FM FCO 141045Z DEC 83

TO IMMEDIATE PEKING

TELEGRAM NUMBER 872 OF 14 DECEMBER

INFO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG CALLS ON LEADERS

1. FOLLOWING IS LINE TO TAKE:

(A) NOTE WITH PLEASURE THE PROGRESS MADE IN THE LATEST PHASE OF NEGOTIATIONS. REFER BACK TO THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER. REITERATE OUR WISH, PROVIDED WE CAN REACH AGREEMENT ON AN ACCEPTABLE SOLUTION, TO GIVE OUR FULL CO-OPERATION

(B) THE IDEA OF MAINTAINING A CAPITALIST HONG KONG AS A SPECIAL ADMINISTRATIVE REGION WITHIN A SOCIALIST COUNTRY IS A TOTALLY NEW CONCEPT. THE TASK AHEAD IS COMPLEX AND DIFFICULT. THE AGREED BASIS FOR OUR PRESENT DISCUSSIONS SHOULD ENSURE THAT CHINESE REQUIREMENTS OF PRINCIPLE WILL BE MET. BUT THERE REMAIN IMPORTANT QUESTIONS STILL UNSETTLED WHICH WILL BE CRITICAL FOR THE SUCCESS OR OTHERWISE OF THE ENTERPRISE. THE BRITISH SIDE BELIEVE THAT WITH ITS EXPERIENCE OF HONG KONG IT COULD BE OF VERY GREAT HELP IN GIVING THE BEST POSSIBLE CHANCE OF SUCCESS. WE THEREFORE HOPE THAT THE CHINESE SIDE WILL LISTEN SERIOUSLY TO OUR IDEAS AND SUGGESTIONS AND TAKE ACCOUNT OF THEM IN FORMULATING THEIR PLANS AND THE BASIC LAW.

(C) IF STABILITY AND PROSPERITY ARE TO BE PRESERVED IN HONG KONG IT WILL BE ESSENTIAL TO MAINTAIN DOMESTIC AND INTERNATIONAL CONFIDENCE IN ARRANGEMENTS FOR THE PERIOD AFTER 1997. IF THIS CONFIDENCE IS TO BE MAINTAINED THERE WILL NEED TO BE ASSURANCES SUFFICIENT TO CONVINCE LOCAL PEOPLE AND OVERSEAS INVESTORS THAT THE SYSTEMS WILL NOT BE CHANGED, AND THAT THE PRESENT FREEDOMS AND LIFESTYLE WILL NOT BE AFFECTED. THE PROPOSED 50 YEAR PROVISION WILL BE HELPFUL IN THIS CONNECTION, BUT IT WILL NOT BE ENOUGH BY ITSELF.

A.S.C. 15
/m.

h.a.

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(D) THE MOST FUNDAMENTAL POINT TO US IN PURSUING DISCUSSIONS ON THE BASIS AGREED AT PRESENT WOULD SEEM TO BE TO CONSIDER ONLY THE CHANGES THAT WOULD BE ESSENTIAL TO MEET THE FUNDAMENTAL PREMISE THAT SOVEREIGNTY AND THE POWER OF ADMINISTRATION SHOULD REVERT TO CHINA. IN ALL OTHER RESPECTS THE PRESENT SYSTEMS IN HONG KONG SHOULD CONTINUE AS POSSIBLE, EXCEPT WHERE EVOLUTION IS NATURAL AND DESIRABLE. IT IS INCONTESTABLE THAT THINGS WORK WELL NOW. CONTINUITY IS THE BEST GUARANTEE OF STABILITY AND PROSPERITY AND WOULD ACCORD ENTIRELY WITH THE CHINESE GUIDELINE THAT THE CURRENT SOCIAL AND ECONOMIC SYSTEMS AND THE LIFESTYLE WOULD REMAIN UNCHANGED.

(E) CHANGES TO THE LEGAL SYSTEM SHOULD BE KEPT TO THE ABSOLUTE MINIMUM. THE LEGAL SYSTEM IS THE FUNDAMENTAL BASIS FOR ALL THE SYSTEMS IN HONG KONG AND CHANGES TO IT WOULD AFFECT EVERY ASPECT OF LIFE IN THE TERRITORY. CHANGES IN THIS AREA WOULD AFFECT THE CONFIDENCE BOTH OF INVESTORS AND RESIDENTS.

(F) HONG KONG IS A HIGHLY COMPLEX PLACE, AND NEEDS AN EXPERIENCED AND PROFESSIONAL CIVIL SERVICE TO RUN THE ADMINISTRATION AND PROVIDE THE SERVICES REQUIRED. NUMEROUS AND VARIED PROFESSIONAL SKILLS ARE NEEDED. IT IS IMPOSSIBLE TO PROVIDE ALL OF THEM FROM WITHIN HONG KONG, GIVEN THE COMPETING DEMANDS OF THE PRIVATE SECTOR: HENCE THE CONTINUING NEED FOR OVERSEAS OFFICERS. CONTINUITY OF THE CIVIL SERVICE IS THUS A CENTRAL ELEMENT IN FUTURE YEARS.

SO FAR AS POSSIBLE EXISTING CIVIL SERVANTS, WHETHER LOCAL OR OVERSEAS, SHOULD BE ENCOURAGED TO REMAIN AT THEIR POSTS AFTER 1997 AND TO COMPLETE THEIR CAREERS IN THE NORMAL WAY. ADVISERS WILL NOT SUFFICE. OFFICIALS HAVE TO BE RESPONSIBLE FOR THEIR ACTS. THEY WILL BE UNLIKELY TO STAY ON IF THEY CAN ONLY HOPE TO BECOME ADVISERS. AS OUR STATEMENT OF 28 NOVEMBER MADE CLEAR THE LOYALTIES OF CIVIL SERVANTS WOULD OF COURSE BE TO THE GOVERNMENT OF THE SAR. THE LATTER SHOULD ALSO BE ABLE TO RECRUIT PERSONS OF PROFESSIONAL SKILL AND ABILITY AFTER 1997, IN ANY WAY WHICH SEEMED BEST TO IT.

(G) CONCERNED ABOUT THE REFERENCES DURING THE LAST ROUND TO STATIONING OF TROOPS IN HONG KONG. WE DO NOT DISPUTE THE RIGHT

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OF THE CHINESE GOVERNMENT TO STATION ITS TROOPS IN ANY PART OF CHINA THAT IT CONSIDERS FIT. NEVERTHELESS, THIS IS AN EXTREMELY SENSITIVE MATTER IN HONG KONG. A DECISION TO STATION TROOPS IN HONG KONG AFTER 1997 WILL BE SEEN AS FATALLY IMPAIRING THE AUTONOMY OF THE REGION, AND WILL GIVE THE APPEARANCE NOT OF A PEACEFUL TRANSITION TO A NEW STATUS, BUT AN IMPOSED SETTLEMENT. THE CHINESE GOVERNMENT WOULD BE ADVISED TO ACT WITH GREAT PRUDENCE AND RESTRAINT IN THIS RESPECT.

(H) HOPE THAT IT WILL BE POSSIBLE NOW TO MAKE FASTER PROGRESS. GIVEN THE COMPLEXITY OF THE ISSUES, ADEQUATE TIME WILL BE NEEDED. BUT I AM CONFIDENT THAT WITH GOODWILL A SOLUTION CAN BE REACHED.

HOWE

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DD 141330Z PEKING

GRS 192

SECRET

DESKBY 141330Z

FM FCO 141115Z DEC 83

TO IMMEDIATE PEKING

TELEGRAM NUMBER 871 OF 14 DECEMBER

INFO IMMEDIATE HONG KONG

YOUR TELNO 1325 AND HONG KONG TELNO 1928: FUTURE OF HONG KONG:
CALLS ON LEADERS

1. THE PRIME MINISTER HAS AGREED THAT IN YOUR CALLS ON CHINESE LEADERS YOU SHOULD SPEAK IN THE TERMS SET OUT IN MIFT. YOU MAY CONVEY THE PRIME MINISTER'S GOOD WISHES TO ZHAO AND THROUGH HIM TO DENG. YOU MAY INDICATE IN ALL YOUR CALLS THAT YOU ARE SPEAKING ON THE PRIME MINISTER'S AUTHORITY.

2. THE PRIME MINISTER ATTACHES GREAT IMPORTANCE TO TWO PHRASES IN THE INSTRUCTIONS:

(A) IN PARAGRAPH A: OPEN QUOTES PROVIDED WE CAN REACH AGREEMENT ON AN ACCEPTABLE SOLUTION CLOSE QUOTES.

(B) IN PARAGRAPH D: OPEN QUOTES ON THE BASIS AGREED AT PRESENT CLOSE QUOTES.

YOU SHOULD ENSURE THAT THE POINTS COVERED BY THESE PHRASES ARE MADE WITH UNMISTAKABLE EMPHASIS.

3. THE SUPPLEMENTARY POINT IN YOUR TELNO 1330 WILL BE EXAMINED HERE AS QUICKLY AS POSSIBLE. BUT THERE CAN BE NO QUESTION OF TELLING THE CHINESE AT THIS STAGE THAT WE ARE CONSIDERING THE POSSIBILITY OF A WITHDRAWAL OF BRITISH TROOPS BEFORE 1997. THERE WILL FIRST NEED TO BE FULL CONSULTATION WITH ALL CONCERNED.

HOWE

FUTURE OF HONG KONG

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A. & C. $\frac{15}{2}$
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10 DOWNING STREET

From the Private Secretary

14 December 1983

Future of Hong Kong:
Sir Percy Cradock's calls on Chinese Leaders

Thank you for your letter of 13 December.

The Prime Minister has considered the proposed instructions for Sir Percy Cradock. She attaches great importance to two phrases in the instructions namely:

- a) In paragraph a. "Provided we can reach agreement on an acceptable solution".
- b) In paragraph d. "On the basis agreed at present".

I should therefore be grateful if, in a covering telegram to Sir Percy Cradock you could make plain the importance attached by the Prime Minister to these two phrases and instruct him to ensure that the points covered by the phrases are made with unmistakable emphasis.

The Prime Minister would also wish two changes to be made to the text of the instructions. In the middle of paragraph b. the sentence "they threaten no principle" should be deleted. That part of the instructions might therefore read "but there remain important questions still unsettled which will be critical for the success or otherwise of the enterprise".

Finally, in paragraph e., could you please delete the words "required by the return of sovereignty and the power of administration to China".

A. J. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office

SECRET

NR

55^B

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MR. BUTLER ✓

MR. COLES ✓

MR. TURNBULL ✓

MR. FLESHER ✓

MR. BARCLAY ✓ *DNB 20/12*

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Prime Minister



CABINET OFFICE

With the compliments of
The Private Secretary to the
Secretary of the Cabinet

70 Whitehall, London SW1A 2AS

Telephone 01-233 8319

MOST CONFIDENTIAL RECORD
TO
OD(K) (83) 3rd Meeting Minutes

Tuesday 13 December 1983

THE FUTURE OF HONG KONG

Previous Reference: OD(K) (83) 2nd Meeting

The Sub-Committee reviewed progress in the negotiations with the Chinese Government over the future of Hong Kong. They had before them a minute from the Foreign and Commonwealth Secretary to the Prime Minister dated 12 December 1983 reporting on the seventh round of negotiations in Peking on 7 and 8 December, reviewing the way ahead and commenting on the suggestion by the senior Unofficial member of the Hong Kong Executive Council (EXCO), Sir S Y Chung, that Unofficial members of EXCO should visit London in January 1984 to review the position reached in the talks with the Government. The Sub-Committee also had before them a note by the Secretaries (OD(K) (83) 4) covering texts of informal working papers handed to the Chinese on the Hong Kong monetary system, the Hong Kong economic system, culture and education, and the rights of individuals in Hong Kong; and a note by the Secretaries (OD(K) (83) 5) to which was attached an assessment by the Governor of the current state of confidence in Hong Kong.

THE FOREIGN AND COMMONWEALTH SECRETARY said that, although the seventh round of negotiations with the Chinese, which had taken place in Peking on 7 and 8 December, had been conducted in an improved atmosphere, it was necessary to recognise the weakness of the United Kingdom's negotiating position. It was now clear that the Chinese Government were not prepared to accept what had been the original British objective of a continuing British presence in Hong Kong after the expiry of the lease of the New Territories in 1997. Nor would they accept any link of authority. The aim must now be to negotiate on the basis of the Chinese proposals in order to make them more acceptable and workable, even if at the end of the process the proposals might well not be such as the Government could positively commend to Parliament or to the people of Hong Kong. The Chinese comments on the informal working papers handed to them by the British Ambassador had revealed a measure of common ground between their positions and the implications which, for the purpose of negotiation, the United Kingdom side had sought to draw from them. On the legal system of a Hong Kong Special Administrative Region (SAR), the Chinese had confirmed that the existing system of courts would in principle be retained and judges would be appointed by a Judicial Commission, as now, but subject to approval by Peking. The Chinese had agreed that the Hong Kong SAR should make its own laws in the financial field and that, in conducting its own external economic relations, it could conclude agreements and join international organisations. The other Chinese comments were less welcome. They had suggested that the Chief Executive of the SAR and senior Government officials would be formally

appointed by Peking, and they had maintained their intention to publicise their proposals in September 1984, while stating that the drafting of the basic law detailing arrangements for Hong Kong would not begin until the statement was issued. They also appeared to imply that they would station a People's Liberation Army garrison in Hong Kong.

While British comments could be expected to have some impact on the Chinese proposals, there was no certainty that the outcome would be subject to agreement with the United Kingdom. It was therefore necessary to consider whether the present strategy should be continued or the talks broken off.

The Governor had sent an assessment of the state of confidence in Hong Kong. Before the latest round of negotiation, the senior Unofficial member of EXCO had suggested to the Governor that Unofficial members of EXCO should visit London in January to review the position reached in the talks. A number of them were concerned at the way in which the talks had developed since their visit in October. They believed that there was no sign that the current strategy would produce a satisfactory substitute for British administration. He recommended that, since it was important to keep EXCO on board, and to give them a realistic assessment of prospects, they should be invited to visit London in mid-January.

In discussion the point was made that there was no prospect of reaching an agreement with the Chinese which could be commended to Parliament. Certain outside observers had drawn a parallel between the assurances which the Chinese were now offering on Hong Kong and those which they had offered many years earlier in negotiating the future of the Western concessions in Shanghai. There were still some 13 years before the lease of the New Territories expired, and it was far from clear whether anything could be gained from continuing the present negotiations. In the meantime steps could be taken to give Hong Kong a greater measure of internal self-government. The Chinese Government would thus be faced with the need to negotiate with a locally elected Government in Hong Kong which would in principle be able to continue to administer the SAR after 1997. While the arguments for not breaking off the talks now were strong, it was necessary to face the possibility that they would lead to no agreement. The Chinese would then make a unilateral announcement and perhaps withdraw concessions which they had made during the negotiations. The Government would be placed in a difficult situation. More information was needed about how the Chinese might respond to a failure or breakdown in the negotiations. It was by no means clear that they would be prepared simply to wait until the lease expired. Chairman Deng Xiaoping, who was 79, was anxious to settle the Hong Kong question while he remained in power: if he could not reach an agreement with the British Government which was satisfactory to him, he might decide upon an early takeover of Hong Kong.

On the other hand, the point was made that to precipitate a breakdown of the talks would be even more damaging. The Government had shown their willingness to enter into a dialogue with the Chinese. Time had to be allowed for educating opinion in Hong

Kong. It was already clear that many Hong Kong people were coming to terms with the fact of the British departure. The United Kingdom could not in fact prevent the Chinese from taking over Hong Kong whenever they wished, but it was essential for the Government to show that they had done everything in their power to reach a satisfactory agreement. If the United Kingdom were to break off the talks, the impression would be given that this was done in the belief that it would somehow secure better arrangements for Hong Kong; whereas the reality was the opposite. A breakdown, possibly leading to a sudden Chinese takeover, would in addition be extremely damaging to Britain's commercial interests and could lead to large numbers of Hong Kong Chinese wishing to enter the United Kingdom.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee would need to consider carefully the line to be taken when the Unofficial members of EXCO visited London in January. They agreed that the present strategy should continue and that a breakdown in the talks should be avoided. But it was necessary to begin to consider what should be done if the negotiations ended in failure to reach agreement and the Chinese carried out their threat of expressing their intentions unilaterally. Urgent consideration should also be given to the possibilities for giving the people of Hong Kong a greater measure of internal self-government, and to how best to put the British case to the people of Hong Kong.

The Sub-Committee -

1. Agreed that Unofficial members of the Hong Kong Executive Committee should be invited to London for consultations during January.
2. Invited the Foreign and Commonwealth Secretary to circulate to the Sub-Committee for consideration before the Unofficials' visit:
 - i. a paper reviewing the current position and the way ahead in the negotiations with the Chinese Government;
 - ii. a paper addressing the same issues which could be shown to the Unofficials and used as a basis for the discussion with them; and
 - iii. a paper on the possibilities for increasing the scope of internal self-government in Hong Kong and ways of putting over the Government's case to the people of Hong Kong.

Cabinet Office

19 December 1983

~~Mr. Colby~~

No 10.



With the compliments of

THE PRIVATE SECRETARY

As discussed. To put with
my letter of this morning
Foreign Sec. will have a copy
with him at (D)(K)


FOREIGN AND COMMONWEALTH OFFICE

SW1A 2AH

E. C. C. S.

OUT TELEGRAM

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	Classification and Caveats SECRET	Precedence/Deskby IMMEDIATE
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ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	SECRET
CAVEATS	4	
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PRE/ADD	7	TO IMMEDIATE PEKING
TEL NO	8	TELEGRAM NUMBER
x	9	AND TO IMMEDIATE HONG KONG
β	10	YOUR TELNO 1325: FUTURE OF HONG KONG: CALLS ON LEADERS
	11	1. In your calls on Chinese leaders you should speak as your
x	12	propose in TUR, subject to the comments set out below. These take
	13	into account the Governor's suggestions in Hong Kong telno 1928.
	14	You may convey the Prime Minister's good wishes to Zhao and
	15	through him to Deng. You may indicate in all your calls that you
	16	are speaking with the Prime Minister's approval.
	17	2. Our comments follow the order of points in para two of TUR:
	18	(a) Agreed. A reference to progress would be appropriate as a
	19	reflection of the communique issued after the last round of
	20	talks.
	21	(b) You should speak as proposed, but omitting the word open
///	22	quotes economic close quotes in the fifth sentence. The
//	23	Governor's point (ii) might follow as a separate point.
/	24	(c) I would prefer the first sentence to imply more clearly that
	25	acceptance of the Chinese premise is still subject to the

NNNN ends telegram	BLANK		Catchword conditionality
File number	Dept HKD	Distribution FUTURE OF HONG KONG	
Drafted by (Block capitals) C O HUM			
Telephone number 233 4381			
Authorised for despatch			
Comcen reference	Time of despatch		

OUT TELEGRAM (CONT)

Classification and Caveats

SECRET

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conditionality defined in the Prime Minister's message to Zhao. It is also important that the reference to no change in Hong Kong's present systems should be clarified so as to permit any natural evolution in those systems which might be considered desirable before 1997, for example, in moving towards an expansion of the democratic process or increased autonomy. The first two sentences should therefore be amended to read as follows:

x

The most fundamental point to us in pursuing discussions on the basis agreed at present would seem to be to consider only the changes that would be essential to meet the fundamental premise that sovereignty and the power of administration should revert to China. In all other respects the present systems in Hong Kong should continue as unchanged as possible, except where evolution was natural and desirable close quotes.

- (d) Agreed, subject to the Governor's points (iii) and (iv).
- (e) Ditto.

c

(f) Agreed. The supplementary point in your telno 1330 will be examined here as quickly as possible. But there can be no question of telling the Chinese at this stage that we are considering the possibility of a withdrawal of British troops before 1997. There will first need to be full consultation with all concerned.

- (g) Agreed.

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Catchword

SECRET

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DESKBY FCO 130900Z DEC
FM HONG KONG 130730Z DEC 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 1928 OF 13 DECEMBER
INFO IMMEDIATE PEKING

PEKING TELNO 1325: FUTURE OF HONG KONG: CALLS ON LEADERS.

I AGREE THAT WE SHOULD MAKE FULL USE OF THE OPPORTUNITY PROVIDED BY THE AMBASSADOR'S FAREWELL CALLS ON CHINESE LEADERS. I ALSO AGREE GENERALLY WITH THE LINE SUGGESTED IN PAPA 3 OF PEKING TUR, SUBJECT TO THE FOLLOWING COMMENTS:-

(I) I SUGGEST THAT THE REFERENCE TO PROGRESS IN POINT (A) BE OMITTED, OR AT LEAST TONED DOWN. THE MOVEMENT HAS BEEN LARGELY ON OUR SIDE.

(II) I THINK THAT MORE SHOULD BE MADE OF THE NEED TO MAINTAIN DOMESTIC AND INTERNATIONAL CONFIDENCE IF STABILITY AND PROSPERITY ARE TO BE PRESERVED. THIS IS OF COURSE IMPLICIT IN EVERYTHING WHICH THE AMBASSADOR PROPOSES TO SAY BUT THE ONLY SPECIFIC REFERENCE IS AT THE END OF POINT (E).

THE POINT TO MAKE IS, I SUGGEST, THAT IF CONFIDENCE IS TO BE MAINTAINED THERE WILL NEED TO BE ASSURANCES SUFFICIENT TO CONVINCE LOCAL PEOPLE AND OVERSEAS INVESTORS THAT THE SYSTEMS WILL NOT BE CHANGED, AND THAT PRESENT FREEDOMS AND LIFESTYLE WILL NOT BE AFFECTED. THE PROPOSED 50 YEAR PROVISION WILL BE HELPFUL IN THIS CONNECTION BUT IT WILL NOT BE ENOUGH BY ITSELF. THIS POINT WOULD FIT IN WELL AT THE OUTSET AFTER THE FIRST SENTENCE OF (B).

(III) I SUGGEST THAT POINTS (D) AND (E) SHOULD BE REVERSED, SINCE (E) FLOWS NATURALLY FROM THE ARGUMENT IN (C).

(IV) AS REGARDS HIS POINT (D), I SUGGEST THAT THE AMBASSADOR MIGHT START BY EMPHASISING:-

(A) THE COMPLEXITY OF HONG KONG AND THE NEED FOR AN EXPERIENCED AND HIGHLY PROFESSIONAL CIVIL SERVICE TO RUN THE ADMINISTRATION AND PROVIDE THE SERVICES REQUIRED:

(B) THE NUMBER AND VARIETY OF PROFESSIONAL SKILLS NEEDED; THE IMPOSSIBILITY OF PROVIDING ALL OF THEM FROM WITHIN HONG KONG GIVEN THE COMPETING DEMANDS OF THE PRIVATE SECTOR; AND HENCE THE CONTINUING NEED FOR OVERSEAS OFFICERS.

THE POINTS ABOUT CONTINUITY AND ADVISERS WOULD THEN FOLLOW.

SECRET

/ (v)

SECRET

(V) THE POINT ABOUT THE STATIONING OF CHINESE TROOPS IS IMPORTANT: NOTHING WOULD BE MORE LIKELY TO CAUSE A COLLAPSE OF CONFIDENCE THAN THE NEWS THAT THERE WOULD BE A PLA GARRISON HERE AFTER 1997. I THEREFORE AGREE THAT THE AMBASSADOR SHOULD SPEAK AS PROPOSED IN (F).

I WOULD HOWEVER BE OPPOSED TO HIM GOING FURTHER, AS SUGGESTED IN PEKING TELNO 1330. I DO NOT DISPUTE THAT WE WILL NEED TO CONSIDER THE POSSIBILITY OF WITHDRAWING BRITISH TROOPS BEFORE 1997. BUT IT WOULD BE GETTING MUCH TOO FAR AHEAD OF THE GAME TO TELL THE CHINESE NOW THAT THIS IS OUR INTENTION THERE ARE MAJOR POLICY ISSUES INVOLVED WHICH HAVE NOT YET BEEN CONSIDERED BY EXCO (NOR BY MINISTERS): AND I CERTAINLY COULD NOT CONSULT EXCO ON A MATTER OF THIS SENSITIVITY IN ADVANCE OF NEXT MONTHS MAJOR REVIEW OF OUR OBJECTIVES.

YOUDE

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D/ED/PUSD(MR FLOWER)

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2
SECRET

SECRET
 FM PEKING 090930Z DEC 83
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 1325 OF 9 DECEMBER
 INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: CALLS ON LEADERS

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CRADOCK

FUTURE OF HONG KONG

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ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

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PS/PUS

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MR BURROWS LEGAL ADVISERS

MR COLES NO 10 DOWNING ST

SIR A PARSONS " "

MR MARTIN ASSESSMENT STAFF

CABINET OFFICE

MR GOODALL CABINET OFFICE

MR BRENNAN " "

PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL



Foreign and Commonwealth Office

London SW1A 2AH

13 December, 1983

Dear John,

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AS 12.
with AJC?

Future of Hong Kong: Sir P Cradock's Calls on Chinese Leaders

You recorded in your letter of 12 December the Prime Minister's comments on Sir P Cradock's recommendations on the line he should take with Chinese leaders.

You said that you would find it helpful to have a consolidated text reflecting our own comments and those of the Governor. This I now enclose.

This text does not take up explicitly the Prime Minister's question as to how we should take up the matter of the acceptability of any solution to the people of Hong Kong. In the discussions with the Chinese so far we have found it more fruitful to make this crucial point to the Chinese in terms of the need to maintain confidence in Hong Kong and overseas if the territory's stability and prosperity is to be maintained. This point is covered in (C) of Sir P Cradock's line to take.

If the Prime Minister agrees, we propose to authorise Sir P Cradock to speak in these terms indicating (as he has asked) that he was doing so on the Prime Minister's personal authority.

Yours ever,
Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

FUTURE OF HONG KONG

Proposed line to take by Sir P Cradock with Chinese Leaders

a) Note with pleasure the progress made in the latest phase of negotiations. Refer back to the Prime Minister's message of 14 October. Reiterate our wish, provided we can reach agreement on an acceptable solution, to give our full co-operation. →

b) The idea of maintaining a capitalist Hong Kong as a special administrative region within a socialist country is a totally new concept. The task ahead is complex and difficult. The agreed basis for our present discussions should ensure that Chinese requirements of principle will be met. But there remain ^{while} important questions still unsettled. They threaten no principle. But they will be critical for the success or otherwise of the enterprise. →
 The British side believe that with its experience of Hong Kong it could be of very great help in giving the best possible chance of success. We therefore hope that the Chinese side will listen seriously to our ideas and suggestions and take account of them in formulating their plans and the basic law.

c) If stability and prosperity are to be preserved in Hong Kong it will be essential to maintain domestic and international confidence in arrangements for the period after 1997. If this confidence is to be maintained there will need to be assurances sufficient to convince local people and overseas investors that the systems will not be changed, and that the present freedoms and lifestyle will not be affected. The proposed 50 year provision will be helpful in this connection, but it will not be enough by itself.

d) The most fundamental point to us in pursuing discussions on the basis agreed at present would seem to be to consider only the changes that would be essential to meet the fundamental premise that sovereignty and the power of administration should revert to China. In all other respects the present systems in Hong Kong should continue as unchanged as possible, except where evolution is natural and desirable. ?

It is incontestable that things work well now. Continuity is the best guarantee of stability and prosperity and would accord entirely with the Chinese guideline that the current social and economic systems and the lifestyle would remain unchanged.

e) Changes to the legal system should be kept to the absolute minimum (required by the return of sovereignty and the power of administration to China.) The legal system is the fundamental basis for all the systems in Hong Kong and changes to it would affect every aspect of life in the territory. Changes in this area would affect the confidence both of investors and residents.

f) Hong Kong is a highly complex place, and needs an experienced and professional civil service to run the administration and provide the services required. Numerous ^{and} varied professional skills are needed. It is impossible to provide all of them from within Hong Kong, given the competing demands of the private sector: hence the continuing need for overseas officers. Continuity of the civil service is thus a central element in future years.

So far as possible existing civil servants, whether local or overseas, should be encouraged to remain at their posts after 1997 and to complete their careers in the normal way. Advisers will not suffice. Officials have to be responsible for their acts. They will be unlikely to stay on if they can only hope to become Advisers. As our statement of 28 November made clear the loyalties of civil servants would of course be to the government of the SAR. The latter should also be able to recruit persons of professional skill and ability after 1997 in any way which seemed best to it.

g) Concerned about the references during the last round to stationing of troops in Hong Kong. We do not dispute the right of the Chinese Government to station its troops in any part of China that it considered fit. Nevertheless, this is an extremely sensitive matter in Hong Kong. A decision to station troops in ^{Hong} Kong after 1997 will be seen as fatally impairing the autonomy of the region, and will give the appearance not of a peaceful transition to a new status, but an imposed settlement. The Chinese Government would be advised to act with great prudence and restraint in this respect.

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G I hope that it will be possible now to make faster progress. Given the complexity of the issues, adequate time will be needed but I am confident that with goodwill a solution can be reached.

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Foreign and Commonwealth Office

London SW1A 2AH

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13 December 1983

D. J. [unclear]

*AL 14/12
h-a.*

Dear John,

Future of Hong Kong: Sir P Cradock's Calls on Chinese Leaders

attached

Thank you for your letter of 12 December about Sir P Cradock's farewell calls on Chinese leaders.

Sir Geoffrey Howe proposes to have a word about this with the Prime Minister in the margins of OD(K) later today. He is at present out of London and has not seen the text of this letter. But he has indicated that he is generally content with the line which Sir P Cradock proposes to take on the future of Hong Kong. He has, however, commented that the first sentence of sub-paragraph 2(c) of Peking telegram number 1325 (copy enclosed) should imply more clearly that acceptance of the Chinese premise that sovereignty and the power of administration should revert to China is still subject to the conditionality described in the Prime Minister's two messages to Zhao Ziyang.

We also consider it important that the reference to no change in Hong Kong's present systems in the second sentence of this sub-paragraph should be qualified so as to permit any natural evolution in those systems which might be considered desirable before 1997, for example, any move in the direction of a greater measure of democracy or autonomy in the Territory. We therefore propose that these two sentences should be amended to read as follows:

'The most fundamental point to us in pursuing discussions on the basis agreed at present would seem to be to consider only the changes that would be essential to meet the fundamental premise that sovereignty and the power of administration should revert to China. In all other respects the present systems in Hong Kong should continue as unchanged as possible, except where evolution was natural and desirable.'

We propose, subject to the Prime Minister's agreement, that this point and a number of less significant points of detail should be incorporated in a telegram of instructions to Peking. Sir Geoffrey does not think that it will be

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necessary to discuss the matter in OD(K). You will have seen from Peking telegram number 1338 that the first of Sir P Cradock's farewell calls has been fixed for the morning of 15 December, Peking time. Instructions to him should, therefore, issue tonight if possible.

In your letter you recorded the Prime Minister's comments on the general question of consultation with the people of Hong Kong and the acceptability of any eventual arrangement to them. We agree that these points are crucial. They underline the importance to us of ensuring that EXCO, the main channel through which we seek the view of the Hong Kong people, should remain in full agreement with our negotiating strategy.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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GR 950

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FM PEKING 090930Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1325 OF 9 DECEMBER

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: CALLS ON LEADERS

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CRADOCK

FUTURE OF HONG KONG

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ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

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PS/LADY YOUNG

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SIR A PARSONS " "
MR MARTIN ASSESSMENT STAFF
CABINET OFFICE
MR GOODALL CABINET OFFICE
MR BRENNAN " "
PS/S OF S FOR DEFENCE
PS/ATTORNEY GENERAL

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PRIME MINISTER

Hong Kong

1. The seventh round of negotiations with the Chinese, on 7-8 December, was conducted in a significantly improved atmosphere. The explanation of our views on the relationship between Hong Kong and Britain after 1997, as discussed by OD(K) on 17 November and put forward by Sir P Cradock on 28 November, had apparently done much to dispel Chinese suspicions. There was no request from the Chinese side for explicit affirmation of the premise that sovereignty and the right of administration over Hong Kong would pass to China in 1997. For the first time the Chinese commented in some detail on the working papers which had been submitted by our negotiators. The Ambassador considers that while the Chinese have probably not dropped their distinction between matters which they regard as their internal affairs and those in which we have a direct interest, they appear to have relaxed it for the time being.

2. The Chinese comments revealed a certain measure of common ground between ^{the initial and} Chinese positions and the implications which, for the purpose of negotiation, we had sought to draw from them. In some areas the elaboration of Chinese positions appeared to have been positively influenced by elements from the British papers. On the legal system of a Hong Kong Special Administrative Region (SAR) the Chinese confirmed inter alia that the existing system of courts would in principle be retained, but with the power of final judgement exercised within Hong Kong; that precedents from other common law jurisdictions could be used and personnel from other such jurisdictions employed; and that the courts would be independent from the executive. They agreed that the Hong Kong SAR should make laws in the financial field; draw up its budget independently; and use its revenue exclusively for local purposes. In conducting its

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own external economic relations the SAR could conclude "appropriate agreements"; join international organisations not limited to states; establish its own trade missions; and seek to maintain its separate status under Gatt, the Multi-Fibre Arrangement and the various generalised schemes of preferences.

3. A number of the Chinese comments were less welcome. They proposed that senior judges in the SAR would be elected by the legislature and in general they showed a disposition to tinker with the legal system more than seems necessary. They suggested that both the Chief Executive of the SAR, chosen through local consultation or election, and senior government officials, nominated by the SAR Government would be formally appointed by the Central People's Government. They also stuck to their intention to publicise their proposals in September 1984 and introduced a new element, stating that the drafting of the basic law detailing arrangements for Hong Kong would not begin until the statement was issued. The Chinese envisage doing this themselves; there is clearly a risk of our being edged out of an important phase of the process. Most ominously, they appeared to imply that a People's Liberation Army garrison in Hong Kong would have responsibility for external defence.

4. It remains to be seen whether there is any disposition on the Chinese side to modify their plans in response to our comments. But we shall obviously need to hammer away at the key issues. An opportunity will occur when Sir P Cradock pays calls on a number of Chinese leaders before his departure. He has suggested a number of points which he could usefully make, including a firm description of the dangers to confidence of stationing Chinese troops in Hong Kong.

5. The Governor has sent an assessment of the state of confidence in Hong Kong which has already been circulated to members of OD(K). It points to a superficial improvement in morale but considerable underlying unease. This is partly because the views of people in Hong Kong on the likely outcome of the talks appear to reflect resignation to the fact that continuing British administration is not achievable. Not all EXCO members would accept this. Well before the most recent round the senior Unofficial member of the

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Hong Kong Executive Council, Sir S Y Chung, suggested to the Governor that Unofficial members of EXCO should visit London in January to review the position reached in the talks with HMG. In the Governor's view Unofficials are likely to press very strongly for this. A number of them, particularly Sir S Y Chung, are concerned at the way the talks have developed since their visit in October when it was agreed with you that we should see whether satisfactory arrangements could be built on the basis of the Chinese proposals. They are already unhappy at the idea that the earlier objective of continuing British administration may have been given up, even within the conditionality of your message to the Chinese. They believe that there is no sign that the current strategy will produce a satisfactory substitute for British administration and they may well argue that the time is coming to acknowledge this and if necessary break off the talks. They will demand from HMG a clear statement of our objectives.

6. The Governor advises that Ministers should agree to the Unofficials' proposal to come to London. He assesses that they are deeply concerned and will need a full discussion. I think that this is right. I am aware of the difficulty that too frequent visits by EXCO might give them the impression that they have control over our negotiating position. On the other hand it is important to keep them alongside us. It is moreover important that EXCO be given a realistic assessment. We should explain to them that the object of the strategy agreed in October was to discover whether a satisfactory solution could be built on the basis of the Chinese proposals. We have not yet had time to see whether that is the case but we are just beginning to get into detailed talks and should let the process continue. We should moreover tell EXCO that the arguments against confrontation with China remain in our view as strong as ever.

7. We shall also need to review the way ahead with EXCO. For this purpose I am having a paper prepared which, after discussion with the Governor and Sir Percy Cradock, will be ready early in the New Year. The prospect contains both pitfalls and opportunities. The essentials are:

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- (a) We should continue our current strategy of detailed discussion with the Chinese, aimed at substantially improving their proposals, pinning them down on points where we are agreed and firmly arguing those where their position remains unsatisfactory, eg on the question of a garrison.
- (b) We must therefore continue to put our working papers to the Chinese. On the whole these are beginning to yield helpful results. The Ambassador has argued that we should speed up their submission, as the Chinese have requested. He believes that this should include a paper on the central issues of administration, covering the position of Governor. He sees it as essential to inject into the Chinese thinking our ideas on these major issues at an early stage. I think that this is right but it will require very careful handling with EXCO.
- (c) We should watch the progress of the negotiations carefully in order to decide when we should tackle the question of a bilateral agreement. If we leave things too late there is a risk that the Chinese may simply produce an improved unilateral statement which will not be sufficiently binding on them to inspire confidence in Hong Kong. We do not want to leave a shift of gear of this sort too late.
- (d) We shall have to bear in mind the need to adjust our public line in Hong Kong as the likely outcome of the talks grows clearer.
- (e) We must not allow the Chinese to steal a march on us in appealing to the people of Hong Kong. Their propaganda has recently put new and marked emphasis on consultation with Hong Kong and interestingly on the development of democratic institutions there. The Governor is already giving careful thought to this question. It needs to be seen on the one hand in the context of gauging the acceptability of an agreement with China; on the other we need to do everything possible, as you have pointed out yourself, to developing a genuinely

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autonomous administration in Hong Kong which, well before 1997, will be strong enough to continue after a transfer of sovereignty.

8. I suggest that at the meeting of OD(K) we should agree on the following:

(i) Acceptance of a visit by EXCO, with a meeting provisionally fixed for 16 January.

(ii) The commissioning of a paper to be prepared by the FCO reviewing the current position and the way ahead in time for the EXCO visit.

9. I am copying this minute to other members of OD(K) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe'.

GEOFFREY HOWE

Foreign and Commonwealth Office

12 December 1983



10 DOWNING STREET

From the Private Secretary

12 December 1983

Future of Hong Kong: Calls on Leaders

The Prime Minister saw over the weekend Peking telegram no. 1325 in which Sir Percy Cradock sets out the line which he believes he should take in his farewell calls in Peking.

The Prime Minister has commented as follows:-

"The most difficult point is that of acceptability of any solution to the people of Hong Kong and how we should raise that matter. This point is vital to us."

Mrs. Thatcher has further observed that if she were the Chinese in Hong Kong she would be becoming worried that the Hong Kong Chinese were not involved in the negotiations.

A. J. COLES

Peter Ricketts Esq
Foreign and Commonwealth Office

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Ref: B06918



Handwritten initials and a red arrow pointing downwards.

PRIME MINISTER

c Sir Robert Armstrong

OD(K): Future of Hong Kong

attached

Since my brief for this meeting was submitted earlier today we have received a further telegram from Sir E Youde (Hong Kong telegram no. 1921). This gives his own comments on the position now reached and makes a strong case for agreeing to a visit to London by Unofficial members of EXCO before the next round of talks.

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David Goodall

12 December 1983

A D S GOODALL

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FUTURE OF HONG KONG ADVANCE COPIES 10

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MR DONALD
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COPY TO:
MR COLES, No. 10 DOWNING ST
Mr Roberts News D

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TELEGRAM NUMBER 1921 OF 12 DECEMBER
INFO IMMEDIATE PEKING

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MY TELNO 1915: FUTURE OF HONG KONG.

1. THE RESULTS OF THE LATEST ROUND HAVE SHOWN EXCO THAT WE HAVE SUCCEEDED IN GETTING THE CHINESE TO TALK. BUT IT HAS IF ANYTHING DEEPENED THEIR CONCERN ABOUT WHERE THE PRESENT COURSE OF ACTION IS LEADING; AND THEIR FEAR THAT IF WE CONTINUE WITH IT DURING THE NEXT PHASE IN THE SPRING WE MAY FIND OURSELVES UNABLE TO BACKTRACK, IN SPITE OF OUR ASSERTIONS OF CONDITIONALITY, HENCE THEIR INCREASINGLY URGENT REQUESTS FOR A FRANK STATEMENT OF HMG'S POSITION.

2. IT WILL NOT DO SIMPLY TO SAY THAT WE ARE STILL ENGAGED IN "EXPLORING THE CHINESE POSITION ON THE BASIS OF THE PRIME MINISTER'S MESSAGE" OR "SEEING WHAT CAN BE BUILT ON THE CHINESE PLAN". IT IS ALREADY EVIDENT THAT THE CHINESE WILL OFFER NO MORE THAN THE PLAN AND IN PARTICULAR WILL OFFER NOTHING IN THE WAY OF ASSURANCES OTHER THAN THE "BASIC LAW" AND THE 50 YEAR PROVISION IN THAT LAW. IF ANY BUILDING IS TO BE DONE WE SHALL HAVE TO TAKE THE INITIATIVE IN MAKING PROPOSALS.

3. EXCO UNOFFICIALS DO NOT CONTEST THAT THEY AGREED TO THE PROCEDURE SET OUT IN THE PRIME MINISTER'S MESSAGE. BUT THAT WAS IN MID-OCTOBER AND THINGS HAVE MOVED A LONG WAY SINCE THEN. WE HAVE GIVEN TWO IMPORTANT ADDITIONAL "CLARIFICATIONS" OF OUR POSITION (AND EXCO NOTED THAT YAO QUANG "POCKETED" THEM IN HIS FIRST INTERVENTION IN THIS ROUND). WE HAVE DRAWN THE CHINESE INTO DISCUSSION OF DETAIL BUT IT IS EXCO'S CLEAR BELIEF, BAUED ON THE ASSESSMENT GIVEN TO THEM IN NOVEMBER THAT THE OUTCOME WILL NOT BE SUFFICIENT TO COMMAND CONFIDENCE IN HONG KONG.

4. WE ARE ABOUT TO MOVE INTO A NEW PHASE. WE PROPOSE TO SUBMIT TO THE CHINESE WORKING PAPERS ON FUTURE CONSTITUTIONAL DEVELLPMENT, DEFENCE AND INTERNAL SECURITY (INCLUDING WITHDRAWAL OF BRITISH TROOPS), THE FUTURE OF THE CIVIL SERVICE, AND CITIZENSHIP AND NATIONALITY AFTER 1997. THESE PAPERS ARE SUBSTANTIALLY DIFFERENT IN NATURE FROM THOSE WE HAVE SUBMITTED SO FAR, WHICH IN ESSENCE SOUGHT ONLY TO CONFIRM THAT EXISTING ARRANGEMENTS WILL CONTINUE. THE NEXT SERIES WILL SET OUT A PROGRAMME ON WHICH PRACTICAL ACTION WILL BE CALLED FOR OVER THE NEXT DECADE IN HONG KONG. WE CANNOT EXPECT EXCO TO ADVISE ON SUCH FUNDAMENTAL ISSUES WITHOUT A CLEAR STATEMENT OF THE ASSUMPTIONS ON WHICH HMG'S POLICY IS BASED AND THE PURPOSES SUCH ACTION IS DESIGNED TO ACHIEVE.

5. PUBLICLY OUR POSITION IS INCREASINGLY UNTENABLE. THE CHINESE

5. PUBLICLY OUR POSITION IS INCREASINGLY UNTEMERABLE. THE CHINESE HAVE MADE NO SECRET OF THEIR PROPOSALS. THEY HAVE NOW LET IT BE KNOWN THAT THEY PLAN TO DRAW UP THEIR OWN MINI-CONSTITUTION AND CONDUCT THEIR OWN 'CONSULTATIONS' WITH THE PEOPLE OF HONG KONG ON IT. THE OBJECT IS CLEARLY TO BY-PASS BOTH HMG AND THE HONG KONG GOVERNMENT. THE ABSENCE OF ANY INDICATION OF HMG'S OBJECTIVES WILL SOON ERODE THE CREDIBILITY OF BOTH HMG AND THE HKG.

6. IT IS THEREFORE ESSENTIAL TO ESTABLISH NOW WHAT OUR OBJECTIVES FOR THE FUTURE OF HONG KONG ARE. WE CANNOT REALISTICALLY CLAIM THAT THE OBJECTIVE WE ARE PURSUING IS ANY LONGER THE 'CONTINUATION OF BRITISH ADMINISTRATION' AFTER 1997. IT IS ALREADY EVIDENT THAT THE BEST WHICH THE COURSE ON WHICH WE ARE ENGAGED CAN NOW PRODUCE IS A HIGH BUT DEFINED DEGREE OF DOMESTIC AUTONOMY FOR HONG KONG WITH ONLY THOSE CHANGES MADE NECESSARY BY THE RESUMPTION OF CHINESE SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION. OUR WORKING PAPERS HAVE BEEN DRAFTED WITH THIS END IN VIEW.

7. BUT THAT IS ONLY PART OF THE PICTURE. WHAT CONCERNS EXCO, AND IT IS A PROPER CONCERN, IS WHAT ASSURANCES HMG WILL SEEK OR INTEND TO BUILD INTO OUR PROPOSALS IN ORDER TO MAXIMIZE THE INCENTIVE TO THE CHINESE TO OBSERVE THAT AUTONOMY AND MINIMIZE THE OPPORTUNITIES FOR INTERFERENCE. AT THE PRESENT TIME THE ONLY STATEMENT WHICH EXCO HAVE HAD ON THIS IS IN PARAS 11 AND 12 OF THE ASSESSMENT OF WHAT MIGHT BE ACHIEVABLE, GIVEN TO THEM ON NOVEMBER 23, (A BILATERAL AGREEMENT, THE DEVELOPMENT OF A MORE REPRESENTATIVE STRUCTURE IN HONG KONG, A FEW ADVISORY COMMISSIONS ETC.). THEY BELIEVE THIS PACKAGE TO BE INSUFFICIENT AND STILL SPEAK OF THE NEED FOR 'INSULATORS' AND 'MONITORING ARRANGEMENTS' (MY TELNOS 1828 AND 1834). EITHER WE ACCEPT THEIR VIEW AND ASK FOR SUCH ARRANGEMENTS (WHICH WILL LEAD US BACK INTO SERIOUS DIFFICULTY WITH THE CHINESE IN THE SPRING): OR WE PERSUADE THEM THAT IT IS UNREALISTIC TO EXPECT MORE, THAT HONG KONG WILL HAVE TO LIVE WITH THIS, AND THAT THE PROPOSALS WE MAKE IN THE NEXT SERIES OF WORKING PAPERS WILL BE BASED ON THAT ASSUMPTION. THIS DECISION WILL HAVE TO BE TAKEN BEFORE WE EMBARK ON THE NEXT ROUND SINCE IT WOULD BE DOUBLY FATAL TO THE NEGOTIATIONS TO RAISE OUR BID AFTER THE NEXT PHASE.

8. ON THE POSITIVE SIDE IF WE CLARIFIED OUR OBJECTIVES THERE COULD BE NO RECRIMINATIONS FROM EXCO LATER: WE WOULD KNOW WHAT WE SHOULD STICK OUT FOR EVEN AT THE RISK OF UPSETTING THE CHINESE: AND WE WOULD BE MUCH BETTER PLACED TO DEAL WITH THE PROBLEMS OF PUBLIC MORALE IN HONG KONG (AND I PRESUME WITH INCREASING PARLIAMENTARY INTEREST). SOME POSITIVE BRIEFING ON WHAT WE ARE AIMING FOR, EVEN IF UNATTRIBUTABLE, WOULD REDUCE THE INCREASING IMPRESSION THAT IT IS THE CHINESE WHO ARE CALLING THE SHOTS.

9. IT IS FOR THESE REASONS THAT I BELIEVE A REVIEW OF HMG'S OBJECTIVES WITH EXCO IN JANUARY IS ESSENTIAL. I BELIEVE THEM TO BE RIGHT IN SAYING THAT WE STAND AT A CROSS ROADS. GIVEN THE GRAVITY OF ISSUES THEY WILL WANT TO DISCUSS THIS REVIEW WITH THE SECRETARY OF STATE AND WOULD VALUE A CALL ON THE PRIME MINISTER. THEY WILL NOT CONSIDER A DISCUSSION HERE IN HONG KONG EVEN AT MINISTERIAL LEVEL AN ADEQUATE SUBSTITUTE.

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PRIME MINISTER

c Sir Robert Armstrong

NB

OD(K): Future of Hong Kong

BACKGROUND

The meeting has been called to review the position in the light of the 7th round of negotiations with the Chinese which took place in Peking on 7 and 8 December. The Foreign and Commonwealth Secretary, in his minute of 12 December, comments that this round took place in a significantly improved atmosphere. Peking telegrams nos. 1309, 1310, 1314 and 1315 report and comment. The Governor of Hong Kong has given an account of the 7th round to the Hong Kong Executive Council (EXCO), whose reaction was one of continuing concern that we are moving too fast towards acceptance of the basic Chinese position and belief that the negotiations have reached a critical point at which it is time to take stock (Hong Kong telegram no. 1915). The Governor's assessment of the current state of confidence in Hong Kong has been circulated to the Sub-Committee as OD(K)(83) 5. Texts of the latest batch of 4 informal Working Papers handed to the Chinese have also been circulated (for information) to the Sub-Committee under cover of OD(K)(83) 4.

2. The Foreign and Commonwealth Secretary reports that the explanation of British views on the relationship between Hong Kong and Britain after 1997, which was put forward by Sir Percy Cradock on 28 November, has done much to dispel Chinese suspicions, and for the first time the Chinese have commented in some detail on our informal Working Papers. Some of their comments revealed a measure of common ground between their position and ours, but others were less welcome, in particular the implication that there would be a Chinese military garrison in Hong Kong.

3. Before the latest round of negotiations, the senior Unofficial Member of EXCO, Sir S Y Chung, suggested to the Governor that Unofficial Members of EXCO should review the position reached in the negotiations, and this is reinforced by EXCO's reaction to the Governor's report on the latest round. In preparation for this possibility the Foreign and Commonwealth Secretary has commissioned a paper for discussion with EXCO. His present thinking is that the arguments against confrontation with the Chinese are as strong as ever; and that we should broadly continue our current strategy of detailed discussion, continuing to put our Working Papers to them, including a paper on the central issues of administration. Sir Geoffrey Howe also draws attention to the need not to allow the Chinese to steal a march on us in appealing to the people of Hong Kong and suggests that we need to do what we can to develop a genuinely autonomous administration in Hong Kong well before 1997.

4. The Lord President of the Council, who is in Kenya, and the Attorney General, who is ill, will not be present.

HANDLING

5. You will wish to invite the Foreign and Commonwealth Secretary to introduce the discussion. Points to establish are -

- a. does the Sub-Committee agree that we should accept a visit to London by the Unofficial Members of EXCO before the next round of talks (which will take place on 25 and 26 January);
- b. if so, do the Sub-Committee agree that a paper should be prepared for discussion with the Unofficials on the lines suggested by the Foreign and Commonwealth Secretary;
- c. what line should be taken with the Unofficials on the points where Chinese comments cause us difficulty, including the stationing of Chinese troops in Hong Kong.

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In seeking to reassure the Unofficials that we shall take a firm enough line with the Chinese on these points, it will be important not to obscure the reality that we are in a weak position to persuade the Chinese to change their minds.

CONCLUSION

6. Subject to the discussion you may wish to guide the Sub-Committee to agree that
 - a. the Unofficial Members of EXCO should be invited to London for discussions in mid-January;
 - b. a paper should be prepared by the Foreign and Commonwealth Secretary in the light of the discussion reviewing the current position and the way ahead in time for the EXCO visit. (The Sub-Committee will wish to agree the paper before it is used with EXCO but unless there are major unforeseen developments between now and then the paper could probably be cleared out of committee);
 - c. a further meeting of the Sub-Committee could be held after the next round of talks in Peking, unless the discussions with EXCO go badly, in which case a meeting may be necessary between their visit and the next negotiating round.

David Goodall

12 December 1983

A D S GOODALL



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister.

12 December 1983

A.J.C. 12

Dear John,

Hong Kong

Your letters of 28 and 29 November described remarks by Mr Lee Kwan Yew to the Prime Minister and to yourself respectively about Hong Kong. You invited our comments.

In general Mr Lee's views are similar to those that he has previously expressed to the effect that any approach to the Chinese requires a mixture of firmness and realism. He is particularly keen on the psychological advantages which in his view derive from acknowledging to the Chinese that we understand their position and are ready to afford them "face".

While Lee Kwan Yew's remarks must be seen against his own background as a Western educated overseas Chinese, there is a good deal in what he says. At the same time he clearly does not understand the extent of the efforts we already have made to meet the Chinese, within our own constraints. The approach he outlined to you looks pretty thin on how a negotiator should try to achieve practical returns as a quid pro quo for ritual obeisance. His suggestion that we should simply brace ourselves to meet whatever the Chinese have in mind for Hong Kong looks altogether too negative an approach.

In essence, Mr Lee Kwan Yew's assessment of the need for a realistic attitude is not very different from that which Sir P Cradock has consistently advanced. His idea of sending a high level Minister or emissary is of course one which we have borne in mind all along and which we might in some circumstances still wish to deploy, although so far we have used the technique of high level messages. There would not, however, seem to be a great deal of sense in sending a

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senior representative if we had, as Lee Kwan Yew suggests, reached the conclusion that there was no solution. Circumstances might of course arise in which we wished to send an emissary to Peking. If that happened however we should certainly still be aiming for a better deal for Hong Kong. We should in other words want to combine a tactical and realistic approach with a firm line on substance.

*Yours truly,
Peter Ricketts.*

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

12 DEC 1961



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TELEGRAM NUMBER 1330 OF 12TH DEC 83

INFO IMMEDIATE HONG KONG

NY TELNO 1325. FUTURE OF HONG KONG: CALLS ON LEADERS.

1. IT OCCURS TO ME THAT IT WOULD BE VERY HELPFUL IN ANY DISCUSSION OVER A PROPOSED PLA PRESENCE IN HONG KONG AFTER 1997 IF I COULD INDICATE THAT WE WERE CONSIDERING THE POSSIBILITY OF WITHDRAWING BRITISH TROOPS FROM HONG KONG WELL BEFORE 1997. THIS WOULD COUNTER ANY CHINESE ARGUMENT THAT IF BRITISH TROOPS ARE STATIONED IN HONG KONG NOW THERE IS NO REASON WHY THE PLA SHOULD NOT BE STATIONED THERE AFTER 1997. IT WOULD ALSO LEAD NATURALLY TO A STATEMENT OF OUR INTENTION TO BUILD UP AN INTERNAL SECURITY FORCE IN HONG KONG TO HANDLE SECURITY THERE WITHOUT ANY OUTSIDE PRESENCE. IT WOULD OBVIOUSLY NOT BE THE FIRST POINT I MADE ON THE TOPIC BUT IT WOULD BE SOMETHING TO DRAW ON IF THE DISCUSSION REQUIRED IT.

2. I REALISE THIS IS RUNNING VERY FAST. BUT THE SOONER WE CAN PREVENT THE IDEA OF A PLA PRESENCE IN HONG KONG TAKING ROOT THE BETTER.

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Lead in full.
A.S.C. 9.12

FUTURE OF HONG KONG: CALLS ON LEADERS

1. I ASKED YAO GUANG AT DINNER LAST NIGHT ABOUT MY REQUEST TO CALL ON CHINESE LEADERS. HE TOLD ME THAT A CALL ON DENG XIAOPING WOULD BE DIFFICULT TO ARRANGE, BUT THAT THEY WERE ARRANGING FOR ME TO SEE WU XUEQIAN, JI PENGFEI AND ZHAO ZIYANG (AND INCIDENTALLY CHEN MUHUA). I SHOULD THINK THAT THESE CALLS WILL PROBABLY COME IN THE ABOVE ORDER IN THE LAST FEW DAYS BEFORE I LEAVE.

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2. THESE CALLS WILL REPRESENT AN UNUSUAL OPPORTUNITY TO PUT OUR VIEWS DIRECTLY TO PEOPLE IN DECISION-MAKING POSITIONS, AND WE SHOULD MAKE FULL USE OF IT. I HAVE THE FOLLOWING SUGGESTIONS AS TO THE LINE WHICH I SHOULD TAKE:

(A) I SHOULD NOTE WITH PLEASURE THE PROGRESS MADE IN THE LAST THREE ROUNDS. I SHOULD REFER BACK TO THE PRIME MINISTER'S MESSAGE AND REITERATE OUR WISH, PROVIDED WE CAN REACH AGREEMENT ON AN ACCEPTABLE SOLUTION, TO GIVE OUR FULL COOPERATION.

(B) I WOULD SAY THAT THE IDEA OF MAINTAINING A CAPITALIST HONG KONG AS A SPECIAL ADMINISTRATIVE REGION WITHIN A SOCIALIST COUNTRY WAS A TOTALLY NEW CONCEPT. THE TASK AHEAD WAS COMPLEX AND DIFFICULT. THE AGREED BASIS FOR OUR PRESENT DISCUSSIONS SHOULD ENSURE THAT CHINESE REQUIREMENTS OF PRINCIPLE WOULD BE MET. BUT THERE REMAINED IMPORTANT QUESTIONS STILL UNSETTLED. THEY THREATENED NO PRINCIPLE. BUT THEY WOULD BE CRITICAL FOR THE ECONOMIC SUCCESS OR OTHERWISE OF THE ENTERPRISE. THE BRITISH SIDE BELIEVED THAT WITH ITS EXPERIENCE OF HONG KONG IT COULD BE OF VERY GREAT HELP IN GIVING THE BEST POSSIBLE CHANCE OF SUCCESS. WE THEREFORE HOPED THAT THE CHINESE SIDE WOULD LISTEN SERIOUSLY TO OUR IDEAS AND DUGGESTIONS AND TAKE ACCOUNT OF THEM IN FORMULATING THEIR PLANS AND THE BASIC LAW.

(C) THE MOST FUNDAMENTAL POINT TO US WOULD SEEM TO BE TO MAKE ONLY THE CHANGES THAT WERE ESSENTIAL TO MEET THE FUNDAMENTAL PREMISE THAT SOVEREIGNTY AND THE POWER OF ADMINISTRATION SHOULD REVERT TO CHINA. IN ALL OTHER RESPECTS THE PRESENT SYSTEMS IN HONG KONG SHOULD CONTINUE AS UNCHANGED AS POSSIBLE. IT WAS INCONTESTABLE THAT THINGS WORKED WELL NOW. CONTINUITY WAS THE BEST GUARANTEE OF STABILITY AND PROSPERITY AND WOULD ACCORD ENTIRELY WITH THE CHINESE GUIDELINE THAT THE CURRENT SOCIAL AND ECONOMIC SYSTEMS AND THE LIFESTYLE WOULD REMAIN UNCHANGED.

~~AND ECONOMIC SYSTEMS AND THE LIFESTYLE WOULD REMAIN UNCHANGED.~~

(D) IN PURSUANCE OF THIS I WOULD STRESS THAT THE CONTINUITY OF THE CIVIL SERVICE WAS A CENTRAL ELEMENT. SO FAR AS POSSIBLE EXISTING CIVIL SERVANTS WHETHER LOCAL OR OVERSEAS SHOULD BE ENCOURAGED TO REMAIN AT THEIR POSTS AFTER 1997 AND TO COMPLETE THEIR CAREERS IN THE NORMAL WAY. ADVISERS WOULD NOT SUFFICE. OFFICIALS HAD TO BE RESPONSIBLE FOR THEIR ACTS. THEY WOULD BE UNLIKELY TO STAY ON IF THEY COULD ONLY HOPE TO BECOME ADVISERS. AS OUR STATEMENT OF 28 NOVEMBER MADE CLEAR THE LOYALTIES OF CIVIL SERVANTS WOULD OF COURSE BE TO THE GOVERNMENT OF THE SAR. THE LATTER SHOULD ALSO BE ABLE TO RECRUIT PERSONS OF PROFESSIONAL SKILL AND ABILITY AFTER 1997 IN ANY WAY WHICH SEEMED BEST TO IT.

(E) CHANGES TO THE LEGAL SYSTEM SHOULD BE KEPT TO THE ABSOLUTE MINIMUM REQUIRED BY THE RETURN OF SOVEREIGNTY AND THE POWER OF ADMINISTRATION TO CHINA. THE LEGAL SYSTEM WAS THE FUNDAMENTAL BASIS FOR ALL THE SYSTEMS IN HONG KONG AND CHANGES TO IT WOULD AFFECT EVERY ASPECT OF LIFE IN THE TERRITORY. CHANGES IN THIS AREA WOULD AFFECT THE CONFIDENCE BOTH OF INVESTORS AND RESIDENTS.

(F) I WOULD EXPRESS CONCERN ABOUT THE REFERENCES DURING THE LAST ROUND TO STATIONING OF TROOPS IN HONG KONG. WE DID NOT DISPUTE THE RIGHT OF THE CHINESE GOVERNMENT TO STATION ITS TROOPS IN ANY PART OF CHINA THAT IT CONSIDERED FIT. NEVERTHELESS, THIS WAS AN EXTREMELY SENSITIVE MATTER IN HONG KONG. A DECISION TO STATION TROOPS IN KONG AFTER 1997 WOULD BE SEEN AS FATALLY IMPAIRING THE AUTONOMY OF THE REGION, AND WOULD GIVE THE APPEARANCE NOT OF A PEACEFUL TRANSITION TO A NEW STATUS, BUT AN IMPOSED SETTLEMENT. I WOULD CONSEL THE CHINESE GOVERNMENT TO ACT WITH GREAT PRUDENCE AND RESTRAINT IN THIS RESPECT.

(G) I HOPED THAT IT WOULD BE POSSIBLE NOW TO MAKE FASTER PROGRESS. GIVEN THE COMPLEXITY OF THE ISSUES, ADEQUATE TIME WOULD BE NEEDED BUT I WAS CONFIDENT THAT WILL GOODWILL A SOLUTION COULD BE REACHED.

3. THESE ARE THE POINTS WHICH IMMEDIATELY OCCUR TO ME. THERE MAY BE OTHERS WHICH OCCUR TO YOU AND THE GOVERNOR. THERE IS BOUND TO BE CONSIDERABLE REPETITION SINCE I THINK THAT I SHALL BE OBLIGED TO MAKE MUCH THE SAME POINTS TO ALL THREE OF THE LEADERS ON WHOM I CALL, I DO NOT THINK THAT THIS MATTERS. SOME MODIFICATIONS MAY BE NEEDED IN THE LIGHT OF EXPERIENCE OF THE FIRST CALL OR CALLS.

4. IN SPEAKING TO ZHAO I HOPE I COULD CONVEY THE PRIME MINISTER'S GOOD WISHES TO HIM AND DENG AND INDICATE THAT WHAT I WAS SAYING HAD HER APPROVAL.

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The most difficult thing is acceptability to the people of Hong Kong and how we raise that point so vital to us. If I were a member in HK I would be getting worried that we were not involved

is the negotiations not

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FUTURE OF HONG KONG: THE WAY AHEAD

1. AS A RESULT OF THIS ROUND OF TALKS WE ARE NOW IN A POSITION WHERE WE CAN REASONABLY EXPECT TO HAVE FAIRLY DETAILED DISCUSSION OVER THE WHOLE AREA OF THE CHINESE PLAN FOR HONG KONG. ALTHOUGH I DO NOT THINK THE CHINESE HAVE DROPPED THE DISTINCTION BETWEEN MATTERS WHICH THEY REGARD AS THEIR INTERNAL AFFAIRS AND THOSE IN WHICH WE HAVE A DIRECT INTEREST, THEY APPEAR TO HAVE RELAXED IT FOR THE TIME BEING. IN THESE DISCUSSIONS WE SHALL NOT LIKE EVERYTHING WE HEAR, AND WE DO NOT YET KNOW TO WHAT EXTENT THE CHINESE WILL BE PREPARED TO MAKE MODIFICATIONS TO THEIR PLAN IN RESPONSE TO OUR VIEWS. IN THIS RESPECT CONVERSATIONS AT DINNER LAST NIGHT WERE MODERATELY ENCOURAGING. IT IS ALREADY CLEAR THAT IN SOME RESPECTS WE HAVE BEEN ABLE TO INTRODUCE OUR OWN IDEAS INTO THE CHINESE PLAN.

2. THE CONTINUATION OF THIS PROCESS NOW DEMANDS THAT WE SHOULD FINISH AS QUICKLY AS POSSIBLE THE WORKING PAPERS, AND THAT WE SHOULD GIVE PRIORITY TO THE MOST DIFFICULT AND CENTRAL ONES, PARTICULARLY THOSE ON CONSTITUTIONAL ARRANGEMENTS, THE CIVIL SERVICE, DEFENCE AND INTERNAL SECURITY, AND NATIONALITY. THERE IS NO DOUBT ABOUT THE SEPTEMBER 1984 DEADLINE, AND IT IS NOT LIKELY TO SLIP. THE CHINESE ARE ALMOST CERTAINLY GOING TO ANNOUNCE THEN THE 12 POINT PLAN; YAO SAID AS MUCH ON 8 DECEMBER (PARA 6(C) OF MY TELNO 1314), THOUGH IT MAY BE POSSIBLE TO FLESH OUT THE ANNOUNCEMENT WITH SUCH ELABORATIONS AS COME OUT OF OUR DISCUSSIONS IN THE MEANTIME. IT IS VERY IMPORTANT THEREFORE THAT WE INJECT INTO THEIR THINKING AT AN EARLY STAGE OUR IDEAS ON THE CENTRAL ISSUES. IN THIS WAY WE SHALL MAXIMISE OUR CHANCES OF GETTING THE DETAIL WE WISH TO SEE INCLUDED BOTH IN THEIR ANNOUNCEMENT AND IN WHATEVER RECOMMENDATIONS ARE MADE TO THE NATIONAL PEOPLE'S CONGRESS FOR THE DRAFTING OF THE BASIC LAW.

3. WE SHALL ALSO NEED TO CONSIDER OUR TACTICS IN RELATION TO A CHINESE ANNOUNCEMENT IN SEPTEMBER 1984. IT IS LIKELY TO

~~3. WE SHALL ALSO NEED TO CONSIDER OUR TACTICS IN RELATION TO A CHINESE ANNOUNCEMENT IN SEPTEMBER 1984. IT IS LIKELY TO REQUIRE SOME FORM OF PARALLEL ANNOUNCEMENT BY OURSELVES AT ABOUT THE SAME TIME. THIS WILL NEED FURTHER THOUGHT.~~

4. IN THE SHORTER TERM WE NEED QUICK PROGRESS ON THE CENTRAL WORKING PAPERS. THESE WILL INVOLVE QUESTIONS THAT REQUIRE MINISTERIAL DECISIONS AND WE SHALL NEED TO BRING EXCO WITH US. THE PROPOSED MEETINGS IN JANUARY IN LONDON WILL PLAY A CRUCIAL PART IN THIS.

5. IF IT IS AGREED THAT WE SHOULD PROCEED IN THIS WAY, THERE IS LIKELY TO BE SOME DELAY BEFORE WE PUT FURTHER WORKING PAPERS TO THE CHINESE SIDE, THOUGH I STRESS THAT IT IS IN OUR INTERESTS TO REDUCE THIS TO A MINIMUM. I THINK THAT IN ORDER TO AVOID MISUNDERSTANDING WE WOULD NEED TO TELL THE CHINESE THAT IN DEFERENCE TO THEIR WISHES WE WERE NOW CONCENTRATING ON THE IMPORTANT CENTRAL WORKING PAPERS AND THAT FOR THIS REASON THERE COULD BE A GAP BEFORE WE WERE ABLE TO PUT THE NEXT ONE TO THEM.

6. AS REGARDS THE OPTIONS, IT SEEMS TO ME THAT IN THE PRESENT CIRCUMSTANCES THERE ARE ONLY TWO. WE CAN CONTINUE ON OUR PRESENT COURSE AS OUTLINED ABOVE. AT THIS STAGE THE ONLY ALTERNATIVE WOULD BE TO SAY NOW THAT WE CAN ALREADY SEE THAT THIS COURSE WILL BE INEFFECTIVE AND THAT NO AGREEMENT IS POSSIBLE ON THE BASIS OF THE CHINESE PREMISE THAT WILL ALLOW HONG KONG TO MAINTAIN ITS STABILITY AND PROSPERITY. IN OTHER WORDS, CONFRONTATION. THE ARGUMENTS AGAINST THIS HAVE BEEN WELL REHEARSED AND I SHALL NOT REPEAT THEM. I SHALL ONLY SAY THAT TO ADOPT THIS COURSE NOW WHEN WE APPEAR TO BE GETTING INTO SERIOUS DISCUSSION OF THE CHINESE PLAN WOULD BE QUITE INCONSISTENT WITH THE DECISION TAKEN IN OCTOBER TO EXPLORE THE CHINESE PLAN AND SEE WHAT COULD BE BUILT ON IT. WHEN THIS PROCESS HAS BEEN COMPLETED IT WILL BE THEORETICALLY OPEN TO US TO REJECT THE RESULTS OF IT, THOUGH THIS COURSE IS UNLIKELY TO SEEM ANY MORE ATTRACTIVE AT THE TIME THAN IT DID IN OCTOBER.

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FUTURE OF HONG KONG: SEVENTH ROUND

1. IN VARIOUS INFORMAL CONTACTS DURING THE AFTERNOON AND OVER DINNER ON 8 DECEMBER THE FOLLOWING POINTS EMERGED:

(A) SOME OF THE CLARIFICATION I HAD SOUGHT IN MY 8 DECEMBER STATEMENT WOULD CAUSE THE CHINESE NO DIFFICULTIES. WE WOULD BE SATISFIED BY THEIR RESPONSE. LU PING EXPLICITLY CONFIRMED THAT "FOR THE RECORD" MEANT JUST THAT. NO ACT OF APPROVAL WAS IMPLIED:

(B) JUDGES: LU PING SUGGESTED THAT INSTEAD OF ELECTION OF JUDGES BY THE SAR LEGISLATIVE ASSEMBLY IT MIGHT BE POSSIBLE FOR THE RECOMMENDATION OF THE JUDICIAL SERVICES COMMISSION, WHICH MIGHT BE RETAINED, MERELY TO BE FORMALLY APPROVED BY THAT ASSEMBLY.

(C) PLA TROOPS: YAO GUANG SAID THAT HONG KONG PRESS REPORTS THAT THE CHINESE WOULD NOT SEND IN PLA TROOPS TO HONG KONG WERE INACCURATE. LU PING SAID THAT THE PLA WOULD HAVE A LARGELY SYMBOLIC PRESENCE IN HONG KONG. THE GOVERNOR AND I SEPARATELY STRESSED THE INADVISABILITY OF SENDING TROOPS. I MENTIONED THE POSSIBILITY OF AN INTERNAL SECURITY FORCE FOR HONG KONG:

(D) APPOINTMENT OF SENIOR OFFICIALS: LU PING CLARIFIED YAO'S REFERENCE TO THE CHIEF OFFICIALS OF GOVERNMENT DEPARTMENTS WHO WOULD BE NOMINATED BY THE SAR GOVERNMENT AND APPOINTED BY THE CENTRAL PEOPLE'S GOVERNMENT (PARA 5(C) OF MY TELNO 1314). HE SAID THAT THIS REFERRED ONLY TO THE SECRETARIES:

(E) WORKING PAPERS: FURTHER EFFORTS WERE MADE TO DISCOVER THE SUBJECTS AND SUBMISSION DATES FOR OUR FURTHER PAPERS. WE WERE AGAIN URGED TO SUBMIT REMAINING PAPERS AS QUICKLY AS POSSIBLE, PREFERABLY BEFORE THE EIGHTH ROUND. YAO SAID THAT OUR PAPERS SHOULD NOT JUST POSE QUESTIONS BUT OFFER SPECIFIC SUGGESTIONS:

(F) NPC LAW: THE CHINESE BASIC LAW FOR HONG KONG WOULD BE VERY COMPLEX. IT WOULD TAKE A LONG TIME TO DRAW UP.

(G) YAO SAID THAT HE WOULD LIKE ANOTHER INFORMAL CONTACT WITH ME BEFORE MY DEPARTURE.

2. LUO JIAHUAN SEPARATEL SAID THAT THE CHINESE HAD APPRECIATED MY WELCOME FOR YAO'S 7 DECEMBER STATEMENT.

~~2. LUO JIANHUA SEPARATELY SAID THAT THE CHINESE HAD APPRECIATED MY WELCOME FOR YAO'S 7 DECEMBER STATEMENT.~~

HE DREW SPECIFIC ATTENTION TO YAO'S REMARK ON 8 DECEMBER THAT CONCERNING THOSE ISSUES WHICH WERE FOR THE FUTURE SAR IT WAS NOT IMPOSSIBLE THAT CURRENT PRACTICES WOULD CONTINUE AFTER 1997 UNTIL THE SAR DECIDED TO REPLACE THEM (PARA 9 OF MY TELNO 1314). LUO DESCRIBED THIS AS A VERY IMPORTANT SENTENCE. HE SAID THE CHINESE WERE ANXIOUS TO ACHIEVE AS SMOOTH A TRANSITION AS WAS POSSIBLE.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1315 OF 8TH DEC 83

INFO IMM TATE HONG KONG

FUTURE OF HONG KONG: SEVENTH ROUND: SECOND DAY COMMENT

1. THE GOOD ATMOSPHERE WHICH WAS ESTABLISHED YESTERDAY WAS MAINTAINED TODAY. THE CHINESE SIDE CONTINUED THE PROCESS OF CLARIFYING THEIR POLICIES, DEALING SPECIFICALLY WITH THE QUESTIONS WHICH I HAD ASKED IN MY STATEMENT OF YESTERDAY. THERE WERE SOME NEW DETAILS IN THIS, THOUGH MUCH WAS REPETITION. THEY ALSO PROMISED FURTHER COMMENT AT THE NEXT ROUND AND IN INFORMAL DISCUSSION BEFORE IT ON THE OTHER FOUR PAGES WHICH WE HAVE SUBMITTED AND ON THE FURTHER QUESTION WHICH I PUT THIS MORNING.

2. WHILE YAO AGAIN PRESSED HARD TO HAVE THE REST OF OUR WORKING PAPERS BEFORE THE NEXT ROUND AND SAID THAT THIS WOULD ENABLE THE CHINESE TO DEAL WITH OUR QUESTIONS IN THE MOST EFFICIENT MANNER, THE CHINESE SIDE SHOWED IN PRACTICE A WILLINGNESS TO TREAT THE VARIOUS SUBJECTS COVERED IN OUR WORKING PAPERS AND IN THE 12 POINT PLAN SERIATIM. IT IS HOWEVER STILL TOO EARLY TO SAY WHETHER THERE IS ANY DISPOSITION ON THE CHINESE SIDE TO MODIFY PROPOSALS ALREADY ENUNCIATED IN RESPONSE TO COMMENTS MADE BY THE BRITISH SIDE.

3. AMONG THE NEW POINTS MADE TODAY, THOSE WHICH PARTICULARLY STRUCK US WERE THE STATEMENT THAT THE SAR WOULD HAVE THE CHINESE FLAG AND EMBLEM AS WELL AS ITS OWN FLAG AND EMBLEM, THE STATEMENT THAT SENIOR OFFICIALS (PERHAPS DOWN TO HEADS OF DEPARTMENT) WOULD BE APPOINTED BY THE PRC ON THE NOMINATION OF THE HEAD OF THE SAR GOVERNMENT, AND THE REFERENCE TO A CHINESE GARRISON. THE LATTER IS PARTICULARLY ALARMING. IT IS NOT YET ENTIRELY CLEAR WHETHER IT IS STATED AS A FIRM INTENTION TO STATION A GARRISON IN

This is not mentioned in the detailed report. I have asked for clarification. A.J.C. &

~~IT IS STATED AS A FIRM INTENTION TO STATION A GARRISON IN HONG KONG OR WHETHER THE CHINESE SIDE IS RESERVING A RIGHT TO DO SO. WE SHALL ATTEMPT TO FIND OUT.~~

4. THE CHINESE HAVE ALSO STATED OUTRIGHT FOR THE FIRST TIME THAT IT IS THEIR INTENTION TO START DRAFTING THE BASIC LAW IN THE NPC AFTER THEIR ANNOUNCEMENT IN SEPTEMBER 1984, AND THEN TO CONSULT PEOPLE IN HONG KONG ABOUT ITS TERMS. IT IS STILL UNCLEAR WHAT PART, IF ANY, WE SHALL BE ABLE TO PLAY IN ESTABLISHING THE CONTENT OF THE BASIC LAW.

5. HOWEVER, OVERALL THESE TWO DAYS HAVE FOR THE FIRST TIME BROUGHT THE TWO SIDES INTO DIRECT DISCUSSION OF THE DETAILED IMPLICATIONS OF THE CHINESE PROPOSALS. THIS PROVIDES A WAY FORWARD AND SHOULD ENABLE THE TALKS TO PROCEED IN A REASONABLY CONSTRUCTIVE ATMOSPHERE FOR SOME TIME TO COME. ALTHOUGH IT IS STILL IMPOSSIBLE TO FORESEE THE OUTCOME, THE POSITION LOOKS BETTER THAN IT DID A MONTH AGO.

6. TO SUM UP WE HAVE AT LAST GOT THROUGH THE DOOR. THE ROOM BEYOND WAS PRETTY BARE BUT WE HAVE MANAGED TO PUT SOME OF OUR FURNITURE INTO IT. HOWEVER AT THE SAME TIME THE CHINESE HAVE MANAGED TO INTRODUCED SOME FAIRLY UGLY PIECES OF THEIR OWN.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1314 OF 8TH DEC 83

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: 7TH ROUND OF TALKS: SECOND DAY.

1. I AGAIN SPOKE FIRST. I WELCOMED YAO GUANG'S STATEMENT OF THE PREVIOUS DAY. I CONFIRMED THE FIVE POINTS OF UNDERSTANDING BETWEEN THE TWO SIDES WHICH YAO HAD LISTED THE PREVIOUS DAY, AND LINKED THEM SPECIFICALLY TO THE PRIME MINISTER'S MESSAGE. (PARA 3 OF MY TELNO 1310). I ASSURED YAO THAT WE WOULD DO OUR BEST TO MEET CHINESE WISHES AND SUBMIT THE REST OF OUR WORKING PAPERS AS QUICKLY AS POSSIBLE. I ALSO SAID WE SHOULD, SO FAR AS POSSIBLE, TRY TO MATCH OUR PAPERS TO THE CHINESE TWELVE POINT PLAN.

2. I THEN DEALT IN A PRELIMINARY FASHION WITH POINTS FROM YAO'S STATEMENT YESTERDAY ON THE LEGAL SYSTEM AND LEGAL WORKING PAPER. I WELCOMED HIS CONFIRMATION THAT THE JUDICIARY WOULD REMAIN INDEPENDENT OF THE EXECUTIVE, THAT THE EXECUTIVE WOULD CONTINUE TO BE OBLIGED TO ACT IN ACCORDANCE WITH THE LAWS OF HONG KONG, AND THAT THE ACTIONS OF THE EXECUTIVE WOULD BE SUBJECT TO CHALLENGE IN THE COURTS. I WELCOMED YAO'S CONFIRMATION THAT THE COURTS OF THE SAR WOULD DRAW ON PRECEDENTS FROM OTHER COMMON LAW JURISDICTIONS AS WELL AS HONG KONG ITSELF AND HIS CONFIRMATION THAT CITIZENS WOULD HAVE THE RIGHT TO REPRESENTATION IN THE COURTS BY LAWYERS OF THEIR CHOICE.

3. I SOUGHT FURTHER CLARIFICATION ON A NUMBER OF POINTS:
A) REFERENCE HAD BEEN MADE TO THE SAR REPORTING TO THE CENTRAL GOVERNMENT 'FOR THE RECORD', IN THE CONTEXT OF BOTH THE LEGAL AND FINANCIAL SYSTEMS. COULD WE ASSUME THAT THIS PHRASE MEANT THAT NO SPECIFIC ACT OF APPROVAL WOULD BE

PHRASE MEANT THAT NO SPECIFIC ACT OF APPROVAL WOULD BE REQUIRED FROM THE CENTRAL AUTHORITIES?

B) YAO HAD SAID IT WAS FOR THE FUTURE SAR TO DECIDE WHETHER THE EXISTING ARRANGEMENTS FOR THE DELEGATION OF POWER TO MAKE SUBORDINATE LEGISLATION WOULD BE RETAINED. I POINTED OUT THAT THE VOLUME OF HONG KONG'S SUBORDINATE LEGISLATION FAR EXCEEDED THAT OF ORDINANCES. THE DELEGATION OF POWER TO MAKE SUCH SUBORDINATE LEGISLATION WAS ESSENTIAL TO THE SMOOTH ADMINISTRATION OF HONG KONG AND IT WOULD CERTAINLY BE NECESSARY TO ARRANGE FOR IT TO CONTINUE.

C) IN STATING THAT EXISTING LAWS WOULD BE BASICALLY UNCHANGED YAO HAD SAID THAT ANY LAWS WHICH CONTAINED ELEMENTS IMPLYING COLONIAL RULE AND IMPAIRING CHINESE SOVEREIGNTY WOULD BE AFFECTED. THE ROYAL INSTRUCTION ETC APART, IT WOULD BE HELPFUL IF WE COULD BE GIVEN SOME EXAMPLES OF THESE TYPES OF LAWS.

D) YAO HAD SAID (PARA 6(C) OF MY TELNO 1309) THAT THE PRINCIPAL JUDGES WOULD BE ELECTED BY THE LEGISLATURE. THIS WAS A VERY BIG CHANGE IN THE EXISTING ARRANGEMENTS. IT SEEMED TO US UNNECESSARY AND CONTRARY TO THE GENERAL PRINCIPLE OF LEAVING THE HONG KONG SYSTEMS UNCHANGED. WE HAD OUTLINED IN OUR WORKING PAPER ARRANGEMENTS FOR THE APPOINTMENT OF MEMBERS OF THE JUDICIARY WHICH WOULD PROVIDE CONTINUITY, WHICH WERE NOT INCONSISTENT WITH CHINESE SOVEREIGNTY, AND WHICH HAD NO COLONIAL IMPLICATIONS. I HOPED THAT THE CHINESE WOULD REFLECT AGAIN ON THIS POINT.

E) YAO HAD ALSO SAID THAT THE QUALIFICATIONS AND METHOD OF APPOINTMENT OF OTHER MEMBERS OF THE JUDICIARY WOULD BE PRESCRIBED BY LAWS OF THE FUTURE SAR. THIS TOO WAS AN AREA WHERE WE SAW NO NEED FOR CHANGE. ANY ALTERATION AFTER 1997 WOULD MEAN THAT AN ESSENTIAL ELEMENT OF CONTINUITY WOULD BE LOST.

F) IN SAYING THAT THE SAR COULD RECRUIT LEGAL PERSONNEL FROM OTHER COMMON LAW JURISDICTIONS YAO HAD REFERRED TO POINT 4 OF THE CHINESE PLAN (THAT THE SAR COULD EMPLOY FOREIGNERS AS ADVISERS). DID THIS MEAN THAT FOREIGNERS COULD ONLY BE EMPLOYED IN THE JUDICIARY AS ADVISERS? (A JUDGE WAS A JUDGE.) ADVISERS HAD NO ROLE IN THE CURRENT LEGAL SYSTEM.

G) COULD YAO CONFIRM THAT THE COMMON LAW AND THE RULES OF EQUITY, WHICH HE HAD NOT SPECIFICALLY MENTIONED THE PREVIOUS DAY, WOULD REMAIN IN FORCE?

H) YAO HAD NOT COMMENTED ON THE PROPOSAL IN THE LEGAL WORKING PAPER THAT JUDGES FROM OTHER COMMON LAW JURISDICTIONS MIGHT SIT ON THE COURT OF FINAL APPEAL. THIS PROPOSAL HAD BEEN MADE TO TAKE ACCOUNT OF THE FACT THAT APPEALS TO THE PRIVY COUNCIL WOULD BE ENDED, AND WAS IN OUR VIEW CONSISTENT WITH CHINESE SOVEREIGNTY AND CARRIED NO COLONIAL IMPLICATIONS. IT WOULD BE HELPFUL TO HAVE THE CHINESE SIDE'S COMMENT ON IT.

4. I WELCOMED YAO'S REMARKS OF YESTERDAY ON THE FINANCIAL SYSTEM AND EXTERNAL ECONOMIC RELATIONS PAPERS. THERE WAS A GREAT DEAL OF AGREEMENT BETWEEN US IN BOTH THESE AREAS. ON THE FORMER, I REPEATED MY QUESTION ABOUT THE TERM 'FOR THE RECORD'. ON THE LATTER I REMINDED HIM THAT HONG KONG'S POSITION UNDER GATT AND THE MFA DEPENDED ON THIRD COUNTRIES. WE WOULD NEED TO DISCUSS IT FURTHER.

5. YAO EXPRESSED PLEASURE AT OUR GESTURE IN CONFIRMING THE FIVE POINTS OF COMMON UNDERSTANDING. HE SAID HE WOULD LIKE

5. ~~YA EXPRESSED PLEASURE AT OUR GESTURE IN CONFIRMING THE FIVE POINTS OF COMMON UNDERSTANDING.~~ HE SAID HE WOULD LIKE TO EXPLAIN FURTHER CHINESE POLICIES IN RESPONSE TO MY QUESTION OF YESTERDAY. I HAD ASKED ABOUT POINT 2 OF THE CHINESE PLAN AND EXACTLY WHAT POWERS THE SAR GOVERNMENT WOULD HAVE AFTER 1997. THE SAR WOULD ENJOY AUTONOMY MAINLY IN THE FOLLOWING AREAS:

- A) IT WOULD BE UNDER THE DIRECT AUTHORITY OF THE CENTRAL PEOPLE'S GOVERNMENT. IT WOULD ENJOY A HIGH DEGREE OF AUTONOMY EXCEPT FOR FOREIGN AFFAIRS AND NATIONAL DEFENCE WHICH WERE THE RESPONSIBILITY OF THE CENTRAL GOVERNMENT.
- B) IT WOULD USE THE NATIONAL FLAG AND EMBLEM OF THE PRC. IT COULD ALSO HAVE ITS OWN REGIONAL FLAG AND EMBLEM.
- C) THE GOVERNMENT WOULD BE COMPOSED OF LOCAL INHABITANTS. THE CHIEF EXECUTIVE OFFICIAL WOULD BE ELECTED THROUGH CONSULTATIONS OR ELECTIONS HELD LOCALLY AND APPOINTED BY THE CENTRAL PEOPLE'S GOVERNMENT. THE CHIEF OFFICIALS OF GOVERNMENT DEPARTMENTS WOULD BE NOMINATED BY THE SAR GOVERNMENT AND APPOINTED BY THE CENTRAL PEOPLE'S GOVERNMENT. OTHER OFFICIALS WOULD BE APPOINTED BY THE SAR GOVERNMENT.
- D) IT WOULD BE VESTED WITH THE POWER OF LEGISLATION AND INDEPENDENT JUDICIAL POWER INCLUDING FINAL JUDGMENT.
- E) IT WOULD BE GRANTED THE FOLLOWING POWERS IN CONDUCTING EXTERNAL AFFAIRS:
 - (i) IT COULD ON ITS OWN MAINTAIN AND DEVELOP ECONOMIC AND CULTURAL RELATIONS AND SIGN AGREEMENTS WITH FOREIGN COUNTRIES AND REGIONS AND RELEVANT INTERNATIONAL ORGANISATIONS, USING THE NAME HONG KONG CHINA.
 - (ii) IN DIPLOMATIC NEGOTIATIONS INVOLVING HONG KONG WHICH REQUIRED THE CENTRAL GOVERNMENT TO ACT ON HONG KONG'S BEHALF, THE SAR COULD PARTICIPATE AS A MEMBER OF THE CHINESE DELEGATION. THE SAR COULD ON ITS OWN ENTER NEGOTIATIONS WITH FOREIGN COUNTRIES IN THE FIELDS OF THE ECONOMY, CULTURE AND TOURISM. IT COULD SIGN AGREEMENTS IN THESE FIELDS AS HONG KONG CHINA.
 - (iii) THE CENTRAL GOVERNMENT WOULD EMPOWER THE SAR TO ISSUE ON ITS OWN AUTHORITY TRAVEL DOCUMENTS FOR ENTRY INTO AND EXIT FROM HONG KONG.
 - (iv) DEFENCE OF THE SAR WOULD BE THE RESPONSIBILITY OF THE CENTRAL GOVERNMENT. ARMED FORCES IN HONG KONG WOULD NOT INTERFERE IN THE SAR'S INTERNAL AFFAIRS. MILITARY EXPENSES WOULD BE BORNE BY THE CENTRAL GOVERNMENT. THE SAR GOVERNMENT WOULD ASSUME RESPONSIBILITY FOR KEEPING SOCIAL ORDER.
- F) IT WOULD HAVE INDEPENDENT FINANCES, AND REVENUE WOULD NOT BE HANDED TO THE CENTRAL GOVERNMENT, BUT THE BUDGET AND FINAL ACCOUNTS WOULD BE SUBMITTED TO THE CENTRAL GOVERNMENT FOR THE RECORD.

6. I HAD ALSO RAISED THE MATTER OF THE BASIC LAW FOR THE SAR. HE OFFERED THE FOLLOWING ELABORATIONS ON THIS:

- A) IT FOLLOWED FROM POINT 12 IN THE CHINESE PLAN (THAT THE POLICIES IN THE PLAN WOULD BE STIPULATED AS THE BASIC LAW) THAT THE BASIC LAW WOULD BE THE 'CONCRETISATION' OF THE 12 POINTS.
- B) THE BASIC LAW WOULD BE DRAFTED AND ENACTED BY THE NATIONAL PEOPLES' CONGRESS (NPC) AND WOULD CONTAIN SUCH ISSUES OF FUNDAMENTAL IMPORTANCE AS THE SOCIAL AND ECONOMIC SYSTEMS IN

~~FUNDAMENTAL IMPORTANCE AS THE SOCIAL AND ECONOMIC SYSTEMS IN~~
THE SAR, THE RELATIONSHIP BETWEEN THE CENTRAL AUTHORITIES AND
THE SAR, THE POWER OF AND RELATIONSHIP BETWEEN THE EXECUTIVE, THE
LEGISLATURE AND THE JUDICIARY, AND THE RIGHTS AND OBLIGATIONS OF
CITIZENS.

C) THE CHINESE PLAN WOULD OFFICIALLY BE MADE PUBLIC IN SEPTEMBER
1984. AT THE SAME TIME THE STANDING COMMITTEE OF THE NPC WOULD
BEGIN DRAFTING THE BASIC LAW. IN THE COURSE OF DRAFTING THE
VIEWS OF A WIDER RANGE OF PEOPLE IN HONG KONG WOULD BE SOUGHT.
THE BASIC LAW WOULD BE OFFICIALLY PROMULGATED AT AN APPROPRIATE
TIME.

7. YAO WELCOMED MY STATEMENT YESTERDAY THAT WE UNDERSTOOD THAT
IF THERE WAS NO LINK OF AUTHORITY BETWEEN THE UK AND HONG KONG
IT WOULD NOT BE POSSIBLE FOR THERE TO BE ANY ROYAL INSTRUCTIONS ETC.
HE NOTED MY POINT THAT THESE LAWS CONTAINED A CONSIDERABLE AMOUNT
OF PRACTICAL DETAIL ABOUT HOW VARIOUS ORGANS IN HONG KONG
FUNCTION WHICH WOULD HAVE TO BE LAID DOWN IN SOME OTHER FORM
IF THEY WERE ABOLISHED. HE SAID THE CHINESE SIDE WOULD BE
PREPARED TO MAKE COMMENTS ON THIS AFTER WE HAD PRESENTED OUR
RELEVANT WORKING PAER (IE THAT ON CONSTITUTIONAL ARRANGEMENTS).

8. YAO TOOK UP MY POINT ABOUT CONTINUITY IN 1997 AND THE
PROBLEMS OF SIMPLY LEAVING CERTAIN MATTERS FOR THE FUTURE SAR
TO DECIDE ON. WHEN THE CHINESE SAID IT WAS IMPOSSIBLE AND
UNNECESSARY TO PREJUDGE THESE MATTERS IT DID NOT (NOT) MEAN
THAT THEY WOULD REMAIN UNRESOLVED UNTIL 1997. AN IMPORTANT
TASK OF THE TRANSITIONAL PERIOD WOULD BE TO ENSURE A SMOOTH
TRANSFER OF POWER. HE BELIEVED APPROPRIATE ARRANGEMENTS WOULD
BE MADE. AS TO THOSE ISSUES WHICH WERE FOR THE FUTURE SAR,
IT WAS NOT IMPOSSIBLE THAT CURRENT PRACTICES WOULD CONTINUE
AFTER 1997 UNTIL THE SAR MADE A DECISION TO REPLACE THEM.
A SMOOTH TRANSITION WOULD NOT THEREFORE BE DIFFICULT.

9. HE SAID HE WOULD STUDY THE QUESTION I HAD RAISED THAT
MORNING AND WOULD DISCUSS THEM AT THE NEXT ROUND OR IN
INFORMAL CONTACTS BEFORE THEN. THE CHINESE SIDE WOULD ALSO
COMMENT FURTHER ON OUR FOUR OUTSTANDING WORKING PAPERS (IE
THE ECONOMIC SYSTEM, THE MONETARY SYSTEM, THE RIGHTS OF
INDIVIDUALS AND CULTURAL AND EDUCATION). HE HOPED THAT WE
COULD PRESENT ALL OUR REMAINING WORKING PAPERS BEFORE THE
NEXT ROUND. IF THE CHINESE SIDE HAD AN OVERALL UNDERSTANDING
OF THE PAPERS IT WOULD PLACE THEM IN A BETTER POSITION TO MAKE
COMMENTS.

10. IN RESPONSE I WELCOMED THE STATEMENT AS ANOTHER HELPFUL
ELABORATION OF CHINESE POLICIES. WE WOULD NEED TIME TO STUDY
IT BEFORE COMMENTING FULLY. I HOPED WE WERE NOW IN A PROCESS
OF GENUINE DISCUSSION AND THAT IF ONE SIDE PUT FORWARD A POINT
OF REAL SUBSTANCE THEN THE OTHER WOULD BE PREPARED TO REFLECT
ON IT AND PERHAPS CHANGE THEIR IDEAS ACCORDINGLY. AS REGARDS
LEAVING MATTERS FOR THE FUTURE SAR, I SAID THAT YAO'S REMARK
(PARA 8 ABOVE) WAS A STEP IN THE RIGHT DIRECTION. IT STILL
REQUIRED STRENGTHENING AND CLARIFICATION BUT THE TWO SIDES
WERE AT LEAST BEGINNING TO DEVELOP A COMMON UNDERSTANDING OF THIS
PROBLEM. I HOPED THIS COULD BE FURTHER DEVELOPED IN FUTURE.
ANOTHER GENERAL POINT OF VITAL IMPORTANCE WAS THE PRINCIPLE OF
KEEPING SYSTEMS IN HONG KONG UNCHANGED. THIS SEEMED TO BE

~~ANOTHER GENERAL POINT OF VITAL IMPORTANCE WAS THE PRINCIPLE OF~~
KEEPING SYSTEMS IN HONG KONG UNCHANGED. THIS SEEMED TO US
TO BE THE ONLY WAY TO ENSURE THAT PROSPERITY COULD BE
MAINTAINED. WE THEREFORE SAW AS DANGEROUS ANYTHING IN THE
CHINESE PLAN WHICH IN OUR VIEW WAS AN UNNECESSARY CHANGE.
HE SUGGESTED THAT THE CHINESE MIGHT WORK ON THE BASIS THAT AS
MUCH AS POSSIBLE WOULD BE RETAINED UNLESS IT RAN ABSOLUTELY
COUNTER TO CHINESE PRINCIPLES ON SOVEREIGNTY. CLARITY WAS
A FURTHER ESSENTIAL PRINCIPLE. HE SOUGHT CLARIFICATION OF THE
MEANING OF 'APPOINT' IN RELATION TO THE CHIEF OFFICIALS
OF GOVERNMENT DEPARTMENTS (PARA 5(C) ABOVE). WAS IT A
FORMALITY OR SOMETHING MORE? HE SAID FINALLY THAT HE HAD BEEN
ENCOURAGED BY THE WAY THE ROUND HAD GONE.

11. YAO RESPONDED BRIEFLY. HE AGREED THAT PROGRESS HAD
BEEN MADE THIS ROUND. HE REPEATED THAT IT WOULD BE EASIER FOR
THE CHINESE TO COMMENT WHEN THEY HAD ALL OUR WORKING
PAPERS. HE URGED THAT WE SHOULD FURTHER STUDY THE 12 POINT
PLAN, EACH POINT OF WHICH WAS ORGANICALLY LINKED TO THE OTHERS .

12. COMMENT FOLLOWS IN MIFT.

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TELEGRAM NUMBER 1310 OF 7 DECEMBER

INFO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG: 7TH ROUND, FIRST DAY: COMMENT

1. THIS WAS PERHAPS THE MOST POSITIVE SESSION SO FAR. IT GENERALLY FOLLOWED THE LINES OUTLINED BY YAO GUANG IN HIS INFORMAL CONVERSATION WITH ME ON 1 DECEMBER.
2. IT WOULD SEEM THAT THE FORMULAR PRESENTED TO THE CHINESE SIDE ON 28 NOVEMBER, TAKEN TOGETHER WITH THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER AND SUBSEQUENT EXPLANATIONS OF IT, HAVE FINALLY BROUGHT THE CHINESE TO THE POINT WHERE THEY ARE READY TO DISCUSS PRACTICAL MATTERS. THERE WAS NO FURTHER REQUEST FOR EXPLICIT AFFIRMATION OF THE CHINESE PREMISE. WE SEEM TO BE IN REAL CONTACT FOR THE FIRST TIME. MOREOVER, THEY APPEAR READY TO CONTINUE DISCUSSION OF FURTHER WORKING PAPERS ON THE SAME BASIS. THEIR COMMENTS SHOW THAT THEY HAVE DONE MORE PREPARATORY DETAILED WORK THAN WE HAD THOUGHT.
3. THE FIRST PART OF YAO'S STATEMENT SUMMED UP THE MOST IMPORTANT OF THE ASSURANCES WHICH WE HAVE GIVEN TO THE CHINESE SIDE OVER THE LAST FEW WEEKS. PREDICTABLY IT ATTEMPTED TO APPLY THESE ASSURANCES TO ALL FUTURE TALKS RATHER THAN JUST TO THE DISCUSSIONS PROPOSED IN THE PRIME MINISTER'S LETTER, WHICH WERE OF A MORE LIMITED NATURE. I PROPOSE TO DEAL WITH THIS POINT UNCONTENTIOUSLY IN MY STATEMENT TOMORROW BY CONFIRMING THE POINTS, BUT SPECIFICALLY IN RELATION TO THE DISCUSSIONS PROPOSED IN THE PRIME MINISTER'S MESSAGE, THEREBY PRESERVING THE CONDITIONALITY OF OUR POSITION.
4. FOR THE REST, ON AN INITIAL READING, YAO APPEARS TO HAVE MADE A REPLY OF SOME KIND ON VIRTUALLY ALL THE POINTS RAISED IN OUR FIRST THREE WORKING PAPERS, AND HE HAS PROVIDED SOME ELABORATION OF THE CHINESE PLAN. HE DID NOT REPEAT THE DISTINCTION BETWEEN INTERNAL MATTERS AND THOSE ISSUES THAT CONCERNED BRITISH INTERESTS. NOT ALL THE POINTS HE MADE ARE HELPFUL: THIS WAS SCARCELY TO BE EXPECTED. IN PARTICULAR THE CHINESE SEEM TO WANT TO TINKER UNNECESSARILY WITH THE LEGAL SYSTEM. BUT YAO HAS CONFIRMED A NUMBER OF ELEMENTS IN THE WORKING PAPERS FOR WHICH WE HAD SOUGHT CONFIRMATION. EVEN WHERE HIS REPLIES DO NOT SUIT US, HE HAS OPENED THE WAY FOR FURTHER COMMENT. IT REMAINS TO BE SEEN HOW MUCH GENUINE DISCUSSION THE CHINESE WILL ENGAGE IN AND WHETHER THEY WILL BE PREPARED

~~THIS REFLECTS ON THE WAY THE CHINESE
COMMENT. IT REMAINS TO BE SEEN HOW MUCH GENUINE DISCUSSION
THE CHINESE WILL ENGAGE IN AND WHETHER THEY WILL BE PREPARED
TO MODIFY THEIR POSITION IN RESPONSE TO OUR ARGUMENTS.~~

5. IN MY REPLY TOMORROW, APART FROM REINTRODUCING THE
CONDITIONALITY AS IN PARA 3 ABOVE, I SHALL GIVE A WARM GENERAL
WELCOME TO YAO'S INTERVENTION AND SAY THAT WE SHALL WISH TO
CONTINUE DISCUSSION OF THIS KIND ON THE OTHER WORKING PAPERS.
I SHALL ALSO TAKE UP IN DETAIL SOME OF THE POINTS MADE BY YAO
ON THE LEGAL SYSTEM, EG ON THE ELECTION OF JUDGES.

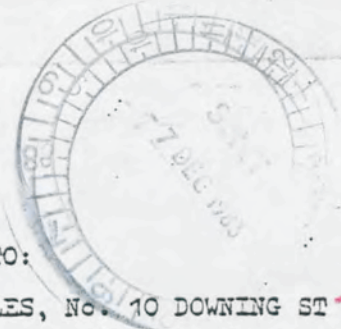
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TO IMMEDIATE FCO

TELEGRAM NUMBER 1309 OF 7 DECEMBER

INFO IMMEDIATE HONG KONG

IMMEDIATE

FUTURE OF HONG KONG: SEVENTH ROUND OF TALKS: FIRST DAY

1. HE SPOKE FIRST. HE REPEATED FOR THE RECORD THE FORMULA HE HAD DELIVERED ON INSTRUCTIONS TO YAO GUANG ON 28 NOVEMBER.

HE GAVE THREE REASONS WHY IT WAS NECESSARY TO HAVE FURTHER CLARIFICATION OF THE CHINESE PLAN. FIRSTLY, THE GENERAL ASSURANCES GIVEN IN THE PLAN ABOUT NO CHANGES, ALTHOUGH IN THEMSELVES VERY WELCOME, WERE NOT SUFFICIENTLY SPECIFIC TO MAINTAIN DOMESTIC AND INTERNATIONAL CONFIDENCE IN HONG KONG. SECONDLY, TO AVOID ANY FAILURE OF CONTINUITY AT THE TRANSITIONAL MOMENT IN 1997 IT WAS NECESSARY TO KNOW IN FULL THE PRINCIPLES ON WHICH THE SAR GOVERNMENT WOULD FUNCTION. THIRDLY, FURTHER CLARIFICATION WAS NECESSARY IF THERE WAS TO BE ANY EXPECTATION OF OBTAINING PARLIAMENTARY APPROVAL FOR AN AGREEMENT WITH THE CHINESE.

2. HE SAID THAT WE WELCOMED THE ELABORATION OF THE 12 POINT PLAN AT THE 6TH ROUND. THERE WAS MUCH WITH WHICH WE COULD AGREE, BUT IN THE INTERESTS OF FUTURE PRACTICAL CO-OPERATION IT WAS ESSENTIAL FOR FURTHER CLARIFICATION ON MANY POINTS:

- (A) POINT 2, WE AGREED ON THE CONCEPT OF AUTONOMY FOR THE SAR. BUT EXACTLY WHAT POWERS WOULD THE SAR GOVERNMENT HAVE AFTER 1997?
- (B) POINT 3, ON THE LEGAL SYSTEM OF THE SAR. WHAT POWER OF DISALLOWANCE WAS ENVISAGED OVER HONG KONG LAWS? WOULD THERE BE FULL SEPARATION BETWEEN THE EXECUTIVE AND THE JUDICIARY?

HE REFERRED TO THE CHINESE INTENTION TO ABOLISH THE ROYAL INSTRUCTIONS, THE LETTERS PATENT AND THE COLONIAL REGULATIONS, AND EXPLAINED THAT WE HAD NOT REFERRED TO THOSE LAWS IN OUR LEGAL WORKING PAPER BECAUSE WE INTENDED TO DEAL WITH THEM IN A SEPARATE PAPER ON THE MAIN CONSTITUTIONAL ARRANGEMENTS FOR HONG KONG WHICH WOULD BE PRESENTED AT A LATER STAGE. HE REPEATED THAT WE UNDERSTOOD THAT IF THERE WAS NO LINK OF AUTHORITY BETWEEN THE UK AND HONG KONG IT WOULD NOT BE POSSIBLE FOR THERE TO BE ANY "ROYAL INSTRUCTIONS" ETC. BUT APART FROM THE MECHANISMS FOR THE RULE OF HONG KONG FROM LONDON, THESE LAWS CONTAINED A CONSIDERABLE AMOUNT OF PRACTICAL DETAIL ABOUT HOW THE VARIOUS ORGANS IN HONG KONG FUNCTIONED. ONCE THEY WERE ABOLISHED THIS DETAIL WOULD NEED TO BE LAID DOWN IN SOME OTHER FORM.

(C) POINT 6, ON THE SAR'S STATUS AS A FREE PORT AND A SEPARATE

~~(C) POINT 6, ON THE SAR'S STATUS AS A FREE PORT AND A SEPARATE TARIFF AREA. COULD THE CHINESE CONFIRM THAT WHAT WE HAD SAID IN THE FINANCIAL SYSTEM WORKING PAPER WAS IN ACCORDANCE WITH CHINESE INTENTIONS?~~

(D) POINT 8, ON INDEPENDENT FINANCES. WE SHOULD LIKE TO BE CLEARER WHAT THAT INDEPENDENCE WOULD MEAN, AND WHETHER THERE WOULD NEED TO BE ANY APPROVAL FROM THE CENTRAL GOVERNMENT.

(E) POINT 10, ON EXTERNAL ECONOMIC AND CULTURAL RELATIONS. WOULD THE SAR BE ABLE TO ENTER INTO TRADE AND OTHER ECONOMIC AGREEMENTS ON ITS OWN AUTHORITY OR WOULD IT NEED THE APPROVAL OF THE CENTRAL GOVERNMENT TO DO SO? SIMILARLY, WOULD IT BE ABLE ON ITS OWN TO DECLARE THE APPLICATION TO HONG KONG OF MULTILATERAL AGREEMENTS?

HE STRESSED THAT THIS WAS NOT AN EXHAUSTIVE COMMENT ON THE 12 POINT PLAN AND THAT THERE WERE MANY OTHER THINGS TO WHICH WE WOULD RETURN AT A LATER STAGE.

3. YAO THANKED ME FOR THE CLARIFICATION OF OUR POSITION WHICH HE HAD GIVEN TO HIM WHEN DELIVERING THE FORMULA ON 28 NOVEMBER. THE CHINESE GOVERNMENT APPRECIATED AND WELCOMED IT, AND BELIEVED IT WOULD FACILITATE THE TALKS. THROUGH JOINT EFFORTS, PARTICULARLY SINCE THE 5TH ROUND, THE COMMON GROUND AND MUTUAL UNDERSTANDING BETWEEN THE TWO SIDES HAD BEEN INCREASED ON THE FOLLOWING POINTS:

(A) WE HAD AGREED THAT FUTURE TALKS SHOULD PROCEED ON THE BASIS OF CHINA'S GUIDELINES FOR HONG KONG:

(B) WE NO LONGER INSISTED ON CONTINUED BRITISH ADMINISTRATION AS A PRECONDITION AND UNDERSTOOD THAT THE CHINESE PLAN WAS BASED ON THE PREMISE THAT SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION OVER HONG KONG WOULD RETURN TO CHINA IN 1997:

(C) WE HAD STATED THAT WE DID NOT INTEND TO PROPOSE ANY LINKS BETWEEN BRITAIN AND HONG KONG WHICH CONFLICTED WITH THE CHINESE PREMISE, AND IN PARTICULAR ANY LINKS OF AUTHORITY OR ACCOUNTABILITY, AND HAD STATED THAT ANY OVERSEAS OFFICIALS REMAINING IN HONG KONG AFTER 1997 WOULD NOT BE APPOINTED BY AND RESPONSIBLE TO LONDON.

(D) WE HAD INDICATED THAT WE SAW OUR ROLE AS ONE OF ASSISTANCE TO THE SAR AND NOT AUTHORITY:

(E) WE HAD STATED THAT WE DID NOT SEEK CO-ADMINISTRATION IN ANY FORM.

CONFIRMATION BY BOTH SIDES OF AGREEMENT ON THESE POINTS WOULD BE IMPORTANT AND USEFUL FOR PROMOTING THE SMOOTH PROGRESS OF THE TALKS.

4. YAO THEN SUGGESTED THAT THE TWO SIDES SHOULD DISCUSS THE 12 POINT PLAN POINT BY POINT, PREFERABLY IN THEIR ORIGINAL ORDER.

BUT AS WE HAD NOT PRESENTED ALL OUR WORKING PAPERS WE COULD BEGIN BY DISCUSSING THOSE POINTS WHICH CORRESPONDED TO THE WORKING PAPERS ALREADY SUBMITTED. HE HOPED THAT WE WOULD PRODUCE ALL OUR WORKING PAPERS AS SOON AS POSSIBLE AND WOULD ENDEAVOUR TO MATCH THEM TO THE 12 POINTS, AND THIS WOULD MAKE FOR MORE EFFECTIVE DISCUSSION. HE THEN COMMENTED ON POINTS 3, 6, 8 AND 10 OF THE 12 POINT PLAN, RELATING HIS COMMENTS TO OUR WORKING PAPERS, AS FOLLOWS.

AS FOLLOWS.

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5. POINT 3 (THE LEGAL SYSTEM)

HE OFFERED THE FOLLOWING COMMENTS IN RELATION TO PARAGRAPH 2 OF THE IMPLICATIONS SECTION OF THE WORKING PAPER:

A) THE SAR COULD MAKE ITS OWN LAWS WHICH IT WOULD REPORT TO THE STANDING COMMITTEE OF THE NATIONAL PEOPLE'S CONGRESS (NPC) FOR THE RECORD.

B) CENTRAL GOVERNMENT WOULD NOT INTERVENE SO LONG AS THE SAR MADE LAWS WITHIN THE LIMITS OF AUTHORITY PRESCRIBED IN THE NPC BASIC LAW (UNDER ARTICLE 31 OF THE CONSTITUTION) AND IN ACCORDANCE WITH LEGAL PROCEDURES.

C) THE CENTRAL GOVERNMENT WOULD HAVE THE POWER TO ANNUL SAR LAWS ONLY WHEN THEY WERE IN CONTRADICTION OF THE BASIC LAW OR WHEN THEY OVERSTEPPED THE LIMITS OF AUTHORITY IN THE BASIC LAW. THESE POINTS WERE CONSISTENT WITH THE PRACTICE OF AUTONOMY IN ALL PARTS OF THE WORLD.

D) WHETHER THE EXISTING ARRANGEMENTS FOR THE DELEGATION OF POWER TO MAKE SUBORDINATE LEGISLATION WOULD BE RETAINED AND WHETHER AN INDEPENDENT LAW COMMISSION WOULD BE ESTABLISHED WERE MATTERS ON WHICH THE SAR COULD MAKE ITS OWN DECISION.

E) IT WAS INCONSISTENT WITH THE CHINESE PLAN THAT LAWS WOULD BE BASICALLY UNCHANGED THAT THE WORKING PAPER CONTAINED NO MENTION OF THE TERMINATION OF THE ROYAL INSTRUCTIONS ETC.

6. ON PARAGRAPHS 3, 4 AND 6 OF THE IMPLICATIONS HE MADE THE FOLLOWING COMMENTS, WHICH HE BELIEVED LARGELY ACCORDED WITH THOSE PARAGRAPHS.

A) THE POWER OF FINAL JUDGEMENT WOULD BE EXERCISED BY A COURT OF THE SAR AND NOT THE PRIVY COUNCIL.

B) EXISTING SYSTEMS COULD IN PRINCIPLE BE RETAINED EXCEPT FOR INSTITUTIONAL CHANGES CONSEQUENT UPON THE ACQUISITION OF THE POWER OF FINAL JUDGEMENT.

C) SENIOR JUDGES WOULD BE ELECTED BY THE LEGISLATURE.

D) APPOINTMENT OF OTHER JUDICIAL PERSONNEL (AND THEIR QUALIFICATION) WOULD BE PRESCRIBED BY LAWS OF THE SAR. THE QUESTION OF A JUDICIAL SERVICE COMMISSION WOULD BE DECIDED BY THE SAR ITSELF.

E) COURTS WOULD RELY ON JUDICIAL PRECEDENTS FROM HONG KONG. PRECEDENTS FROM OTHER COMMON LAW JURISDICTIONS COULD BE USED FOR REFERENCE.

F) THE RIGHT OF CITIZENS TO REPRESENTATION IN THE COURTS BY LAWYERS OF THEIR CHOICE WOULD BE PRESERVED AS WOULD THE RIGHT TO CHALLENGE THE EXECUTIVE BY CERTAIN PROCEDURES.

G) THE COURTS OF THE SAR AT ALL LEVELS WOULD EXERCISE JUDICIAL POWER INDEPENDENTLY AND WOULD NOT BE SUBJECT TO INTERFERENCE BY ADMINISTRATIVE ORGANS, PUBLIC BODIES AND INDIVIDUALS.

H) ADMINISTRATIVE ORGANS MUST ABIDE BY THE LAWS OF THE SAR.

I) PROCURATORIAL ORGANS WOULD EXERCISE CONTROL OVER CRIMINAL PROSECUTIONS WITH NO INTERFERENCE BY ADMINISTRATIVE ORGANS.

J) ANY REGULATIONS OF ADMINISTRATIVE ORGANS IN CONTRAVENTION OF THE SAR LAWS SHOULD BE ALTERED.

K) JUDICIAL PERSONNEL FROM OTHER COMMON LAW JURISDICTIONS COULD BE EMPLOYED IN THE SAR. (YAO SAID HE WOULD DISCUSS THE SPECIFICS OF THIS UNDER POINT 4 OF THE CHINESE PLAN DEALING

COULD BE EMPLOYED IN THE SAR. (YAO SAID HE WOULD DISCUSS THE SPECIFICS OF THIS UNDER POINT 4 OF THE CHINESE PLAN, DEALING WITH FOREIGN PERSONNEL.)

7. AS REGARDS PARAGRAPH 5 OF THE LEGAL WORKING PAPER HE SAID THAT THE SAR WOULD HAVE LEGISLATIVE POWER TO APPLY MULTILATERAL AGREEMENTS TO HONG KONG AS NECESSARY PROVIDED THIS WAS IN ACCORD WITH THE BASIC LAW OF THE SAR.

8. POINT 8 (THE FINANCIAL SYSTEM)

- A) THE SAR WOULD HAVE THE RIGHT TO MAKE LAWS IN THE FINANCIAL FIELD.
- B) IT COULD USE ITS OWN RESOURCES EXCLUSIVELY FOR LOCAL PURPOSES WITHOUT HANDING ANYTHING TO THE CENTRAL GOVERNMENT.
- C) IT COULD DRAW UP ITS BUDGET AND SUBMIT A REPORT OF FINAL ACCOUNTS INDEPENDENTLY.
- D) IN ACCORDANCE WITH THE BASIC LAW OF THE SAR FINANCIAL LEGISLATION, THE BUDGET AND THE FINAL ACCOUNTS OF THE SAR WOULD BE SUBMITTED TO THE CENTRAL GOVERNMENT FOR THE RECORD.

HE BELIEVED THESE POINTS COVERED THE MAIN ISSUES IN THE FINANCIAL SYSTEM WORKING PAPER. HE REFERRED TO THE POINT IN PARAGRAPH 4 OF THE PAPERS IMPLICATIONS THAT THERE WOULD BE NO EXTERNAL SUPERVISION OR APPROVAL REQUIRED. THE MEANING OF EXTERNAL WAS NOT CLEAR, IF IT MEANT THE CENTRAL GOVERNMENT IT WAS OBVIOUSLY INAPPROPRIATE. HE ADDED THAT IN ACCORDANCE WITH THE SPIRIT OF THE CHINESE PLAN NO MAJOR CHANGES WOULD BE CALLED FOR IN THE CURRENT AUDITING SYSTEMS AND IN THE RELATIONSHIP BETWEEN FINANCIAL ORGANS AND THE LEGISLATURE.

9. POINTS 6 AND 10 (FREE PORT, SEPARATE TARIFF AREA AND EXTERNAL ECONOMIC RELATIONS)

THESE TWO POINTS CARRIED THE FOLLOWING MAIN IMPLICATIONS.

- A) IN RETAINING ITS STATUS AS A FREE PORT AND CONTINUING THE POLICY OF FREE TRADE THE SAR'S EXISTING SYSTEMS AND METHODS OF MANAGEMENT WOULD REMAIN UNCHANGED.
- B) AS 'HONG KONG, CHINA' THE SAR COULD CONCLUDE APPROPRIATE AGREEMENTS.
- C) THE SAR COULD BE A MEMBER OF THE CHINESE DELEGATION AT INTERNATIONAL ORGANISATIONS AND CONFERENCES WHOSE PARTICIPANTS WERE LIMITED TO STATES, BUT COULD EXPRESS ITS VIEWS UNDER THE NAME HONG KONG, CHINA. IT COULD ON ITS OWN JOIN INTERNATIONAL ORGANISATIONS AND CONFERENCES (NEXT WORD UNDERLINED) NOT LIMITED TO STATES, EG IT COULD REMAIN A MEMBER OF THE ASIAN DEVELOPMENT BANK, THE ASIAN PRODUCTIVITY ORGANISATION AND AN ASSOCIATE MEMBER OF THE ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC.
- D) THE SAR COULD ESTABLISH OFFICIAL OR SEMI-OFFICIAL TRADE MISSIONS IN FOREIGN COUNTRIES, BUT WOULD HAVE TO REPORT THE ESTABLISHMENT OF THESE MISSIONS TO THE CENTRAL GOVERNMENT FOR THE RECORD.
- E) THE SAR COULD MAINTAIN AND DEVELOP ITS ECONOMIC RELATIONS WITH BRITAIN AND TRADITIONAL TRADE PARTNERS.
- F) THE SAR COULD REMAIN IN THE GATT AND THE MFA IN THE CAPACITY OF A SEPARATE TARIFF AREA, SO AS TO ENJOY SEPARATE PREFERENTIAL

~~OF A SEPARATE TARIFF AREA, SO AS TO ENJOY SEPARATE PREFERENTIAL TREATMENT AND SEPARATE QUOTAS.~~

G) THE SAR COULD SEEK TO MAINTAIN ITS STATUS UNDER OTHER GENERAL PREFERENCE SCHEMES.

REFERRING TO THESE POINTS, YAO SAID THAT WITH THE EXCEPTION OF SOME WORDING, MUCH OF OUR WORKING PAPER ON EXTERNAL ECONOMIC RELATIONS WAS IN ACCORD WITH WHAT THE CHINESE ENVISAGED.

10. HE ADDED THAT ACCORDING TO THE RELEVANT PROVISIONS OF THE GATT AND MFA, THE CHINESE BELIEVED THERE WAS A LEGAL BASIS FOR HONG KONG TO RETAIN ITS POSITION IN THEM AFTER 1997. HE CLAIMED THAT CHINA HAD BEEN A FOUNDER MEMBER OF GATT AND HAD DECIDED TO RESUME ITS ACTIVITIES IN GATT AND ALSO TO SIGN THE MFA. THIS WOULD CREATE FAVOURABLE CONDITIONS FOR THE SAR TO RETAIN ITS POSITION. HONG KONG WOULD NATURALLY CONTINUE TO BENEFIT UNDER EXISTING PREFERENCE SCHEMES BECAUSE THE SAR WAS TO BE MAINTAINED AS A SEPARATE TARIFF AREA OF CHINA, A DEVELOPING COUNTRY. FOR ITS PART HONG KONG WOULD CONTINUE TO FULFIL ITS OBLIGATIONS UNDER THE VARIOUS SCHEMES. CHINA AND THE SAR WOULD CONDUCT THEIR EXTERNAL TRADE SEPARATELY AND INDEPENDENTLY OF EACH OTHER. PREFERENTIAL QUOTAS AND ARRANGEMENTS FOR HONG KONG WOULD BE ENJOYED ONLY BY HONG KONG. ONLY HONG KONG PRODUCTS WOULD BE ENTITLED TO A HONG KONG CERTIFICATE OF ORIGIN. HONG KONG'S TRADE RELATIONS WITH THE MAINLAND WOULD CONTINUE AS AT PRESENT. HE WOULD WELCOME OUR CONSTRUCTIVE SUGGESTIONS AND CONCRETE IDEAS ON HOW TO ENSURE HONG KONG'S CONTINUED PARTICIPATION IN GATT AND MFA. YAO CONCLUDED THAT HIS FURTHER ELABORATION ON THESE 4 POINTS IN THE CHINESE PLAN AND HIS STATEMENT OF CHINA'S VIEWS ON THE RELEVANT WORKING PAPERS DEMONSTRATED THE CHINESE WISH TO DO THEIR UTMOST TO BE POSITIVE AND CONSTRUCTIVE AND HELP US UNDERSTAND THE SUBSTANCE OF THE CHINESE PLAN. HE LOOKED FORWARD TO A POSITIVE RESPONSE FROM US.

11. HE SAID YAO HAD MADE A VERY IMPORTANT STATEMENT WHICH REQUIRED CAREFUL STUDY. HE WELCOMED THE SPIRIT IN WHICH IT HAD BEEN MADE. HE HANDED OVER TWO FURTHER WORKING PAPERS, THOSE ON THE RIGHTS OF INDIVIDUALS AND CULTURE AND EDUCATION, TOGETHER WITH CHINESE TRANSLATIONS.

GRADOCK

CCN PARA 4 LINE 4 WHICH CORRESPONDED ETC
PARA 9 SUB PARA F LINE 1 COULD REMAIN ETC

NNNN



Foreign and Commonwealth Office

Prime Minister.

London SW1A 2AH

To be aware.

7 December, 1983

A.S.C. 2/12.

Dear John,

Future of Hong Kong: Briefing the Opposition

In your letter of 19 April in reply to John Holmes' letter of 18 April you said that the Prime Minister was content for Mr Pym to brief Mr Healey, Mr Steel and Dr Owen on the future of Hong Kong, including our general position on sovereignty. Mr Pym spoke to Mr Steel and Dr Owen on 5 May. The briefing of Mr Healey did not take place because of the General Election.

It would now be helpful to provide Mr Steel and Dr Owen with further briefing on developments since May and to bring Mr Healey into the picture. Parliamentary interest generally has increased considerably in recent months. Sir Geoffrey Howe therefore proposes, as he mentioned to the Prime Minister on Tuesday, to speak soon to the three Opposition leaders on Privy Councillor terms.

There is also a good case for some factual briefing of Opposition backbenchers (we have already provided some information to Conservative members). We shall be putting this in hand shortly.

Yours ever,

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street



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JE

10 DOWNING STREET

From the Private Secretary

7 December 1983

The Prime Minister has asked me to convey to Lord Cockfield her thanks for the interesting report on China and Hong Kong contained in his minute of 1 December.

A. J. COLES

Alex Galloway, Esq.,
Chancellor of the Duchy of Lancaster's Office.

CT



bc CR JP

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10 DOWNING STREET

From the Private Secretary

7 December 1983

HONG KONG: POSSIBLE VISIT BY EXCO

Thank you for your letter of 5 December. We have set aside the period 1630-1800 on 16 January in case it is necessary for the Prime Minister to receive EXCO on that day. This is purely a provisional diary arrangement and I have not yet consulted the Prime Minister about her willingness to receive EXCO (though I have no doubt that if the Foreign and Commonwealth Secretary recommends that this is necessary she will do so).

A. J. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

CT

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FM HONG KONG 060845Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1887 OF 6 DECEMBER 1983

INFO IMMEDIATE PEKING

MR. CLIFT'S TELELETTER 040/11 OF 28 NOVEMBER.

MS

FUTURE OF HONG KONG: CONFIDENCE

THE FOLLOWING IS THE ASSESSMENT REQUESTED.

2. FOLLOWING THE MEASURES TO TAKE OVER THE HANG LUNG BANK AND TO STABILIZE THE EXCHANGE RATE OF THE HONG KONG DOLLAR, THE TONING DOWN OF CHINESE PROPAGANDA AND THE MORE HELPFUL COMMUNIQUE WHICH FOLLOWED THE FIFTH AND SIXTH ROUND OF TALKS, THE ATMOSPHERE HAS BECOME CALMER. THE PUBLIC TOOK THE OFFICIAL CHINESE ANNOUNCEMENT OF A SEPTEMBER 1984 DEADLINE IN ITS STRIDE (AND POSSIBLY WITH A GRAIN OF SALT) AND WAS NOT UNDULY WORRIED BY THE OCCASIONAL REMINDERS IN THE LEFT WING PRESS. HOWEVER, DEEP SEATED ANXIETIES REMAIN CLOSE TO THE SURFACE AS DOES WIDESPREAD SCEPTICISM ABOUT THE CHINESE PLANS FOR THE FUTURE. THIS IS COUPLED WITH A SENSE OF RELUCTANT RESIGNATION TO A CHINESE TAKE-OVER.

3. MIGRATION

THOSE WHO ARE IN A POSITION TO GO ARE CONTINUING TO EXPLORE OPPORTUNITIES FOR EMIGRATION OVERSEAS, PARTICULARLY TO THE USA, CANADA AND AUSTRALIA. THERE ARE MANY CIVIL SERVANTS IN THIS CATEGORY. ALTHOUGH ENQUIRIES ABOUT EMIGRATION TO THESE THREE COUNTRIES HAVE SHOWN AN UPTURN IN SEPTEMBER AND OCTOBER, THEY DID NOT REACH THE LEVELS OF A YEAR AGO. FOR AUSTRALIA APPLICATIONS ARE AVERAGING 340 THIS YEAR COMPARED WITH 180 IN 1982. FOR USA, AUSTRALIA AND CANADA VISAS GRANTED REMAINED CONSTANT AT ABOUT 4,000 A QUARTER (REFLECTING THE RESTRICTED QUOTAS).

4. SOME COUNTRIES CONTINUE TO OFFER RESIDENCE VISAS TO THOSE WITH MONEY TO INVEST. OTHERS APPEAR POPULAR PLACES FROM WHICH TO GET PASSPORTS OF CONVENIENCE. WE HAVE NO RELIABLE FIGURES OF ACTUAL DEPARTURES FOR THESE PLACES. INTERESTINGLY THERE WERE ONLY 8,400 APPLICATIONS RECEIVED FOR CERTIFICATES OF NO CRIMINAL CONVICTION TO SUPPORT VISA REQUESTS FOR THE LAST 5 MONTHS COMPARED WITH 9,600 FOR THE SAME PERIOD IN 1982: BUT THE 2,100 REQUESTS IN OCTOBER SHOWED A MARKED UPTURN.

5. DESPITE THESE STATISTICS THERE IS MUCH TALKS OF EMIGRATION ESPECIALLY AMONGST PROFESSIONAL PEOPLE. THAT IS TO SAY, THE VARIOUS OPTIONS INVOLVING SENDING CHILDREN OVERSEAS FOR EDUCATION, JOINING RELATIVES ALREADY IN OVERSEAS COUNTRIES ETC., ARE EXAMINED AND DISCUSSED IN GREAT DEPTH.

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6. CIVIL SERVANTS.

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THE CIVIL SERVICE, ALTHOUGH OUTWARDLY CALM IS WATCHING DEVELOPMENTS CLOSELY. UNIONS HAVE SET UP STUDY GROUPS TO KEEP THEIR MEMBERS INFORMED. TO-DATE 166 APPLICATIONS FROM SERVING CIVIL SERVANTS FOR DISCRETIONARY REGISTRATION UNDER S4(5) OF THE BNA HAVE BEEN RECEIVED, BUT THE RATE AT WHICH APPLICATIONS ARE RECEIVED COULD ACCELERATE QUICKLY.

7. EXCHANGE RATES.

FOLLOWING THE INTRODUCTION OF THE NEW EXCHANGE RATE REGIME ON 17 OCTOBER, THE MARKET RATE HAS TRADED IN THE RANGE 7.78 TO 7.82 TO THE US DOLLAR. INTERBANK RATES HAVE FLUCTUATED WIDELY, BUT ON BALANCE HAVE BEEN LOWER THAN IMMEDIATELY BEFORE THE SCHEME WAS INTRODUCED. THE ASSOCIATION OF BANKS HAS THEREFORE BEEN ABLE TO REDUCE ITS BEST LENDING RATES BY 2 1/2 PER CENT. THE FACT THAT THE EXCHANGE RATE HAS STABILISED WITH INTEREST RATES BELOW EARLIER LEVELS INDICATES THAT THERE HAS BEEN LESS PRESSURE TO MOVE FUNDS OUT OF THE HONG KONG DOLLAR INTO OTHER CURRENCIES THAN BEFORE. THE GOVERNMENT'S ACTION IN FIXING A RATE AT WHICH CERTIFICATES OF INDEBTEDNESS ARE PRICED HAS DOUBTLESS REASSURED THE MARKET THAT THE EXCHANGE FUND'S RESOURCES ARE SUBSTANTIAL. BANKING FIGURES AND ANECDOTAL EVIDENCE ALSO LEND SUPPORT TO THIS VIEW. MOREOVER THE HONG KONG DOLLAR NO LONGER APPEARS AS A CURRENCY AGAINST WHICH SPECULATION MIGHT BE PROFITABLE.

8. STOCK MARKET.

DESPITE FAVOURABLE ECONOMIC INDICATORS INCLUDING A 37 PER CENT INCREASE IN DOMESTIC EXPORTS IN MONEY TERMS BETWEEN AUGUST AND OCTOBER A STABLE EXCHANGE RATE AND A FALL IN INTEREST RATES, ON THE ONE HAND, AND THE ABSENCE OF UNFAVOURABLE POLITICAL DEVELOPMENTS, ON THE OTHER, INVESTORS HAVE REMAINED ON THE SIDELINES, TURNOVER HAS BEEN LOW AND THE MARKETS HAVE MARKED TIME FOR TWO SUCCESSIVE MONTHS. AFTER REACHING A HIGH OF 896.53 ON 7 NOVEMBER, THE HANG SENG INDEX ENDED THE MONTH AT 852.9, DOWN 12 POINTS FROM OCTOBER'S CLOSE OF 865.33..

9. REGISTRATION/WINDING UP OF COMPANIES.

THERE HAVE BEEN NO SIGNIFICANT CHANGES IN THE MONTHLY AVERAGE OF 940 OF INCORPORATION OF LOCAL COMPANIES. FOREIGN COMPANY REGISTRATIONS ALSO REMAIN FAIRLY CONSTANT AT ABOUT 25 A MONTH. AT THE END OF OCTOBER THERE WERE 1244 APPLICATIONS FOR BANKRUPTCY OR THE WINDING UP OF COMPANIES OUTSTANDING. THIS REPRESENTS A 43 PER CENT INCREASE ON CASES OUTSTANDING AT THE END OF SEPTEMBER, 1982 BUT THERE IS A COMPLEX OF REASONS FOR THIS. THERE IS A GRADUAL MONTHLY BUILD UP.

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10. INVESTMENT.

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THE PROPERTY MARKET HAS SHOWN NO SIGN OF REVIVAL. FOR 1983 AS A WHOLE, PRIVATE SECTOR EXPENDITURE ON BUILDING AND CONSTRUCTION IS FORECAST TO DECLINE BY 15 PER CENT IN REAL TERMS.

11. LITTLE INVESTMENT IN PLANT, MACHINERY AND EQUIPMENT IS TAKING PLACE AND THE LATEST FORECAST IS FOR ZERO GROWTH IN 1983. BUT THE BUOYANCY OF EXPORT DEMAND PRESENTLY BEING EXPERIENCED WILL ENCOURAGE MANUFACTURERS AT LEAST TO MAINTAIN ASSETS.

12. EMPLOYMENT.

UNEMPLOYMENT WAS 4.4 PER CENT IN THE SECOND QUARTER AND FELL TO 3.8 PER CENT IN THE THIRD. EMPLOYMENT IN THE CONSTRUCTION INDUSTRY FELL BY 12 PER CENT IN THE 12 MONTHS TO THE END OF SEPTEMBER.

13. PRESS AND OTHER INDICATORS OF PUBLIC OPINION.

YOU ALREADY RECEIVE DAILY AND FORTNIGHTLY SUMMARIES. EDITORIAL COMMENT AS WELL AS THE VIEWS OF INDIVIDUALS AND PRESSURE GROUPS INDICATE THAT THE WEIGHT OF CHINESE PROPAGANDA EFFORTS IS HAVING A CUMULATIVE EFFECT. MANY WHO KNOW THEY CANNOT INFLUENCE THE COURSE OF THE FUTURE ARE RESIGNED ABOUT IT EVEN IF THERE IS AN UNDERLYING MISTRUST OF CHINESE GUARANTEES. ALTHOUGH THE ATMOSPHERICS SURROUNDING THE TALKS HAVE IMPROVED, THIS HAS NOT RESULTED IN ANY MARKED INCREASE IN OPTIMISM REGARDING THEIR ULTIMATE OUTCOME. THE CHINESE HAVE CONTINUED TO HAMMER HOME THE MESSAGE THAT HONG KONG'S FUTURE CONSTITUTIONAL ARRANGEMENTS ARE NOT A MATTER FOR THE TALKS BUT A MATTER FOR CHINA TO DETERMINE IN CONSULTATION WITH THE PEOPLE OF HONG KONG.

14. AMONGST PROFESSIONAL PEOPLE, THERE ARE SOME (E.G. THE OBSERVERS) WHO NOW BELIEVE THAT SOMETHING WORKABLE COULD BE CREATED ON THE BASIS OF CHINESE PLANS. THERE ARE OTHERS, EG. THE YOUNG PROFESSIONALS AND SOME ACADEMICS WHO BELIEVE THAT WITHOUT LINKS OF AUTHORITY TO THE UK, THE CHINESE PLAN AS REPORTED WOULD NOT WORK. WE HAVE NO EVIDENCE TO INDICATE HOW THIS BALANCE HAS MOVED IN RECENT MONTHS THOUGH THE VIEWS OF THE FORMER MAY GAIN SOME SUPPORT IN THE NEXT FEW MONTHS.

15. THE TALKS.

LESS PUBLIC INTEREST WAS DISPLAYED IN THE LAST ROUND OF TALKS. THIS WAS IN PART DUE TO A CALMER ATMOSPHERE, BUT IS ALSO INDICATIVE OF A GROWING FEELING THAT AS THE CHINESE APPEAR TO BE DICTATING THE TERMS, THE TALKS ARE IRRELEVANT. THE FRUSTRATION AND ANXIETY WHICH THIS FEELING HAS ENGENDERED AMONGST INDEPENDENT MINDED PEOPLE TENDS TO MAKE THEM CONFUSE BRITAIN'S APPARENT INABILITY TO DELIVER SATISFACTORY ARRANGEMENTS WITH INSUFFICIENT DETERMINATION ON BRITAIN'S PART TO TRY. - 3 -

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16. UNOFFICIALS ARE CRITICAL OF OUR RELUCTANCE TO REFUTE STATEMENTS BY LOCAL COMMUNIST SPOKESMEN SUGGESTING THAT BRITAIN HAS GIVEN UP SOVEREIGNTY AND ADMINISTRATION, ARE DISTURBED BY SUGGESTIONS OF MASS RESETTLEMENT AND ARE OCCASIONALLY DISPOSED TO SEE SUBSTANCE IN CHINESE ACCUSATIONS THAT BRITAIN'S INTEREST IN HONG KONG IS FINANCIAL.

17. FOR THE REST, THE ACTIVISTS WHOSE NAMES APPEAR IN THE PAPERS ARE NOT NECESSARILY REPRESENTATIVE. FOR EVERY PERSON WHO IS PREPARED TO BE QUOTED IN PUBLIC, THERE ARE MANY THOUSANDS WHO PREFER TO KEEP THEIR HEADS DOWN WHO ARE FEARFUL OF VICTIMISATION AND AWAIT THE OUTCOME OF THE TALKS WITHOUT ANY VERY GREAT EXPECTATION OF CLEAR SUCCESS. THE COMMENTATORS WHO ARE REGULARLY QUOTED ALL ACCEPT, AND IN SOME CASES EMBRACE, THE CHINESE PREMISE. THEY DO NOT ANALYSE THE PROBLEMS FACING HONG KONG VERY PROFOUNDLY. THE PEOPLE WHO COUNT TEND TO SHOW THEIR VIEWS BY WHAT THEY DO (EG. NOT REINVESTING, STAYING AS LIQUID AS POSSIBLE) RATHER THAN BY WHAT THEY SAY.

18. OPINION POLLS.

WE HAVE NOTHING FURTHER TO ADD TO THE INFORMATION CONTAINED IN DAVIES' LETTER S(GD) 4/02 OF 8 NOVEMBER TO MORRIS.

19. THERE HAS BEEN GROWING LOCAL INTEREST IN PQS, SUPPLEMENTARIES AND MEDIA REPORTS IN UK. WE ASSUME THAT YOU WILL MAKE AN ASSESSMENT OF THE APPARENT INCREASE IN INTEREST IN PARLIAMENT AND THE UK MEDIA ON THE FUTURE AND APPRISE US OF THE RESULTS.

HADDON-CAVE

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/PUSD

D/HD/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

SIR C TICKELL

COPIES TO: (VIA DISTR. ROOM)

BUCKINGHAM PALACE

PS/LORD PRESIDENT OF THE COUNCIL

PS/HOME SECRETARY

PS/CHANCELLOR OF THE EXCHEQUER

PS/LORD PRIVY SEAL

PS/SECRETARY FOR TRADE AND
INDUSTRY

COPIES TO: (VIA ADR)

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MR GOODALL CABINET OFFICE

MR BRENNAN " "

PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL

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SECRET



Foreign and Commonwealth Office

London SW1A 2AH

5 December 1983

Dear John,

Hong Kong: Possible Visit by EXCO

You will have seen Hong Kong telegrams Nos 1828 and 1829 in which the Governor floats the possibility of a visit to London by EXCO in early January (I enclose copies).

Sir Geoffrey Howe thinks that we cannot decide at this stage on whether an EXCO visit will be necessary. He does see the need for a major stocktaking in December and January after the next round of talks but we cannot yet say whether that will give rise to decisions which will require high level discussion with EXCO. But the odds probably are that the Unofficials themselves will press very hard for a visit and for reassurances on HMG's position. The meeting of OD(K) on 13 December would provide a convenient opportunity for Ministers to decide the question of a visit by EXCO, in the light of the assessment of progress at the 7/8 December round.

Hong Kong have floated the idea of a visit on 13 or 16 January, after a number of Unofficials and the Governor will be attending a trade promotion function in New York. (The Governor in any case plans to be in London on the 13th.) Sir Geoffrey agrees that, if a decision is taken that an EXCO visit should take place, 16 January might be the best date (he may be returning from an overseas visit on 13 January). It would be useful to know whether that date would be convenient to the Prime Minister if the need should arise.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

GR 500

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FM HONG KONG 250945Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1628 OF 25 NOVEMBER

INFO IMMEDIATE PEKING

FUTURE OF HONG KONG

1. SIR S.Y. CHUNG RE-AFFIRMED TO ME LAST NIGHT HIS BELIEF, SHARED BY HIS UNOFFICIAL COLLEAGUES, THAT WE HAVE REACHED A CROSS-ROADS IN THE TALKS WITH THE CHINESE ON THE FUTURE OF HONG KONG. WHATEVER THE OUTCOME OF THE MEETING ON DECEMBER 7/8, THEY BELIEVE THAT THEY NOW NEED A CLEARER UNDERSTANDING OF HMG'S POSITION AND WHERE WE THINK THE TALKS ARE LEADING.

2. HE REFERRED AGAIN TO THE POSITION TAKEN BY UMELCO IN SEPTEMBER 1982 THAT CONTINUING BRITISH ADMINISTRATION SHOULD BE THE OBJECTIVE. IF HMG THOUGHT THAT THIS WAS NO LONGER ACHIEVABLE THEN THIS SHOULD BE CONVEYED IN SOME FORM TO UMELCO: OTHERWISE THE UNOFFICIALS IN EXCO WOULD BE IN AN ENTIRELY FALSE POSITION IN RELATION TO THEIR LEGCO COLLEAGUES. (THERE IS FORCE IN THIS: WHEN MR EVANS MET UMELCO LAST WEEK THEY WERE STILL STRONGLY ON THE TACK OF CONTINUING BRITISH ADMINISTRATION, BUT IT IS CLEAR FROM OUR INFORMAL CONTACTS WITH THEM ON THE FUTURE THAT THEY ARE BECOMING INCREASINGLY CONCERNED ABOUT THE GAP BETWEEN THIS OBJECTIVE AND WHAT MAY BE ACHIEVABLE IN THE LIGHT OF THE PUBLIC AND OTHER EVIDENCE OF THE CHINESE POSITION).

3. SIR S.Y. ALSO REFLECTED THE CONCERN OF HIS COLLEAGUES ABOUT WHAT ASSURANCES (OR 'INSULATORS') HMG WILL NOW BE SEEKING. IN THEIR MINDS IT WILL NOT BE SUFFICIENT TO RELY ON CHINESE ASSURANCES ALONE (AND IN THIS THEY CERTAINLY REFLECT THE VIEWS OF THE BULK OF THE POPULATION). HE RAISED THE QUESTION OF WHAT STANDING THE UK COULD CLAIM TO MONITOR CHINESE RESPECT FOR THE AUTONOMY OF HONG KONG AFTER 1997. (THIS RAISES THE ISSUE OF WHAT SHOULD BE INCLUDED IN THE BILATERAL AGREEMENT AND, IF AFTER SIGNATURE THE CHINESE DID NOT ABIDE BY IT, THE EXTENT TO WHICH THE UK COULD AND WOULD ASSERT A RIGHT TO INTERVENE WITH THE CHINESE GOVERNMENT ON THE ISSUE).

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4. SIR S.Y. SAID THAT, GIVEN THEIR CONCERNS, HIS UNOFFICIAL COLLEAGUES HAD ASKED HIM TO SUGGEST THAT I SHOULD DRAW YOUR ATTENTION TO THE FACT THAT A NUMBER OF THEM WILL BE IN NEW YORK (ON A TRADE DEVELOPMENT OCCASION) ON JANUARY 9/10 AND 11. THE END OF THAT WEEK AND THE BEGINNING OF THE NEXT (EG FRIDAY 13TH AND MONDAY 16TH) WOULD BE A CONVENIENT POINT AT WHICH, IF MINISTERS AGREED, THEY COULD TRAVEL ON TO LONDON FOR A REVIEW OF THE POSITION REACHED AND OF WHERE THE NEXT PHASE OF THE TALKS SHOULD LEAD, WITH OTHER EXCO UNOFFICIALS FROM HONG KONG JOINING THEM THERE.

5. PLEASE SEE MIFT.

YOUDE

FUTURE OF HONG KONG

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RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

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FM HONG KONG 250950Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1629 OF 25 NOVEMBER 1983

INFO IMMEDIATE PEKING

MIPT

FUTURE OF HONG KONG

1. GIVEN THEIR CONCERN ABOUT THE RIGIDITY OF THE CHINESE POSITION, ABOUT WHERE THE TALKS ARE LEADING, AND THEIR WISH TO HAVE A CLEARER EXPOSITION OF HMG'S POSITION, IT WAS INEVITABLE THAT THE UNOFFICIALS SHOULD SEIZE ON THE COINCIDENCE OF THEIR VISIT TO NEW YORK TO SUGGEST A FURTHER DISCUSSION IN LONDON IN JANUARY.

2. WE SHALL IN ANY CASE HAVE TO HAVE IN MIND A TIMETABLE FOR EARLY NEXT YEAR BECAUSE WE SHALL NEED TO FIX DURING THE TALKS ON DECEMBER 7/8, A DATE FOR THE FIRST MEETING IN PEKING IN THE NEW YEAR. MR EVANS WILL NOT BE IN PEKING, ON PRESENT PLANS, BEFORE MID JANUARY: CHINESE NEW YEAR IS THE FIRST WEEK IN FEBRUARY. THE FIRST MEETING IN THE NEW YEAR MIGHT THEREFORE BE IN THE LAST WEEK OF JANUARY.

3. ANY REVIEW OF THE FUTURE WILL HAVE TO TAKE INTO ACCOUNT ANY MEETINGS WITH CHINESE LEADERS WHICH SIR PERCY CRADOCK MAY HAVE JUST BEFORE HIS DEPARTURE. THERE WILL THEN BE THE CHRISTMAS AND NEW YEAR HOLIDAYS. GIVEN THE NEED TO PREPARE THE REVIEW A DISCUSSION WITH EXCO IN MID JANUARY WOULD FIT VERY WELL. IF IT IS TO BE IN LONDON IT WOULD MEAN MR EVANS DELAYING HIS DEPARTURE.

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4. I HAVE NOT GONE INTO THE QUESTION WITH SIR S Y CHUNG OF HOW MINISTERS WILL WISH TO CONDUCT THE REVIEW (YOUR TELNO 1230) AND I CAN UNDERSTAND THAT MINISTERS WILL WISH TO CONSIDER THE OUTCOME OF THE DECEMBER 7/8 MEETING BEFORE COMMITTING THEMSELVES. BUT GIVEN THE IMPORTANCE OF THE ISSUES WHICH ARE BOUND TO ARISE I BELIEVE IT WILL BE ESSENTIAL FOR A CLEAR MANDATE TO BE AGREED FOR THE PHASE BEGINNING IN THE NEW YEAR AND THAT ANOTHER MEETING IN LONDON WITH EXCO WOULD BE THE BEST WAY OF ACHIEVING IT.

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Foreign and Commonwealth Office

London SW1A 2AH

5 December 1983

MF

Para Murks:

To note

PA 6/12

Dear John,

Hong Kong: Mr Robert Adley MP

Mr Adley visited Hong Kong last week. As you know, he takes a close interest in the subject both in his capacity as Chairman of the UK/China Parliamentary Group and personally. He has tended to be critical of the Hong Kong Government and of the Unofficials there in taking an unrealistic view of the negotiations with China.

Mr Adley called on Sir Geoffrey Howe on 30 November. He particularly asked that his remarks should be passed to the Prime Minister. I enclose a copy of the record of the discussion. As you see, his main theme was the need for more democracy in Hong Kong and the unrepresentative nature of UMELCO views on the future.

As you know, Mr Adley is very much in the public eye in Hong Kong because of his outspoken views. His visit attracted intense press interest which he appears to have interpreted partly as resulting from the hostility of the Hong Kong Government. We would not accept his criticism of the Governor as being out of touch with opinion beyond UMELCO. Sir E Youde has indeed reported on this very point. But we think that to a great extent Mr Adley has misinterpreted UMELCO's anxiety about Chinese assurances on the future as an unrealistic desire to stick to sovereignty at all costs.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

MEETING BETWEEN SECRETARY OF STATE AND MR ROBERT ADLEY MP,
30 NOVEMBER 1983

Present

The Rt Hon Sir Geoffrey Howe QC MP
Mr R D Clift

Mr Robert Adley MP

Attitude of Hong Kong Government to Mr Adley

1. Mr Adley said that he was concerned about the attitude of a number of people in the Hong Kong Government. He had never been received anywhere, let alone in a British colony, in so hostile a way. On the earlier attempt to "blacken his character" he had shown Mr Luce the letter which he had received from Miss Jill Hartley, a former lobby correspondent. The Secretary of State said that he had raised the matter with the Governor who had investigated it carefully. But he understood that the letter from Miss Hartley had not identified her informant. That made it very difficult to pursue the question.
2. Mr Adley said that there had been other examples of the hostile attitude of the Hong Kong Government. The Ming Pao, a reputable newspaper, had told him that they had been asked by the Government Information Services for information about Mr Adley. Moreover the Attorney General, Sir Michael Havers had told him that he had received enquiries about him. In his discussions with Hong Kong officials he had been particularly concerned at the attitude adopted by Mr Denis Bray, the Secretary for Home Affairs.
3. Some of the Hong Kong Government's attitude was reflected in the way in which local press had handled the visit. The South China Morning Post had been particularly hostile. He had been amazed at the attention which his visit had aroused. He had been followed everywhere by television cameras and asked a succession of completely naive questions.

Attitude of UMELCO

4. Mr Adley said that he was convinced that UMELCO did not

represent the body of Hong Kong opinion. He himself had been able to have meetings with a wide variety of people and was convinced that no one of any significance believed that sovereignty was an issue. He spoke warmly of Mr Brian Tisdall and Mr John Walden. UMELCO on the other hand appeared to believe that sovereignty should not be conceded and should be kept as a card to be played at the right time. This was quite misconceived. In his view sovereignty was a poisoned chalice, which should be got rid of as soon as possible.

5. Mr Adley said that he had great respect for the Governor as a negotiator but believed that he was out of touch and too much influenced by UMELCO opinion. In the circumstances there was a danger of a sensible agreement with China being frustrated.

Views on An Agreement with China

6. In Mr Adley's view we had no power and no cards to play in the negotiations. He had had frequent meetings both with the Chinese Embassy here and with the NCNA in Hong Kong. He understood China's position. China wanted a peaceful and quiet transition. They did not want to be put into the position of having to provide substitutes for British administration in 1997. They were prepared to respect Hong Kong's genuine autonomy. That was why talk of maintaining the "status quo" was so misleading. For some it meant the preservation of Hong Kong's freedoms, way of life plus the continuing link with Britain. But the people of Hong Kong did not want that link. They did want their freedoms to continue and China would be prepared to meet them on that point.

Democracy for Hong Kong

7. Mr Adley said that there was a strong demand for genuine democracy in Hong Kong; (a group of Hong Kong Students had written to the Prime Minister about it and had received a routine reply). Moreover the Chinese now not only did not oppose democratisation but positively wanted it. Their aim was to see representative government established so that an elected local administration could be in place well before 1997, thus minimising the effect of any change at that date.

8. Mr Adley said that the problem was that UMELCO were dead against democracy. They were appointed and would oppose any measures to bring it in.

9. The Secretary of State reminded Mr Adley of the reasons why normal representative government had not been established in Hong Kong, because of the Chinese attitude. He also thought that there were serious doubts in Hong Kong as to whether the Chinese concept of democracy was the same as theirs. How far did democracy really work in Shanghai for instance? He mentioned the work that had already been done in Hong Kong at the local Government level, for instance through the District Boards. Mr Adley acknowledged that there had been reasons why Hong Kong had not developed democracy up to now but believed that the position had changed and that the Chinese would welcome genuine elections. He dismissed the District Boards as having no power to do anything other than debate.

10. Mr Adley said that the Chinese had clearly indicated to him that if a democratic system were to produce representatives of British or other expatriate origin who fulfilled the normal seven year residents' qualification they would be prepared to accept such people in a position of responsibility in Hong Kong. This would be a useful way of encouraging confidence in Hong Kong.

Senzhen Special Economic Zone

11. Mr Adley described his visit to the zone at which he had been warmly received. He had been struck by the way in which the Hong Kong press had free access to the zone and by the border which was being constructed between the north of the zone and the rest of Guangdong province. He had had a strong hint from the NCNA that they could foresee a time at which Hong Kong would expand northwards into the zone.

Hong Kong's Concerns

12. The Secretary of State asked if it was not the case that people in Hong Kong were genuinely anxious. Mr Adley said yes, they were petrified. The Secretary of State asked what ideas Mr Adley had to provide reassurance. Mr Adley said that his recipe was early recognition of China's sovereignty and more democratisation which

might well produce British expatriates in positions of authority. The Secretary of State asked if he had any other ideas. Mr Adley said that more use might be made of the trade unions. He thought that one of the problems was that people in Hong Kong had ideas but were afraid to voice them. He had been told of people who had lost their jobs because they had been critical of the Government.

13. The Secretary of State thanked Mr Adley. It was not surprising that so much attention had been paid to him during his visit. He saw the problem of confidence in Hong Kong as arising from the fact the people had genuine doubts about the Chinese assurances. He undertook to inform the Prime Minister of Mr Adley's views.

30 November 1983

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TO IMMEDIATE PEKING

TELEGRAM NUMBER 840 OF 2 DECEMBER

INFO IMMEDIATE HONG KONG

YOUR TELNO 1287

FUTURE OF HONG KONG: NEXT SESSION OF TALKS

1. YOUR DINNER WITH YAO WAS CLEARLY A USEFUL SESSION. WE AGREE THAT THE OMENS FOR THE NEXT ROUND LOOK RATHER BETTER ALTHOUGH, AS YOU POINT OUT, THE CHINESE ARE NOT NECESSARILY PREPARED FOR FULLY DETAILED DISCUSSION. THEY HAVE AT ANY RATE REVEALED A NUMBER OF CRACKS WHICH WE COULD USEFULLY TRY TO PRISE OPEN AT THE NEXT ROUND.

2. AS WE SEE IT OUR MAIN OBJECTIVE MUST BE TO EXPLOIT ANY CHINESE READINESS TO COMMENT ON OUR PAPERS, WHICE MAKING CLEAR THAT IT WILL NOT BE ENOUGH SIMPLY TO CATEGORISE OUR PROPOSALS ON THE LINES WHICH YAO SUGGESTED (SENTENCE 3 OF PARA 7 OF TUR). IF WE ARE TO MAKE GENUINE PROGRESS ON OUR CURRENT STRATEGY WE NEED TO ESTABLISH THAT, IN EACH IMPORTANT AREA, THERE WILL BE AGREEMENT ON POINTS ESSENTIAL TO CONFIDENCE IN HONG KONG. HERE IT MAY WELL BE USEFUL, AS YAO'S INTERPRETER HINTED, TO CONCENTRATE ON PINNING THE CHINESE DOWN ON 'THE MAIN ELEMENTS'.

3. THE CHINESE REQUEST TO RECEIVE THE REST OF THE WORKING PAPERS QUICKLY IS INTERESTING. THE PROBLEM IS THAT, IF IN EFFECT WE SUBMITTED A COMPLETE PACKAGE, THIS WOULD BE INCONSISTENT WITH THE STEP-BY-STEP APPROACH, AND WOULD INVOLVE OFFERING IDEAS ON THE CONSTITUTIONAL SUPERSTRUCTURE BEFORE WE HAD CONSTRUCTED A FRAMEWORK OF EFFECTIVE ASSURANCES BENEATH. ON THE OTHER HAND WE MAY NEED TO CONSIDER THE IDEA, OR A VARIANT OF IT, IF THE GRADUALIST METHOD PAYS NO DIVIDENDS.

4. ON PERSONNEL, THERE IS CLEARLY ROOM TO WORK AT THE CHINESE POSITION BUT WE SUSPECT THAT WE SHALL NOT HAVE A CLEAR PICTURE UNTIL WE HAVE TACKLED THE NATIONALITY QUESTION, AS YAO HIMSELF

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SAID.

5. AGAINST THIS BACKGROUND ON 7/8 DECEMBER YOU SHOULD AT YOUR DISCRETION:

(A) REPEAT FOR THE RECORD THE FORMULA WHICH YOU GAVE YAO GUANG ON 28 NOVEMBER SEMI COLON

(B) PRESENT THE ADDITIONAL WORKING PAPERS ON RIGHTS OF THE INDIVIDUAL AND CULTURE AND EDUCATION SEMI COLON.

(C) REITERATE OUR BELIEF THAT DISCUSSION ON THE MAIN ELEMENTS IS NECESSARY TO IDENTIFY WAYS OF MAINTAINING CONFIDENCE IN HONG KONG. IT WILL NOT BE ENOUGH SIMPLY TO STATE THAT MATTERS AFFECTING FOR INSTANCE LAWS, THE COURTS OR ESSENTIAL FREEDOMS WILL BE A MATTER FOR A FUTURE SAR GOVERNMENT. ON KEY ISSUES IT WILL BE ESSENTIAL TO SPECIFY CONTINUITY.

(D) ON THAT BASIS TO URGE THE CHINESE TO COMMENT WITH PRECISION ON OUR WORKING PAPERS. YOU SHOULD NOT COMMIT US TO ANY TIMETABLE FOR PRODUCTION OF PAPERS AT THIS STAGE BUT CAN CONFIRM THAT WE WILL GET ON WITH THE PROCESS AS QUICKLY AS WE CAN.

(E) ON THE NEXT ROUND TO AGREE AT ANY RATE A STATEMENT THAT TALKS WILL RESTART AS SOON AS POSSIBLE AFTER MR EVANS' ARRIVAL IN PEKING. (FOR PRACTICAL REASONS INCLUDING THE POSSIBLE DEMANDS OF A REVIEW OF STRATEGY, WE THINK THAT IT WOULD BE BETTER NOT TO ATTEMPT TO SPECIFY DATES AT THIS STAGE.) WE WOULD OF COURSE WISH THIS TO BE PART OF AN ENCOURAGING COMMUNIQUE. IF POSSIBLE WE SHOULD ALSO AGREE TO SAY THAT INFORMAL CONTACTS WILL CONTINUE AS APPROPRIATE.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1287 OF 2ND DEC 83

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: DINNER WITH YAO GUANG

1. # HAD 4 AND A HALF HOURS WITH YAO GUANG OVER DINNER ON 1 DECEMBER. GALSWORTH WAS ALSO PRESENT.

2. YAO STARTED WITH A RATHER FORMAL STATEMENT. HE SAID THAT HE HAD REPORTED THE STATEMENT WHICH # HAD MADE ON INSTRUCTIONS ON 28 NOVEMBER. THE CHINESE GOVERNMENT ATTACHED IMPORTANCE TO THIS CLARIFICATION AND WELCOMED IT. IT WOULD HELP OUR TALKS. OUR MUTUAL UNDERSTANDING HAD BEEN ENHANCED. HE HAD BEEN THINKING OVER WHAT # HAD SAID ON A PREVIOUS OCCASION ABOUT DIFFICULTIES OF COMMUNICATION. THE REASONS FOR THE MISTRUST AND DOUBT ON THE CHINESE SIDE SHOULD BE SOUGHT IN THE ACTIONS OF THE BRITISH SIDE. THE CHINESE POSITION WAS THAT AFTER SOVEREIGNTY INCLUDING ADMINISTRATION HAD BEEN SETTLED BRITAIN WOULD HAVE A PART TO PLAY IN HONG KONG AND THERE SHOULD BE COOPERATION BETWEEN BRITAIN AND CHINA TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG. BUT THE BRITISH ATTITUDE ON SOVEREIGNTY HAD NOT BEEN CLEAR, NOR HAD WE EXPLAINED CLEARLY WHAT WE MEANT BY BRITISH LINK AND ROLE. HOWEVER THE CHINESE SIDE CONSIDERED THE BRITISH STATEMENT OF 28 NOVEMBER AS A BIG EFFORT, AND IT EXPLAINED CLEARLY QUESTIONS OF SOVEREIGNTY AND ADMINISTRATION AND THE BRITISH LINK AND ROLE. IN THE CHINESE VIEW IT HAD CREATED CONDITIONS FOR FURTHER DISCUSSIONS GUIDING PRINCIPLES AND HAD ALSO CREATED A FAVOURABLE ATMOSPHERE FOR THE SMOOTH RUNNING OF THE TALKS. IN THE LIGHT OF THIS THE CHINESE SIDE WOULD BE ABLE TO MAKE MORE DETAILED COMMENTS ON OUR WORKING PAPERS, AND WOULD BE WILLING TO DISCUSS THE WAY IN WHICH FUTURE TALKS SHOULD PROCEED. AS FOR 'EXCESSIVE DETAIL', IT WAS NOT REALLY A QUESTION OF WHETHER THE CHINESE SIDE WERE WILLING OR NOT TO DISCUSS SUCH THINGS. SOME THINGS DID NOT NEED DISCUSSION AT THIS STAGE. OTHERS WOULD BE COVERED UNDER ITEM TWO OF THE AGENDA, AND SOME WOULD FALL UNDER THE RESPONSIBILITY OF THE FUTURE SAR GOVERNMENT IN THE LIGHT OF THE BASIC LAW WHICH WOULD BE ENACTED FOR THE SAR.

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3. YAO QUOTED AN EXAMPLE OF THE CHINESE SUSPICIONS ARISING FROM THE LEGAL PAPER. WE HAD NOT MENTIONED THE THREE LAWS, THE ROYAL INSTRUCTIONS, THE LETTERS PATENT AND THE COLONIAL INSTRUCTIONS, EVEN THOUGH THESE ARE THE LEGAL INSTRUMENTS FOR THE BRITISH RULE OF HONG KONG. CHINA HAD THOUGHT THAT OUR FAILURE TO MENTION THESE WAS INCONSISTENT WITH THE PROPOSITION THAT SOVEREIGNTY AND ADMINISTRATION SHOULD PASS TO CHINA. THAT WAS WHY IT HAD BEEN DIFFICULT TO GO ANY FURTHER IN DETAILED DISCUSSION OF THE LEGAL PAPER. BUT SAYING THAT CHINA THOUGHT THAT THESE LAWS SHOULD BE ABOLISHED DID NOT MEAN THAT CHINA THOUGHT ANY OTHER LAWS SHOULD NECESSARILY BE ABOLISHED. WITH THIS PROBLEM CLEARED UP WE COULD DEAL WITH OTHER SPECIFIC POINTS. HE WANTED NO MISUNDERSTANDING ON THIS POINT. CHINA WELCOMED OUR WORKING PAPERS, AND THE MEETING ON 28 NOVEMBER HAD CREATED BETTER CONDITIONS FOR DISCUSSING THEM.

4. IN REPLY HE SAID THAT HE WAS GLAD THAT THE MEETING HAD IMPROVED THE ATMOSPHERE, AND THAT THE CHINESE SIDE NOW RECOGNISED THE LENGTHS TO WHICH WE HAD GONE TO MEET THEM. HE HAD BEEN VERY WORRIED AFTER THE LAST ROUND OF TALKS BY THE CHINESE REFUSAL TO GO INTO DETAIL. IT WAS WHOLLY IMPRACTICAL TO SUPPOSE THAT WE COULD LEAVE A LARGE NUMBER OF THINGS TO BE DECIDED AFTER 1997. MANY QUESTIONS WERE QUESTIONS OF PRINCIPLE ABOUT WHAT SORT OF PLACE HONG KONG WOULD BE AFTER 1997. HE CITED THE SEPARATION OF THE JUDICIARY FROM THE EXECUTIVE. EVEN IN AREAS WHERE THE SAR GOVERNMENT WOULD HAVE POWERS TO MAKE CHANGES IN POLICY WE STILL NEEDED TO KNOW WHAT THE SITUATION WOULD BE IMMEDIATELY AFTER 1997. WE WERE NOT SAYING THAT THE SAR GOVERNMENT SHOULD BE DEPRIVED OF POWER TO CHANGE ANYTHING AFTER THAT. BUT IT WAS ESSENTIAL TO KNOW THE STARTING POINT.

5. ON THREE LAWS, HE SAID THAT WE HAD NEVER CONSIDERED THE LEGAL PAPER AS COVERING CENTRAL CONSTITUTIONAL MATTERS WHICH WOULD BE DEALT WITH IN A LATER PAPER. THIS WAS WHY THE THREE LAWS HAD NOT BEEN MENTIONED. IT WAS FAIRLY OBVIOUS THAT IF THERE WERE TO BE NO LINK OF AUTHORITY BETWEEN THE UK AND HONG KONG THERE COULD BE NO ROYAL INSTRUCTIONS. NEVERTHELESS IF THESE LAWS WERE ABOLISHED MUCH OF THE CONTENTS OF THEM WOULD HAVE TO BE REPLACED BY SOMETHING ELSE, SINCE OTHERWISE THERE WOULD BE NO FRAMEWORK FOR THE INSTITUTIONS IN HONG KONG TO WORK WITHIN. YAO SAID THAT HE WAS GLAD TO HEAR WE WOULD PRODUCE A PAPER ON THE CONSTITUTIONAL ARRANGEMENTS: HE HAD NOT REALISED THIS. (HE COMMENTED THAT A SIMPLE QUESTION FROM HIM AT AN EARLIER STAGE WOULD HAVE ELICITED THIS INFORMATION AND CLEARED UP THE MISUNDERSTANDING). HE SAID THAT THE MATTERS NOW DEALT WITH IN THE THREE LAWS WOULD BE COVERED IN THE BASIC LAW FOR HONG KONG UNDER ARTICLE 31 OF THE CHINESE CONSTITUTION. *1 SAID THAT WE WOULD NEED* TO HAVE DETAILS OF HOW THE CHINESE SIDE SAW THE INSTITUTIONS OF HONG KONG AS OPERATING AND INDEED WOULD NEED TO KNOW WHAT THE CONTENT OF THE BASIC LAW ENVISAGED BY THE CHINESE SIDE WOULD BE. YAO WAS SOMEWHAT EVASIVE ON THIS BUT DID SAY THAT CHINA REALISED THAT THEY COULD NOT LEAVE IT UNTIL 1997 TO DRAFT THE BASIC LAW. SECRET - 2 -

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6. ON WORKING PAPERS, YAO SAID THAT THE CHINESE FOUND IT DIFFICULT TO MAKE ANY KIND OF OVERALL ASSESSMENT OF THE POSITION WHILE WE PUT IN WORKING PAPERS ONE BY ONE, AND AT RATHER A SLOW PACE. HE ASKED WHETHER THE CHINESE COULD HAVE THE REST OF THE WORKING PAPERS FAIRLY QUICKLY, FOR INSTANCE BEFORE THE ARRIVAL OF THE NEW AMBASSADOR, SO THAT THEY COULD GET AN OVERALL PICTURE AND THE DISCUSSIONS COULD BE PLANNED MORE SENSIBLY. HE SAID THAT WE WERE WORKING AS FAST AS WE COULD, BUT THAT HE TOOK NOTE OF HIS REQUEST. HE SAID THAT THE CHINESE SIDE HAD BRIEFED US IN DETAIL AT THE 6TH ROUND ON THEIR 12 POINT PLAN. THEY RECOGNISED HOWEVER THAT WE MIGHT STILL HAVE SOME QUESTIONS. HE ASKED WHETHER IT WOULD BE POSSIBLE TO ARRANGE OUR WORKING PAPERS SO THAT THEY DOVETAILED WITH THE 12 POINT PLAN. THIS WOULD FACILITATE DISCUSSION. IT WOULD ALSO BE IN ACCORDANCE WITH THE PRIME MINISTER'S MESSAGE WHICH HAD REFERRED TO DISCUSSIONS BASED ON THE CHINESE PROPOSALS. HE TOOK NOTE AND POINTED OUT THAT WE HAD QUOTED IN EACH OF OUR PAPERS SO FAR THE RELEVANT EXTRACTS FROM THE CHINESE PROPOSALS AS WE KNEW THEM AT THE TIME. HE SAID THAT HE WAS NOT SURE WHETHER IT WOULD BE PRACTICAL TO DOVETAIL THE PAPERS COMPLETELY WITH THE PROPOSALS, BUT WE WOULD DO WHAT WE COULD. YAO ASKED HOW MANY PAPERS WE ENVISAGED: HE SAID PERHAPS ABOUT 15.

7. HE SAID THAT HE HOPED THAT WE WOULD GET BETTER DISCUSSION ON THE CONTENT OF THE WORKING PAPERS THAN WE HAD HAD AT THE 6TH ROUND. YAO REPLIED THAT AT THE 7TH ROUND HE WOULD MAKE FURTHER COMMENTS ON THE LEGAL, FINANCIAL AND EXTERNAL RELATIONS PAPERS. THE CHINESE SIDE WOULD SAY WHICH OF THE PROPOSALS WERE CONSISTENT WITH THEIR PLAN, WHICH WERE NOT, AND WHICH THEY THOUGHT WERE MATTERS WHICH SHOULD BE LEFT TO THE SAR GOVERNMENTS TO DECIDE. HE SAID THAT HE HOPED THE CHINESE WOULD NOT USE THE LATTER AS AN EXCUSE TO AVOID DISCUSSION. YAO'S REPLY WAS NONCOMMITTAL. AT ONE STAGE WHEN YAO LEFT THE ROOM BRIEFLY HIS INTERPRETER SUGGESTED TO ME THAT THERE MIGHT BE A LINGUISTIC DIFFICULTY: IF WE WERE TO REFER TO SOMETHING LIKE 'THE MAIN ELEMENTS' RATHER THAN DETAILS, WE MIGHT FIND THE DISCUSSION MORE PRODUCTIVE. HE PRESSED YAO AT LENGTH ABOUT THE IMPRACTICALITY OF LEAVING LARGE AREAS TO BE DECIDED BY THE SAR AT A LATER STAGE. THERE WERE TIMES WHEN HE SEEMED TO SEE FORCE IN OUR ARGUMENT, BUT IT IS HARD TO JUDGE ITS LASTING IMPACT. HE HAD HIS INSTRUCTIONS AND KEPT GOING BACK TO THEM. AT ONE STAGE HE SAID THAT MANY OF THE POINTS WE WERE ASKING ABOUT HAD ALREADY BEEN SOLVED. FOR INSTANCE IT HAD ALREADY BEEN SAID THAT THE NEW GOVERNMENT WOULD BE PRODUCED EITHER BY CONSULTATION OR ELECTIONS. HE SAID THAT THIS ILLUSTRATED WHAT WE HAD IN MIND: IT WOULD BE NECESSARY TO DECIDE WHICH. -3-

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8. YAO CRITICISED OUR USE OF THE WORDS 'CHINESE PROPOSALS' IN THE PRIME MINISTER'S MESSAGE. THE CHINESE PLAN SHOULD BE CONSIDERED AS POLICY AND PRINCIPLE RATHER THAN A SET OF PROPOSALS WHICH MIGHT BE ACCEPTED OR REJECTED. THESE MATTERS WERE CHINESE INTERNAL AFFAIRS AND THE USE OF THE WORD PROPOSALS WAS NOT APPROPRIATE. HOWEVER CHINA WAS WILLING TO DISCUSS THESE MATTERS TOGETHER WITH THE BRITISH SIDE OUT OF HER SINCERE DESIRE TO COOPERATE IN SOLVING THE HONG KONG QUESTION. THEY WISHED TO HEAR OUR VIEWS AND ESPECIALLY OUR VIEWS ON MATTERS IN WHICH WE HAD A DIRECT INTEREST. I TOOK NOTE.

9. WITHOUT ANY PROMPTING YAO RAISED THE QUESTION OF CIVIL SERVANTS. HE SAID AT FIRST THAT NO MATTER WHAT ORGANS THE SAR GOVERNMENT MIGHT HAVE, THOSE WHO NOW WORKED AS CIVIL SERVANTS IN HONG KONG COULD RETAIN THEIR POSTS. I PRESSED HIM ON WHETHER HE REALLY MEANT THIS. HE THEN SAID THAT ABOVE A CERTAIN LEVEL SUCH PEOPLE WOULD HAVE TO BECOME ADVISERS, AND SUGGESTED THAT THIS LEVEL SHOULD BE ABOUT DEPUTY CHIEF OF DIVISIONS. (THIS WOULD RATE ABOUT DEPUTY DIRECTOR GENERAL IN THE EUROPEAN SYSTEM). HE SAID SPECIFICALLY THAT MEMBER OF THE LEGISLATIVE AND EXECUTIVE COUNCILS, THE CHIEF SECRETARY AND THE HEAD AND DEPUTY HEAD OF THE POLICE WOULD HAVE TO BE HONG KONG PEOPLE. HE THOUGHT HOWEVER THAT THE TYPE OF PEOPLE THE GOVERNOR HAD MENTIONED DURING THE LAST ROUND IN THE TAX DEPARTMENT WHO WERE VERY EXPERT IN THEIR FIELDS COULD SIMPLY STAY AT THEIR POSTS. WE POINTED OUT THAT THERE WAS NO SUCH THING AS AN ADVISER IN THE PRESENT HONG KONG SYSTEM AND THAT THIS WOULD MEAN CREATING A NEW SYSTEM. WE ALSO ASKED WHAT WAS MEANT BY 'HONG KONG PEOPLE'. YAO SAID THAT THIS WAS SOMETHING WHICH WOULD HAVE TO BE DISCUSSED LATER UNDER THE HEADING OF NATIONALITY.

10. YAO CRITICISED THE PAPER ON EXTERNAL ECONOMIC COOPERATION, WHICH HE SAID MERELY RAISED QUESTIONS BUT DID NOT SUGGEST ANY ANSWERS. I SAID THAT WE HAD BEEN SEEKING TO IDENTIFY THE AREAS IN WHICH IT WOULD BE NECESSARY FOR THE TWO SIDES TO COOPERATE. WE RECOGNISED OF COURSE THAT THERE WOULD HAVE TO BE SUBSEQUENT DISCUSSION OF THESE AREAS BY EXPERTS. YAO APPEARED TO WELCOME THIS.

11. FINALLY YAO ASKED ME ABOUT A BILATERAL AGREEMENT. HE RECALLED THAT DENG HAD MENTIONED SUCH AN AGREEMENT IN HIS MEETING WITH MR HEATH IN SEPTEMBER 1983. I SAID THAT WE PRESUMED THAT DISCUSSION OF AN AGREEMENT WOULD COME AFTER DISCUSSION OF THE FIRST TWO ITEMS ON THE AGENDA. WE HAD AS YET NO FIXED IDEAS ABOUT WHAT SUCH AN AGREEMENT SHOULD CONTAIN, BUT WOULD BE GIVING THE MATTER THOUGHT. IT WOULD CERTAINLY NEED TO DEAL WITH THE QUESTION OF SOVEREIGNTY.

- 4 -
SECRET

/ COMMENT

SECRET

COMMENT

12. THE ATMOSPHERE WAS WARM AND THE STATEMENT OF 28 NOVEMBER SEEMS TO HAVE MADE MORE OF AN IMPACT THAN WE AT FIRST THOUGHT. IN CONSEQUENCE WE CAN EXPECT A RATHER MORE DETAILED DISCUSSION ON 7 AND 8 DECEMBER THOUGH HOW MUCH MORE DETAILED REMAINS TO BE SEEN. IN THE SITUATION WE DECIDED IT WOULD NOT BE HELPFUL TO RAISE THE QUESTION OF WANG GUANGYING'S INDISCRETION (YOUR TELNO 830)

CRADOCK

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/PUSD

D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

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SIR A PARSONS " "

MR MARTIN ASSESSMENT STAFF
CABINET OFFICE

MR GOODALL CABINET OFFICE

MR BRENNAN " "

PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL

-5-
SECRET



Chancellor of the Duchy of Lancaster

Prime Minister.

PRIME MINISTER

MS

A.T.C. 2/12

CHINA - HONG KONG

1. I shall be sending you a full report in the ordinary way. But meantime I felt you might wish to know my views on Hong Kong.
2. The visit itself went off very well. There is an immense fund of goodwill towards this country in China: the opportunities are very great: we are just beginning to take advantage of them: but there is very much more to come.
3. The question of Hong Kong was not raised - or even mentioned - by anyone on the Chinese side; nor did I refer to it in talking to them.
4. China is a totalitarian state. But so in greater or less degree are most countries in the world. The present tranquillity of the country and the progress visible on all sides is very recent. It is understandable that the people of Hong Kong should be apprehensive on both counts. But in relation to these fundamental problems there is little we ourselves can do. On a more mundane level, China is a poor country compared with Hong Kong but there is little sign of the devastating poverty which afflicts the Indian subcontinent and much of Africa. In Peking, Canton and I am told Shanghai there is the tempo of development which characterised Hong Kong when I first visited it in the 1960's. The new Economic Zone of Shenzhen just over the border from Hong Kong is one vast building construction site. But however rapid and successful the development, there is little chance that even in these favoured locations China will catch up with Hong Kong. The absorption of Hong Kong by China will inevitably lead to a reduction in living standards by the very process of sharing the prosperity that exists over a wider population. This very real



Chancellor of the Duchy of Lancaster

material worry re-inforces concern on the broader social/political front.

5. The scope for effective action by the UK Government is limited. This does not mean that we must not try very hard. But there is no point in deluding ourselves. It is better to achieve what is practicable than to fail in striving for the impossible.
6. Where a country loses territory either by war or under duress, its abiding concern is to regain its territory. It will not weigh in the balance economic advantage or disadvantage. Frequently it pays scant regard to the wishes of the inhabitants. The history of the great disputed territories of the world amply demonstrates that this is so. There is no reason why China's attitude to Hong Kong should be different. Nor is it.
7. This does not mean that we are without influence or bargaining counters. Other things being equal a successor state will wish to preserve the prosperity of the territory it regains if it can do so: but not at the expense of sovereignty or its national pride. Moreover Hong Kong Island and Kowloon were ceded; not leased. If we were to refuse to quit, the Chinese would be faced with the disagreeable need to use force or other means of duress if it wished to regain these territories. I suspect that the Chinese would not be too happy to find themselves in a position where this was the only alternative open to them. So that while Hong Kong Island and Kowloon are not viable on their own, they nevertheless represent something for the surrender of which something tangible could be extracted. Thirdly Hong Kong depends for its position in export markets largely on its status as a UK dependency. This is an advantage the Chinese would not want - or could not afford - to sacrifice.



Chancellor of the Duchy of Lancaster

8. The present process of slow and painful negotiation is the only course open to us. We must avoid crystallization of our own position and equally we must ensure that we do not allow the Chinese to draw the conclusion that we are trying to drive them into a corner. If progress can be shown, Deng's deadline of September 1984 may not prove to be inflexible.
9. The people of Hong Kong want some "insulation" inserted between themselves and the Chinese Government. I do not think anything so transparent as that is negotiable. Rather I would think the right course would be to follow the precedent set in the negotiations with the Americans over the Siberian pipeline - namely to have the negotiations on the two aspects of the problem - namely the assumption of sovereignty by the Chinese and the safeguards for Hong Kong - ostensibly separate from one another but moving in parallel: dependent de facto on one another but not de jure. This might well enable the Chinese to make more movement in the direction of clarifying and entrenching the future position of Hong Kong than they would otherwise be disposed to do.
10. If we are to approach the problem in this way, it would be valuable to strengthen our bargaining hand. I have indicated the great opportunities open to us for collaboration with the Chinese in the economic field. There will be opportunities also in the cultural field. Probably too in the political field. If we could reach some more wide ranging accommodation with the Chinese, it might enable agreement on Hong Kong to be slotted into this wider framework. This could make it more acceptable to the Chinese. But at the same time there would be the sanction - real but not too naked - that failure to observe the concord on Hong Kong would carry with it the loss of the wider agreement.



Chancellor of the Duchy of Lancaster

11. There is already a high and growing degree of economic integration between Hong Kong and mainland China. Hong Kong already can scarcely live on its own: and its effective dependence on China will grow not diminish. It is important to go with the tide not against it.
12. We must do our best for the people of Hong Kong. But what we can do by way of binding assurance is limited. A breakdown in the negotiations - even if in the form of a publicly admitted failure to agree - would not help the people of Hong Kong. It is no good saying now that at least they would have another 14 years of British rule. The demoralization would be such that the economy of Hong Kong would be seriously damaged and the problem of government immensely increased. But it does not follow that firm agreement is needed by September 1984. Sufficient progress to discourage the Chinese from unilateral action is what is needed. If we can achieve that the time left to us before the lease expires should both enable the detail progressively to be filled in and the people and the economy of Hong Kong to adapt itself to the inevitable. It would I think be important that nothing should actually be surrendered before 1997. By then it would be nearly thirty years since the height of the Cultural Revolution. If tranquillity persisted over such a period of time it would itself provide an important reassurance.
13. There is nothing which I have said above which runs counter to the trend of the negotiations on our side - which have been conducted with great skill. But the point I would make is that when dealing with an adversary of single minded determination, patience and persistence are required: and that to this end we need if we can to find means of strengthening our bargaining hand.
14. I have not copied this to anyone else.

A C

4

1 December 1983

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

1st December 1983

1. Mr. Coler ~~Mr~~ ^{2.} _{2.}
2. Prime Minister

You may like to glance at the conclusion on p. 11, which is an interesting indication of how people outside are beginning to perceive the future of Hong Kong.

Dear Robert

Knowing how little your boss has to read, it occurred to me that she might be interested in the attached memorandum by a specialist on mainland China, but I am not sure; so let me know if you want the usual second copy.

FERB
2.12.

Yours
Victoria

THE FUTURE OF HONG KONG

I INTRODUCTION

1. Chinese intentions towards Hong Kong after 1997 have at last become clear. This paper endeavours to examine the extent to which Hong Kong's financial viability can continue in face of these intentions.
2. At the present time the most important factor for Hong Kong's financial stability is human confidence. International investors' confidence can be secured through Chinese diplomatic guarantees. The confidence of the Hong Kong Chinese, who have reasons to distrust China, will be more difficult to sustain. As it is ultimately the Hong Kong Chinese who create the wealth of the colony, this paper concentrates on their disposition.
3. The time frame of this paper is limited to the immediate decade ahead. Long term predictions in human affairs are seldom reliable. A ten year time span already strains credibility. In the case of Hong Kong the matter is further complicated by the possibility of increasing participation in Hong Kong's affairs by the Chinese Communist bureaucracy whose competence is dubious. Moreover, prediction beyond ten years is unnecessary as financial commitments in Hong Kong normally seek satisfactory return of capital within a much shorter period.

4. In assessing the likely financial viability of Hong Kong, this paper assumes that there will be no political upheavals in China or political intransigence in Britain in the course of the next decade. Although the conclusion reached by this paper is optimistic, because of human propensity to political folly, this optimism needs to be tempered with caution.

II BACKGROUND

5. In the summer of 1982 the Peoples' Daily in Beijing (Peking), followed by the Chinese Communist press in Hong Kong, carried prominent photographs and news items of a meeting between China's leader, Mr. Deng Xiao Ping, and an internationally known Beijing publicist stationed in Hong Kong, Mr. Fei Yi-Ming. Normally such a meeting would not have warranted front page attention by the Chinese Communist press, for Mr. Fei meets Chinese leaders frequently as a matter of routine. On this occasion it was obvious that Beijing wished to draw attention to Mr. Fei's meeting with Mr. Deng in order to lend authority to what Mr. Fei had to say to the Western press immediately upon his return to Hong Kong.
6. Mr. Fei's message was that China envisages a future Hong Kong that would continue as an international financial centre, but under Chinese sovereignty. Subsequently Chinese embassies in the Western world confirmed Mr. Fei's message, and Beijing too joined the chorus, remarking that a

Sino-British accord on the future of Hong Kong needed to be reached within the next two years. However, the sense of threat implied by the short time frame of two years was later mollified by informal statements by the Chinese Prime Minister that China will take no action to resume the responsibility of Hong Kong until after 1997.

7. Throughout it all Hong Kong rocked. The colony was shaken. Many felt that the party was at last over.

III CHINESE INTENTIONS

8. To date, Chinese official statements regarding their intentions towards Hong Kong have been limited to principles. More detailed descriptions of the Hong Kong they envisage were left to informal briefings by Chinese officials to carefully selected non-Communist individuals and publicists. What has been "leaked" claims that:-
 - a) Hong Kong would continue as an international metropolis beyond 1997;
 - b) Hong Kong would remain a free port;
 - c) Hong Kong would seek to maintain its position as an important world banking centre;
 - d) Hong Kong capital would remain mobile;

- e) foreign and local investors in Hong Kong would continue to enjoy financial and property rights;
- f) Hong Kong currency would be distinct from Chinese currency; but, Hong Kong notes that carried symbols of British sovereignty would be replaced;
- g) the Hong Kong police would remain in force; but the British army would be withdrawn;
- h) the Hong Kong administration would continue more or less in its present form but the Governor would be a "patriotic" Hong Kong Chinese;
- i) the question of sovereignty would be beyond discussion. It would be Chinese.

9. China's statements regarding Hong Kong should be taken with utter seriousness. It is a Chinese Communist practice to issue prior warning before participating in international adventures. Thus, in the early fifties General MacArthur was repeatedly warned by China that the Chinese forces would enter Korea should the Americans cross the 38 parallel. In the sixties India was given notice by China of her impending attack if India did not cease border provocation. In the seventies Beijing announced her intention of carrying out punitive operation against Vietnam weeks before her soldiers crossed the Sino-Vietnamese border. Now, in the eighties, China is giving notice of her intention to cross yet another international border, that which separates China from Hong Kong.

IV HONG KONG'S INITIAL REACTION

10. Whilst Hong Kong's New Territories were leased from China, Hong Kong island was ceded to Britain in perpetuity by the Treaty of Nanking in 1842. It was this perpetuity clause which gave many in the colony hope that by the time the New Territories lease expires in 1997 some form of compromise could be reached with China that would permit a renewal of the lease and the continuation of British sovereignty and British colonial administration. The sudden assertion of Chinese intransigency over the question of sovereignty shattered Hong Kong's financial confidence in late 1982. To the Hong Kong Chinese, what China envisages for the future Hong Kong denies them the political protection (British sovereignty) of the judicial machineries (colonial administration) that provide them with their present unique existence which sets them above the horrors of arbitrary rule that characterises China.
11. But was the expectation of the continuity of British sovereignty over Hong Kong ever founded in reality? Sovereignty, when it coincides with geographical and ethnic integrity, is tantamount to the primaevial territorial instinct, and politicians who have relinquished territorial sovereignty are historically condemned. The Treaty of Nanking that relinquished Chinese sovereignty over Hong Kong is regarded by the Chinese as the first incident of national humiliation by the West that precipitated more than half a century of foreign domination.

None of the revolutionary Chinese governments since 1911 were ever reconciled to the legality of the Nanking Treaty, and no modern Chinese politician could afford to appear to recognise it; least of all the present elder generation of Chinese Communist leaders who, as Marxists, cannot enjoy the solace of a belief in religious afterlife, but must instead seek immortality through the pages of history. Their need for a desirable image in the annals of Chinese national history is probably paramount. To stain this image would deny them the only form of a sense of afterlife that true Marxists can entertain, and rob them of the very accolade that they consider as their ultimate reward after a life long career of historical significance.

12. The expectation that China would permit a continuity of British sovereignty over Hong Kong beyond 1997 was, therefore, unrealistic. That the disappointment caused by this realisation could so adversely effect Hong Kong's financial market in 1982 is an indication of the extent of human vulnerability to self delusion, not a manifestation of the beginning of the end of Hong Kong's prosperity.

V DISPOSITION OF THE HONG KONG CHINESE

13. Nevertheless, the reaction of the Hong Kong market in late 1982 to China's sovereignty claim reflects its unpopularity. Would there, therefore, be a mass exodus of individuals, a rush of outpouring

capital, and a fatal crippling of the will of those remaining behind? Would Hong Kong soon be reduced to the same empty apathetic shell of a once great city that is Shanghai today?

14. In 1976 a Chinese residing in the West remarked in private after a visit to China that if the Chinese were free to leave their country, the only thing that would be left standing in the streets of Chinese cities would be the electricity poles. The instinctive reaction of most Hong Kong Chinese residents towards a Chinese Communist takeover of Hong Kong is no doubt similar to that of their compatriots in China; to leave as rapidly as possible. But, like their compatriots in China, only a very few could in reality achieve mobility.

15. The poor, who constitute the vast majority of the population of Hong Kong, simply will not be able to move. Their desperation, coupled with aspirations of a better life that could be available for them under the British colonial administration, had always been responsible for much of Hong Kong's remarkable achievements. Their very immobility in fact nourishes a fanaticism for survival and self improvement. As long as there are reasons for them to believe that, despite eventual Chinese sovereignty, the dead hand of Communism will not touch that aspect of Hong Kong's environment which enables them to seek advancement, their industriousness and ingenuity will continue to fuel the prosperity of the colony.

16. Ever since the advent of Communism on mainland China, it has been the tradition of the Hong Kong rich to maintain residences in safer havens overseas. They are known as the "tooth brush" brigade, because when the contingency arises all that they need to do is to pack a tooth brush and go. Thus the Hong Kong rich can remain on the island until the eleventh hour. This may now be a necessity for much of their wealth in recent years has been concentrated in property investments that are undisposable in the present climate. For the time being, it is to their advantage to remain in Hong Kong to maintain confidence lest the property value falls further. Besides, where else in the world can they make money as freely as they can in Hong Kong?
17. The middle class, who cannot share the instant mobility of the rich, but who need not necessarily surrender to Chinese Communist rule with the passivity of the totally immobile poor, is the section of the Hong Kong society who will most likely seek immediate emigration. However, they are replaceable. Once Hong Kong's continued stability has become apparent, expatriates could be engaged in place of the absent Hong Kong Chinese professionals. In any event, many of those who leave now are expected to return once they have solved their problems of residences in the West, and, thus join Hong Kong's "tooth brush" brigade.
18. Exodus of talent and outflow of accompanying capital have in fact been familiar phenonema to post Second World War Hong Kong. Whenever the threat of

Communism has loomed large across the Chinese border in the past three decades a number of those who could leave Hong Kong left. But, inevitably, those who remained ensured that Hong Kong continued to prosper. Providing that the right political climate continues, this same pattern could repeat itself in the years to come.

VI POLITICAL CLIMATE

19. The right political climate may well continue. The present Chinese policy towards Hong Kong is not solely motivated by the amount of foreign exchange China derives from the colony. If it were, it would not have been adequate guarantee for Hong Kong's future stability, for economic pragmatism is the logic of the mercantile West, not the Feudal East where political power is paramount. Long term political calculation dominates Chinese Communist thinking. Unless this dimension is considered, Chinese intentions towards Hong Kong cannot be properly determined.

20. Political power, exclusive of economic consideration, devastated Maoist China and made a mockery of China's pretension to greatness. Present Chinese Communist leaders now realise that they cannot achieve their ultimate political objectives of a great China without pragmatic economic planning. It is fortunate for Hong Kong that this realisation took place at a time when Hong Kong's own future needed to be formulated. To the Chinese leaders Hong Kong now suddenly represents an example of modern sophistication which, once under Chinese sovereignty, the rest of China can emulate at will.

21. As Hong Kong now has a potential role in China's political programme of modernisation, it is in China's vested interest to preserve Hong Kong's present prosperity. Without it there can be no future prosperity, and since China desires Hong Kong back as a glittering prize, she will want it returned undamaged. To ensure this, Chinese Communist institutions in Hong Kong have recently instigated various actions to sustain the financial viability of Hong Kong, and to convince the Hong Kong Chinese that their valued pursuit of individual aspiration could continue under Chinese sovereignty.

22. There is another secondary political consideration why China may want to preserve the climate of successful free enterprise in Hong Kong. China has often linked Hong Kong's potential fate with that of Taiwan's. Senior Chinese officials have now suggested in private conversations that as China has exhausted her persuasiveness for attracting Taiwan to the fold, she may be able to demonstrate to Taiwan, through her treatment of Hong Kong, the innocuousness of becoming part of the People's Republic. If China's Hong Kong policy is indeed intended in part as an enticement to Taiwan, then China will do her utmost to protect Hong Kong's present life style. Whether Hong Kong could realistically be a bait for Taiwan is beside the point. What matters is that as long as such thinking is prevalent in China, capitalism is likely to remain in Hong Kong.

VII THE UNKNOWN

23. But what would happen after the next decade, when the Hong Kong Chinese rich decide that the eleventh hour has arrived? And what would happen once China had assumed sovereignty over Hong Kong? Could the greed of poverty-ridden Communist China restrain itself from incursions into the economic success of the private individuals and institutions of Hong Kong? Could Communist Chinese officials, who were bred in the system of arbitrary power where the final reward for attainment of office was often the privilege to abuse this very office with impunity, refrain from interfering with the independent judiciary system of Hong Kong? No doubt as 1997 draw inexorably closer the deterioration of the quality of life in Hong Kong will accelerate. The worst may well happen then. Much will depend upon the extent to which Communist China can achieve a mature comprehension of the complex prerequisites essential to the successful governing of a modern international metropolis. Obviously, the situation of Hong Kong needs to be reassessed again before the end of the ten year period covered by this paper.

VIII SUMMARY

24. In summary, Hong Kong's future financial viability can only be assessed within a context of acceptance of eventual Chinese sovereignty over Hong Kong, not from market trends that were caused by initial disappointment in unrealistic expectations that

precluded Chinese sovereignty. The inevitability of Chinese sovereignty caused unease amongst the Hong Kong Chinese. Henceforth there will be emigration and flight of capital, but not of the magnitude that will irreparably damage Hong Kong's financial viability. Because China's present policy of national economic development envisages a role for Hong Kong, it is advantageous for China to foster, rather than cripple, the enterprising spirits of the Hong Kong Chinese. In the circumstances, new talents will soon emerge and new wealth will soon be amassed to replace those that have left. China's claim of sovereignty, therefore, should not be perceived as a threat to Hong Kong's future financial viability. On the contrary, because of this claim, it is now in China's political interest to protect the colony's prosperity prior to, and after, 1997.

VII CONCLUSION

25. In conclusion, the party is not over!

21st March, 1983.



Prime Minister.

33

This is what Mr. Lee Kuan Yew told me.

A.D.C. 207u

10 DOWNING STREET

From the Private Secretary

29 November 1983

Very hurried

circulation

1 time

F.S. only +
PUS
MS
Mandarin
of Peking

Dear Brian,

HONG KONG

Would you please refer to my letter to you yesterday.

Shortly before he left New Delhi, the Prime Minister of Singapore rang me to say that he had reflected overnight on his talk with the Prime Minister and had realised that they had had a very unsatisfactory discussion in the sense that they had been constantly interrupted. The matter was so important that he wished to make clear to the Prime Minister once again the essence of his message. Since the Prime Minister was detained on other business, Mr. Lee Kuan Yew offered to convey the message through me and called at the High Commissioner's Residence to do so.

Yes. 1.
A.D.C. 12

He told me that he did not wish to leave the Prime Minister with the wrong impression. If in the negotiations with the Chinese we had explained what was necessary to maintain confidence in Hong Kong, and that had failed to convince the Chinese, then perhaps there was no solution. But if he was in that position he would want to bring matters to centre stage quickly, by sending a very high-level Minister or Emissary to make plain our attitude. It was most important that any demarche of this kind be received at the highest possible level in the Chinese Government.

The crucial point was that we should adopt the right attitude. We should be neither defiant nor submissive. We should strike a calm, friendly note. We should acknowledge the immense power of China which gave it the capacity to demolish Hong Kong. We should say that Hong Kong had survived because China had allowed it to do so and because the world had found the existing systems in Hong Kong convenient. If China did not wish Hong Kong to survive, nothing would allow it to do so. China should therefore tell us what they were going to announce in September next year so that we could brace Hong Kong for the event. Our efforts might be inadequate but we should make the attempt.

/ Mr. Lee Kuan Yew

Mr. Lee Kuan Yew thought that this approach just stood a chance of moving the Chinese away from their game of chicken. But, he repeated, our attitude was absolutely crucial. We must avoid defiance or despair. We should talk calmly and coolly and acknowledge that China is a vast powerful country. We should leave the Chinese with the clear impression that it was for them to make or break Hong Kong. The negotiations had gone wrong because we had not acknowledged that. The suggestion that Hong Kong's success was due to a combination of the Chinese character and British (sic) enterprise was unacceptable to them. In this context, preservation of Chinese face meant acknowledging that China had the power to settle the future of Hong Kong.

Mr. Lee Kuan Yew illustrated his thesis by describing his first meeting with Deng Xiaoping. He said that he had spoken as a Chinese peasant to a Mandarin, had acknowledged the superior background of the Peking regime and had apologised in advance if his own statements appeared too crude or strong. With that behind him, he had been able to make his points.

I said that I would convey all that he had said to the Prime Minister, which I have since done. I thanked Mr. Lee Kuan Yew for making this special effort to clarify his message before he left New Delhi for Singapore.

I should be grateful for any comments which you wish to offer on the above.

John

for Cole.

Brian Fall, Esq.,
Foreign and Commonwealth Office.

SUBJECT

SECRET

he v 32
cc master



10 DOWNING STREET

From the Private Secretary

28 November 1983

Dear Brian,

HONG KONG

The Prime Minister had a talk in the margins of CHOGM today with the Prime Minister of Singapore who had expressed a wish to talk to her about Hong Kong.

The Prime Minister told me afterwards that Mr. Lee Kuan Yew's advice had been that we should choose our moment in the negotiations and then call the Chinese bluff. We might take the line with the Chinese that we had noted their intention to make a public declaration of their policy in September 1984, that that was a matter for them and that meanwhile we would brace Hong Kong as best we could. He believed that it would be necessary to convey such a message at a high level, i.e. at Ministerial level or by means of a special emissary.

Mr. Lee Kuan Yew further said that he believed that in the end the Chinese would be so preoccupied by the likely effect on their Taiwan policy of failure to agree a sensible solution for Hong Kong that they would come round to our way of thinking. He also believed that the Chinese were concerned to maintain the present economic advantage to them of the Colony.

It would be helpful to have your comments on Mr. Lee Kuan Yew's advice in due course.

Yours ever
John G. ...

Brian Fall, Esq.,
Foreign and Commonwealth Office.

SECRET

LUK 879/29
FDW G 153/28

IMMEDIATE

Prime Minister ³¹

dead in file.

A. & C. 29/11

OO NEW DELHI
GRS 560
SECRET
FM FCO 282211Z NOV 83
TO IMMEDIATE NEW DELHI
TELEGRAM NUMBER 931 OF 28 NOVEMBER

SECRET

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BRITISH HIGH COMMISSION
NEW DELHI
CHANCERY BUILDING
29 NOV 1983
DUPLICATES
CLASSIFICATION:
OF ENCLOSURES:
LOCATION:

MS

FOR COLES

FOLLOWING TELEGRAM NOW REPEATED TO YOU AT REQUEST OF RESIDENT CLERK WAS RECEIVED FROM PEKING TELEGRAM NO 1257 OF 28 NOVEMBER

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: CALL ON YAO GUANG.

1. I CALLED ON VICE FOREIGN MINISTER YAO GUANG THIS AFTERNOON AND REFERRED TO STATEMENTS I HAD MADE IN THE PAST ON THE NATURE OF THE BRITISH ROLE. I SAID THAT DESPITE THESE EXPLANATIONS IT SEEMED THERE WAS STILL A CERTAIN DEGREE OF MISTRUST ABOUT OUR OBJECTIVES. I THEN SPOKE AS INSTRUCTED IN YOUR TEL NOS 815 AND 826 AND LEFT A COPY OF THE SPEAKING NOTE.
2. I CONCLUDED BY SAYING THAT I TRUSTED THAT THIS COMMUNICATION, COUPLED WITH THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER, WOULD HAVE REMOVED ANY REMAINING DOUBTS ABOUT BRITISH INTENTIONS AND THAT WE GREATLY HOPED IT WOULD BE POSSIBLE TO PROCEED TO DETAILED DISCUSSIONS OF THE CHINESE PROPOSALS. I HANDED HIM THE PAPERS ON THE ECONOMIC AND MONETARY SYSTEMS, TOGETHER WITH CHINESE TRANSLATIONS.
3. YAO GUANG THANKED ME FOR MY COMMUNICATION AND UNDERTOOK TO REPORT TO HIS GOVERNMENT. SPEAKING PERSONALLY, HE THOUGHT WHAT I HAD SAID DESERVED FULL ATTENTION AND WAS TO BE WELCOMED. HE THOUGHT THE EXPLANATION WAS NEEDED BECAUSE THE QUESTION OF THE FUTURE LINK WAS A SENSITIVE ISSUE AND ONE OF MAJOR CONCERN TO THE CHINESE GOVERNMENT.
4. HE THEN OFFERED, ON A PERSONAL BASIS, SOME COMMENTS ON WHY THE ISSUE WAS SO IMPORTANT. THESE COMMENTS CONSISTED OF A LENGTHY REVIEW OF THE TALKS TO DATE AND THE INCOMPLETENESS OF THE VARIOUS BRITISH MESSAGES AND ASSURANCES SO FAR RECEIVED. HE SAID THAT ON THE BASIS OF THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER THE CHINESE SIDE HAD REACHED THE UNDERSTANDING -
(A) THAT ALTHOUGH WE WOULD NO LONGER INSIST ON BRITISH ADMINISTRATION, IT DID NOT FOLLOW THAT WE HAD ENTIRELY ABANDONED OUR AMBITIONS,
(B) THAT ALTHOUGH WE SAID WE UNDERSTOOD THE LINK BETWEEN THE CHINESE PROPOSALS AND THE CHINESE PREMISE, WE WERE NOT WILLING TO AFFIRM THE PREMISE EXPLICITLY,
(C) THAT IN ANSWER TO REPEATED CHINESE QUESTIONS OF THE NATURE OF THE LINK OR ROLE, WE HAD NOT GIVEN A SATISFACTORY ANSWER.
5. YAO GUANG CONTINUED THAT IN THESE CIRCUMSTANCES ALTHOUGH THE CHINESE SIDE DID NOT OPPOSE OUR PRESENTATION OF WORKING PAPERS AND WERE READY TO HOLD SOME DISCUSSION ON THEM, THIS DISCUSSION WOULD ONLY TREAT MAJOR QUESTIONS OF PRINCIPLE. THE SIXTH ROUND HAD, IN HIS VIEW, REVOLVED AROUND ONE QUESTION, NAMELY HOW WERE WE TO PROCEED WITH OUR WORK: WERE WE TO CONCENTRATE ON PRINCIPLE OR ON "EXCESSIVE DETAIL"? FRANKLY SPEAKING, THE CHINESE SIDE COULD NOT ENTER INTO EXCESSIVE DETAIL. THAT DID NOT MEAN THE CHINESE SIDE WERE UNWILLING, BUT IT WAS A MATTER FOR SPECIALISTS AND MUCH OF IT WAS FOR THE FUTURE SAR TO DECIDE. HOWEVER, THE CHINESE SIDE WOULD CERTAINLY COMMENT ON THE BRITISH WORKING PAPERS AND HE WOULD GIVE HIS VIEWS ON HOW OUR FUTURE WORKING PAPERS SHOULD BE DRAFTED. THE CHINESE SIDE WELCOMED OUR SUBMISSION OF THE WORKING PAPERS BUT WE SHOULD FIRST MAKE CLEAR THE QUESTION OF PRINCIPLE BEFORE ENTERING DETAILED DISCUSSION OF THEM.
6. I THANKED HIM FOR HIS COMMENTS AND, WITH REFERENCE TO THE POINTS IN PARA 4 ABOVE, SAID THAT I TRUSTED THAT MY COMMUNICATION WOULD HELP TO REMOVE MISUNDERSTANDINGS AT LEAST ON POINTS (A) AND (C). YAO SAID AGAIN HE WOULD REPORT AND HIS GOVERNMENT WOULD CAREFULLY ANALYSE OUR COMMUNICATION. HE REPEATED HIS INVITATION TO A PRIVATE DINNER ON 1 DECEMBER.

HOWE

SECRET

NNNN

FUTURE OF HONG KONG ADVANCE COPIES 10

PS
PS/PUS
PS/MR LUCE
MR DONALD
ED/HKD
ED/FED

COPY TO:

MR COLES, No. 10 DOWNING ST

Mr Roberts, News D

*Repeated
to Delhi
DMS
28/11*

30

SECRET

ADVANCE COPY.

FM PEKING 260935Z NOV 83

IMMEDIATE

TO IMMEDIATE FCO

TELEGRAM NUMBER 1257 OF 28TH NOV 83

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: CALL ON YAO GUANG.

1. I CALLED ON VICE FOREIGN MINISTER YAO GUANG THIS AFTERNOON AND REFERRED TO STATEMENTS I HAD MADE IN THE PAST ON THE NATURE OF THE BRITISH ROLE. I SAID THAT DESPITE THESE EXPLANATIONS IT SEEMED THERE WAS STILL A CERTAIN DEGREE OF MISTRUST ABOUT OUR OBJECTIVES. I THEN SPOKE AS INSTRUCTED IN YOUR TEL NOS 815 AND 826 AND LEFT A COPY OF THE SPEAKING NOTE.
2. I CONCLUDED BY SAYING THAT I TRUSTED THAT THIS COMMUNICATION, COUPLED WITH THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER, WOULD HAVE REMOVED ANY REMAINING DOUBTS ABOUT BRITISH INTENTIONS AND THAT WE GREATLY HOPED IT WOULD BE POSSIBLE TO PROCEED TO DETAILED DISCUSSIONS OF THE CHINESE PROPOSALS. I HANDED HIM THE PAPERS ON THE ECONOMIC AND MONETARY SYSTEMS, TOGETHER WITH CHINESE TRANSLATIONS.
3. YAO GUANG THANKED ME FOR MY COMMUNICATION AND UNDERTOOK TO REPORT TO HIS GOVERNMENT. SPEAKING PERSONALLY, HE THOUGHT WHAT I HAD SAID DESERVED FULL ATTENTION AND WAS TO BE WELCOMED. HE THOUGHT THE EXPLANATION WAS NEEDED BECAUSE THE QUESTION OF THE FUTURE LINK WAS A SENSITIVE ISSUE AND ONE OF MAJOR CONCERN TO THE CHINESE GOVERNMENT.
4. HE THEN OFFERED, ON A PERSONAL BASIS, SOME COMMENTS ON WHY THE ISSUE WAS SO IMPORTANT. THESE COMMENTS CONSISTED OF A LENGTHY REVIEW OF THE TALKS TO DATE AND THE INCOMPLETENESS OF THE VARIOUS BRITISH MESSAGES AND ASSURANCES SO FAR RECEIVED. HE SAID THAT ON THE BASIS OF THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER THE CHINESE SIDE HAD REACHED THE UNDERSTANDING -
(A) THAT ALTHOUGH WE WOULD NO LONGER INSIST ON BRITISH ADMINISTRATION, IT DID NOT FOLLOW THAT WE HAD ENTIRELY ABANDONED OUR AMBITIONS,
(B) THAT ALTHOUGH WE SAID WE UNDERSTOOD THE LINK BETWEEN THE CHINESE PROPOSALS AND THE CHINESE PREMISE, WE WERE NOT WILLING TO AFFIRM THE PREMISE EXPLICITLY,
(C) THAT IN ANSWER TO REPEATED CHINESE QUESTIONS OF THE NATURE OF THE LINK OR ROLE, WE HAD NOT GIVEN A SATISFACTORY ANSWER.
5. YAO GUANG CONTINUED THAT IN THESE CIRCUMSTANCES ALTHOUGH THE CHINESE SIDE DID NOT OPPOSE OUR PRESENTATION OF WORKING PAPERS AND WERE READY TO HOLD SOME DISCUSSION ON THEM, THIS DISCUSSION WOULD ONLY TREAT MAJOR QUESTIONS OF PRINCIPLE. THE SIXTH ROUND HAD, IN HIS VIEW, REVOLVED AROUND ONE QUESTION, NAMELY HOW WERE WE TO PROCEED WITH OUR WORK: WERE WE TO CONCENTRATE ON PRINCIPLE OR ON "EXCESSIVE DETAIL"? FRANKLY

CONCENTRATE ON PRINCIPLE OR ON "EXCESSIVE DETAIL"? FRANKLY SPEAKING, THE CHINESE SIDE COULD NOT ENTER INTO EXCESSIVE DETAIL. THAT DID NOT MEAN THE CHINESE SIDE WERE UNWILLING, BUT IT WAS A MATTER FOR SPECIALISTS AND MUCH OF IT WAS FOR THE FUTURE SAR TO DECIDE. HOWEVER, THE CHINESE SIDE WOULD CERTAINLY COMMENT ON THE BRITISH WORKING PAPERS AND HE WOULD GIVE HIS VIEWS ON HOW OUR FUTURE WORKING PAPERS SHOULD BE DRAFTED. THE CHINESE SIDE WELCOMED OUR SUBMISSION OF THE WORKING PAPERS BUT WE SHOULD FIRST MAKE CLEAR THE QUESTION OF PRINCIPLE BEFORE ENTERING DETAILED DISCUSSION OF THEM.

6. I THANKED HIM FOR HIS COMMENTS AND, WITH REFERENCE TO THE POINTS IN PARA 4 ABOVE, SAID THAT I TRUSTED THAT MY COMMUNICATION WOULD HELP TO REMOVE MISUNDERSTANDINGS AT LEAST ON POINTS (A) AND (C). YAO SAID AGAIN HE WOULD REPORT AND HIS GOVERNMENT WOULD CAREFULLY ANALYSE OUR COMMUNICATION. HE REPEATED HIS INVITATION TO A PRIVATE DINNER ON 1 DECEMBER.

CLARK

NNNN

IMMEDIATE

ADVANCE COPY

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XX

GR 500

SECRET

SECRET
DESKBY 251300Z
FM HONG KONG 250945Z NOV 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1628 OF 25 NOVEMBER
INFO IMMEDIATE PEKING

*Pa
Dumb
25/11*

FUTURE OF HONG KONG

1. SIR S.Y. CHUNG RE-AFFIRMED TO ME LAST NIGHT HIS BELIEF, SHARED BY HIS UNOFFICIAL COLLEAGUES, THAT WE HAVE REACHED A CROSS-ROADS IN THE TALKS WITH THE CHINESE ON THE FUTURE OF HONG KONG. WHATEVER THE OUTCOME OF THE MEETING ON DECEMBER 7/8, THEY BELIEVE THAT THEY NOW NEED A CLEARER UNDERSTANDING OF HMG'S POSITION AND WHERE WE THINK THE TALKS ARE LEADING.

2. HE REFERRED AGAIN TO THE POSITION TAKEN BY UMELCO IN SEPTEMBER 1982 THAT CONTINUING BRITISH ADMINISTRATION SHOULD BE THE OBJECTIVE. IF HMG THOUGHT THAT THIS WAS NO LONGER ACHIEVABLE THEN THIS SHOULD BE CONVEYED IN SOME FORM TO UMELCO: OTHERWISE THE UNOFFICIALS IN EXCO WOULD BE IN AN ENTIRELY FALSE POSITION IN RELATION TO THEIR LEGCO COLLEAGUES. (THERE IS FORCE IN THIS: WHEN MR EVANS MET UMELCO LAST WEEK THEY WERE STILL STRONGLY ON THE TACK OF CONTINUING BRITISH ADMINISTRATION, BUT IT IS CLEAR FROM OUR INFORMAL CONTACTS WITH THEM ON THE FUTURE THAT THEY ARE BECOMING INCREASINGLY CONCERNED ABOUT THE GAP BETWEEN THIS OBJECTIVE AND WHAT MAY BE ACHIEVABLE IN THE LIGHT OF THE PUBLIC AND OTHER EVIDENCE OF THE CHINESE POSITION).

3. SIR S.Y. ALSO REFLECTED THE CONCERN OF HIS COLLEAGUES ABOUT WHAT ASSURANCES (OR 'INSULATORS') HMG WILL NOW BE SEEKING. IN THEIR MINDS IT WILL NOT BE SUFFICIENT TO RELY ON CHINESE ASSURANCES ALONE (AND IN THIS THEY CERTAINLY REFLECT THE VIEWS OF THE BULK OF THE POPULATION). HE RAISED THE QUESTION OF WHAT STANDING THE UK COULD CLAIM TO MONITOR CHINESE RESPECT FOR THE AUTONOMY OF HONG KONG AFTER 1997. (THIS RAISES THE ISSUE OF WHAT SHOULD BE INCLUDED IN THE BILATERAL AGREEMENT AND, IF AFTER SIGNATURE THE CHINESE DID NOT ABIDE BY IT, THE EXTENT TO WHICH THE UK COULD AND WOULD ASSERT A RIGHT TO INTERVENE WITH THE CHINESE GOVERNMENT ON THE ISSUE).

SECRET

14.

SECRET

4. SIR S.Y. SAID THAT, GIVEN THEIR CONCERNS, HIS UNOFFICIAL COLLEAGUES HAD ASKED HIM TO SUGGEST THAT I SHOULD DRAW YOUR ATTENTION TO THE FACT THAT A NUMBER OF THEM WILL BE IN NEW YORK (ON A TRADE DEVELOPMENT OCCASION) ON JANUARY 9/10 AND 11. THE END OF THAT WEEK AND THE BEGINNING OF THE NEXT (EG FRIDAY 13TH AND MONDAY 16TH) WOULD BE A CONVENIENT POINT AT WHICH, IF MINISTERS AGREED, THEY COULD TRAVEL ON TO LONDON FOR A REVIEW OF THE POSITION REACHED AND OF WHERE THE NEXT PHASE OF THE TALKS SHOULD LEAD, WITH OTHER EXCO UNOFFICIALS FROM HONG KONG JOINING THEM THERE.

5. PLEASE SEE MIFT.

YOUDE

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/PUSD

D/HD/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

COPIES TO: (VIA DISTR. ROOM)

SIR PHILIP MOORE BUCKINGHAM PALACE

PS/LORD PRESIDENT OF THE COUNCIL

PS/HOME SECRETARY

PS/CHANCELLOR OF THE EXCHEQUER

PS/LORD PRIVY SEAL

PS/SECRETARY FOR TRADE AND
INDUSTRY

COPIES TO: (VIA ADR)

MR ROBERTS NEWS DEPT

MR BURROWS LEGAL ADVISERS

MR COLES NO 10 DOWNING ST

SIR A PARSONS " "

MR MARTIN ASSESSMENT STAFF
CABINET OFFICE

MR GOODALL CABINET OFFICE

MR BRENNAN " "

PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL

-2-
SECRET

PS No 10

M 4/10

V

LUK 523/23
G 307/23
OO PEKING
OO DELHI

RECEIVED
BRITISH HIGH COMMISSION
NEW DELHI
CHANCEERY DEPT.
24 NOV 1983
DUPLICATES

IMMEDIATE

SECRET

GRS 86
SECRET
DESKBY 240100Z
FM FCO 231200Z NOV 83
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 1238 OF 23 NOVEMBER
REPEATED INFO IMMEDIATE PEKING AND IMMEDIATE, DELHI (FOR PRIVATE SECRETARY)
YOUR TELNOS 1809 AND 1811: FUTURE OF HONG KONG: CONSULTATION WITH EXCO
1. THE AMENDMENTS SUGGESTED BY EXCO MEMBERS TO THE FORMULA FOR THE CHINESE SEEM REASONABLE TO US. SUBJECT TO ANY COMMENTS BY THE SECRETARY OF STATE AND PEKING WE AGREE THAT YOU SHOULD INCLUDE THEM IN THE FINAL TEXT TO BE SHOWN TO EXCO ON 26 NOVEMBER.

HOWE
NNNN

SECRET



no red carbon to

29

10 DOWNING STREET

From the Private Secretary

21 November, 1983.

Future of Hong Kong

Thank you for your letter of 18 November.

As your Resident Clerk was informed over the weekend, the Prime Minister agreed, subject to the Foreign and Commonwealth Secretary's views, with the draft telegram of instructions which you enclosed.

A. J. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

PR

SECRET



Prime Minister.

Foreign and Commonwealth Office

London SW1A 2AH

18 November 1983

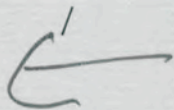
If you are content with the telegram of instructions the duty level will arrange for it to be sent over the weekend.

Dear John,

A.S.C. 15/11

Content - but K.S. has to agree first.

Future of Hong Kong



Following yesterday's discussion in OD(K), I enclose a draft telegram of instructions to Peking and Hong Kong. I am showing a copy in parallel to Sir Geoffrey Howe. The purpose of the telegram is to enable a discussion on the next steps to take place in the Executive Council on 23 November as suggested by the Governor.

The discussion of Sir Percy's formula (Peking telno 1206) in EXCO may give rise to some difficulty. Sir S Y Chung and some other members may see this as the final abandonment of any hope of achieving British administration in Hong Kong after 1997 and react strongly against it. We nevertheless believe that the use of Sir Percy's formula is necessary from the point of view of our public position if we are obliged at some future date to justify our conduct of the negotiations. We should be culpable in the eyes of the people of Hong Kong and Parliament if we had not explored (on the conditions set out in the Prime Minister's message) every possibility of building on the Chinese proposals. Although the situation is serious, we do not believe that the talks will actually break down at the next round. That occasion will mark the end of a distinguished period of service by Sir P Cradock, which the Chinese will recognise. We should do all we can to give him the cards which will enable him to extract the maximum advantage from his last lap.

In the light of the above, we consider that we should press the case in EXCO for deploying the formula with the Chinese, making clear that it is still within the terms of the Prime Minister's message and does not mean any fundamental change of strategy or close off any options. All the options will however need to be reviewed in December and

/January.



S E C R E T

January. We have therefore initiated a thorough reappraisal for Ministers to consider in preparation for discussion of the situation with EXCO after the next round of talks.

Yours ever,


Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

S E C R E T

OUT TELEGRAM

	↓	Classification and Caveats SECRET	Precedence/Deskby IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	SECRET
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO 181800Z NOV 83
PRE/ADD	7	TO IMMEDIATE PEKING
TEL NO	8	TELEGRAM NUMBER
	9	REPEATED INFO IMMEDIATE HONG KONG
	10	PERSONAL FOR AMBASSADOR
	11	YOUR TELNOS 1187, 1188, 1194, 1196 AND 1199 AND 1206 AND HONG KONG
	12	TELNOS 1753, 1754 AND 1755: FUTURE OF HONG KONG: SIXTH ROUND AND
	13	FUTURE TACTICS
	14	1. I am grateful for the skilful way in which you and the
	15	British team handled a very difficult round and in particular
	16	succeeded in getting a reassuring communique out of such bleak
	17	material. I am also glad that you and the Governor have had an
	18	opportunity to compare notes and are in broad agreement on the
	19	position and the way ahead.
	20	2. Ministers have had a full discussion in OD(K) on the
	21	general situation and the prospects for the next round of talks.
///	22	They agree generally with the assessment in your telno 1199 and
//	23	accept that we are reaching a critical point. We have to face
/	24	the fact that the Chinese are not prepared to enter into detailed
	25	discussions on the basis of what we have been prepared to offer

NNNN ends telegram	BLANK	Catchword SO
File number	Dept HKD	Distribution FUTURE OF HONG KONG
Drafted by (Block capitals) R D CLIFT		
Telephone number 233 3184		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats
SECRET

Page
2

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1 <<<<
 2 so far.
 3 3. I wish to re-examine our range of options. These would
 4 cover going on with our "step-by-step" tactic semi colon a
 5 confrontation with the Chinese which Ministers yesterday
 6 reaffirmed would be against HMG's and Hong Kong's long term
 7 interests semi colon and alternative ways of reaching a
 8 negotiated settlement. But I do not think that we should bring
 9 this major stocktaking to a head before the next round on 7/8
 10 December. We need first to demonstrate conclusively for our own
 11 purposes and in terms of likely reactions in Hong Kong and in
 12 London, that we have explored ^{exhaustively all that} ~~every iota of what~~ the Chinese may
 13 have to offer on the basis of the Prime Minister's message.
 14 4. ~~For this reason and also because it is important to create~~
 15 ~~the best possible atmosphere for the resumption of talks~~
 16 ~~following the arrival of the new Ambassador,~~ ^{therefore} I agree that the
 17 next step should be the deployment of the formula suggested in
 18 paragraph 7 of your telno 1199 spelt out in your telno 1206. It
 19 logically falls within the terms of the agreement between the
 20 Unofficials and the Prime Minister and the resulting message
 21 which you delivered before the fifth round.
 22 5. I also agree with the Governor's recommendation that there
 23 should be a full discussion with EXCO, which would include the
 24 question of the deployment of this formula. It would be helpful
 25 to provide EXCO with an assessment of the point we have reached
 26 in the talks and I should be grateful if you would telegraph a
 27 draft as soon as possible. For the reasons I have given above, I
 28 do not think that any paper or discussion with EXCO at this stage
 29 should go quite as far as suggested by the Governor in Hong Kong
 30 telno 1754 in initiating a fundamental strategic reappraisal.
 31 However I accept that it is important to take the initiative with
 32 EXCO and to give them as much guidance as possible. I certainly
 33 believe that it would be helpful to include in our current
 34 assessment a view on how effective (or ineffective) confrontation

NNNN ends
telegram

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Catchword
would

OUT TELEGRAM (CONT)

Classification and Caveats

SECRET

Page

3

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2 would be in changing the Chinese mind. This should enable the
 3 Governor to discuss with the Council the tactics for the next
 4 round, taking the line that we should explore the Chinese
 5 position fully, allow Yao Guang's report on the last round to
 6 sink into the leadership and on 7 and 8 December continue to
 7 press for detailed discussion on the basis of the Prime
 8 Minister's message and our working papers. This would lead to
 9 telling EXCO that in my view the formula which you proposed
 10 should help in probing the Chinese position fully and above all
 11 would leave Peking with no excuse for saying that we were seeking
 12 to perpetuate colonialism for its own sake. It would remain
 13 within the conditionality of the Prime Minister's message and
 14 would not restrict our consideration of options thereafter. If,
 15 as in honesty seems likely, we do not make much further progress
 16 with the Chinese at the next round, we would look forward to
 17 associating EXCO with a major rethink of our strategy in December
 18 and January.

19 6. I shall telegraph as soon as possible my views on the
 20 ground which such a review should cover.

22 HOWE

23 NNNN

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NNNN ends
telegram

BLANK

Catchword

DMF G 072

LTA 412/17

OO FCO

OO HONG KONG

BRS 440

SECRET

HKD
IMMEDIATE
ADVANCE COPY

FROM PEKING 170900Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1206 OF 17/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 1199: FUTURE OF HONG KONG

1. I PROMISED IN MY TEL NO 1199 TO TELEGRAPH IDEAS ON A FORMULA TO EXPLAIN THE MEANING OF BRITISH LINK OR ROLE. GIVEN CHINESE SUSPICIONS, WE MUST ENSURE THAT THE FORMULA WE USE IS AS UNAMBIGUOUS AS WE CAN MAKE IT IN ORDER TO GIVE IT THE MAXIMUM CHANCE OF SUCCESS. I SUGGEST SOMETHING ON THE FOLLOWING LINES.

-BEGINS

"THE CHINESE SIDE HAVE REPEATEDLY ASKED US TO DEFINE MORE CLEARLY WHAT WE MEAN BY THE EXPRESSION "A SUBSTANTIAL BRITISH ROLE" WHICH WAS USED BY THE PRIME MINISTER IN HER MESSAGE OF 14 OCTOBER. I WISH TO MAKE IT CLEAR ON INSTRUCTIONS THAT THE BRITISH SIDE UNDERSTANDS THAT THE CHINESE PLAN IS BASED UPON THE PREMISE THAT BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION OVER THE WHOLE OF HONG KONG SHOULD REVERT TO CHINA AFTER 1997. FOR THIS REASON THE BRITISH SIDE DOES NOT INTEND, IN THE COURSE OF THE DISCUSSION PROPOSED IN THE PRIME

MINISTER'S MESSAGE, TO MAKE ANY PROPOSAL ON LINKS BETWEEN BRITAIN AND HONG KONG WHICH CONFLICTS WITH THE PREMISE THAT BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION OVER THE WHOLE OF HONG KONG SHOULD REVERT TO CHINA IN 1997. IN PARTICULAR, THE BRITISH SIDE DOES NOT INTEND TO PROPOSE ANY LINK OF AUTHORITY OR ACCOUNTABILITY BETWEEN THE GOVERNMENT OF THE HONG KONG SAR AFTER 1997 AND THE BRITISH GOVERNMENT AT ANY LEVEL. THE BRITISH SIDE WOULD ALSO BE WORKING ON THE ASSUMPTION THAT ANY BRITISH SUBJECTS WHO CONTINUED TO SERVE IN HONG KONG AS GOVERNMENT OFFICIALS WOULD BE IN THE EMPLOYMENT OF THE GOVERNMENT OF THE SAR AND WOULD OWE THEIR LOYALTIES TO THAT GOVERNMENT. THEY WOULD NOT BE APPOINTED BY THE BRITISH GOVERNMENT, NOR WOULD THEY BE RESPONSIBLE TO LONDON.

"THE BRITISH SIDE HOPES THAT BRITAIN WOULD STILL BE ABLE TO PLAY A SUBSTANTIAL ROLE IN HONG KONG. ON THE BASIS OF THE CHINESE PLAN WE WOULD SEE THIS ROLE AS BEING ONE OF ASSISTANCE TO THE SAR, AND NOT ONE OF AUTHORITY. WE BELIEVE THAT THERE WILL BE MANY AREAS WHERE BRITAIN, IN COOPERATION WITH THE CHINESE CENTRAL GOVERNMENT, MAY BE ABLE TO GIVE ASSISTANCE TO THE NEW HONG KONG SAR AND TO HELP PROMOTE ITS INTERESTS. WE LOOK FORWARD TO DISCUSSING THESE MATTERS IN DETAIL WITH THE CHINESE SIDE AS WE EXAMINE THE VARIOUS ASPECTS OF FUTURE ARRANGEMENTS FOR HONG KONG.

~~22 I SHOULD LIKE ALSO TO TAKE THIS OPPORTUNITY TO REPEAT THAT THE BRITISH GOVERNMENT DO NOT SEEK CO-ADMINISTRATION IN HONG KONG IN ANY FORM".~~

ENDS.

CRADDOCK

CCN 3 LINES FROM ENDWA HONG KONG. ''

18 NOV 1985



FUTURE OF HONG KONG ADVANCE COPIES 10

PS

PS/PUS

PS/MR LUCE

MR DONALD

HD/~~FKD~~

HD/FED

COPY TO:

MR COLES, No. 10 DOWNING ST

Mr Roberts News D.

~~RESIDENT COPY~~

SECRET

FROM PEKING 170900Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1206 OF 17/11/83



REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 1199: FUTURE OF HONG KONG

1. I PROMISED IN MY TEL NO 1199 TO TELEGRAPH IDEAS ON A FORMULA TO EXPLAIN THE MEANING OF BRITISH LINK OR ROLE. GIVEN CHINESE SUSPICIONS, WE MUST ENSURE THAT THE FORMULA WE USE IS AS UNAMBIGUOUS AS WE CAN MAKE IT IN ORDER TO GIVE IT THE MAXIMUM CHANCE OF SUCCESS. I SUGGEST SOMETHING ON THE FOLLOWING LINES.

=BEGINS

"THE CHINESE SIDE HAVE REPEATEDLY ASKED US TO DEFINE MORE CLEARLY WHAT WE MEAN BY THE EXPRESSION "A SUBSTANTIAL BRITISH ROLE" WHICH WAS USED BY THE PRIME MINISTER IN HER MESSAGE OF 14 OCTOBER. I WISH TO MAKE IT CLEAR ON INSTRUCTIONS THAT THE BRITISH SIDE UNDERSTANDS THAT THE CHINESE PLAN IS BASED UPON THE PREMISE THAT BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION OVER THE WHOLE OF HONG KONG SHOULD REVERT TO CHINA AFTER 1997. FOR THIS REASON THE BRITISH SIDE DOES NOT INTEND, IN THE COURSE OF THE DISCUSSION PROPOSED IN THE PRIME

TO CHINA AFTER 1997. FOR THIS REASON THE BRITISH SIDE DOES NOT INTEND, IN THE COURSE OF THE DISCUSSION PROPOSED IN THE PRIME MINISTER'S MESSAGE, TO MAKE ANY PROPOSAL ON LINKS BETWEEN BRITAIN AND HONG KONG WHICH CONFLICTS WITH THE PREMISE THAT BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION OVER THE WHOLE OF HONG KONG SHOULD REVERT TO CHINA IN 1997. IN PARTICULAR, THE BRITISH SIDE DOES NOT INTEND TO PROPOSE ANY LINK OF AUTHORITY OR ACCOUNTABILITY BETWEEN THE GOVERNMENT OF THE HONG KONG SAR AFTER 1997 AND THE BRITISH GOVERNMENT AT ANY LEVEL. THE BRITISH SIDE WOULD ALSO BE WORKING ON THE ASSUMPTION THAT ANY BRITISH SUBJECTS WHO CONTINUED TO SERVE IN HONG KONG AS GOVERNMENT OFFICIALS WOULD BE IN THE EMPLOYMENT OF THE GOVERNMENT OF THE SAR AND WOULD OWE THEIR LOYALTIES TO THAT GOVERNMENT. THEY WOULD NOT BE APPOINTED BY THE BRITISH GOVERNMENT, NOR WOULD THEY BE RESPONSIBLE TO LONDON.

'THE BRITISH SIDE HOPES THAT BRITAIN WOULD STILL BE ABLE TO PLAY A SUBSTANTIAL ROLE IN HONG KONG. ON THE BASIS OF THE CHINESE PLAN WE WOULD SEE THIS ROLE AS BEING ONE OF ASSISTANCE TO THE SAR, AND NOT ONE OF AUTHORITY. WE BELIEVE THAT THERE WILL BE MANY AREAS WHERE BRITAIN, IN COOPERATION WITH THE CHINESE CENTRAL GOVERNMENT, MAY BE ABLE TO GIVE ASSISTANCE TO THE NEW HONG KONG SAR AND TO HELP PROMOTE ITS INTERESTS. WE LOOK FORWARD TO DISCUSSING THESE MATTERS IN DETAIL WITH THE CHINESE SIDE AS WE EXAMINE THE VARIOUS ASPECTS OF FUTURE ARRANGEMENTS FOR HONG KONG.

22 I SHOULD LIKE ALSO TO TAKE THIS OPPORTUNITY TO REPEAT THAT THE BRITISH GOVERNMENT DO NOT SEEK CO-ADMINISTRATION IN HONG KONG IN ANY FORM'.

ENDS.

CRADOCK

DWF G 072

10/11/17



10 DOWNING STREET

John -

Mr. Meselthine's office phoned to say that he will be 5-10 minutes late for 20 (K)

Cameon 17/11/83

NB. Mr. Tebbit is also going to be a few minutes late.

CT 17/11/83.

PS
PS/PUS
PS/MR LUCE
MR DONALD
HD/HKD
HD/FED

COPY TO:
MR COLES, No. 10 DOWNING ST
Mr Roberts News D.

26

~~CONFIDENTIAL~~

OO FCO (DESKBY 171200Z)

OO PEKING (DESKBY 160100Z)

GPS 1000

SECRET

DESKBY FCO 171200Z

DESKBY PEKING 160100Z

FM HONG KONG 171030Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1755 OF 17 NOVEMBER 1983

INFO IMMEDIATE PEKING



PEKING TELNO 1199: FUTURE OF HONG KONG: FUTURE TACTICS

1. I AGREE WITH THE AMBASSADOR THAT IT WAS A BLEAK AND DIS-
COURAGING SESSION. THE CHINESE ARE DEEPLY AND IMMOVABLY
ENTRENCHED ON SOVEREIGNTY AND ADMINISTRATION, AND ADAMANT
IN THEIR INSISTENCE THAT WE DEAL WITH THIS ISSUE OF PRINCIPLE.
THEY ARE STILL SUSPICIOUS THAT WE ARE SEEING SOME ROLE OF
AUTHORITY OR ADMINISTRATION IN HONG KONG AFTER 1997 AND
ARE UNWILLING TO TALK PRACTICALITIES WITH US WHILE THIS
SUSPICION REMAINS.

2. THEY ARE NOW SHARPENING THE DISTINCTION BETWEEN ARRANGE-
MENTS IN HONG KONG AFTER 1997, WHICH THEY REGARD AS THEIR
OWN INTERNAL AFFAIRS AND ON WHICH THEY ARE PREPARED ONLY TO
LISTEN TO OUR VIEWS AND ANSWER QUESTIONS; AND MATTERS WHICH
AFFECT BRITISH INTERESTS, OUR ECONOMIC RELATIONSHIP WITH THE
SAR, AND OUR WILLINGNESS TO COOPERATE IN A SMOOTH TRANSITION,
ON WHICH THEY ARE PREPARED TO TALK. ON THE FIRST, YAO GUANG
SAID AT ONE POINT THAT IT DID NOT NEED THE CONFIRMATION OF
THE BRITISH SIDE FOR THESE POLICIES TO COME INTO EFFECT.

3. WHERE THEY DID REVEAL MORE DETAILS OF THEIR PLAN THERE WAS
A DISTINCT TIGHTENING OF THE FUTURE LINK BETWEEN PEKING AND
HONG KONG. THE NEW SAR IS TO BE UNDER THE QUOTE DIRECT
AUTHORITY OF THE (NEXT TWO WORDS UNDERLINED) CENTRAL GOVERNMENT
UNQUOTE (NOT IN ARTICLE 31 OF THEIR CONSTITUTION); DISALLOWANCE
WILL APPLY TO ANY HONG KONG ACTION WHICH CONFLICTS WITH THE
QUOTE BASIC LAW UNQUOTE; FOREIGN NATIONALS WILL BE WELCOME BUT
ONLY AS ADVISERS.

4. THEY ARE OBVIOUSLY NOT PREPARED TO COOPERATE IN THE COURSE
OF ACTION WE HAD IN MIND (MY TELNO 1561 AND YOUR TELNO 716 TO
PEKING). THEY WANT TO DEAL WITH ISSUES OF PRINCIPLE AND TO
CLARIFY OUR INTENTIONS ON THE BRITISH ROLE. IN INSISTING ON
THE ABOLITION OF THE LETTERS PATENT, ROYAL INSTRUCTIONS AND
COLONIAL REGULATIONS THEY HAVE BROUGHT US UP AGAINST THE CON-
STITUTIONAL ISSUES OF THE LINK WITH BRITAIN AND THE FUTURE
GOVERNMENTAL STRUCTURE IN THIS TERRITORY. NO WORKING PAPER

CONSTITUTIONAL ISSUES OF THE LINK WITH BRITAIN AND THE FUTURE GOVERNMENTAL STRUCTURE IN THIS TERRITORY. NO WORKING PAPER THAT WE PUT IN ON THE FUTURE GOVERNMENTAL STRUCTURE COULD DUCK THIS ISSUE.

5. IN THE LIGHT OF THIS, I AGREE WITH PARA 7 OF PEKING TELNO 1199. BUT BEFORE MAKING THE MOVE I THINK IT ESSENTIAL, PARTICULARLY IN THE LIGHT OF THE DISCUSSION THIS MORNING (MY TELNO 1753) TO PROVIDE EXCO WITH THE ASSESSMENT FOR WHICH THEY HAVE ASKED (MY TELNO 1754), TO SET OUT FOR THEM THE IMPLICATIONS OF WHAT IS NOW PROPOSED, AND ALLOW THEM AN OPPORTUNITY TO COMMENT.

6. EVEN THOUGH IT WAS IMPLICIT BEFORE, WE SHALL NOW BE SAYING, PRETTY EXPLICITLY, THAT THERE IS A SOLUTION WHICH COULD BE ACCEPTABLE TO US WHICH DOES NOT (NOT) INVOLVE QUOTE CONTINUING BRITISH ADMINISTRATION FOR AS LONG AS POSSIBLE UNQUOTE (THE UMELCO FORMULA). WE WOULD BE SETTING OUR SIGHTS ON THE MORE LIMITED OBJECTIVE, FORCED ON US BY CHINESE UNWILLINGNESS TO COMPROMISE ON THE ADMINISTRATION ISSUE, OF SEEKING THE HIGHEST DEGREE OF AUTONOMY FOR HONG KONG WHICH WE CAN ACHIEVE.

7. EXCO WILL WISH TO KNOW PARTICULARLY IN THE LIGHT OF PARA 3 ABOVE WHAT ASSURANCES WE CAN REALISTICALLY EXPECT TO GET THAT THIS AUTONOMY WOULD BE RESPECTED. MEMBERS THIS MORNING CONTINUED TO ASK WHAT THE QUOTE INSULATOR UNQUOTE WOULD BE. AS I SEE IT, THE PROSPECTS HERE ARE ALSO NOT VERY PROMISING. THEY MIGHT BE - (A) CHINESE ACCEPTANCE THAT A DECLARATION OF THEIR PROPOSED ARRANGEMENTS FOR AUTONOMY AND ITS DURATION OF 50 YEARS WOULD BE ENSHRINED IN A BILATERAL AGREEMENT WITH THE UK; (B) WE MIGHT BE ABLE TO PERSUADE THEM TO ALLOW SOME OVERSEAS CIVIL SERVANTS TO CONTINUE IN SERVICE, AND IN PARTICULAR IN THE JUDICIARY; BUT COULD NOT EXPECT ANY QUOTE RESERVED SEATS UNQUOTE. (C) WE MIGHT LEAD THEM NOT TO FRUSTRATE THE BUILDING UP OF A MORE REPRESENTATIVE SYSTEM OF GOVERNMENT ON THE LINES SET OUT IN MY TELNO 1714; (D) THERE MAY BE A FEW OTHERS EG ADVISORY ECONOMIC BOARDS ON WHICH FOREIGN NATIONALS MIGHT SIT, BUT THEY WILL NOT AMOUNT TO MUCH.

THE AMBASSADOR MAY WISH TO COMMENT ON THIS LIST. IF THIS IS THE BEST WE CAN HOPE FOR THEN EXCO SHOULD BE TOLD.

8. THIS IS NOT A VERY ENCOURAGING OUTLOOK AND IT IS HIGHLY UNCERTAIN WHETHER SUCH ASSURANCES WOULD MAINTAIN CONFIDENCE IN HONG KONG. BUT IF WE THINK, IN THE LIGHT OF THE CHINESE ATTITUDE, THAT THIS MAY WELL BE THE OUTCOME THEN WE HAD BETTER TELL EXCO SO NOW.

9. THEY WILL ALSO WISH TO LOOK MORE THAN ONE STEP AHEAD. IF THE ACTION NOW PROPOSED IN PARA 7 OF PEKING TELNO DOES NOT PERSUADE THE CHINESE TO BEGIN DISCUSSIONS WITH US ON ARRANGEMENTS IN HONG KONG AFTER 1997, WHAT WOULD WE THEN PROPOSE? EXCO HAVE IN THE PAST REFERRED TO THE NEED TO FIND A WAY OF PUTTING OUR CASE DIRECTLY TO THE CHINESE LEADERS, AND IN PARTICULAR TO DENG. I BELIEVE THAT IF WHAT IS NOW PROPOSED DOES NOT ACHIEVE ITS PURPOSE THEN WE SHOULD THINK SERIOUSLY IN TERMS OF A VISIT TO PEKING BY THE SECRETARY OF STATE.

10. IN THE MEANTIME I STRONGLY SUPPORT THE RECOMMENDATIONS IN PEKING TELNO 1200.

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PS
PS/PUS
PS/MR LUCE
MR DONALD
HD/HKD
HD/FED

COPY TO:

MR COLES, No. 10 DOWNING ST

Mr Roberts News D

GPS...400 CLERK

SECRET

DESKBY FCO 171100Z

DESKBY PEKING 180100Z

FM HONG KONG 170945Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1753 OF 17 NOVEMBER 1983

INFO IMMEDIATE PEKING



FUTURE OF HONG KONG: CONSULTATION WITH EXCO

1. AT THIS MORNING'S PART IN EXCO MEETING I GAVE THE COUNCIL A VERY FULL ACCOUNT OF THE DISCUSSIONS DURING THE SIXTH ROUND OF THE TALKS, INCLUDING THOSE OVER DINNER ON THE SECOND DAY. I ALSO GAVE THEM A SUMMARY OF THE MAIN POINTS FROM THE AMBASSADOR'S INFORMAL DINNER WITH YAO GUANG ON 10 NOVEMBER. IN ADDITION MEMBERS HAD BEFORE THEM THE TEXT OF YAO GUANG'S OPENING STATEMENT ON 14 NOVEMBER.

2. THE COUNCIL WAS IN A VERY SOBER MOOD FOR THE DISCUSSION WHICH FOLLOWED. INITIAL IMPRESSIONS INCLUDED:

(i) THE ROUND HAD BEEN NEGATIVE: WE HAD GONE BACKWARDS RATHER THAN FORWARDS. AS SIR S Y CHUNG PUT IT, THE CHINESE WERE TIGHTENING THEIR GRIP.

(ii) THERE APPEARED TO BE LITTLE IF ANY FLEXIBILITY IN THE CHINESE POSITION. THE TWELVE POINT PLAN AS NOW PRESENTED TO US WAS BROADLY WHAT THE CHINESE INTENDED TO ANNOUNCE FORMALLY. IT MIGHT WELL BE GIVEN A FAVOURABLE RECEPTION INTERNATIONALLY, SINCE IT LOOKED GENEROUS AND WAS SUPERFICIALLY ATTRACTIVE. THERE WAS A SUGGESTION THAT WE SHOULD CONSIDER MOUNTING AN UNATTRIBUTABLE CAMPAIGN TO EDUCATE INTERNATIONAL OPINION AS TO ITS DEFECTS, PARTICULARLY THE ABSENCE OF GUARANTEES.

(III) MEMBERS NOTED THE DISTINCTION DRAWN BY YAO GUANG BETWEEN AN SAR WITH A HIGH DEGREE OF AUTONOMY AND INDEPENDENCE. THEY BELIEVED THE CHINESE ENVISAGED A VERY LIMITED AUTONOMY, DRAWING ATTENTION TO THE PROVISIONS THAT THE FUTURE SAR WOULD BE UNDER THE DIRECT AUTHORITY OF THE CENTRAL PEOPLE'S GOVERNMENT, AND THAT THE QUOTE PRINCIPAL OFFICIALS UNQUOTE WOULD BE APPOINTED BY THE CENTRAL PEOPLE'S GOVERNMENT. IN THIS CONTEXT THEY ALSO NOTED THE FAILURE OF THE CHINESE TO CONFIRM THAT THE JUDICIARY WOULD BE INDEPENDENT OF THE EXECUTIVE.

(IV) OUR AIM HAD BEEN TO GET THE CHINESE TO ACCEPT A DEGREE OF INSULATION SUFFICIENTLY SUBSTANTIAL TO MAINTAIN CONFIDENCE. THERE WAS NO INDICATION THAT THE CHINESE WOULD BE PREPARING TO AGREE TO SUCH AN INSULATOR. IF IT COULD NOT BE ACHIEVED IT WAS DIFFICULT TO SEE THE WAY AHEAD.

3. AGAINST THIS BACKGROUND MEMBERS WERE UNANIMOUS IN REQUESTING:

(A) HMG'S CONSIDERED ASSESSMENT OF THE CHINESE POSITION, AND WHAT, IF ANY, FLEXIBILITY WE JUDGED THERE MIGHT BE IN IT; AND

(B) HMG'S VIEW OF WHAT OPTIONS WERE NOW OPEN AND WHAT COURSE SHOULD NOW BE ADOPTED.

4. SUMMING UP THE DISCUSSION, I SAID THAT MEMBERS WOULD WISH TO REFLECT ON THE DEVELOPMENTS WHICH I HAD REPORTED AND ON THE POSITION WE WERE NOW IN. IN THE MEANTIME I WOULD PASS ON THE REQUEST IN PARA 3 ABOVE.

5. SEE MIFT

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FROM PEKING 160910Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1202 OF 16/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 1194: FUTURE OF HONG KONG: SIXTH ROUND.

1. AT DINNER ON 15 NOVEMBER THE FOLLOWING POINTS EMERGED.

CO-ADMINISTRATION

2. BOTH YAO AND OTHER MEMBERS OF HIS DELEGATION SAID THAT THEY HAD IMMEDIATELY NOTICED THAT I HAD NOT USED THE SAME LANGUAGE ABOUT CO-ADMINISTRATION OF HONG KONG AS I HAD ON 8 NOVEMBER. THEY CONSIDERED THIS REGRETTABLE. I SAID THAT ON 8 NOVEMBER I HAD SPOKEN ON INSTRUCTIONS. HOW OFTEN WAS I EXPECTED TO REPEAT MYSELF? THEIR RESPONSE WAS TO EMPHASISE THAT A FORMAL STATEMENT IN THE TALKS IN THE SAME TERMS AS MY EXPLANATORY COMMENTS OF 8 NOVEMBER WOULD BE BENEFICIAL. THIS WAS IMPORTANT AS FAR AS THE VIEWS OF CHINESE LEADERS WERE CONCERNED.

CHINESE PLAN

3. THE CHINESE SIDE REGRETTED THE ABSENCE OF DIRECT REFERENCE OR COMMENT IN MY STATEMENTS TO THEIR 12-POINT PLAN. THIS HAD BEEN ELABORATED ONLY AFTER CONSIDERABLE THOUGHT AND GREAT EFFORT. WE SHOULD COMMENT UPON IT.

PRINCIPLE

4. THE CHINESE RETURNED REPEATEDLY TO THE IMPORTANCE OF THE ISSUES OF PRINCIPLE. YAO SAID THAT EVERYTHING BOILED DOWN TO ONE THING: SOVEREIGNTY AND ADMINISTRATION. WE HAD SAID WE UNDERSTOOD THIS PRINCIPLE BUT THAT WAS NOT ENOUGH.

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5. AFTER MUCH RELUCTANCE TO COME CLEAN, YAO SAID THAT AFTER 1997 FOREIGNERS COULD ONLY SERVE AS ADVISERS. IN A SEPARATE CONVERSATION WITH LUO JIAHUAN, WE DREW ON DENG'S REFERENCE TO ZIMBABWE (DURING HIS MEETING WITH THORN) AND POINTED OUT THAT MANY WHITES HAD REMAINED IN POST AT THE TIME OF ZIMBABWEAN INDEPENDENCE. LUO IMMEDIATELY REPLIED THAT SUCH OFFICIALS HAD BEEN ZIMBABWEAN NATIONALS NOT BRITISH. LUO CONTINUED BY ENQUIRING WHETHER WE BELIEVED THAT SENIOR BRITISH ADMINISTRATORS WOULD BE PREPARED TO TAKE HONG KONG CHINESE NATIONALITY.

JUDICIARY

6. WE RECEIVED NO REAL ANSWER TO OUR REPEATED QUESTIONS ABOUT MEMBERS OF THE JUDICIARY CONTINUING TO BE RECRUITED FROM OTHER COMMON LAW JURISDICTIONS.

ROYAL INSTRUCTIONS ETC

7. YAO REPEATED THAT THE ROYAL INSTRUCTIONS, LETTERS PATENT AND COLONIAL REGULATIONS WOULD BE ABOLISHED. THE NEW DIRECTOR OF THE MFA'S WESTERN EUROPEAN DEPARTMENT, GUO FENGMIN, SAID THAT HE UNDERSTOOD THAT MUCH OF THE CONTENTS OF THESE DOCUMENTS WOULD HAVE TO BE INCORPORATED ELSEWHERE. HOWEVER, THE CHINESE SIDE GAVE NO INDICATION OF HOW THIS WOULD BE DONE. THEY SAID WE SHOULD CLARIFY OUR ATTITUDE TOWARDS THESE PARTICULAR LAWS.

DISALLOWANCE

8. AFTER MUCH QUESTIONING, THE POWER OF DISALLOWANCE WAS DEFINED AS APPLYING TO ANY SAR LAWS THAT CONFLICTED WITH THE BASIC LAW, EG A LAW DECLARING INDEPENDENCE. A LAW AMENDING THE RULES OF THE EXCHANGE CONTROL FUND (OUR EXAMPLE) WOULD NOT BE DISALLOWED.

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ADMINISTRATIVE VACUUM

9. YAO CLAIMED MANY OF OUR QUESTIONS ON THIS AREA COULD BE DEALT WITH UNDER ITEM 2 OF THE AGENDA, IE TRANSITIONAL PERIOD.

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FUTURE OF HONG KONG

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D/HD/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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FROM PEKING 160840Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1200 OF 16/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: CALLS ON CHINESE LEADERS

1. AT DINNER ON 15 NOVEMBER, YAO GUANG ASKED ME WHETHER I WAS MAKING PREPARATIONS FOR MY FINAL CALLS. I SAID I WAS HOPING TO CALL ON SOME CHINESE LEADERS, PARTICULARLY IN VIEW OF THE IMPORTANCE OF THE HONG KONG TALKS AND MY DUTIES AFTER RETURN TO THE UK. I ASKED WHETHER HE HAD ANY SUGGESTIONS. YAO SAID HIS MIND WAS MOVING IN THE SAME DIRECTION AS MY OWN. HE OFFERED HIS HELP IF I MADE MY APPLICATION THROUGH THE USUAL PROTOCOL CHANNELS.

2. I WOULD IN THE NORMAL WAY EXPECT TO CALL ON FOREIGN MINISTER WU BEFORE LEAVING. BUT THE ABOVE ENCOURAGES ME IN MY INTENTION TO SEEK CA CALL ALSO ON ZHAO AND SUGGESTS THAT I MIGHT PERHAPS TRY FOR DENG.

3. IT WOULD VERY MUCH HELP IF I WERE ABLE TO INVOKE SOME MINISTERIAL SUPPORT IN THIS APPLICATION. IF YOU AGREE, I SHOULD BE GRATEFUL FOR YOUR AUTHORITY TO TELL THE CHINESE THAT IN VIEW OF THE IMPORTANCE OF THE HONG KONG TALKS, THE PRIME MINISTER HOPES I SHALL HAVE AN OPPORTUNITY BEFORE I LEAVE OF PAYING A FAREWELL CALL ON PRIME MINISTER ZHAO AND ALSO OF CONVEYING HER GOOD WISHES IN A CALL ON CHAIRMAN DENG.

4. IF AN APPLICATION WERE MADE IN THESE TERMS, ZHAO MIGHT BE ATTAINABLE. DENG IS A LONGER SHOT. THE CHINESE WILL ASSUME I SHALL BE CARRYING SOME MESSAGE. WHAT THIS WOULD BE PRECISELY WILL DEPEND ON THE 7/8 DECEMBER ROUND AND ANY INFORMAL MEETINGS IN THE INTERVAL. BUT AS I SEE IT NOW, THE OBJECT WOULD BE TO CONVEY -

(A) OUR SINCERE WISH TO BUILD ON THE CHINESE PROPOSALS

(B) THE URGENT NEED FOR PRACTICAL DISCUSSIONS IN A CERTAIN DEGREE OF DETAIL IF THE WHOLE OPERATION IS NOT TO FOUNDER AND OUR COMMON AIM TO BE STULTIFIED.

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5. A CALL BY ME ON CHINESE LEADERS AT THIS POINT WOULD BE A LOGICAL STEP. IT COULD ALSO BE ACHIEVED WITHOUT ANY OF THE PUBLICITY INEVITABLE ON A VISIT BY YOU YOURSELF TO PEKING IN PRESENT CIRCUMSTANCES, WHICH WOULD BE THE ONLY OTHER SURE WAY OF GETTING ACCESS TO CHINESE LEADERS. YOU MIGHT & HOWEVER, WISH TO CONSIDER A VISIT AT A LATER STAGE AND THIS MIGHT BECOME ADVISABLE IF THE SITUATION CONTINUED TO DETERIORATE.

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FUTURE OF HONG KONG

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DESBKY 160930Z FCO

DESKBY 160830Z HONG KONG

FROM PEKING 160800Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1199 OF 16/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 1194: FUTURE OF HONG KONG: FUTURE TACTICS

THIS HAS BEEN A DISCOURAGING SESSION. IN THE LIGHT OF IT THE ROAD AHEAD LOOKS EVEN BLEAKER THAN WE HAD ENVISAGED.

2. ALTHOUGH THE TONE OF THE MEETINGS REMAINS VERY FRIENDLY IT LOOKS AS IF THE CHINESE POSITION HAS HARDENED. THOUGH THIS MUST BE CONJECTURAL, IT COULD WELL BE THAT DENG HIMSELF HAS HARDENED IT. IN PARTICULAR THE CHINESE HAVE MADE A FIRMER DISTINCTION THAN BEFORE BETWEEN AREAS WHICH THEY REGARD AS THEIR INTERNAL POLICIES, AND THOSE WHICH IN THEIR VIEW INVOLVE SOME DIRECT BRITISH INTEREST. ON THE FIRST THEY ARE UNWILLING TO GO INTO DETAIL AND HAVE MADE NO COMMITMENT TO DO SO IN THE FUTURE. THE MOST THEY ARE PREPARED TO DO AT LEAST FOR THE PRESENT IS TO GO THROUGH OUR WORKING PAPERS AND KNOCK OUT THE BITS WHICH THEY SEE AS CONFLICTING WITH THEIR PREMISE. THEY HAVE REFUSED TO DISCUSS DETAIL: THEY MAY BE WILLING TO DO SO AT A LATER DATE, BUT THEY ARE CLEARLY RESERVING THE RIGHT TO DECIDE MATTERS FOR THEMSELVES, POSSIBLY, IF WE ARE LUCKY, TAKING ACCOUNT OF OUR VIEWS IN DOING SO. SUCH SMALL PIECES OF INFORMATION AS WE HAVE BEEN ABLE TO PRY OUT OF THEM TEND TO BE OF A DISCOURAGING KIND.

3. SECONDLY THE CHINESE ARE SAYING THAT WHOLE AREAS ARE OUT OF BOUNDS BECAUSE THEY ARE MATTERS FOR DECISION BY THE SAR GOVERNMENT WHEN IT IS SET UP. THE IMPRACTICALITY OF THIS IS LIKELY TO STRIKE EVEN THEM EVENTUALLY, AND IT IS POSSIBLE THAT THIS IS A DELIBERATE DELAYING TACTIC, OR WILL AT LEAST IN PRACTICE TURN OUT TO BE A TEMPORARY PHASE. BUT IT IS A MAJOR OBSTACLE TO CURRENT BUSINESS.

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4. THEY CONTINUE TO SHOW SUSPICION ABOUT OUR INTENTIONS AND TO PRESS FOR FURTHER DETAIL ON THE BRITISH LINK OR BRITISH ROLE. THEY PRESS US TO CLARIFY OUR ATTITUDE TO THE LETTERS PATENT, ROYAL INSTRUCTIONS AND COLONIAL REGULATIONS. THIS IS TAKE TO BE ANOTHER WAY OF MAKING THE SAME POINT, IE WHAT BRITISH LINK DO WE ENVISAGE?

5. LOOKING AHEAD, PROSPECTS OF ACHIEVING A SATISFACTORY PACKAGE LOOK WORSE THAN WE HAD HOPED. WE THINK THAT WE MUST NOW KEEP CONSTANTLY IN MIND THE POSSIBILITY THAT WE MAY IN THESE TALKS FAIL TO GET A PACKAGE THAT CAN IN ANY WAY BE REPRESENTED AS ACCEPTABLE, AND WE MUST THEREFORE PLAN OUR MOVES WITH THE POSSIBILITY OF A BREAKDOWN IN MIND.

6. WE CONSIDER NEVERTHELESS THAT WE HAVE NO ALTERNATIVE BUT TO SEEK TO PURSUE OUR PRESENT COURSE. THE ONUS FOR ANY BREAKDOWN MUST BE PLACED FIRMLY ON THE CHINESE. WE MUST SHOW OURSELVES READY TO CONTINUE TO TALK CONSTRUCTIVELY. BETWEEN NOW AND THE NEXT SESSION WE WOULD PROPOSE TO HAND OVER AS MANY OF THE FURTHER WORKING PAPERS AS CAN BE GOT READY, AND TO CONTINUE TO PRESS THE CHINESE TO TALK IN SENSIBLE DETAIL ABOUT THEM. THEY HAVE SAID THEY WELCOME THE WORKING PAPERS AND EVEN THOUGH THEIR COMMENTS ARE CONFINED TO MATTERS OF PRINCIPLE, IN THE PROCESS A CERTAIN AMOUNT OF ELUCIDATION AND EVEN AGREEMENT OCCURS. THEY ARE ALSO READY TO HAVE FURTHER INFORMAL CONTACTS IN THE INTERVAL BETWEEN THE ROUNDS.

7. WE CONSIDER, HOWEVER, THAT IT IS ALSO ESSENTIAL TO TRY TO TACKLE IN THE MEANTIME CHINESE SUSPICIONS ABOUT THE BRITISH LINK OR ROLE. TO THIS END WE SHOULD LIKE TO APPROACH YAO GUANG SOON WITH A CONSIDERED STATEMENT WHICH WE COULD MAKE ON INSTRUCTIONS, LEAVING A SPEAKING NOTE. WE AM GIVING THOUGHT NOW TO THE FORM OF SUCH A STATEMENT AND SHALL TELEGRAPH A SUGGESTION SOON, BUT IT WOULD HAVE TO MAKE IT CLEAR THAT IN THE CONTEXT OF THESE DISCUSSIONS WE SHALL MAKE NO PROPOSAL ON A BRITISH LINK OR ROLE WHICH CONFLICTS WITH THE TRANSFER OF BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION TO CHINA.

- SINCE THE CHINESE HAVE ALSO EXPRESSED WORRY THAT WE HAVE NOT EXPLICITLY RULED OUT CO-ADMINISTRATION IN THE TALKS THEMSELVES, ALTHOUGH WE DID SO IN MY CALL ON YAO ON 8 NOVEMBER, THE STATEMENT SHOULD MAKE THIS CLEAR AS WELL.

8. MY REASONS FOR PROPOSING THIS ARE AS FOLLOWS:-
 - (A) IT IS THE LOGICAL CONTINUATION OF THE PRIME MINISTER'S MESSAGE, AND INDEED AN INEVITABLE CONSEQUENCE OF IT. THE ONLY WAY IN WHICH WE CAN SEEK TO BUILD ON THE CHINESE PROPOSALS IS TO ACCEPT THOSE PROPOSALS AS THE BASE OF OUR BUILDING. IT IS A TACTICAL MATTER OF TIMING WHEN WE APPLY THIS PRINCIPLE TO THE ISSUE OF THE BRITISH LINK.

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(B) TO DISPEL CHINESE SUSPICIONS ON THIS POINT, IF WE CAN IN FACT SUCCEED IN DOING THAT, MIGHT HELP TO GENERATE MORE PROFITABLE

DISCUSSION ON THE DETAILED AREAS. I WOULD NOT WISH TO HOLD OUT GREAT HOPES ABOUT THIS. BUT IT IS THE ONLY POSSIBILITY OF GETTING SUCH DISCUSSION.

(C) SUCH A MOVE IS ESSENTIAL IN VIEW OF THE POSSIBILITY OF A BREAKDOWN IN THE TALKS. WE MUST AVOID GIVING THE CHINESE ANY POSSIBILITY OF SAYING THAT THE TALKS HAVE BROKEN DOWN BECAUSE BRITAIN WAS PERSISTING IN TRYING TO PERPETUATE COLONIAL RULE IN HONG KONG. IF WE CAN MAKE IT CRYSTAL CLEAR THAT WE ARE NOT, THE CHINESE WILL THEMSELVES BE AWARE THAT THEIR OWN POSITION,

SHOULD THEY FORCE A BREAKDOWN OF THE TALKS, WILL BE WEAK. THIS MAY IN ITSELF MAKE THEM RELUCTANT TO PUSH MATTERS TO SUCH A BREAK.

9. I SHOULD LIKE TO MAKE THIS DEMARCHE TO VICE MINISTER YAO ON INSTRUCTIONS AS SOON AS POSSIBLE BEFORE 7 DECEMBER SO THAT WE CAN OBSERVE ITS EFFECT IN THAT ROUND. I ALSO ENVISAGE (MY TEL 1200) THAT BEFORE LEAVING I SHOULD SEEK TO CALL ON CHINESE LEADERS, WHEN I SHOULD NEED TO REITERATE SOME OF THE ABOVE. BUT I THINK THAT SUCH CALLS SHOULD TAKE PLACE AFTER THE 7/8 DECEMBER ROUND SO THAT I COULD TAKE INTO ACCOUNT WHAT HAS HAPPENED AT THAT ROUND.

CRADOCK

FUTURE OF HONG KONG

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HD/PUSD

D/HD/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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PS/ATTORNEY GENERAL

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Duly cleared. → Dave
St.

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Please confirm to Cabinet
Office that Mr. Stewart may
attend. A.J.C. $\frac{17}{11}$

PRIME MINISTER

Tomorrow's Meeting on Hong Kong

The Chancellor of the Exchequer is
unable to attend and the Chief Secretary
cannot either. Mr. Lawson therefore
suggests that the Economic Secretary should
attend instead.

Tomorrow's discussion will be about
negotiating tactics and I do not think any
financial issues will arise. You may not
want to enlarge the circle further.

Do you wish Mr. Stewart to come?

Yes - you
A.J.C. remember

How good he was
over Gibraltar
out

16 November 1983



Foreign and Commonwealth Office

London SW1A 2AH

16 November 1983

Dear John,

Hong Kong: Negotiations with the Chinese

You may find helpful for the meeting of OD(K) at 1700 on 17 November a summary of the telegrams relating to the last round of talks on 14-15 November. They will all have been distributed to members of OD(K) in the usual way.

You will remember that following consultation with the Unofficial members of EXCO in early October, the Prime Minister proposed that in pursuance of her letter of 10 March to the Chinese Premier, and without prejudice to any final agreement, the negotiators on the two sides should discuss what other effective methods (apart from the continuation of British administration) might be devised to maintain the stability and prosperity of Hong Kong. She instructed our Ambassador to explore Chinese ideas further to see whether Britain and China could together construct acceptable arrangements on the basis of the proposals put forward by China.

After the round of talks on 19/20 October it appeared that although the Chinese had not given up their premise, they were ready to accept that progress was possible without an explicit acceptance of it. The atmosphere of the talks was very much better and the communique after it described them as "useful and constructive". Morale in Hong Kong was considerably raised.

The talks on 14 and 15 November were again described as "useful and constructive" in the communique. It was agreed to meet again on 7 and 8 December. However no real progress was made during the two days and the Ambassador has commented that the road ahead looks ever bleaker than we had envisaged. Informal contacts over the previous two weeks with the Chinese negotiator and the latest round confirmed continuing Chinese suspicion of British intentions: they claim that we still want to retain British administration in Hong Kong after 1997 or at any rate a form of joint administration and that neither can be accepted by China.

During the most recent round of talks, the Chinese referred back to their premise on sovereignty and the right of administration and maintained that real progress was not possible unless we were prepared to tackle matters of principle. They objected to our "step-by-step" approach. They did comment superficially on the papers which we had presented on the legal

/and



and financial systems, but in the sense of seeking to eliminate points inconsistent with their premise. They claimed that many of the points we had raised covered questions which were China's internal affair or which should be left to the Government of a future Special Administrative Region to decide.

The Ambassador explained the reasons why we favoured a detailed step-by-step approach, primarily because confidence in Hong Kong would not be satisfied with general assurances. He reiterated that, subject to the conditions explained in the Prime Minister's message, we were prepared to examine whether agreement was possible on the basis of the Chinese proposals which, as we understood them, did not involve any link of authority between Hong Kong and the UK. He pressed the Chinese on a number of points which they had raised on our papers. There was some discussion on the question of British personnel remaining in official posts after 1997 on which the Chinese negotiator had shown great suspicion in informal contacts, claiming that we wished to reserve posts for our people in order to set up "co-administration". The Chinese remained hostile to the concept of reserving posts for expatriates; suggesting that British personnel could only remain in the Civil Service in Hong Kong as advisers.

The Ambassador has commented in the light of the talks that the Chinese position appears to have hardened, and has speculated that this might be as a result of Deng's personal intervention. Looking ahead, he has commented that we must now keep constantly in mind the possibility that we may fail to get a package that can be represented as acceptable and that we must plan with the possibility of a breakdown in mind. He recommends that, while we have no alternative but to pursue our present tactic of seeking to talk constructively in detail, on the basis of working papers, it is essential to deal with Chinese suspicions about the British link or role. He suggests that, before the next round on 7 December he should speak to the Chinese negotiator on instructions, making it clear that, in the context of the discussions (i.e. subject to the conditions in the Prime Minister's message) we shall make no proposals on a British link or role which conflict with the transfer of both sovereignty and the right of administration to China.

The Ambassador would not wish to hold out great hopes that such a demarche would generate more profitable discussion on the detailed areas. He regards it, nevertheless, as essential in order to avoid giving the Chinese any possibility of saying that the talks had broken down because Britain was persisting in trying to perpetuate colonial rule in Hong Kong after 1997.

/The Governor



S E C R E T

The Governor has explained by telephone that although he is in broad agreement with Sir Percy's ideas he will need to report to EXCO on 17 November on the last round of talks and to hear their initial reaction before offering advice. Thereafter, he urges that Ministers should not take a final decision on the next step without the proposals having been aired frankly with EXCO and their advice sought.

I am sending copies of this letter to the Private Secretaries to the President of the Council, the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence, the Lord Privy Seal, the Secretary of State for Trade and Industry, the Attorney General, Mr Luce and Sir Robert Armstrong.

Yours ever

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

S E C R E T



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Ref. A083/3272

PRIME MINISTER

OD(K): Hong Kong

BACKGROUND

--- The meeting has been called to consider the outcome of the round of negotiations with the Chinese which took place in Peking on 14 and 15 November. This is reported in Peking telegrams nos. 1187 and 1188 (first day) and 1194 and 1196 (second day).
--- Sir Percy Cradock's advice on future tactics is in Peking telegram no. 1199. He recommends that he should make it clear to the Chinese before the next round that we shall make no proposals on a British link or role which conflicts with the transfer of both sovereignty and the right of administration to China. The Governor has explained by telephone that, while he is in broad agreement with the Ambassador, he will need to hear the initial reaction of EXCO to the latest round of talks before offering advice. The Foreign and Commonwealth Secretary will be circulating a minute tomorrow morning (17 November) giving his views. A note on the working papers to be handed to the Chinese is being circulated as OD(K)(83) 3. The next round of talks will take place on 7 and 8 December.

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2. The communique described the latest round of talks as "useful and constructive", but Sir Percy Cradock's judgment is that they were "negative" and "bleak" and reflect a hardening of the Chinese position, possibly as a result of Deng's personal intervention. The Chinese emphasised the distinction they drew between matters relating to future arrangements for Hong Kong on which they were prepared to listen to our ideas but which were by definition their own internal policy, and other areas affecting British interests in Hong Kong, future British relations with the Special Autonomous Region and Sino-British efforts to maintain the prosperity of Hong Kong, where they would be prepared to negotiate seriously.

3. As background to the Sub-Committee's discussion is the difference of view on tactics between the Governor of Hong Kong and the Ambassador in Peking (see Hong Kong telegram no. 1707, Peking telegram no. 1176, and the summary in Mr Luce's telegram no. 460 to the Foreign and Commonwealth Secretary (copies attached)).

4. The Chancellor of the Exchequer is unable to be present as the Yugoslav President will be calling on him at the time. Sir Antony Acland has been invited to attend.

HANDLING

5. You will wish to invite the Foreign and Commonwealth Secretary to open the discussion. The Sub-Committee will wish to take stock of the position now reached in the negotiations and the prospects for the next round. Having taken the large step of seeing, without commitment, what practical measures could be devised on the basis of the Chinese proposals on sovereignty and the right of administration, it would seem premature to adopt any different approach at the next round from the present tactic of trying to draw the Chinese to elaborate on the practical arrangements they have in mind for Hong Kong as a SAR and to convince them that detailed arrangements will have to be agreed in advance if confidence within Hong Kong is to be maintained.

6. It would also seem sensible to await the reactions of EXCO before deciding whether to take the action recommended by Sir Percy Cradock before the next round. It will be necessary to have a clear policy on the conditions of employment of British personnel serving the Hong Kong Government after 1997.

7. The Sub-Committee will also have the opportunity to raise any points on the informal working papers being prepared for handing to the Chinese. It is proposed that Ministerial decisions on the underlying policy issues which will arise during their preparation should be obtained by the Foreign and Commonwealth Secretary with the relevant Departmental Ministers.



CONCLUSIONS

8. Subject to the points made in discussion, you could guide the Sub-Committee to:

- (1) Take note of the position reached in the negotiations.
- (2) Agree that the Governor's views should be awaited before deciding on future tactics with the Chinese.
- (3) Agree that the preparation of the informal working papers for handing to the Chinese should be handled as proposed in paragraph 4 of the Secretaries' note (OD(K)(83) 3).

16 November 1983

approved by ROBERT ARMSTRONG

and signed in his absence

Lindsay Wilkinson

SECRET

DESKBY 141230Z

FROM PEKING 141130Z NOV 83

1187

TO IMMEDIATE FCO

TELEGRAM NUMBER 1187 OF 14/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: SIXTH PLENARY ROUND : FIRST DAY

1. YAO GUANG SPOKE FIRST, AND AT LENGTH. HE ACKNOWLEDGED AND WELCOMED THE EFFORTS MADE BY US SINCE THE 5TH ROUND, AND INDICATED THAT DISCUSSIONS ON THE BASIS OF THE CHINESE PROPOSALS WERE NOW STARTING. HE SUMMARISED THE PRIME MINISTER'S MESSAGE AND OUR SUBSEQUENT EXPLANATIONS IN MAXIMALIST TERMS FROM THE CHINESE POINT OF VIEW. HE SAID THAT SOME DIFFERENCES STILL REMAINED. HE REITERATED THE EXTREME IMPORTANCE OF THE PREMISE. BOTH CONTINUED BRITISH ADMINISTRATION AFTER 1997 AND ANY FORM OF CO-ADMINISTRATION WERE ABSOLUTELY UNACCEPTABLE. HE NOTED THAT WE WERE NOT SEEKING CO-ADMINISTRATION, BUT AS BRITISH LEADERS REPEATEDLY STRESSED IN PUBLIC THE IMPORTANCE OF THE BRITISH LINK AND ROLE WITHOUT OFFERING FURTHER CLARIFICATION THE CHINESE SIDE NATURALLY HAD SOME DOUBTS ON THIS POINT.

2. HE CRITICISED THE SUGGESTION OF THE BRITISH SIDE THAT AN AGREEMENT SHOULD BE ACCEPTABLE TO THE PEOPLE OF HONG KONG, CATEGORISING IT AS THE 3-LEGGED STOOL ARGUMENT WHICH HAD BEEN REFUTED EARLIER BY THE CHINESE SIDE. HE ALSO CRITICISED AN ARGUMENT THAT ONLY PARLIAMENT COULD MAKE DECISIONS ON SOVEREIGNTY.

3. YAO THEN ELABORATED ON CHINESE POLICIES TOWARDS HONG KONG: HE MADE THE FOLLOWING POINTS:

(A) HONG KONG HAD ALWAYS BEEN CHINESE TERRITORY. THE GOVERNMENT OF THE PRC DID NOT RECOGNISE THE THREE UNEQUAL TREATIES AND HAD ALWAYS MAINTAINED THAT THE HONG KONG QUESTION HAD TO BE SETTLED AT AN OPPORTUNE TIME. CHINA WOULD RESUME THE EXERCISE OF SOVEREIGNTY OVER HONG KONG ON 1 JULY 1997 AND THE INTERVENING PERIOD WAS THE TRANSITION TIME FOR A SETTLEMENT OF THE HONG KONG QUESTION:

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(B) AFTER THE RESUMPTION OF SOVEREIGNTY A HONG KONG SPECIAL ADMINISTRATIVE REGION (SAR) DIRECTLY UNDER THE AUTHORITY OF THE CENTRAL PEOPLE'S GOVERNMENT WOULD BE ESTABLISHED IN ACCORDANCE WITH ARTICLE 31 OF THE CONSTITUTION OF THE PRC. IT WOULD ENJOY A HIGH DEGREE OF AUTONOMY:

(C) THE SAR WOULD BE VESTED WITH THE POWER OF LEGISLATION AND INDEPENDENT JUDICIAL POWER, INCLUDING THAT OF FINAL JUDGEMENT. LAWS, DECREES AND REGULATIONS CURRENTLY IN FORCE WOULD REMAIN BASICALLY UNCHANGED:

(D) THE SAR GOVERNMENT WOULD BE COMPOSED OF INHABITANTS OF HONG KONG. THE PRINCIPAL OFFICIALS WOULD BE APPOINTED BY THE CENTRAL PEOPLE'S GOVERNMENT OF CHINA ON THE BASIS OF THE RESULTS OF ELECTIONS OR CONSULTATIONS HELD LOCALLY. LOCAL BRITISH AND OTHER FOREIGN NATIONALS COULD BE EMPLOYED AS ADVISERS IN ORGANS AT VARIOUS LEVELS IN THE SAR:

(E) CURRENT SOCIAL AND ECONOMIC SYSTEMS WOULD REMAIN UNCHANGED AS WOULD THE EXISTING LIFE-STYLE. THE FREEDOMS OF SPEECH, PRESS, ASSEMBLY, ASSOCIATION, TRAVEL, CHANGE OF DOMICILE, CORRESPONDENCE AND RELIGIOUS BELIEF WOULD BE ENSURED. PRIVATE PROPERTY, THE OWNERSHIP OF ENTERPRISES, LEGITIMATE RIGHTS OF INHERITANCE AND FOREIGN INVESTMENTS WOULD BE PROTECTED BY LAW:

(F) THE SAR WOULD REMAIN A FREE PORT AND A SEPARATE TARIFF AREA:

(G) IT WOULD MAINTAIN THE STATUS OF AN INTERNATIONAL FINANCIAL CENTRE. THE FOREIGN EXCHANGE, GOLD, SECURITIES AND FUTURES MARKETS WOULD REMAIN OPEN. THERE WOULD BE A FREE FLOW OF CAPITAL. THE HONG KONG DOLLAR WOULD CIRCULATE AND BE FREELY CONVERTIBLE AS USUAL:

(H) THE SAR WOULD HAVE INDEPENDENT FINANCES:

(I) THE SAR COULD ESTABLISH RECIPROCAL ECONOMIC RELATIONS WITH BRITAIN. BRITISH ECONOMIC INTERESTS WOULD BE TAKEN CARE OF

(J) USING THE NAME "HONG KONG CHINA" THE SAR COULD ON ITS OWN MAINTAIN AND DEVELOP ECONOMIC AND CULTURAL RELATIONS AND SIGN AGREEMENTS WITH FOREIGN COUNTRIES, REGIONS, AND RELEVANT INTERNATIONAL ORGANISATIONS.

THE SAR GOVERNMENT COULD ISSUE ITS OWN TRAVEL DOCUMENTS FOR ENTRY INTO AND EXIT FROM HONG KONG:

(K) PUBLIC ORDER WOULD BE MAINTAINED BY THE SAR GOVERNMENT:

(L) THESE POLICIES FOR THE SAR WOULD BE STIPULATED BY THE NATIONAL PEOPLE'S CONGRESS (NPC) AS THE BASIC LAW OF THE SAR AND WOULD REMAIN UNCHANGED FOR 30 YEARS.

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4. YAO GUANG OFFERED SOME FURTHER POINTS OF EXPLANATION TO THE ABOVE:

(i) HE EMPHASISED ONCE AGAIN THE PREMISE:

(ii) THE POLICIES FOR HONG KONG WERE DIFFERENT FROM THOSE ON THE MAINLAND. THEY WERE THE RESULT OF CAREFUL CONSIDERATION OF THE OPINIONS OF HONG KONG PEOPLE FROM ALL WALKS OF LIFE. THEY ENJOYED EXTENSIVE SUPPORT AMONG THE PEOPLE OF HONG KONG:

(iii) THE POLICIES WOULD BE SUBMITTED TO THE NPC FOR ADOPTION AS THE BASIC LAW OF THE SAR. THE CHINESE GOVERNMENT WOULD DO ITS UTMOST TO IMPLEMENT THE BASIC LAW ONCE IT WAS ADOPTED AND PROMULGATED:

(iv) THE POLICIES PROVIDED FOR A HIGH DEGREE OF AUTONOMY FOR THE SAR EXCEPT IN THE FIELD OF FOREIGN AFFAIRS AND DEFENCE, WHICH WOULD BE THE RESPONSIBILITY OF THE CENTRAL GOVERNMENT. CHINA HAD CONFIDENCE IN THE TALENTS, MANAGERIAL ABILITY AND ENTERPRISING SPIRIT OF THE PEOPLE OF HONG KONG. THE CHINESE GOVERNMENT WOULD CONTINUE TO PROVIDE THE CONDITIONS FOR THEM TO MAINTAIN PROSPERITY AND A HAPPY LIFE FOR THEMSELVES:

(v) IN VIEW OF FRIENDLY RELATIONS BETWEEN BRITAIN AND CHINA AND HISTORICAL RELATIONS BETWEEN BRITAIN AND HONG KONG THE SAR WOULD ATTACH IMPORTANCE TO ANY POSITIVE ROLE BRITAIN MIGHT PLAY IN PROMOTING ITS DEVELOPMENT, WOULD TAKE CARE OF BRITISH ECONOMIC INTEREST. MUTUALLY BENEFICIAL ECONOMIC RELATIONS COULD BE ESTABLISHED .

5. YAO HOPED THAT AN IDENTITY OF VIEWS COULD BE REACHED ON PRACTICAL ARRANGEMENTS. THE POLICIES WERE CLEAR AND FORMED AN INTEGRAL WHOLE. THEY WERE ENTIRELY THE INTERNAL AFFAIR OF CHINA AS THE SOVEREIGN STATE BUT CHINA WISHED TO HEAR BRITISH VIEWS AND OPINIONS AS BOTH SIDES SOUGHT TO SETTLE THIS PROBLEM LEFT OVER FROM HISTORY.

6. YAO TURNED TO OUR TWO WORKING PAPERS. IF WE MADE AN OVERALL AND THOROUGH STUDY OF THE CHINESE POLICIES AS ENUNCIATED WE WOULD FIND THE ANSWER TO MANY QUESTIONS. THUS, AS REGARDS THE LEGAL SYSTEM, CHINESE POLICY WAS THAT IT WOULD BE BASICALLY UNCHANGED. THERE WOULD BE ALTERATION ONLY IN THOSE PARTS WHICH IMPLIED COLONIAL RULE AND IMPAIRED CHINESE SOVEREIGNTY . LAWS, RULES AND REGULATIONS WHICH DID THIS WOULD UNDOUBTEDLY HAVE TO BE ABOLISHED. THE LETTERS PATENT, THE ROYAL INSTRUCTIONS AND THE COLONIAL REGULATIONS WERE IN THIS CATEGORY. COLONIALY TAINTED LEGAL TERMS WOULD ALSO HAVE TO BE DELETED OR REVISED. LAWS OTHER THAN THESE WOULD REMAIN UNCHANGED.

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HE PICKED UP THE FIRST SENTENCE OF PARAGRAPH 1 OF OUR WORKING PAPER ON THE HONG KONG LEGAL SYSTEM. THIS MEANT THAT THERE WOULD BE NO CHANGES AT ALL, INCLUDING NO CHANGES IN THE THREE KINDS OF LAW HE HAD ALREADY MENTIONED. THIS WAS NOT THE SAME AS BASICALLY NO CHANGE. WAS THIS NOT CLEARLY IN CONTRADICTION OF THE CHINESE PREMISE? HE ALSO PICKED UP THE POINT IN THE WORKING PAPER ABOUT NO POWER OF DISALLOWANCE OUTSIDE HONG KONG. THIS CLARLY REFERRED TO THE CHINESE CENTRAL GOVERNMENT. BUT HOW COULD THIS BE SO WHEN THE BASIC SYSTEMS PRESCRIBED IN HONG KONG WOULD BE BOUND BY A LAW WHICH WOULD BE ADOPTED BY THE NPC? THIS OBLITERATED THE DIFFERENCE BETWEEN AN SAR WITH A HIGH DEGREE OF AUTONOMY AND AN INDEPENDENT STATE AND WAS INADMISSIBLE. SPECIFIC ASPECTS SUCH AS THE FUTURE COURT SYSTEM AND A JUDICIARY INDEPENDENT OF THE EXECUTIVE WERE MOSTLY MATTERS CONCERNING THE IMPLEMENTATION OF THE BASIC POLICIES, AND THEREFORE TO BE DECIDED BY THE SAR GOVERNMENT ON ITS OWN. THEY SHOULD NOT BE PRE-JUDGED BY THE CENTRAL GOVERNMENT.

7. CHINESE POLICIES ON THE FINANCIAL SYSTEM WERE ALSO CLEAR. THE HONG KONG DOLLAR WOULD CONTINUE, AS NOW, TO CIRCULATE AND BE FREELY CONVERTIBLE AFTER 1997. IT WOULD BE BACKED BY AN INDEPENDENT EXCHANGE FUND CONTROLLED AND ADMINISTERED BY THE SAR GOVERNMENT. ALL REVENUE WOULD BE USED FOR LOCAL PURPOSES AND NOT REMITTED TO THE CENTRAL GOVERNMENT. THE SAR WOULD HAVE TO REPORT ITS BUDGET AND FINANCIAL ACCOUNTS TO THE CENTRAL GOVERNMENT FOR THE RECORD. THE STATEMENT IN THE WORKING PAPER ON THE FINANCIAL SYSTEM THAT THERE WOULD BE NO EXTRA SUPERVISION OR APPROVAL REQUIRED WAS TOO SWEEPING IF IT PRECLUDED THE REPORTING OF THE BUDGET AND ACCOUNTS TO THE CENTRAL GOVERNMENT. ON SPECIFIC MEASURES TO BE ADOPTED, AS WITH THE LEGAL SYSTEM, THESE WERE FOR THE SAR GOVERNMENT.

IT WAS IMPROPER AND UNNECESSARY FOR THE CENTRAL GOVERNMENT TO DECIDE ON THEM

8. HE CONCLUDED BY SAYING THAT HE WAS NOT IN FAVOUR OF A STEP-BY-STEP APPROACH, NOR OF SPENDING TIME IN DISCUSSION ON DETAIL. HE HAD NO OBJECTION TO US PRESENTING FURTHER WORKING PAPERS BUT HOPED THEY WOULD NOT GO INTO EXCESSIVE DETAIL. WE SHOULD CONCENTRATE ON PRINCIPLES AND REACH AGREEMENTS ON THEM AS SOON AS POSSIBLE. DISCUSSION OF DETAIL WOULD IN ANY CASE INVOLVED MANY TECHNICAL MATTERS WHICH WOULD BE THE RESPONSIBILITY OF THE FUTURE SAR GOVERNMENT AND COULD NOT BE DISCUSSED BETWEEN US. THERE WAS NOT MUCH TIME LEFT: HE LOOKED FORWARD TO OUR POSITIVE RESPONSE.

9. I THANKED YAO FOR HIS ACKNOWLEDGEMENT OF OUR EFFORTS. I COULD ONLY OFFER PRELIMINARY COMMENTS. HIS STATEMENT WOULD RECEIVE CAREFUL STUDY. I REMINDED HIM THAT WE WERE PROCEEDING ON THE BASIS OF THE PRIME MINISTER'S MESSAGE. I WAS RELIEVED THAT WE WERE AT LAST MOVING ON TO MATTERS OF DETAIL AND CONSTRUCTIVE TALKS. BUT YAO'S STATEMENT REMAINED AN

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EXTREMELY GENERALISED ONE, SIMILAR TO EARLIER ONES WE HAD HEARD. HE IMPRESSED ON HIM THE EXTREME IMPORTANCE OF GREATER DETAIL, OFFERING THREE PRINCIPAL REASONS:

(i) THE NEED TO SUSTAIN CONFIDENCE IN HONG KONG. THIS WAS IMPOSSIBLE IF WE COULD OFFER NO MORE INFORMATION THAN GENERALISED STATEMENTS OF INTENT. PEOPLE WHO LIVED AND INVESTED IN HONG KONG WOULD NEED TO KNOW IN MUCH GREATER DETAIL, IN WHAT RESPECT, IF ANY, SYSTEMS WOULD BE CHANGED:

(ii) THE PRIME MINISTER COULD NOT PUT AN AGREEMENT TO PARLIAMENT THAT WAS DEVOID OF DETAIL. IF SHE DID SO, SHE WOULD BE LAUGHED OUT OF THE HOUSE:

(iii) A LACK OF DETAILED PLANNING IN THE ARRANGEMENTS WOULD CREATE AN ADMINISTRATIVE VACUUM IN HONG KONG. IT WAS OUR WISH TO PRESERVE AS MUCH AS POSSIBLE OF HONG KONG'S CURRENT EXCELLENT ADMINISTRATION AND PASS IT OVER TO THE NEW GOVERNMENT OF THE SAR. BUT PEOPLE WOULD LEAVE IF THEY WERE WORRIED: THEY NEEDED ASSURANCE AND TO KNOW IN GREATER DETAIL THE ADMINISTRATIVE ARRANGEMENTS AFTER 1997. WITHOUT THAT DETAIL NOW THE ADMINISTRATION WOULD DETERIORATE AND CONFIDENCE WOULD DISAPPEAR.

10. HE ARGUED AGAINST YAO'S ASSERTION THAT WE SHOULD NOT PROCEED ON A STEP-BY-STEP BASIS. IT WAS HUMANLY POSSIBLE ONLY TO DISCUSS ONE ISSUE AT A TIME. HE POINTED OUT THAT YAO HIMSELF HAD TO SOME EXTENT ADOPTED THIS APPROACH IN DEALING WITH OUR WORKING PAPERS AND WELCOMED THIS FACT AND THE POINTS HE MADE. BUT THESE POINTS THEMSELVES RAISED FURTHER QUESTIONS. HE CITED HIS REMARKS ABOUT THE POWER OF DISALLOWANCE. WE DID NOT DISPUTE THAT THE ESTABLISHMENT OF A "CONSTITUTION" FOR HONG KONG AFTER 1997 WAS A MATTER FOR THE CENTRAL GOVERNMENT. BUT SUPPOSING THE SAR GOVERNMENT WISHED SUBSEQUENTLY TO AMEND THE LAWS GOVERNING THE EXCHANGE FUND. IF THE NEW LAW WAS PASSED BY THE SAR GOVERNMENT WOULD THE CENTRAL GOVERNMENT HAVE THE POWER OF DISALLOWANCE OVER IT? AND IF SO, HOW COULD THIS BE RECONCILED WITH FINANCIAL INDEPENDENCE FOR THE SAR? I TOOK UP HIS POINT ABOUT CERTAIN SPECIFIC MATTERS BEING FOR THE FUTURE SAR GOVERNMENT AND NOT FOR US. IT WAS NOT ENOUGH TO BRUSH SUCH MATTERS AS THE ADMINISTRATION OF THE COURTS AND JUDICIAL POWER ASIDE FOR THE SAR GOVERNMENT TO DEAL WITH IN THE FUTURE. THEY MUST BE CLEARLY UNDERSTOOD BEFOREHAND BECAUSE PEOPLE IN HONG KONG WOULD BE RELYING ON JUDGEMENTS IN THESE COURTS AND CONTINUITY IN THESE SYSTEMS. I ALSO SOUGHT CLARIFICATION ABOUT THE ABOLITION OF THE LETTERS PATENT, ROYAL INSTRUCTIONS AND COLONIAL REGULATIONS. WOULD THIS BE A TOTAL ABOLITION, OR WOULD PARTS OF THEM APPEAR ELSEWHERE IN THE LAWS UNDER A DIFFERENT TITLE?

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11. I REMINDED HIM THAT HE HAD, AS IN THE PAST, MADE ASSERTIONS ABOUT THINGS THAT WOULD HAPPEN WHICH DEPENDED NOT UPON CHINA OR BRITAIN ALONE BUT UPON THIRD PARTIES AS WELL. ACCESS TO MARKETS, FOR EXAMPLE, WOULD HAVE TO BE NEGOTIATED WITH THIRD PARTIES. IT WAS A MATTER ON WHICH CHINA AND BRITAIN MUST COOPERATE BUT WHERE THE OUTCOME COULD NOT BE PREDICTED OR STATED IN ADVANCE. WE WOULD BE TOUCHING ON THESE MATTERS IN THE WORKING PAPER ON EXTERNAL ECONOMIC RELATIONS WHICH I HOPED TO HAND OVER THE FOLLOWING DAY. I HOPED SUHRT WOULD RECEIVE DETAILED AND REALISTIC EXAMINATION AND WOULD NOT MEET WITH VAGUE AND GENERALISED STATEMENTS.

12. IN STRESSING FINALLY THE IMPORTANCE OF DETAIL IF WE WERE TO ARRIVE AT ARRANGEMENTS THAT WOULD MEET THE COMMON AIM I DREW ATTENTION TO STATEMENTS BY YAO AND ZHOU NAN WHICH GAVE ME SOME ENCOURAGEMENT. YAO HAD SAID THAT MORNING HE HOPED THROUGH FULL CONSULTATIONS AN IDENTITY OF VIEWS COULD BE REACHED ON HOW TO MAKE PRACTICAL ARRANGEMENTS. ZHOU HAD SAID IN NEW YORK TO YOU THAT IF WE CHANGED OUR APPROACH OF INSISTING ON CONTINUED BRITISH ADMINISTRATION THEN DETAILED DISCUSSIONS ON ALL PRACTICAL ASPECTS OF THE ISSUE COULD BEGIN IMMEDIATELY. (UKMIS NEW YORK TEL NO 006 TO HONG KONG). YAO WAS WELL AWARE THAT THERE HAD BEEN A BIG CHANGE IN OUR APPROACH AS EXPRESSED IN THE PRIME MINISTER'S MESSAGE. WE WISHED TO ENGAGE IN DETAILED DISCUSSIONS ON ALL ASPECTS.

13 YAO SPOKE AGAIN BRIEFLY BEFORE THE END OF THE MORNING. HE REITERATED HIS VIEW THAT DISCUSSION ON MATTERS OF PRINCIPLE WAS OF VITAL IMPORTANCE. HE UNDERSTOOD MY VIEWS ON THE IMPORTANCE OF DETAIL BUT HELD A DIFFERENT VIEW. HE DREW A DISTINCTION BETWEEN THE POLICIES WHICH CHINA WOULD ADOPT TOWARDS HONG KONG AFTER 1997, WHICH WERE CHINA'S INTERNAL AFFAIR, AND IN WHICH THEY WOULD WELCOME OUR SUGGESTIONS, AND MATTERS CONCERNING BRITISH INTERESTS IN HONG KONG AND SINO-BRITISH CO-OPERATION IN THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG, WHERE THEY HOPED TO HAVE DETAILED DISCUSSION WITH US. TAKING NO ACCOUNT OF WHAT I HAD SAID, HE REPEATED THAT THERE WERE SOME SPECIFIC POINTS WHICH WERE FOR THE FUTURE SAR GOVERNMENT AND NOT FOR US TO DISCUSS. HE ALSO ADDED THAT DETAILED DISCUSSION IN MANY AREAS REQUIRED A CERTAIN AMOUNT OF SPECIALIST KNOWLEDGE WHICH NEITHER HE NOR I HAD AND WE COULD THEREFORE NOT EMBARK

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UPON IT. MOREOVER, ALTHOUGH WE STRESSED THE NEED FOR DETAIL,
WE WERE RELUCTANT TO GIVE A CLEAR ANSWER AS TO
WHAT WAS MEANT BY THE BRITISH LINK OR ROLE. THESE WERE ISSUES OF
PRINCIPLE AND THE CHINESE SIDE WOULD RETAIN DOUBTS ABOUT
OUR INTENTIONS UNTIL THEY HAD
HEARD SOME CLARIFICATION. YAO PROMISED TO CONTINUE TOMORROW.
CRADOK

FUTURE OF HONG KONG

LIMITED

ED/HKD

ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

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SECRET

GRS 600

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DESKY 141100Z

FROM PEKING 141005Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1188 OF 14/11/83

INFO IMMEDIATE HONGKONG

MIPT: FUTURE OF HONG KONG: ROUND SIX, FIRST DAY.

COMMENT

1. BY AND LARGE THIS WAS A NEGATIVE SESSION. THE CHINESE MADE THE MOST OF OUR AGREEMENT TO PROCEED WITH DISCUSSIONS ON THE BASIS OF THEIR PROPOSALS, BUT DESPITE THIS SAID THEY DID NOT WISH TO AGREE TO AN AREA-BY-AREA DISCUSSION. THEY MADE AN UNCOMPROMISING RESTATEMENT OF THEIR POSITION ON ALL MATTERS OF SUBSTANCE. THIS ADDED A NUMBER OF DETAILS TO THE CHINESE PROPOSALS: THOUGH MANY OF THESE WERE UNCLEAR AND ARE NOT NECESSARILY THE FINAL WORD, THEY TEND TO POINT IN THE WRONG DIRECTION. EXAMPLES ARE THE STIPULATION THAT PEKING WOULD APPOINT SENIOR OFFICIALS AFTER THEY HAD BEEN PRODUCED BY ELECTIONS OR CONSULTATIONS IN HONG KONG (THOUGH THIS MAY NOT BE SO VERY DIFFERENT IN PRACTICE FROM APPROVING THOSE PRODUCED BY LOCAL SELECTION), AND THE SUGGESTION THAT BRITISH PERSONNEL COULD ONLY REMAIN IN THE CIVIL SERVICE AS ADVISERS. IN COMMENTING ON OUR PAPERS YAO ALSO QUESTIONED OUR STATEMENT THAT THERE WOULD BE NO POWER OF DISALLOWANCE OF LAWS OUTSIDE HONG KONG.

2. THE CHINESE ALSO MADE AGAIN, RATHER MORE EMPHATICALLY, THE DISTINCTION BETWEEN MATTERS WHICH THEY REGARDED AS THEIR OWN INTERNAL AFFAIR, AND ON WHICH THEY WERE PREPARED TO LISTEN TO OUR IDEAS AND SUGGESTIONS, AND MATTERS INVOLVING BRITISH INTERESTS ON WHICH THEY WERE PREPARED TO HAVE A MORE GENUINE NEGOTIATION. FINALLY, THEY SAID THAT THEY DID NOT WISH TO GO

INTO EXCESSIVE DETAIL, AND THAT WHOLE AREAS OF THE FUTURE ARRANGEMENTS WERE OUT OF BOUNDS BECAUSE THEY WOULD BE FOR THE FUTURE GOVERNMENT OF THE SPECIAL ADMINISTRATIVE REGION TO DECIDE.

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3. ON THE POSITIVE SIDE, THE CHINESE SAID THAT THEY WERE READY TO HAVE OUR PAPERS, AND TO RECEIVE ANY FURTHER QUESTIONS ON THEIR POLICIES. IN PRACTICE, HOWEVER GRUDGINGLY, THERE HAS BEEN SOME COMMENT ON THE SUBJECTS IN OUR FIRST TWO PAPERS. THEY SAID THAT THE SPECIAL ADMINISTRATIVE REGION WOULD ATTACH IMPORTANCE TO THE POSITIVE ROLE WHICH BRITAIN MIGHT PLAY IN MAINTAINING AND DEVELOPING ITS PROSPERITY. THEY SAID THAT OUR REFERENCES TO A BRITISH ROLE STILL CAUSED THEM CONCERN AND PUT FURTHER PRESSURE ON US TO GIVE DETAILS OF WHAT WE SAW AS BEING THE CONTENT OF A BRITISH LINK, OR A BRITISH ROLE. BUT THEY SAID THAT IF DIFFERENCES OF PRINCIPLE WERE ELIMINATED IT WOULD BE EASIER TO DISCUSS OTHER SPECIFIC MATTERS AND REACH IDENTITY OF VIEWS ABOUT PRACTICAL ARRANGEMENTS.

4. I SHALL TELEGRAPH FURTHER ON FUTURE TACTICS AT THE END OF THIS ROUND, BUT AT PRESENT I THINK WE HAVE LITTLE ALTERNATIVE BUT TO PERSEVERE IN FEEDING IN DETAIL AND AS FAR AS POSSIBLE DRAWING THE CHINESE INTO DISCUSSION OF IT, HOWEVER UNFERTILE THE GROUND. I PROPOSE TO CONTINUE TOMORROW ARGUING ON THE NECESSITY FOR DETAIL AND THE IMPOSSIBILITY OF LEAVING LARGE AREAS BLANK FOR DECISION EVENTUALLY BY THE GOVERNMENT OF THE SAR. I SHALL PUT FURTHER QUESTIONS ON THE LEGAL AND FINANCIAL AREAS, DRAWING ON THE VAGUE AND INADEQUATE CHINESE COMMENT HITHERTO. WE INTEND THAT THE GOVERNOR SHOULD GIVE A GENERAL EXPLANATION OF THE PUBLIC SET-UP IN HONG KONG IN ORDER TO GET OVER TO THE CHINESE THE COMPLEXITY OF THIS ISSUE AND THE NEED FOR SOME AGREEMENT NOW ON WHAT WILL HAPPEN AFTER 1997 IF CONTINUITY OF ADMINISTRATION IS TO BE PRESERVED. WE SHALL ALSO PRESENT THE THIRD PAPER, ON EXTERNAL ECONOMIC RELATIONS.

CRADOCK

FUTURE OF HONG KONG

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RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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1194

GR 625
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FM PERING 150930Z NOV 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1194 OF 15 NOVEMBER
INFO IMMEDIATE HONG KONG

SECRET

FUTURE OF HONG KONG: SIXTH ROUND, SECOND DAY: COMMENT
1. THIS WAS A PRETTY BLEAK SESSION. ONE CHINESE MADE AN UNYIELDING RESTATEMENT OF THEIR POSITION. IN PARTICULAR THEY EMPHASISED YET AGAIN THAT THERE WERE CERTAIN MATTERS RELATING TO FUTURE ARRANGEMENTS ON HON KONG ON WHICH THEY WERE PREPARED TO LISTEN TO OUR IDEAS AND SUGGESTIONS, BUT WHICH WERE BY DEFINITION THEIR OWN INTERNAL POLICY. BY CONTRAST, THERE WERE OTHER AREAS AFFECTING BRITISH INTERESTS IN HONG KONG, FUTURE BRITISH RELATIONS WITH THE SAR, AND SINO-BRITISH EFFORTS TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG, WHERE THEY WOULD UNDERTAKE MORE GENUINE NEGOTIATIONS. THEY REPEATED THEIR OBJECTIONS TO DISCUSSING DETAIL AND RESTATED THEIR INTENTION TO CONCENTRATE ON PRINCIPLES. THEY RESTATED THEIR ARGUMENT THAT MANY OF THE MATTERS RAISED IN OUR PAPERS COULD NOT BE DISCUSSED BECAUSE THEY WERE FOR THE GOVERNMENT OF THE SPECIAL ADMINISTRATIVE REGION TO DECIDE AFTER 1997. THEY SHOWED TOTAL LACK OF COMPREHENSION OF THE ARGUMENTS WE PUT FORWARD TO ILLUSTRATE THE NEED FOR DETAIL. THERE WAS, IF ANYTHING, LESS DIALOGUE BETWEEN THE TWO SIDES THAN THERE HAS BEEN IN THE PAST.

2. AS AGAINST THIS, WE WERE ABLE TO PUT ON THE RECORD SOME CONSIDERED ARGUMENTS ON THE SHEER NECESSITY OF GETTING DOWN TO DETAIL AND THE IMPOSSIBILITY OF LEAVING LARGE AREAS FOR DECISION AT SOME INDEFINITE TIME IN THE FUTURE. THE GOVERNOR'S INTERVENTION WILL ALSO SERVE AS A USEFUL BASIS FOR DISCUSSING THE IMPORTANT MATTER OF THE GOVERNMENT SERVICES.

3. ALSO ON THE POSITIVE SIDE, THE CHINESE SPOKE OF THE POSSIBILITY OF BRITISH OFFICIALS CONTINUING TO SERVE IN HONG KONG, WHICH MIGHT BE READ AS MORE PERMISSIVE THAN WHAT THEY SAID YESTERDAY. IT WAS, HOWEVER, AMBIGUOUS AND WE CANNOT YET ASSISS WHAT IT MEANS. YAO ALSO SAID THAT BRITAIN WOULD HAVE A DIFFERENT AND BY IMPLICATION BETTER POSITION IN HONG KONG AFTER 1997 THAN OTHER COUNTRIES, THOUGH HE DEFINED THIS POSITION IN TERMS OF OUR CONTINUING TO ASSIST IN MAINTAINING HONG KONG'S PROSPERITY AND STABILITY.

4. FINALLY , YAO AGAIN INDICATED THAT IF THE QUESTION OF THE LINK AND ROLE WERE CLARIFIED IT WOULD BE EASIER TO DISCUSS PRACTICALITIES.

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5. SOME OF THIS NEGATIVE RESPONSE WAS, NO DOUBT, INEVITABLE, GIVEN THE WAY YAO GUANG'S MIND WORKS, AND THE PROBABLE DIFFICULTY IN GETTING NEW INSTRUCTIONS FROM HIS LEADERS IN THE COURSE OF THE SAME ROUND. BUT THERE IS LITTLE RELIEF IN THE PICTURE OF A GENERALLY NEGATIVE CHINESE POSITION. THE TOTAL SHRINKING FROM ANY DISCUSSION OF DETAIL IS PERHAPS THE MOST WORRYING ASPECT OF THE WHOLE SCENE.

6. WE MAY GET SOME FURTHER FEELING FOR THE CHINESE POSITION AT DINNER THIS EVENING AND I SHALL TELEGRAPH FURTHER TOMORROW WITH IDEAS ON FUTURE TACTICS.

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FUTURE OF HONG KONG

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DESKBY FCO 151130Z

FM PEKING 151010Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1196 OF 15 NOVEMBER

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: SIXTH PLENARY ROUND: SECOND DAY.

1. HE SPOKE FIRST AND CONTINUED AT GREATER LENGTH WITH COMMENTS ON YAO'S STATEMENT OF THE PREVIOUS DAY. HE EMPHASISED THE NEED FOR US TO HAVE DETAIL OF THE CHINESE PROPOSALS. HE REITERATED THE THREE REASONS HE HAD OFFERED YESTERDAY AS TO WHY GREATER DETAIL WAS VITAL (PARA 9 OF MY TEL NO 1187) AND ADDED A FOURTH REASON: YAO HAD ARGUED THAT MATTERS WHERE FURTHER DETAIL WAS REQUIRED, SUCH AS THE FUTURE COURT SYSTEM AND THE INDEPENDENCE OF THE JUDICIARY FROM THE EXECUTIVE, CONCERNED ONLY THE ACTUAL IMPLEMENTATION OF BASIS POLICIES. THEY WERE MUCH MORE THAN THIS, AND WERE, IN FACT, IMPORTANT POINTS OF PRINCIPLE. AS SUCH, THEY COULD NOT MERELY BE LEFT TO THE GOVERNMENT OF THE SAR TO DECIDE AFTER 1997. WE WERE KEEN TO COOPERATE WITH THE CHINESE SIDE IN REACHING AGREED ARRANGEMENTS FOR HONG KONG AFTER 1997. BUT IT WAS IMPORTANT THAT WE KNEW EXACTLY WHAT WE WERE BEING EXPECTED TO COOPERATE WITH.

2. HE THEN SOUGHT FURTHER CLARIFICATION ON YAO'S REMARKS ON THE LEGAL AND FINANCIAL PAPERS, REFERRING TO LAWS WITH A COLONIAL FLAVOUR, THE POWER OF DISALLOWANCE, THE INDEPENDENCE OF THE JUDICIARY, AND REFERENCE OF THE HONG KONG SAR BUDGET AND ACCOUNTS TO THE CENTRAL GOVERNMENT 'FOR THE RECORD'.

3. IN RESPONSE TO YAO'S REMARKS THE PREVIOUS DAY, HE SPOKE BRIEFLY ON THE BRITISH ROLE. HE REFERRED TO WU XUEQIAN'S REMARKS TO YOU AND TO OUR HISTORICAL LINKS WITH AND EXPERIENCE OF HONG KONG. AS AUTHORISED IN YOUR TEL NO 788, HE SAID THAT FOR THE PURPOSE OF OUR DISCUSSIONS AS PROPOSED IN THE PRIME MINISTER'S MESSAGE WE WERE SINCERELY PREPARED TO EXAMINE WHETHER SATISFACTORY ARRANGEMENTS COULD BE BUILT ON THE BASIS OF THE CHINESE PROPOSALS. THESE, AS WE UNDERSTOOD THEM, DID NOT INVOLVE ANY LINK OF ACCOUNTABILITY OR RESPONSIBILITY TO LONDON AFTER 1997. HE CONCLUDED BY HANDING OVER THE WORKING PAPER ON EXTERNAL ECONOMIC RELATIONS, EXPRESSING THE HOPE THAT WE WOULD GET A DETAILED RESPONSE TO IT.

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4. THE GOVERNOR THEN ELABORATED ON THE PUBLIC SERVICE IN HONG KONG AND THE DANGERS OF AN ADMINISTRATIVE VACUUM IF GREATER DETAILS OF THE PROPOSED ARRANGEMENTS AFTER 1997 WERE NOT REVEALED. HE STRESSED THE COMPLEXITY OF HONG KONG AND THE NEED FOR CONTINUITY IF THE SERVICES OF THE PEOPLE WHO RAN IT WITH SUCH PROFESSIONAL SKILL WERE TO BE RETAINED FOR THE BENEFIT OF THE FUTURE SAR. IF THESE PEOPLE DID NOT KNOW WHAT ARRANGEMENTS THERE WOULD BE AFTER 1997 THEY WOULD BE UNWILLING TO CONTINUE TO SERVE IN HONG KONG AND IT WOULD BE IMPOSSIBLE TO REPLACE THEM WITHOUT A BREAKDOWN IN CONTINUITY.

5. YAO THEN SPOKE. HE WAS DISAPPOINTED THAT WE HAD NOT MADE AN OVERALL REACTION IN PRINCIPLE TO HIS ELABORATION OF CHINESE POLICIES YESTERDAY AND ADVISED US TO DO SO, AND NOT TO GET BOGGED DOWN IN DETAIL. THE CHINESE LEADERS ATTACHED GREAT IMPORTANCE TO THIS AS IT TOUCHED ON CHINA'S SOVEREIGNTY AND NATIONAL DIGNITY. HE REPEATED THAT CHINA COULD NOT BUT HAVE DOUBTS ABOUT OUR INTENTIONS IN VIEW OF THE SOMETIMES DIFFERING EXPLANATIONS WE GAVE ABOUT THE NATURE OF THE BRITISH LINK OR ROLE, AND THE PUBLIC REMARKS BRITISH LEADERS MADE ON THE SUBJECT. THE BRITISH SIDE HAD NOT YET CLARIFIED THEIR POSITION ON THIS POINT. IN THIS SITUATION, HOW COULD THEY ENTER INTO DETAILED DISCUSSIONS? CHINA WELCOMED BRITAIN'S COOPERATION OVER THE SMOOTH RETURN OF HONG KONG TO CHINA SO AS TO ENSURE CONTINUED STABILITY AND PROSPERITY. THE CHINESE SIDE RECOGNISED NATURALLY THAT THE BRITISH POSITION AND ROLE IN THE FUTURE SAR WOULD BE DIFFERENT FROM THAT OF OTHER COUNTRIES. IF BRITISH PEOPLE WERE WILLING TO SERVE IN THE SAR AT THE REQUEST OF THE GOVERNMENT OF THE SAR THE CHINESE WOULD WELCOME THIS. BUT THIS SHOULD NOT BE A MEANS FOR THE BRITISH TO SEEK CO-ADMINISTRATION OR PARTIAL ADMINISTRATION IN DISGUISE. CHINESE DOUBTS ABOUT OUR INTENTIONS HAD ONLY BEEN INCREASED BY THE GOVERNOR'S STATEMENT.

6. YAO REPEATED HIS ARGUMENTS OF YESTERDAY THAT OUR WORKING PAPERS WERE, IN PLACES, INCONSISTENT WITH THE CHINESE PREMISE AND IN OTHER PLACES WENT INTO EXCESSIVE DETAIL IN FIELDS THAT WOULD BE A FUNCTION OF THE FUTURE SAR GOVERNMENT. IT WAS IMPOSSIBLE FOR THE TWO SIDES, AND PARTICULARLY THE BRITISH, TO LAY DOWN SPECIFIC RULES AND REGULATIONS FOR THE SAR. IF WE GOT BOGGED DOWN ON THOSE ISSUES THE TALKS COULD NOT PRODUCE A POSITIVE RESULT. IN HIS VIEW, WE SHOULD CONCENTRATE ON SETTLING QUESTIONS OF PRINCIPLE. HE FOUND MY REASONS FOR WISHING TO GET INTO MATTERS OF DETAIL INADEQUATE. HE SPECIFICALLY REFERRED TO THE ARGUMENT THAT DETAIL WAS NEEDED TO SUSTAIN CONFIDENCE. CHINA'S 12- POINT POLICY FOR HONG KONG, WHICH WAS BASED ON CONSULTATION WITH THE PEOPLE OF HONG KONG, COMMANDED CONFIDENCE, AND THOSE TO WHOM THE CHINESE HAD SPOKEN HAD SAID THAT THEIR DOUBTS WERE REMOVED. HE COULD NOT SEE WHY CONFIDENCE WOULD ONLY BE COMMANDED BY DETAILED PLANS.

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7. HE DID NOT SEE HOW, ON THE BASIS OF CHINA'S PROPOSALS, ANY ADMINISTRATIVE VACUUM COULD COME ABOUT. HE WAS WILLING TO ASSUME THAT OUR REMARKS ABOUT THIS WERE NOT INTENDED AS A THREAT BUT IN HIS VIEW TO SPEAK IN SUCH TERMS WAS NOT BENEFICIAL TO THE TALKS. HE CONCLUDED BY DRAWING THE SAME DISTINCTION AS YESTERDAY BETWEEN POLICIES WHICH CHINA WOULD ADOPT TOWARDS HONG KONG AFTER 1997, WHICH WERE CHINA'S INTERNAL AFFAIR AND ON WHICH THEY WOULD WELCOME OUR IDEAS AND SUGGESTIONS, AND QUESTIONS ON MATTERS CONCERNING BRITISH INTERESTS IN HONG KONG, SINO-BRITISH COOPERATION IN THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG, AND THE RELATIONS BETWEEN THE FUTURE SAR AND BRITAIN, ON WHICH THEY HOPED TO HAVE DETAILED DISCUSSION WITH US.

8. HE REPLIED BRIEFLY. HE EMPHASISED THAT WE WERE PROCEEDING SINCERELY ON THE BASIS OF THE CHINESE PROPOSALS AND WOULD CONTINUE ON THAT BASIS. WE WERE ANXIOUS TO COOPERATE, BUT, AS HE HAD SAID BEFORE, IN ORDER TO DO SO WE NEEDED TO KNOW WITH WHAT WE WERE EXPECTED TO COOPERATE. OUR QUESTIONS WERE GENUINELY INTENDED TO ESTABLISH THIS. BUT IT WAS NOT HELPFUL IF THEY WERE RECEIVED GRUDGINGLY AND WITH MISTRUST. HE HOPED THAT IN FUTURE WE SHOULD GET A MORE CONSTRUCTIVE RESPONSE FROM THE CHINESE SIDE TO THIS PART OF OUR WORK.

9. SEE MY TELNO 1194 FOR COMMENT.

(REPEATED AS REQUESTED)

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FUTURE OF HONG KONG

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DESBKY 160930Z FCO

DESKBY 160830Z HONG KONG

FROM PEKING 160800Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1199 OF 16/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 1194: FUTURE OF HONG KONG: FUTURE TACTICS

THIS HAS BEEN A DISCOURAGING SESSION. IN THE LIGHT OF IT THE ROAD AHEAD LOOKS EVEN BLEAKER THAN WE HAD ENVISAGED.

2. ALTHOUGH THE TONE OF THE MEETINGS REMAINS VERY FRIENDLY IT LOOKS AS IF THE CHINESE POSITION HAS HARDENED. THOUGH THIS MUST BE CONJECTURAL, IT COULD WELL BE THAT DENG HIMSELF HAS HARDENED IT. IN PARTICULAR THE CHINESE HAVE MADE A FIRMER DISAPPOINTMENT THAN BEFORE BETWEEN AREAS WHICH THEY REGARD AS THEIR INTERNAL POLICIES, AND THOSE WHICH IN THEIR VIEW INVOLVE SOME DIRECT BRITISH INTEREST. ON THE FIRST THEY ARE UNWILLING TO GO INTO DETAIL AND HAVE MADE NO COMMITMENT TO DO SO IN THE FUTURE. THE MOST THEY ARE PREPARED TO DO AT LEAST FOR THE PRESENT IS TO GO THROUGH OUR WORKING PAPERS AND KNOCK OUT THE BITS WHICH THEY SEE AS CONFLICTING WITH THEIR PREMISE. THEY HAVE REFUSED TO DISCUSS DETAIL: THEY MAY BE WILLING TO DO SO AT A LATER DATE, BUT THEY ARE CLEARLY RESERVING THE RIGHT TO DECIDE MATTERS FOR THEMSELVES, POSSIBLY, IF WE ARE LUCKY, TAKING ACCOUNT OF OUR VIEWS IN DOING SO. SUCH SMALL PIECES OF INFORMATION AS WE HAVE BEEN ABLE TO PRY OUT OF THEM TEND TO BE OF A DISCOURAGING KIND.

3. SECONDLY THE CHINESE ARE SAYING THAT WHOLE AREAS ARE OUT OF BOUNDS BECAUSE THEY ARE MATTERS FOR DECISION BY THE SAR GOVERNMENT WHEN IT IS SET UP. THE IMPRACTICALITY OF THIS IS LIKELY TO STRIKE EVEN THEM EVENTUALLY, AND IT IS POSSIBLE THAT THIS IS A DELIBERATE DELAYING TACTIC, OR WILL AT LEAST IN PRACTICE TURN OUT TO BE A TEMPORARY PHASE. BUT IT IS A MAJOR OBSTACLE TO CURRENT BUSINESS.

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4. THEY CONTINUE TO SHOW SUSPICION ABOUT OUR INTENTIONS AND TO PRESS FOR FURTHER DETAIL ON THE BRITISH LINK OR BRITISH ROLE. THEY PRESS US TO CLARIFY OUR ATTITUDE TO THE LETTERS PATENT, ROYAL INSTRUCTIONS AND COLONIAL REGULATIONS. THIS I TAKE TO BE ANOTHER WAY OF MAKING THE SAME POINT, I.E WHAT BRITISH LINK DO WE ENVISAGE?

5. LOOKING AHEAD, PROSPECTS OF ACHIEVING A SATISFACTORY PACKAGE LOOK WORSE THAN WE HAD HOPED. I THINK THAT WE MUST NOW KEEP CONSTANTLY IN MIND THE POSSIBILITY THAT WE MAY IN THESE TALKS FAIL TO GET A PACKAGE THAT CAN IN ANY WAY BE REPRESENTED AS ACCEPTABLE, AND WE MUST THEREFORE PLAN OUR MOVES WITH THE POSSIBILITY OF A BREAKDOWN IN MIND.

6. I CONSIDER NEVERTHELESS THAT WE HAVE NO ALTERNATIVE BUT TO SEEK TO PURSUE OUR PRESENT COURSE. THE ONUS FOR ANY BREAKDOWN MUST BE PLACED FIRMLY ON THE CHINESE. WE MUST SHOW OURSELVES READY TO CONTINUE TO TALK CONSTRUCTIVELY. BETWEEN NOW AND THE NEXT SESSION I WOULD PROPOSE TO HAND OVER AS MANY OF THE FURTHER WORKING PAPERS AS CAN BE GOT READY, AND TO CONTINUE TO PRESS THE CHINESE TO TALK IN SENSIBLE DETAIL ABOUT THEM. THEY HAVE SAID THEY WELCOME THE WORKING PAPERS AND EVEN THOUGH THEIR COMMENTS ARE CONFINED TO MATTERS OF PRINCIPLE, IN THE PROCESS A CERTAIN AMOUNT OF ELUCIDATION AND EVEN AGREEMENT OCCURS. THEY ARE ALSO READY TO HAVE FURTHER INFORMAL CONTACTS IN THE INTERVAL BETWEEN THE ROUNDS.

7. I CONSIDER, HOWEVER, THAT IT IS ALSO ESSENTIAL TO TRY TO TACKLE IN THE MEANTIME CHINESE SUSPICIONS ABOUT THE BRITISH LINK OR ROLE. TO THIS END I SHOULD LIKE TO APPROACH YAO GUANG SOON WITH A CONSIDERED STATEMENT WHICH I COULD MAKE ON INSTRUCTIONS, LEAVING A SPEAKING NOTE. I AM GIVING THOUGHT NOW TO THE FORM OF SUCH A STATEMENT AND SHALL TELEGRAPH A SUGGESTION SOON, BUT IT WOULD HAVE TO MAKE IT CLEAR THAT IN THE CONTEXT OF THESE DISCUSSIONS WE SHALL MAKE NO PROPOSAL ON A BRITISH LINK OR ROLE WHICH CONFLICTS WITH THE TRANSFER OF BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION TO CHINA.

SINCE THE CHINESE HAVE ALSO EXPRESSED WORRY THAT WE HAVE NOT EXPLICITLY RULED OUT CO-ADMINISTRATION IN THE TALKS THEMSELVES, ALTHOUGH I DID SO IN MY CALL ON YAO ON 8 NOVEMBER, THE STATEMENT SHOULD MAKE THIS CLEAR AS WELL.

8. MY REASONS FOR PROPOSING THIS ARE AS FOLLOWS:-

(A) IT IS THE LOGICAL CONTINUATION OF THE PRIME MINISTER'S MESSAGE, AND INDEED AN INEVITABLE CONSEQUENCE OF IT. THE ONLY WAY IN WHICH WE CAN SEEK TO BUILD ON THE CHINESE PROPOSALS IS TO ACCEPT THOSE PROPOSALS AS THE BASE OF OUR BUILDING. IT IS A TACTICAL MATTER OF TIMING WHEN WE APPLY THIS PRINCIPLE TO THE ISSUE OF THE BRITISH LINK.

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(B) TO DISPEL CHIESE SUSPICIONS ON THIS POINT, IF WE CAN IN FACT SUCEED IN DOING THAT, MIGHT HELP TO GENERATE MORE PROFITABLE

DISCUSSION ON THE DETAILED AREAS. I WOULD NOT WISH TO HOLD OUT GREAT HOPES ABOUT THIS. BUT IT IS THE ONLY POSSIBILITY OF GETTING SUCH DISCUSSION.

(C) SUCH A MOVE IS ESSENTIAL IN VIEW OF THE POSSIBILITY OF A BREAKDOWN IN THE TALKS. WE MUST AVOID GIVING THE CHINESE ANY POSSIBILITY OF SAYING THAT THE TALKS HAVE BROKEN DOWN BECAUSE BRITAIN WAS PERSISTING IN TRYING TO PERPETUATE COLONIAL RULE IN HONG KONG. IF WE CAN MAKE IT CRYSTAL CLEAR THAT WE ARE NOT, THE CHINESE WILL THEMSELVES BE AWARE THAT THEIR OWN POSITION,

SHOULD THEY FORCE A BREAKDOWN OF THE TALKS, WILL BE WEAK. THIS MAY IN ITSELF MAKE THEM RELUCTANT TO PUSH MATTERS TO SUCH A BREAK.

9. I SHOULD LIKE TO MAKE THIS DEMARCHE TO VICE MINISTER YAO ON INSTRUCTIONS AS SOON AS POSSIBLE BEFORE 7 DECEMBER SO THAT WE CAN OBSERVE ITS EFFECT IN THAT ROUND. I ALSO ENVISAGE (MY TEL 1200) THAT BEFORE LEAVING I SHOULD SEEK TO CALL ON CHINESE LEADERS, WHEN I SHOULD NEED TO REITERATE SOME OF THE ABOVE. BUT I THINK THAT SUCH CALLS SHOULD TAKE PLACE AFTER THE 7/8 DECEMBER ROUND SO THAT I COULD TAKE INTO ACCOUNT WHAT HAS HAPPENED AT THAT ROUND.

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DESKBY FCO 110900Z

DESKBY PEKING 110600Z

DESKBY ATHENS 110700Z

FROM HONG KONG 110440Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1707 OF 11 NOVEMBER 1983

INFO IMMEDIATE PEKING AND ATHENS (FOR PRIVATE SECRETARY)

HN 1707

PEKING TELNO 1176: FUTURE OF HONG KONG

1. I AGREE THAT THERE IS A NEED TO CLARIFY OUR PRESENT STRATEGY AND OBJECTIVES.
2. AS I UNDERSTAND IT, THE COURSE ON WHICH WE ARE NOW EMBARKED IS THAT RECOMMENDED IN PEKING TELNO 1068 AS AMPLIFIED BY MY TELNO 1581, AND ENDORSED BY MINISTERS IN FCO TELNO 718 TO PEKING. IT IS A COURSE WHICH INVOLVES MOVING BY STAGES FROM THE RELATIVELY UNCONTENTIOUS AREAS WHERE WE HAVE ALREADY SUBMITTED WORKING PAPERS THROUGH SUCH MATTERS AS INTERNATIONAL TRADING AND ECONOMIC ARRANGEMENTS, AND THE INTERNAL WORKINGS OF THE HONG KONG ADMINISTRATION, TO WHAT WE ENVISAGE TO BE THE MOST CONTROVERSIAL QUESTIONS, IN PARTICULAR THE ROLE, APPOINTMENT AND AUTHORITY OF THE GOVERNOR, AND SECURITY. IT WAS OUR HOPE THAT BY THE TIME WE CAME TO THESE LAST QUESTIONS WE WOULD HAVE ESTABLISHED THROUGH DETAILED DISCUSSION OF THE LESS SENSITIVE AREAS THE EXTENT TO WHICH THE CHINESE WOULD ALLOW HONG KONG REAL AUTONOMY AND EXTERNAL CONTACTS, AND WHAT GUARANTEES OR ASSURANCES THEY WOULD BE READY TO CONCEDE. THE CHINESE MAY BE ARGUING AGAINST THIS BUT THAT IS NO REASON TO BE IMMEDIATELY DEFLECTED FROM IT.
3. THE AMBASSADOR NOW ENVISAGES A DIFFERENT COURSE IN WHICH WE WOULD DEAL WITH THE CENTRAL QUESTIONS OF ADMINISTRATION SOON, BEFORE WE HAVE ANY CLEAR IDEA OF THE REST OF THE PACKAGE, AND THAT WE SHOULD DO SO HAVING ALREADY CONCEDED THAT THERE IS NO POSSIBILITY OF ANY LINK OF AUTHORITY OR RESPONSIBILITY BETWEEN THE UK AND HONG KONG. THIS MAY BE THE BEST WAY TO REACH EARLY AGREEMENT WITH THE CHINESE, BUT IT CARRIES THE DANGER, TO WHICH I DREW ATTENTION IN MY TELNO 1674, THAT WE WILL END UP WITH A PACKAGE WHICH IS NEGOTIABLE WITH THE CHINESE BUT WHICH WILL NOT BE REGARDED AS ACCEPTABLE HERE AND WILL NOT MAINTAIN CONFIDENCE.
4. AS I SAID IN THAT TELEGRAM, THE HEART OF THE MATTER FROM THE POINT OF VIEW OF MAINTAINING CONFIDENCE HERE IS THE QUESTION OF GUARANTEES AND ASSURANCES. ONE OF THE MOST IMPORTANT OF THESE GUARANTEES MUST BE THE NUMBER AND STRENGTH OF THE CONTINUING BRITISH LINKS WHICH WE ARE ABLE TO BUILD INTO THE SYSTEMS. WE NOW HAVE VIRTUALLY RULED OUT IN ADVANCE ANY LINKS OF AUTHORITY OR RESPONSIBILITY, AND THE AMBASSADOR HAS GONE A LONG WAY, IN HIS CONVERSATION WITH YAO GUANG ON 8 NOVEMBER TOWARDS EXCLUDING

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THE POSSIBILITY OF RESERVING POSTS FOR EXPATRIATE BRITISH OFFICIALS. THE CHINESE POSITION IS THAT SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION MUST REVERT TO CHINA. WE ARE NOW INTERPRETING THAT FOR THEM, IN A RESTRICTIVE SENSE, BEFORE WE HAVE TESTED HOW FAR THEIR POSITION COULD BE QUOTE FINESSED, UNQUOTE AND WHAT EXTERNAL LINKS COULD BE ACCOMMODATED WITHIN IT.

5. THE SUGGESTION REGARDING EXPATRIATE OFFICIALS HAS APPEARED IN MANY OF THE STUDIES WHICH HAVE BEEN MADE ON POSSIBLE SAFEGUARDS, AND WHICH HAVE BEEN THE SUBJECT OF CORRESPONDENCE BETWEEN THE EMBASSY, OURSELVES AND THE DEPARTMENT. IT IS TO BE FOUND, FOR EXAMPLE, IN ANNEX III OF THE QUOTE REAPPRAISAL UNQUOTE STUDY SUBMITTED TO MINISTERS IN AUGUST THIS YEAR (PARA 11(C)) AND IN THE DEPARTMENT'S LATEST SAFEGUARDS PAPER. IF WE ARE NOW TO RULE OUT ANY RESERVED POSITIONS FOR EXPATRIATE BRITISH OFFICIALS, AS WELL AS ANY LINKS OF AUTHORITY, THERE WILL BE PRECIOUS LITTLE LEFT FOR US TO PROPOSE IN THE WAY OF BRITISH LINKS. AS FAR AS WE CAN SEE THE REMAINING LINKS WOULD AMOUNT TO LITTLE MORE THAN THOSE DESCRIBED IN THE LEGAL SYSTEM WORKING PAPER, THE POSSIBILITY OF AN INDEPENDENT FINANCIAL COMMISSION WITH SOME BRITISH MEMBERSHIP, AND THE POSSIBILITY THAT THE UK MIGHT PROVIDE TRAINING AND OTHER ASSISTANCE FOR THE POLICE AND A LOCAL DEFENCE FORCE. BUT THE AMBASSADOR MAY WISH TO SPECIFY WHAT QUOTE OTHER LINKS UNQUOTE HE HAS IN MIND (PARA 5 OF HIS TUR). MOREOVER WE DO NOT SEE HOW WE CAN QUOTE GET A REASONABLE NUMBER OF UK PERSONNEL RETAINED IN AN AUTONOMOUS HONG KONG ADMINISTRATION UNQUOTE (PARA 8 OF PEKING TUR) IF SOME AGREEMENT IS NOT REACHED BEFOREHAND ON WHO THOSE PEOPLE MIGHT BE AND WHICH POSTS THEY MIGHT OCCUPY. THE CONTINUITY AND INTEGRITY OF THE CIVIL SERVICE ARE ESSENTIAL TO THE FUTURE STABILITY OF THE ADMINISTRATION (MY TEL NO 1703). WE CANNOT EXPECT EXPATRIATE CIVIL SERVANTS TO CARRY ON UNTIL 1997 IF THEIR ONLY GUARANTEE OF FUTURE EMPLOYMENT IS THE POSSIBILITY THAT THE AUTONOMOUS ADMINISTRATION MIGHT THEREAFTER CHOOSE TO ASK SOME OF THEM TO CONTINUE IN OFFICE, ON THE BASIS THAT THEY CAN BE ALSO BE DISMISSED AT WILL.

6. AT THE RISK OF REPEATING MYSELF, I AM CONCERNED THAT WE MAY NOW BE MAKING A MAJOR SHIFT IN OUR STRATEGY WITHOUT PROPER CONSIDERATION OF THE POLICY ISSUES INVOLVED, AND WITHOUT THE CONSULTATION WITH EXCO TO WHICH WE ARE COMMITTED. I FEAR ALSO THAT IN SEEKING TO GET ROUND THE NEW OBSTACLE RAISED BY DENG'S ATTITUDE AS REVEALED IN HIS CONVERSATION WITH M. THORN WE ARE OURSELVES VOLUNTEERING RESTRICTIVE INTERPRETATIONS OF THE CHINESE PROPOSALS WHICH THE CHINESE THEMSELVES HAVE NOT STIPULATED. IF WE CONTINUE TO DO THIS WE MAY FIND OUT THAT WE END UP WITH A PACKAGE WHICH AMOUNTS TO LITTLE MORE THAN THE CHINESE PLAN, AND WHICH WE WILL OURSELVES HAVE PROPOSED. I THEREFORE THINK IT ESSENTIAL THAT BEFORE WE GO FURTHER DOWN THIS PATH WE SHOULD HAVE A MUCH CLEARER IDEA OF THE SHAPE OF THE PACKAGE AT WHICH WE ARE AIMING.

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7. THIS TELEGRAM HAS BEEN DRAFTED WITHOUT BENEFIT OF THE AMBASSADOR'S REPORT ON HIS DINNER WITH YAO GUANG ON 10 NOVEMBER. BUT AS REGARDS TACTICS FOR THE NEXT ROUND OF THE TALKS ON 14/15 NOVEMBER, IT REMAINS MY VIEW THAT WE SHOULD NOT MAKE FURTHER CONCESSIONS AT THIS STAGE (AND WE CONTINUE TO REGARD OUR VOLUNTEERING THE GENERAL AND EFFECTIVE EXCLUSION OF ANY LINK OF AUTHORITY AND RESPONSIBILITY BETWEEN THE UK AND HONG KONG AS A CONCESSION, HOWEVER CORRECT THE AMBASSADOR'S LOGICAL ARGUMENT MAY BE). IT MAY WELL BE THAT THE CHINESE ARE SIMPLY TESTING HOW MUCH FURTHER THEY CAN PUSH US TOWARDS EXPLICIT ACCEPTANCE OF THEIR PREMISE. UNLESS WE ARE PREPARED TO SHUT TIGHT AT LEAST FOR THE NEXT ROUND WE SHALL BE IN DANGER OF GETTING ON TO THE SLIPPERY SLOPE WHICH LEADS INEXORABLY TO THE OLD OPTION C: ACCEPTING THE CHINESE PREMISE AND NEGOTIATING THE BEST DEAL WE CAN ON THAT BASIS.

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D/ED/PUSD(MR. FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1176 OF 10/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG, ATHENS (FOR PRIVATE SECRETARY

HONG KONG TEL NO 1699 AND FCO TEL NO 460 TO ATHENS:

FUTURE OF HONG KONG.

1. I SHALL OF COURSE SPEAK TO YAO GUANG THIS EVENING AS INSTRUCTED IN YOUR TUR AND WE SHALL NEED TO CONSIDER THE LINES TO BE TAKEN ON 14 AND 15 NOVEMBER IN THE LIGHT OF TONIGHT'S TALK.

2. IN THE MEANTIME, HOWEVER, I AM AFRAID I HAVE TO TAKE UP HONG KONG TUR. IT REVEALS A FUNDAMENTAL DIFFERENCE BETWEEN THIS EMBASSY AND THE GOVERNOR. THIS MUST BE CLARIFIED IF WE ARE NOT TO BECOME COMPLETELY STUCK.

3. THE PRIME MINISTER'S MESSAGE OFFERED - WITHOUT COMMITMENT - TO SEE WHAT COULD BE BUILT ON THE CHINESE PROPOSALS. THE LATTER ARE BASED ON THE PREMISE THAT BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION WILL PASS TO CHINA IN 1997. IT FOLLOWS AS NIGHT FOLLOWS DAY THAT THESE DISCUSSIONS WITHOUT COMMITMENT MUST BE BASED ON THE ASSUMPTION THAT THERE WILL BE NO LINK OF AUTHORITY BETWEEN THE UK AND THE HONG KONG ADMINISTRATION AFTER 1997. IF WE DO NOT ACCEPT THIS THE COURSE WHICH WE ARE PURSUING IS DOOMED TO FAILURE FROM THE START, AND INDEED WILL GENERATE SUCH SUSPICION AND RESENTMENT ON THE CHINESE SIDE THAT WE WOULD HAVE DONE BETTER NEVER TO EMBARK ON IT.

4. IF THE ABOVE IS ACCEPTED, IT FOLLOWS THAT WHEN, IN THE COURSE OF THESE DISCUSSIONS WITHOUT COMMITMENT, WE COME TO TALK OF THE CONSTITUTIONAL AND ADMINISTRATIVE ARRANGEMENTS, WE CANNOT PUT FORWARD IDEAS WHICH ENVISAGE THE CONTINUATION OF ANY LINK OF AUTHORITY BETWEEN THE UK AND HONG KONG. THE ONLY QUESTION ABOUT THIS IS ONE OF TIMING. WE HAD EARLIER THOUGHT THAT THIS STAGE SHOULD COME LATER IN OUR DISCUSSIONS. I NOW RECOMMEND THAT IT SHOULD COME EARLIER, OR AT LEAST THAT WE SHOULD GIVE AN INDICATION OF THE MAIN LINES OF OUR IDEAS. THERE IS, HOWEVER, NO NEW CONCESSION WHATSOEVER INVOLVED. IT IS A MATTER OF EXPLAINING WHAT IS MEANT BY THE PRIME MINISTER'S MESSAGE, MUCH AS WE HAVE ALREADY BEEN DOING. THE CONDITIONALITY REMAINS THE SAME AS IN THE PRIME MINISTER'S MESSAGE. WHAT WE ARE TRYING TO DO IS TO CONVINCED THE CHINESE THAT WE MEAN WHAT WE SAY WHEN WE SPEAK OF CONSTRUCTIVE DISCUSSIONS BASED ON THEIR PROPOSALS.

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5. IT FOLLOWS THAT I DO NOT AGREE WITH THE GOVERNOR'S SUGGESTION (HIS PARA 2) THAT THIS WOULD BE A FURTHER CONCESSION. NOR DO I AGREE WITH THE SUGGESTION THAT IT WOULD BE 'TANTAMOUNT TO IMPLICIT AFFIRMATION OF THE CHINESE PREMISE'. SUCH AFFIRMATION CAN ONLY OCCUR IF THE CONDITIONALITY ATTACHED TO THE PRIME MINISTER'S MESSAGE IS REMOVED. NOR DO I AGREE THAT THIS WILL COMPROMISE THE POSSIBILITY FOR BUILDING OTHER LINKS WITH BRITAIN INTO THE ARRANGEMENTS. THE POSITION NOW IS THAT FOR THE PURPOSE OF THESE DISCUSSIONS, LINKS OF AUTHORITY ARE IMPOSSIBLE, WHEREAS OTHER LINKS SHOULD BE NEGOTIABLE. WHAT I AM PROPOSING DOES NOT AFFECT THAT. IN FACT, UNLESS WE GET RID OF THE POINT ABOUT AUTHORITY WE HAVE NO CHANCE OF NEGOTIATING LESSER LINKS.

6. PARA 3 OF HONG KONG TUR ARGUES THAT MY PROPOSAL GOES BEYOND THE TERMS OF THE PRIME MINISTER'S MESSAGE, AS EXCO UNDERSTAND IT. IT WILL BE CLEAR FROM THE ABOVE THAT I REGARD THE PROPOSAL AS IMPLICIT IN THE PRIME MINISTER'S MESSAGE. INDEED, IT IS THE ONLY WAY OF CARRYING OUT HER INSTRUCTIONS OF OCTOBER AND SEEING WHETHER CAN BUILD SOMETHING OF VALUE ON THE BASIS OF THE CHINESE PROPOSALS. THE QUESTION, THEREFORE, IS WHETHER WE ARE TO ALLOW EXCO TO BE THE ARBITERS OF WHAT IS MEANT BY THE PRIME MINISTER'S MESSAGE. I DO NOT UNDERESTIMATE THE DIFFICULTIES WHICH THE GOVERNOR MAY HAVE WITH EXCO. NEVERTHELESS, AS I HAVE SAID BEFORE, I REGARD IT AS VITAL THAT IN ANY CASE WHERE THEY APPEAR TO BE BACKTRACKING FROM THE COURSE PROPOSED IN THE MESSAGE AND AGREED BY THEM, THEY SHOULD BE FIRMLY REMINDED OF THE RATIONALE OF THAT COURSE AND OF THE PRIME MINISTER'S REFUSAL TO CONTEMPLATE CONFRONTATION (THE ONLY ALTERNATIVE) UNTIL IT HAS BEEN FULLY EXPLORED. THIS MEANS A URGENT EFFORT ON OUR PART TO CONSTRUCT A WORTHWHILE BUILDING ON THE FOUNDATION OF THE CHINESE PROPOSALS. THIS OF COURSE INCLUDES A SECTION ON THE CONSTITUTIONAL AND ADMINISTRATIVE ARRANGEMENTS.

7 THE LINE PROPOSED IN PARA 4 OF HONG KONG TUR IS NOT A SUBSTITUTE FOR WHAT I AM PROPOSING. WE CAN AND SHALL CONTINUE TO ARGUE VIGOROUSLY THAT WE HAVE GONE AS FAR AS WE CAN IN THE AFFIRMATION OF THE CHINESE PREMISE. HOWEVER, THE 'FUTURE PAPERS' WHICH THE GOVERNOR MENTIONS MUST INCLUDE PAPERS ON THE CONSTITUTIONAL AND ADMINISTRATIVE POSITION. AS ARGUED ABOVE, THESE CANNOT CONTAIN ANY PROPOSAL FOR A LINK OF AUTHORITY BETWEEN THE UK AND HONG KONG. ALL I AM PROPOSING IS THAT WE SHOULD TELL THE CHINESE THIS NOW INSTEAD OF WAITING FOR IT TO EMERGE WHEN WE PRESENT A PAPER ON THIS SUBJECT. IF WE DO NOT DO THIS NOW WE SHALL FAIL IN OUR IMMEDIATE TASK, WHICH IS TO DISSIPATE CHINESE SUSPICION, PARTICULARLY AT THE TOP, THAT WE STILL PLAN TO KEEP SOME OF THE POWER OF ADMINISTRATION. WE SHALL ALSO RULE OUT WHATEVER CHANCE THERE MAY STILL BE OF THE CHINESE ACCEPTING OUR STEP-BY-STEP APPROACH.

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8. FINALLY, I COME TO THE SUGGESTION IN PARA 5 OF HONG KONG
 THAT CERTAIN POSITIONS IN HONG KONG SHOULD BE RESERVED
 FOR BRITISH PERSONNEL. THIS IS, OF COURSE, NOT THE SAME
 AS SAYING THAT THEY COULD BE FILLED BY BRITISH PERSONNEL AND
 YAO HAS ALREADY DRAWN THIS DISTINCTION. I WAS NOT AWARE
 THAT ANY SUCH SUGGESTION HAD BEEN MADE, LET ALONE ACCEPTED.
 I WOULD REGARD IT AS HIGHLY INADVISABLE. OUR MAIN CONCERN
 IN SEEKING TO DEVELOP THE CHINESE PROPOSALS IS TO PRESERVE FOR
 HONG KONG AS LARGE A DEGREE OF AUTONOMY UNDER PRC SOVEREIGNTY
 AS WE CAN. BY SUGGESTING THAT HONG KONG SHOULD NOT HAVE
 AUTONOMY IN DECIDING WHETHER POSTS SHOULD BE FILLED BY UK
 PERSONNEL OR LOCAL PERSONNEL OR PERSONNEL FROM THIRD COUNTRIES
 AFTER 1997, WE SHOULD SERIOUSLY UNDERMINE OUR OWN ARGUMENTS
 FOR SUCH AUTONOMY AND DAMAGE THE LOGIC OF OUR POSITION.
 IF WE COULD LAY DOWN THINGS WHICH WOULD NOT BE OPEN TO
 QUESTION BY THE AUTONOMOUS GOVERNMENT, WHY SHOULD THE CHINESE NOT
 ALSO DO SO? MOREOVER, IT WOULD SEEM INTOLERABLY PATERNALISTIC TO
 THE CHINESE AND WOULD, I THINK, SERIOUSLY PREJUDICE OUR ATTEMPTS
 TO GET A REASONABLE NUMBER OF UK PERSONNEL RETAINED IN AN
 AUTONOMOUS HONG KONG ADMINISTRATION. DENG'S SUSPICIONS
 WOULD BE SEEN TO BE CONFIRMED AND MY ASSURANCES TO YAO PROVED
 FALSE. THE CHINESE MAY WELL ACCEPT THAT AN AUTONOMOUS HONG KONG
 SHOULD DECIDE ON AND APPOINT SUCH PEOPLE:
 I AM QUITE SURE THEY WOULD NOT ACCEPT THAT
 WE SHOULD. IN ANY CASE, WE ARE SURELY TRYING TO GUARANTEE HONG KONG
 AGAINST CHINA, NOT AGAINST THE HONG KONG PEOPLE.

CRADOCK

FUTURE OF HONG KONG

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RESEARCH DEPT (MR. WALKER)

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TO IMMEDIATE ATHENS
TELEGRAM NUMBER 460 OF 9 NOVEMBER
INFO IMMEDIATE HONG KONG, PEKING

FCO 460

FOR SECRETARY OF STATE FROM MR LUCE
PEKING TELNOS 1160, 1161 AND 1170 AND HONG KONG TELNO 1699:
FUTURE OF HONG KONG

1. IT IS CLEAR FROM RECENT TELEGRAMS THAT THE CHINESE STILL SUSPECT US OF TRYING TO ENGINEER A 'CO-ADMINISTRATION' OF HONG KONG AFTER 1997.
2. DENG XIAOPING'S LINE AS REPORTED IN TURS MAY HAVE ARISEN PARTLY FROM MISINTERPRETATION OF REMARKS MADE BY SIR P CRADOCK TO YAO GUANG ON 28 OCTOBER. BUT I AM SURE THAT THE AMBASSADOR IS RIGHT IN SAYING THAT THE CHINESE REMAIN DEEPLY SUSPICIOUS OF US, THAT THEY HAVE NOT IN ANY WAY GIVEN UP THEIR AIM OF GETTING US TO ACKNOWLEDGE THEIR PREMISE, AND THAT THEY WILL CONTINUE TO APPLY PRESSURE TO THIS END. DENG'S REMARKS, AND THE RENEWED REFERENCE TO THE SEPTEMBER 1984 DEADLINE SUGGEST WE ARE SEEING ANOTHER ATTEMPT TO TURN THE SCREW NOW. IT IS TRUE THAT SO FAR CHINESE PROPAGANDA HAS NOT BEEN RENEWED, BUT THE TAP COULD BE TURNED ON AT SHORT NOTICE. I SUSPECT THAT THE CHINESE ARE WAITING TO ASSESS OUR PERFORMANCE AT THE NEXT ROUND ON 14/15 NOVEMBER AND THAT THE AMBASSADOR MAY WELL BE RIGHT THAT WE SHALL HAVE A ROUGHER RIDE THEN THAN WE HAD HOPED FOR.
3. SIR P CRADOCK HAS RECOMMENDED THAT WE SHOULD BE PREPARED TO MAKE A GENERAL FORMAL STATEMENT, STILL WITHIN THE CONTEXT OF THE PRIME MINISTER'S MESSAGE AND SUBJECT TO THE SAME CONDITIONALITY THAT WE ENVISAGE NO LINK OF AUTHORITY BETWEEN POST 1997 HONG KONG AND THE UK. THE GOVERNOR ARGUES STRONGLY AGAINST THIS, BELIEVING THAT WE SHOULD BE FORCED TO GIVE AWAY TOO MUCH TOO SOON AND

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SAYING THAT EXCO WOULD OPPOSE SUCH A MOVE. IN PEKING TELNO 1170, THE AMBASSADOR SUGGESTS THE LINE HE SHOULD TAKE AT HIS PRIVATE DINNER ON 10 NOVEMBER WITH YAO GUANG. THIS WOULD INCLUDE REMARKS GOING A LONG WAY TOWARDS HIS SUGGESTED FORMULA.

4. THERE IS OF COURSE LOGIC IN WHAT THE AMBASSADOR PROPOSES: PROVIDED THAT WE KEPT WITHIN THE TERMS OF THE PRIME MINISTER'S MESSAGE, IT COULD CERTAINLY BE ARGUED THAT DISCUSSION ON THE BASIS OF THE CHINESE PROPOSALS MUST RULE OUT AN AUTHORITATIVE BRITISH LINK. BUT, WHILE I WOULD NOT GO SO FAR AS THE GOVERNOR IN SEEING SUCH A MOVE AS IMPLICIT AFFIRMATION OF THE CHINESE PREMISE, IT WOULD CERTAINLY BE REGARDED AS YET ANOTHER SIGNIFICANT STEP ON OUR PART AND I DO NOT RECOMMEND IT NOW. LIKELY OPPOSITION BY EXCO UNOFFICIALS IS AN IMPORTANT FACTOR ARGUING AGAINST SUCH A MOVE NOW. ANOTHER IS THAT SIR P CRADOCK, ON INSTRUCTIONS, HAS EXPLAINED OUR POSITION TO YAO GUANG AND PUT FORWARD SKILFUL ARGUMENTS TO COUNTER DENG'S SUSPICIONS. WE DO NOT KNOW WHAT WILL BE THE RESULT OF YAO'S REPORT OF THAT CONVERSATION. MOREOVER, WE HAVE GIVEN THE CHINESE TWO WORKING PAPERS, ON THE LEGAL SYSTEM AND FINANCE, AND IT WOULD BE LEGITIMATE TO ASK FOR THEIR REACTION TO THEM. WE MAY RUN INTO PROBLEMS IF THE CHINESE TAKE THE LINE THAT THEY CANNOT AGREE TO 'A STEP-BY-STEP' APPROACH, AS INDICATED BY YAO GUANG. BUT TACTICALLY I SUGGEST THAT IT WOULD BE RIGHT FOR THE AMBASSADOR TO CONTINUE TO ARGUE, ON THE LINES SUCH AS ALREADY DEPLOYED, THAT WE HAVE ALREADY TAKEN A SIGNIFICANT STEP SEMI COLON THAT WE ARE INTERESTED IN EXAMINING WHETHER A SATISFACTORY SOLUTION CAN BE DEvised ON THE BASIS OF THE CHINESE PROPOSALS SEMI COLON AND THAT THIS CAN ONLY EFFECTIVELY BE DONE BY A DISCUSSION OF DETAILED AREAS.

5. IF THAT DOES NOT SUCCEED WE SHALL HAVE TO CONSIDER THE AMBASSADOR'S SUGGESTION CAREFULLY, YET AGAIN WEIGHING UP THE BALANCE OF ARGUMENT BETWEEN A FURTHER MOVE DESIGNED TO KEEP THE TALKS GOING AND PROBABLE CONFRONTATION WITH ITS CONSEQUENCES FOR CONFIDENCE IN HONG KONG. BUT I AM SURE THAT FOR THE MOMENT WE SHOULD STAND ON OUR POSITION.

6. ON PARA 3 OF SIR P CRADOCK'S TELNO 1170, I AGREE THE GENERAL THRUST, BUT SUGGEST THAT HE SHOULD ALTER THE PASSAGE FROM THE

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THIRD SENTENCE TO THE END OF THE PARAGRAPH TO READ:

'WITH SUITABLE (BEGIN UNDERLINING) CAVEATS (CEASE UNDERLINING) ABOUT CONDITIONALITY, WE WERE SINCERELY PREPARED TO EXAMINE WHETHER SATISFACTORY ARRANGEMENTS COULD BE BUILT ON THE BASIS OF THE CHINESE PROPOSALS WHICH, AS WE UNDERSTOOD THEM, DID NOT INVOLVE ADMINISTRATIVE ACCOUNTABILITY OR RESPONSIBILITY TO LONDON IN THE ARRANGEMENTS AFTER 1997.'

7. ON THE AMBASSADOR'S SUGGESTIONS FOR COVERING THE CRITICISMS OF THE PRIME MINISTER'S PHONE-IN, I THINK THAT IN PARA 4 SIR PERCY SHOULD AVOID REPEATING OUR VIEW ABOUT BRITISH ADMINISTRATION BEING THE 'BEST AND SUREST BASIS FOR HONG KONG'S CONTINUED STABILITY AND PROSPERITY'. THIS CAN ONLY IRRITATE THE CHINESE LEADERS. A BETTER LINE MIGHT BE THAT MRS THATCHER WAS MERELY RECALLING THE JOINT COMMUNIQUE OF SEPTEMBER 1982. IN A PUBLIC COMMENT IN RESPONSE TO AN UNSOLICITED QUESTION SHE CLEARLY COULD NOT MAKE ANY REFERENCE TO CONFIDENTIAL EXCHANGES WITH CHINESE LEADERS.

8. IF YOU AGREE WITH THESE COMMENTS THEY COULD SERVE AS AN INSTRUCTION TO SIR P. CRADOCK FOR HIS NEXT MEETING WITH YAO GUANG ON 10 NOVEMBER. YOU MAY WISH TO TELEGRAPH YOUR VIEW DIRECTLY TO PEKING.

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RESEARCH DEPT(MR WALKER)

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10 DOWNING STREET

From the Private Secretary

15 November 1983

HONG KONG

Miss Christine Loh, Chairman of the Hong Kong Observers, called on me this evening. I had a brief word with Dick Clift before the call.

Miss Loh said that the Hong Kong Observers are sending a delegation to Peking from 4 to 10 December. They have made the arrangements through the New China News Agency and have requested appointments with some ten people in the Chinese Government starting with Premier Zhao.

Miss Loh showed me a lengthy position paper which they intend to hand over to the Chinese Government. She was reluctant to let me have a copy, perhaps because it is still under discussion in her group. But I think its contents will be familiar to the Hong Kong Government since she says that the paper has been discussed with, among others, the Hong Kong Attorney General. It struck me as a thoughtful and reasonably well-prepared account of the systems which they wished to see applied in Hong Kong after 1997. It places heavy emphasis on the need for an elected government in the Special Administrative Region but recognises that Hong Kong must move slowly to a system of elections.

The only completely new idea which I detected in the paper was a proposal that, in order to strengthen the confidence of the people of Hong Kong in the outcome of the negotiations, the negotiators should issue an interim communique in the near future by which both sides would guarantee that the existing life-style of Hong Kong would be maintained after 1997.

Miss Loh said that her group were also preparing themselves for question-and-answer sessions in Peking. I said that I thought they might very well be confronted by a statement that the Chinese had already made clear the principal features of the Special Administrative Zone and that these were adequate to satisfy Hong Kong concerns as to the future. I advised that the delegation should counter this line by saying that general statements were inadequate and that nothing short of a detailed agreement as to the way the various systems would operate in Hong Kong in the future would do.

/ Miss Loh

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Miss Loh said that on their return the delegation would give the Hong Kong Government some account of their visit. She sought my advice on whether their paper should at that point be published. I said that my instinct was that it would be helpful to publish it but that this was a point on which she would better be guided by the advice of the Hong Kong Government who would be a far better judge than I of its likely impact on opinion and confidence.

Finally, in answer to my question, Miss Loh confirmed that the thinking of the Observers had evolved considerably since I first met her before the Prime Minister's visit to Hong Kong. At that time they had talked rather unconvincingly about their desire for an independent Hong Kong. She said that the Observers had come round to the view that the practical course was to go for what she called the third best solution. Independence was not possible; the continuation of British administration, their second choice, was also not possible; therefore they should work for an autonomous Hong Kong over which China would have sovereignty.

ajc

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

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Mr. Roberts News D



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FM PEKING 150930Z NOV 83
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 1194 OF 15 NOVEMBER
 INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: SIXTH ROUND, SECOND DAY: COMMENT

1. THIS WAS A PRETTY BLEAK SESSION. THE CHINESE MADE AN UNYIELDING RESTATEMENT OF THEIR POSITION. IN PARTICULAR THEY EMPHASISED YET AGAIN THAT THERE WERE CERTAIN MATTERS RELATING TO FUTURE ARRANGEMENTS ON HONG KONG ON WHICH THEY WERE PREPARED TO LISTEN TO OUR IDEAS AND SUGGESTIONS, BUT WHICH WERE BY DEFINITION THEIR OWN INTERNAL POLICY. BY CONTRAST, THERE WERE OTHER AREAS AFFECTING BRITISH INTERESTS IN HONG KONG, FUTURE BRITISH RELATIONS WITH THE SAR, AND SINO-BRITISH EFFORTS TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG, WHERE THEY WOULD UNDERTAKE MORE GENUINE NEGOTIATIONS. THEY REPEATED THEIR OBJECTIONS TO DISCUSSING DETAIL AND RESTATED THEIR INTENTION TO CONCENTRATE ON PRINCIPLES. THEY RESTATED THEIR ARGUMENT THAT MANY OF THE MATTERS RAISED IN OUR PAPERS COULD NOT BE DISCUSSED BECAUSE THEY WERE FOR THE GOVERNMENT OF THE SPECIAL ADMINISTRATIVE REGION TO DECIDE AFTER 1997. THEY SHOWED TOTAL LACK OF COMPREHENSION OF THE ARGUMENTS WE PUT FORWARD TO ILLUSTRATE THE NEED FOR DETAIL. THERE WAS, IF ANYTHING, LESS DIALOGUE BETWEEN THE TWO SIDES THAN THERE HAS BEEN IN THE PAST.

2. AS AGAINST THIS, WE WERE ABLE TO PUT ON THE RECORD SOME CONSIDERED ARGUMENTS ON THE SHEER NECESSITY OF GETTING DOWN TO DETAIL AND THE IMPOSSIBILITY OF LEAVING LARGE AREAS FOR DECISION AT SOME INDEFINITE TIME IN THE FUTURE. THE GOVERNOR'S INTERVENTION WILL ALSO SERVE AS A USEFUL BASIS FOR DISCUSSING THE IMPORTANT MATTER OF THE GOVERNMENT SERVICES.

3. ALSO ON THE POSITIVE SIDE, THE CHINESE SPOKE OF THE POSSIBILITY OF BRITISH OFFICIALS CONTINUING TO SERVE IN HONG KONG, WHICH MIGHT BE READ AS MORE PERMISSIVE THAN WHAT THEY SAID YESTERDAY. IT WAS, HOWEVER, AMBIGUOUS AND WE CANNOT YET ASSISS WHAT IT MEANS. YAO ALSO SAID THAT BRITAIN WOULD HAVE A DIFFERENT AND BY IMPLICATION BETTER POSITION IN HONG KONG AFTER 1997 THAN OTHER COUNTRIES, THOUGH HE DEFINED THIS POSITION IN TERMS OF OUR CONTINUING TO ASSIST IN MAINTAINING HONG KONG'S PROSPERITY AND STABILITY.

4. FINALLY, YAO AGAIN INDICATED THAT IF THE QUESTION OF THE LINK AND ROLE WERE CLARIFIED IT WOULD BE EASIER TO DISCUSS PRACTICALITIES.

5. SOME OF THIS NEGATIVE RESPONSE WAS, NO DOUBT, INEVITABLE, GIVEN THE WAY YAO GUANG'S MIND WORKS, AND THE PROBABLE DIFFICULTY IN GETTING NEW INSTRUCTIONS FROM HIS LEADERS IN THE COURSE OF THE SAME ROUND. BUT THERE IS LITTLE RELIEF IN THE PICTURE OF A GENERALLY NEGATIVE CHINESE POSITION. THE TOTAL SHRINKING FROM ANY DISCUSSION OF DETAIL IS PERHAPS THE MOST WORRYING ASPECT OF THE WHOLE SCENE.

6. WE MAY GET SOME FURTHER FEELING FOR THE CHINESE POSITION AT DINNER THIS EVENING AND I SHALL TELEGRAPH FURTHER TOMORROW

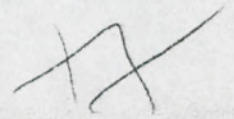
6. WE MAY GET SOME FURTHER FEELING FOR THE CHINESE POSITION
AT DINNER THIS EVENING AND I SHALL TELEGRAPH FURTHER TOMORROW
WITH IDEAS ON FUTURE TACTICS.

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DESKBY FCO 151130Z

FM PEKING 151010Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1196 OF 15 NOVEMBER

INFO IMMEDIATE HONG KONG

MS

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FUTURE OF HONG KONG: SIXTH PLENARY ROUND: SECOND DAY.

1. HE SPOKE FIRST AND CONTINUED AT GREATER LENGTH WITH COMMENTS ON YAO'S STATEMENT OF THE PREVIOUS DAY. HE EMPHASISED THE NEED FOR US TO HAVE DETAIL OF THE CHINESE PROPOSALS. HE REITERATED THE THREE REASONS HE HAD OFFERED YESTERDAY AS TO WHY GREATER DETAIL WAS VITAL (PARA 9 OF MY TEL NO 1187) AND ADDED A FOURTH REASON: YAO HAD ARGUED THAT MATTERS WHERE FURTHER DETAIL WAS REQUIRED, SUCH AS THE FUTURE COURT SYSTEM AND THE INDEPENDENCE OF THE JUDICIARY FROM THE EXECUTIVE, CONCERNED ONLY THE ACTUAL IMPLEMENTATION OF BASIS POLICIES. THEY WERE MUCH MORE THAN THIS, AND WERE, IN FACT, IMPORTANT POINTS OF PRINCIPLE. AS SUCH, THEY COULD NOT MERELY BE LEFT TO THE GOVERNMENT OF THE SAR TO DECIDE AFTER 1997. WE WERE KEEN TO COOPERATE WITH THE CHINESE SIDE IN REACHING AGREED ARRANGEMENTS FOR HONG KONG AFTER 1997. BUT IT WAS IMPORTANT THAT WE KNEW EXACTLY WHAT WE WERE BEING EXPECTED TO COOPERATE WITH.

2. HE THEN SOUGHT FURTHER CLARIFICATION ON YAO'S REMARKS ON THE LEGAL AND FINANCIAL PAPERS, REFERRING TO LAWS WITH A COLONIAL FLAVOUR, THE POWER OF DISALLOWANCE, THE INDEPENDENCE OF THE JUDICIARY, AND REFERENCE OF THE HONG KONG SAR BUDGET AND ACCOUNTS TO THE CENTRAL GOVERNMENT 'FOR THE RECORD'.

3. IN RESPONSE TO YAO'S REMARKS THE PREVIOUS DAY, HE SPOKE BRIEFLY ON THE BRITISH ROLE. HE REFERRED TO WU XUEQIAN'S REMARKS TO YOU AND TO OUR HISTORICAL LINKS WITH AND EXPERIENCE OF HONG KONG. AS AUTHORIZED IN YOUR TEL NO 788, HE SAID THAT FOR THE PURPOSE OF OUR DISCUSSIONS AS PROPOSED IN THE PRIME MINISTER'S MESSAGE WE WERE SINCERELY PREPARED TO EXAMINE WHETHER SATISFACTORY ARRANGEMENTS COULD BE BUILT ON THE BASIS OF THE CHINESE PROPOSALS. THESE, AS WE UNDERSTOOD THEM, DID NOT INVOLVE ANY LINK OF ACCOUNTABILITY OR RESPONSIBILITY TO LONDON AFTER 1997. HE CONCLUDED BY HANDING OVER THE WORKING PAPER ON EXTERNAL ECONOMIC RELATIONS, EXPRESSING THE HOPE THAT WE WOULD GET A DETAILED RESPONSE TO IT.

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4. THE GOVERNOR THEN ELABORATED ON THE PUBLIC SERVICE IN HONG KONG AND THE DANGERS OF AN ADMINISTRATIVE VACUUM IF GREATER DETAILS OF THE PROPOSED ARRANGEMENTS AFTER 1997 WERE NOT REVEALED. HE STRESSED THE COMPLEXITY OF HONG KONG AND THE NEED FOR CONTINUITY OF THE SERVICES OF THE PEOPLE WHO RAN IT WITH SUCH PROFESSIONAL SKILL WERE TO BE RETAINED FOR THE BENEFIT OF THE FUTURE SAR. IF THESE PEOPLE DID NOT KNOW WHAT ARRANGEMENTS THERE WOULD BE AFTER 1997 THEY WOULD BE UNWILLING TO CONTINUE TO SERVE IN HONG KONG AND IT WOULD BE IMPOSSIBLE TO REPLACE THEM WITHOUT A BREAKDOWN IN CONTINUITY.

5. YAO THEN SPOKE. HE WAS DISAPPOINTED THAT WE HAD NOT MADE AN OVERALL REACTION IN PRINCIPLE TO HIS ELABORATION OF CHINESE POLICIES YESTERDAY AND ADVISED US TO DO SO, AND NOT TO GET BOGGED DOWN IN DETAIL. THE CHINESE LEADERS ATTACHED GREAT IMPORTANCE TO THIS AS IT TOUCHED ON CHINA'S SOVEREIGNTY AND NATIONAL DIGNITY. HE REPEATED THAT CHINA COULD NOT BUT HAVE DOUBTS ABOUT OUR INTENTIONS IN VIEW OF THE SOMETIMES DIFFERING EXPLANATIONS WE GAVE ABOUT THE NATURE OF THE BRITISH LINK OR ROLE, AND THE PUBLIC REMARKS BRITISH LEADERS MADE ON THE SUBJECT. THE BRITISH SIDE HAD NOT YET CLARIFIED THEIR POSITION ON THIS POINT. IN THIS SITUATION, HOW COULD THEY ENTER INTO DETAILED DISCUSSIONS? CHINA WELCOMED BRITAIN'S COOPERATION OVER THE SMOOTH RETURN OF HONG KONG TO CHINA SO AS TO ENSURE CONTINUED STABILITY AND PROSPERITY. THE CHINESE SIDE RECOGNISED NATURALLY THAT THE BRITISH POSITION AND ROLE IN THE FUTURE SAR WOULD BE DIFFERENT FROM THAT OF OTHER COUNTRIES. IF BRITISH PEOPLE WERE WILLING TO SERVE IN THE SAR AT THE REQUEST OF THE GOVERNMENT OF THE SAR THE CHINESE WOULD WELCOME THIS. BUT THIS SHOULD NOT BE A MEANS FOR THE BRITISH TO SEEK CO-ADMINISTRATION OR PARTIAL ADMINISTRATION IN DISGUISE. CHINESE DOUBTS ABOUT OUR INTENTIONS HAD ONLY BEEN INCREASED BY THE GOVERNOR'S STATEMENT.

6. YAO REPEATED HIS ARGUMENTS OF YESTERDAY THAT OUR WORKING PAPERS WERE, IN PLACES, INCONSISTENT WITH THE CHINESE PREMISE AND IN OTHER PLACES WENT INTO EXCESSIVE DETAIL IN FIELDS THAT WOULD BE A FUNCTION OF THE FUTURE SAR GOVERNMENT. IT WAS IMPOSSIBLE FOR THE TWO SIDES, AND PARTICULARLY THE BRITISH, TO LAY DOWN SPECIFIC RULES AND REGULATIONS FOR THE SAR. IF WE GOT BOGGED DOWN ON THOSE ISSUES THE TALKS COULD NOT PRODUCE A POSITIVE RESULT. IN HIS VIEW, WE SHOULD CONCENTRATE ON SETTLING QUESTIONS OF PRINCIPLE. HE FOUND MY REASONS FOR WISHING TO GET INTO MATTERS OF DETAIL INADEQUATE. HE SPECIFICALLY REFERRED TO THE ARGUMENT THAT DETAIL WAS NEEDED TO SUSTAIN CONFIDENCE. CHINA'S 12- POINT POLICY FOR HONG KONG, WHICH WAS BASED ON CONSULTATION WITH THE PEOPLE OF HONG KONG, COMMANDED CONFIDENCE, AND THOSE TO WHOM THE CHINESE HAD SPOKEN HAD SAID THAT THEIR DOUBTS WERE REMOVED. HE COULD NOT SEE WHY CONFIDENCE WOULD ONLY BE COMMANDED BY DETAILED PLANS.

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7. HE DID NOT SEE HOW, ON THE BASIS OF CHINA'S PROPOSALS, ANY ADMINISTRATIVE VACUUM COULD COME ABOUT. HE WAS WILLING TO ASSUME THAT OUR REMARKS ABOUT THIS WERE NOT INTENDED AS A THREAT BUT IN HIS VIEW TO SPEAK IN SUCH TERMS WAS NOT BENEFICIAL TO THE TALKS. HE CONCLUDED BY DRAWING THE SAME DISTINCTION AS YESTERDAY BETWEEN POLICIES WHICH CHINA WOULD ADOPT TOWARDS HONG KONG AFTER 1997, WHICH WERE CHINA'S INTERNAL AFFAIR AND ON WHICH THEY WOULD WELCOME OUR IDEAS AND SUGGESTIONS, AND QUESTIONS ON MATTERS CONCERNING BRITISH INTERESTS IN HONG KONG, SINO-BRITISH COOPERATION IN THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG, AND THE RELATIONS BETWEEN THE FUTURE SAR AND BRITAIN, ON WHICH THEY HOPED TO HAVE DETAILED DISCUSSION WITH US.

8. HE REPLIED BRIEFLY. HE EMPHASISED THAT WE WERE PROCEEDING SINCERELY ON THE BASIS OF THE CHINESE PROPOSALS AND WOULD CONTINUE ON THAT BASIS. WE WERE ANXIOUS TO COOPERATE, BUT, AS HE HAD SAID BEFORE, IN ORDER TO DO SO WE NEEDED TO KNOW WITH WHAT WE WERE EXPECTED TO COOPERATE. OUR QUESTIONS WERE GENUINELY INTENDED TO ESTABLISH THIS. BUT IT WAS NOT HELPFUL IF THEY WERE RECEIVED GRUDGINGLY AND WITH MISTRUST. HE HOPED THAT IN FUTURE WE SHOULD GET A MORE CONSTRUCTIVE RESPONSE FROM THE CHINESE SIDE TO THIS PART OF OUR WORK.

9. SEE MY TELNO 1194 FOR COMMENT.

(REPEATED AS REQUESTED)

CRADOCK

FUTURE OF HONG KONG

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D/HD/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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FM PEKING 150615Z NOV 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1192 OF 15 NOVEMBER
INFO IMMEDIATE HONG KONG

mf

FUTURE OF HONG KONG: SIXTH ROUND: PRESS STATEMENT

1. TEXT OF THE AGREED PRESS STATEMENT WHICH WILL BE ISSUED AT 1500 LOCAL TIME TODAY IS:

BEGINS THE CHINESE AND BRITISH SIDES CONTINUED USEFUL AND CONSTRUCTIVE TALKS ON THE HONG KONG QUESTION ON 14 AND 15 NOVEMBER. IT WAS AGREED THAT THE SEVENTH ROUND OF TALKS WOULD BE HELD ON 7-8 DECEMBER IN PEKING ENDS

2. ABOVE TEXT HAS BEEN TELEXED DIRECT TO TSAO, GIS HONG KONG.

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10 DOWNING STREET

From the Private Secretary

14 November 1983

Future of Hong Kong

You wrote to me on 11 November concerning the round of talks which were to open in Peking today. I told you the same day that I thought that if the Foreign and Commonwealth Secretary was content with the proposed telegram of instructions to Percy Cradock, the Prime Minister would be also.

This is just to confirm that Mrs. Thatcher read over the weekend your letter and the principal papers enclosed and made no comment.

A. I. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

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DESKY 141100Z

FROM PEKING 141005Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1188 OF 14/11/83

MIPT: FUTURE OF HONG KONG: ROUND SIX, FIRST DAY.

COMMENT

1. BY AND LARGE THIS WAS A NEGATIVE SESSION. THE CHINESE MADE THE MOST OF OUR AGREEMENT TO PROCEED WITH DISCUSSIONS ON THE BASIS OF THEIR PROPOSALS, BUT DESPITE THIS SAID THEY DID NOT WISH TO AGREE TO AN AREA-BY-AREA DISCUSSION. THEY MADE AN UNCOMPROMISING RESTATEMENT OF THEIR POSITION ON ALL MATTERS OF SUBSTANCE. THIS ADDED A NUMBER OF DETAILS TO THE CHINESE PROPOSALS: THOUGH MANY OF THESE WERE UNCLEAR AND ARE NOT NECESSARILY THE FINAL WORD, THEY TEND TO POINT IN THE WRONG DIRECTION. EXAMPLES ARE THE STIPULATION THAT PEKING WOULD APPOINT SENIOR OFFICIALS AFTER THEY HAD BEEN PRODUCED BY ELECTIONS OR CONSULTATIONS IN HONG KONG (THOUGH THIS MAY NOT BE SO VERY DIFFERENT IN PRACTICE FROM APPROVING THOSE PRODUCED BY LOCAL SELECTION), AND THE SUGGESTION THAT BRITISH PERSONNEL COULD ONLY REMAIN IN THE CIVIL SERVICE AS ADVISERS. IN COMMENTING ON OUR PAPERS YAO ALSO QUESTIONED OUR STATEMENT THAT THERE WOULD BE NO POWER OF DISALLOWANCE OF LAWS OUTSIDE HONG KONG.

2. THE CHINESE ALSO MADE AGAIN, RATHER MORE EMPHATICALLY, THE DISTINCTION BETWEEN MATTERS WHICH THEY REGARDED AS THEIR OWN INTERNAL AFFAIRS, AND ON WHICH THEY WERE PREPARED TO LISTEN TO OUR IDEAS AND SUGGESTIONS, AND MATTERS INVOLVING BRITISH INTERESTS ON WHICH THEY WERE PREPARED TO HAVE A MORE GENUINE NEGOTIATION. FINALLY, THEY SAID THAT THEY DID NOT WISH TO GO

INTO EXCESSIVE DETAIL, AND THAT WHOLE AREAS OF THE FUTURE ARRANGEMENTS WERE OUT OF BOUNDS BECAUSE THEY WOULD BE FOR THE FUTURE GOVERNMENT OF THE SPECIAL ADMINISTRATIVE REGION TO DECIDE.

INTO EXCESSIVE DETAIL, AND THAT WHOLE AREAS OF THE FUTURE ARRANGEMENTS WERE OUT OF BOUNDS BECAUSE THEY WOULD BE FOR THE FUTURE GOVERNMENT OF THE SPECIAL ADMINISTRATIVE REGION TO DECIDE.

3. ON THE POSITIVE SIDE, THE CHINESE SAID THAT THEY WERE READY TO HAVE OUR PAPERS, AND TO RECEIVE ANY FURTHER QUESTIONS ON THEIR POLICIES. IN PRACTICE, HOWEVER GRUDGINGLY, THERE HAS BEEN SOME COMMENT ON THE SUBJECTS IN OUR FIRST TWO PAPERS. THEY SAID THAT THE SPECIAL ADMINISTRATIVE REGION WOULD ATTACH IMPORTANCE TO THE POSITIVE ROLE WHICH BRITAIN MIGHT PLAY IN MAINTAINING AND DEVELOPING ITS PROSPERITY. THEY SAID THAT OUR REFERENCES TO A BRITISH ROLE STILL CAUSED THEM CONCERN AND PUT FURTHER PRESSURE ON US TO GIVE DETAILS OF WHAT WE SAW AS BEING THE CONTENT OF A BRITISH LINK, OR A BRITISH ROLE. BUT THEY SAID THAT IF DIFFERENCES OF PRINCIPLE WERE ELIMINATED IT WOULD BE EASIER TO DISCUSS OTHER SPECIFIC MATTERS AND REACH IDENTITY OF VIEWS ABOUT PRACTICAL ARRANGEMENTS.

4. WE SHALL TELEGRAPH FURTHER ON FUTURE TACTICS AT THE END OF THIS ROUND, BUT AT PRESENT WE THINK WE HAVE LITTLE ALTERNATIVE BUT TO PERSEVERE IN FEEDING IN DETAIL AND AS FAR AS POSSIBLE DRAWING THE CHINESE INTO DISCUSSION OF IT, HOWEVER UNFERTILE THE GROUND. WE PROPOSE TO CONTINUE TOMORROW ARGUING ON THE NECESSITY FOR DETAIL AND THE IMPOSSIBILITY OF LEAVING LARGE AREAS BLANK FOR DECISION EVENTUALLY BY THE GOVERNMENT OF THE SAR. WE SHALL PUT FURTHER QUESTIONS ON THE LEGAL AND FINANCIAL AREAS, DRAWING ON THE VAGUE AND INADEQUATE CHINESE COMMENT HITHERTO. WE INTEND THAT THE GOVERNOR SHOULD GIVE A GENERAL EXPLANATION OF THE PUBLIC SET-UP IN HONG KONG IN ORDER TO GET OVER TO THE CHINESE THE COMPLEXITY OF THIS ISSUE AND THE NEED FOR SOME AGREEMENT NOW ON WHAT WILL HAPPEN AFTER 1997 IF CONTINUITY OF ADMINISTRATION IS TO BE PRESERVED. WE SHALL ALSO PRESENT THE THIRD PAPER, ON EXTERNAL ECONOMIC RELATIONS.

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FROM PEKING 141130Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1187 OF 14/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: SIXTH PLENARY ROUND : FIRST DAY

1. YAO GUANG SPOKE FIRST, AND AT LENGTH. HE ACKNOWLEDGED AND WELCOMED THE EFFORTS MADE BY US SINCE THE 5TH ROUND, AND INDICATED THAT DISCUSSIONS ON THE BASIS OF THE CHINESE PROPOSALS WERE NOW STARTING. HE SUMMARISED THE PRIME MINISTER'S MESSAGE AND OUR SUBSEQUENT EXPLANATIONS IN MAXIMALIST TERMS FROM THE CHINESE POINT OF VIEW. HE SAID THAT SOME DIFFERENCES STILL REMAINED. HE REITERATED THE EXTREME IMPORTANCE OF THE PREMISE. BOTH CONTINUED BRITISH ADMINISTRATION AFTER 1997 AND ANY FORM OF CO-ADMINISTRATION WERE ABSOLUTELY UNACCEPTABLE. HE NOTED THAT WE WERE NOT SEEKING CO-ADMINISTRATION, BUT AS BRITISH LEADERS REPEATEDLY STRESSED IN PUBLIC THE IMPORTANCE OF THE BRITISH LINK AND ROLE WITHOUT OFFERING FURTHER CLARIFICATION THE CHINESE SIDE NATURALLY HAD SOME DOUBTS ON THIS POINT.

2. HE CRITICISED THE SUGGESTION OF THE BRITISH SIDE THAT AN AGREEMENT SHOULD BE ACCEPTABLE TO THE PEOPLE OF HONG KONG, CATEGORISING IT AS THE 3-LEGGED STOOL ARGUMENT WHICH HAD BEEN REFUTED EARLIER BY THE CHINESE SIDE. HE ALSO CRITICISED AN ARGUMENT THAT ONLY PARLIAMENT COULD MAKE DECISIONS ON SOVEREIGNTY.

3. YAO THEN ELABORATED ON CHINESE POLICIES TOWARDS HONG KONG: HE MADE THE FOLLOWING POINTS:

(A) HONG KONG HAD ALWAYS BEEN CHINESE TERRITORY. THE GOVERNMENT OF THE PRC DID NOT RECOGNISE THE THREE UNEQUAL TREATIES AND HAD ALWAYS MAINTAINED THAT THE HONG KONG QUESTION HAD TO BE SETTLED AT AN OPPORTUNE TIME. CHINA WOULD RESUME THE EXERCISE OF SOVEREIGNTY OVER HONG KONG ON 1 JULY 1997 AND THE INTERVENING PERIOD WAS THE TRANSITION TIME FOR A SETTLEMENT OF THE HONG KONG QUESTION:

(B) AFTER THE RESUMPTION OF SOVEREIGNTY A HONG KONG SPECIAL ADMINISTRATIVE REGION (SAR) DIRECTLY UNDER THE AUTHORITY OF THE CENTRAL PEOPLE'S GOVERNMENT WOULD BE ESTABLISHED IN ACCORDANCE WITH ARTICLE 31 OF THE CONSTITUTION OF THE PRC. IT WOULD ENJOY A HIGH DEGREE OF AUTONOMY:

(C) THE SAR WOULD BE VESTED WITH THE POWER OF LEGISLATION AND INDEPENDENT JUDICIAL POWER, INCLUDING THAT OF FINAL JUDGEMENT. LAWS, DECREES AND REGULATIONS CURRENTLY IN FORCE WOULD REMAIN BASICALLY UNCHANGED:

(D) THE SAR GOVERNMENT WOULD BE COMPOSED OF INHABITANTS OF HONG KONG. THE PRINCIPAL OFFICIALS WOULD BE APPOINTED BY THE CENTRAL PEOPLE'S GOVERNMENT OF CHINA ON THE BASIS OF THE RESULTS OF ELECTIONS OR CONSULTATIONS HELD LOCALLY. LOCAL BRITISH AND OTHER FOREIGN NATIONALS COULD BE EMPLOYED AS ADVISERS IN ORGANS AT VARIOUS LEVELS IN THE SAR:

(E) CURRENT SOCIAL AND ECONOMIC SYSTEMS WOULD REMAIN UNCHANGED AS WOULD THE EXISTING LIFE-STYLE. THE FREEDOMS OF SPEECH, PRESS, ASSEMBLY, ASSOCIATION, TRAVEL, CHANGE OF DOMICILE, CORRESPONDENCE AND RELIGIOUS BELIEF WOULD BE ENSURED. PRIVATE PROPERTY, THE OWNERSHIP OF ENTERPRISES, LEGITIMATE RIGHTS OF INHERITANCE AND FOREIGN INVESTMENTS WOULD BE PROTECTED BY LAW:

(F) THE SAR WOULD REMAIN A FREE PORT AND A SEPARATE TARIFF AREA:

(G) IT WOULD MAINTAIN THE STATUS OF AN INTERNATIONAL FINANCIAL CENTRE. THE FOREIGN EXCHANGE, GOLD, SECURITIES AND FUTURES MARKETS WOULD REMAIN OPEN. THERE WOULD BE A FREE FLOW OF CAPITAL. THE HONG KONG DOLLAR WOULD CIRCULATE AND BE FREELY CONVERTIBLE AS USUAL:

(H) THE SAR WOULD HAVE INDEPENDENT FINANCES:

(I) THE SAR COULD ESTABLISH RECIPROCAL ECONOMIC RELATIONS WITH BRITAIN. BRITISH ECONOMIC INTERESTS WOULD BE TAKEN CARE OF
(J) USING THE NAME 'HONG KONG CHINA' THE SAR COULD ON ITS OWN MAINTAIN AND DEVELOP ECONOMIC AND CULTURAL RELATIONS AND SIGN AGREEMENTS WITH FOREIGN COUNTRIES, REGIONS, AND RELEVANT INTERNATIONAL ORGANISATIONS. THE SAR GOVERNMENT COULD ISSUE ITS OWN TRAVEL DOCUMENTS FOR ENTRY INTO AND EXIT FROM HONG KONG:

(K) PUBLIC ORDER WOULD BE MAINTAINED BY THE SAR GOVERNMENT:

(L) THESE POLICIES FOR THE SAR WOULD BE STIPULATED BY THE NATIONAL PEOPLE'S CONGRESS (NPC) AS THE BASIC LAW OF THE SAR AND WOULD REMAIN UNCHANGED FOR 30 YEARS.

4. YAO GUANG OFFERED SOME FURTHER POINTS OF EXPLANATION TO THE ABOVE:

(I) HE EMPHASISED ONCE AGAIN THE PREMISE:

(II) THE POLICIES FOR HONG KONG WERE DIFFERENT FROM THOSE ON THE MAINLAND. THEY WERE THE RESULT OF CAREFUL CONSIDERATION OF THE OPINIONS OF HONG KONG PEOPLE FROM ALL WALKS OF LIFE. THEY ENJOYED EXTENSIVE SUPPORT AMONG THE PEOPLE OF HONG KONG:

(III) THE POLICIES WOULD BE SUBMITTED TO THE NPC FOR ADOPTION AS THE BASIC LAW OF THE SAR. THE CHINESE GOVERNMENT WOULD DO ITS UTMOST TO IMPLEMENT THE BASIC LAW ONCE IT WAS ADOPTED AND PROMULGATED:

(IV) THE POLICIES PROVIDED FOR A HIGH DEGREE OF AUTONOMY FOR THE SAR EXCEPT IN THE FIELD OF FOREIGN AFFAIRS AND DEFENCE, WHICH WOULD BE THE RESPONSIBILITY OF THE CENTRAL GOVERNMENT. CHINA HAD CONFIDENCE IN THE TALENTS, MANAGERIAL ABILITY AND ENTERPRISING SPIRIT OF THE PEOPLE OF HONG KONG. THE CHINESE GOVERNMENT WOULD CONTINUE TO PROVIDE THE CONDITIONS FOR THEM TO MAINTAIN PROSPERITY AND A HAPPY LIFE FOR THEMSELVES:

(V) IN VIEW OF FRIENDLY RELATIONS BETWEEN BRITAIN AND CHINA AND HISTORICAL RELATIONS BETWEEN BRITAIN AND HONG KONG THE SAR WOULD ATTACH IMPORTANCE TO ANY POSITIVE ROLE BRITAIN MIGHT PLAY IN PROMOTING ITS DEVELOPMENT, WOULD TAKE CARE OF BRITISH ECONOMIC INTEREST. MUTUALLY BENEFICIAL ECONOMIC RELATIONS COULD BE ESTABLISHED .

5. YAO HOPED THAT AN IDENTITY OF VIEWS COULD BE REACHED ON PRACTICAL ARRANGEMENTS. THE POLICIES WERE CLEAR AND FORMED AN INTEGRAL WHOLE. THEY WERE ENTIRELY THE INTERNAL AFFAIR OF CHINA AS THE SOVEREIGN STATE BUT CHINA WISHED TO HEAR BRITISH VIEWS AND OPINIONS AS BOTH SIDES SOUGHT TO SETTLE THIS PROBLEM LEFT OVER FROM HISTORY.

6. YAO TURNED TO OUR TWO WORKING PAPERS. IF WE MADE AN OVERALL AND THOROUGH STUDY OF THE CHINESE POLICIES AS ENUNCIATED WE WOULD FIND THE ANSWER TO MANY QUESTIONS. THUS, AS REGARDS THE LEGAL SYSTEM, CHINESE POLICY WAS THAT IT WOULD BE BASICALLY UNCHANGED. THERE WOULD BE ALTERATION ONLY IN THOSE PARTS WHICH IMPLIED COLONIAL RULE AND IMPAIRED CHINESE SOVEREIGNTY . LAWS, RULES AND REGULATIONS WHICH DID THIS WOULD UNDOUBTEDLY HAVE TO BE ABOLISHED. THE LETTERS PATENT, THE ROYAL INSTRUCTIONS AND THE COLONIAL REGULATIONS WERE IN THIS CATEGORY. COLONIAALLY TAINTED LEGAL TERMS WOULD ALSO HAVE TO BE DELETED OR REVISED. LAWS OTHER THAN THESE WOULD REMAIN UNCHANGED. HE PICKED UP THE FIRST SENTENCE OF PARAGRAPH 1 OF OUR WORKING PAPER ON THE HONG KONG LEGAL SYSTEM. THIS MEANT THAT THERE WOULD BE NO CHANGES AT ALL, INCLUDING NO CHANGES IN THE THREE KINDS OF LAW HE HAD ALREADY MENTIONED. THIS WAS NOT THE SAME AS BASICALLY NO CHANGE. WAS THIS NOT CLEARLY IN CONTRADICTION OF THE CHINESE PREMISE? HE ALSO PICKED UP THE POINT IN THE WORKING PAPER ABOUT NO POWER OF DISALLOWANCE OUTSIDE HONG KONG. THIS CLARLY REFERRED TO THE CHINESE CENTRAL GOVERNMENT. BUT HOW COULD THIS BE SO WHEN THE BASIC SYSTEMS PRESCRIBED IN HONG KONG WOULD BE BOUND BY A LAW WHICH WOULD BE ADOPTED BY THE NPC? THIS OBLITERATED THE DIFFERENCE BETWEEN AN SAR WITH A HIGH DEGREE OF AUTONOMY AND AN INDEPENDENT STATE AND WAS INADMISSIBLE. SPECIFIC ASPECTS SUCH AS THE FUTURE COURT SYSTEM AND A JUDICIARY INDEPENDENT OF THE EXECUTIVE WERE MOSTLY MATTERS CONCERNING THE IMPLEMENTATION OF THE BASIC POLICIES, AND THEREFORE TO BE DECIDED BY THE SAR GOVERNMENT ON ITS OWN. THEY SHOULD NOT BE PRE-JUDGED BY THE CENTRAL GOVERNMENT.

7. CHINESE POLICIES ON THE FINANCIAL SYSTEM WERE ALSO CLEAR. THE HONG KONG DOLLAR WOULD CONTINUE, AS NOW, TO CIRCULATE AND BE FREELY CONVERTIBLE AFTER 1997. IT WOULD BE BACKED

7. CHINESE POLICIES ON THE FINANCIAL SYSTEM WERE ALSO CLEAR. THE HONG KONG DOLLAR WOULD CONTINUE, AS NOW, TO CIRCULATE AND BE FREELY CONVERTIBLE AFTER 1997. IT WOULD BE BACKED BY AN INDEPENDENT EXCHANGE FUND CONTROLLED AND ADMINISTERED BY THE SAR GOVERNMENT. ALL REVENUE WOULD BE USED FOR LOCAL PURPOSES AND NOT REMITTED TO THE CENTRAL GOVERNMENT. THE SAR WOULD HAVE TO REPORT ITS BUDGET AND FINANCIAL ACCOUNTS TO THE CENTRAL GOVERNMENT FOR THE RECORD. THE STATEMENT IN THE WORKING PAPER ON THE FINANCIAL SYSTEM THAT THERE WOULD BE NO EXTRA SUPERVISION OR APPROVAL REQUIRED WAS TOO SWEEPING IF IT PRECLUDED THE REPORTING OF THE BUDGET AND ACCOUNTS TO THE CENTRAL GOVERNMENT. ON SPECIFIC MEASURES TO BE ADOPTED, AS WITH THE LEGAL SYSTEM, THESE WERE FOR THE SAR GOVERNMENT.

IT WAS IMPROPER AND UNNECESSARY FOR THE CENTRAL GOVERNMENT TO DECIDE ON THEM

8. HE CONCLUDED BY SAYING THAT HE WAS NOT IN FAVOUR OF A STEP-BY-STEP APPROACH, NOR OF SPENDING TIME IN DISCUSSION ON DETAIL. HE HAD NO OBJECTION TO US PRESENTING FURTHER WORKING PAPERS BUT HOPED THEY WOULD NOT GO INTO EXCESSIVE DETAIL. WE SHOULD CONCENTRATE ON PRINCIPLES AND REACH AGREEMENTS ON THEM AS SOON AS POSSIBLE. DISCUSSION OF DETAIL WOULD IN ANY CASE INVOLVED MANY TECHNICAL MATTERS WHICH WOULD BE THE RESPONSIBILITY OF THE FUTURE SAR GOVERNMENT AND COULD NOT BE DISCUSSED BETWEEN US. THERE WAS NOT MUCH TIME LEFT: HE LOOKED FORWARD TO OUR POSITIVE RESPONSE.

9. I THANKED YAO FOR HIS ACKNOWLEDGEMENT OF OUR EFFORTS. I COULD ONLY OFFER PRELIMINARY COMMENTS. HIS STATEMENT WOULD RECEIVE CAREFUL STUDY. I REMINDED HIM THAT WE WERE PROCEEDING ON THE BASIS OF THE PRIME MINISTER'S MESSAGE. I WAS RELIEVED THAT WE WERE AT LAST MOVING ON TO MATTERS OF DETAIL AND CONSTRUCTIVE TALKS. BUT YAO'S STATEMENT REMAINED AN EXTREMELY GENERALISED ONE, SIMILAR TO EARLIER ONES WE HAD HEARD. I IMPRESSED ON HIM THE EXTREME IMPORTANCE OF GREATER DETAIL, OFFERING THREE PRINCIPAL REASONS:

(I) THE NEED TO SUSTAIN CONFIDENCE IN HONG KONG. THIS WAS IMPOSSIBLE IF WE COULD OFFER NO MORE INFORMATION THAN GENERALISED STATEMENTS OF INTENT. PEOPLE WHO LIVED AND INVESTED IN HONG KONG WOULD NEED TO KNOW IN MUCH GREATER DETAIL, IN WHAT RESPECT, IF ANY, SYSTEMS WOULD BE CHANGED:

(II) THE PRIME MINISTER COULD NOT PUT AN AGREEMENT TO PARLIAMENT THAT WAS DEVOID OF DETAIL. IF SHE DID SO, SHE WOULD BE LAUGHED OUT OF THE HOUSE:

(III) A LACK OF DETAILED PLANNING IN THE ARRANGEMENTS WOULD CREATE AN ADMINISTRATIVE VACUUM IN HONG KONG. IT WAS OUR WISH TO PRESERVE AS MUCH AS POSSIBLE OF HONG KONG'S CURRENT EXCELLENT ADMINISTRATION AND PASS IT OVER TO THE NEW GOVERNMENT OF THE SAR. BUT PEOPLE WOULD LEAVE IF THEY WERE WORRIED: THEY NEEDED ASSURANCE AND TO KNOW IN GREATER DETAIL THE ADMINISTRATIVE ARRANGEMENTS AFTER 1997. WITHOUT THAT DETAIL NOW THE ADMINISTRATION WOULD DETERIORATE AND CONFIDENCE WOULD DISAPPEAR.

10. I ARGUED AGAINST YAO'S ASSERTION THAT WE SHOULD NOT PROCEED ON A STEP-BY-STEP BASIS. IT WAS HUMANLY POSSIBLE ONLY TO DISCUSS ONE ISSUE AT A TIME. I POINTED OUT THAT YAO HIMSELF HAD TO SOME EXTENT ADOPTED THIS APPROACH IN DEALING WITH OUR WORKING PAPERS AND WELCOMED THIS FACT AND THE POINTS HE MADE. BUT THESE POINTS THEMSELVES RAISED FURTHER QUESTIONS. I CITED HIS REMARKS ABOUT THE POWER OF DISALLOWANCE. WE DID

HE CITED HIS REMARKS ABOUT THE POWER OF DISALLOWANCE. WE DID NOT DISPUTE THAT THE ESTABLISHMENT OF A 'CONSTITUTION' FOR HONG KONG AFTER 1997 WAS A MATTER FOR THE CENTRAL GOVERNMENT. BUT SUPPOSING THE SAR GOVERNMENT WISHED SUBSEQUENTLY TO AMEND THE LAWS GOVERNING THE EXCHANGE FUND. IF THE NEW LAW WAS PASSED BY THE SAR GOVERNMENT WOULD THE CENTRAL GOVERNMENT HAVE THE POWER OF DISALLOWANCE OVER IT? AND IF SO, HOW COULD THIS BE RECONCILED WITH FINANCIAL INDEPENDENCE FOR THE SAR? I TOOK UP HIS POINT ABOUT CERTAIN SPECIFIC MATTERS BEING FOR THE FUTURE SAR GOVERNMENT AND NOT FOR US. IT WAS NOT ENOUGH TO BRUSH SUCH MATTERS AS THE ADMINISTRATION OF THE COURTS AND JUDICIAL POWER ASIDE FOR THE SAR GOVERNMENT TO DEAL WITH IN THE FUTURE. THEY MUST BE CLEARLY UNDERSTOOD BEFOREHAND BECAUSE PEOPLE IN HONG KONG WOULD BE RELYING ON JUDGEMENTS IN THESE COURTS AND CONTINUITY IN THESE SYSTEMS. I ALSO SOUGHT CLARIFICATION ABOUT THE ABOLITION OF THE LETTERS PATENT, ROYAL INSTRUCTIONS AND COLONIAL REGULATIONS. WOULD THIS BE A TOTAL ABOLITION, OR WOULD PARTS OF THEM APPEAR ELSEWHERE IN THE LAWS UNDER A DIFFERENT TITLE?

11. I REMINDED HIM THAT HE HAD, AS IN THE PAST, MADE ASSERTIONS ABOUT THINGS THAT WOULD HAPPEN WHICH DEPENDED NOT UPON CHINA OR BRITAIN ALONE BUT UPON THIRD PARTIES AS WELL. ACCESS TO MARKETS, FOR EXAMPLE, WOULD HAVE TO BE NEGOTIATED WITH THIRD PARTIES. IT WAS A MATTER ON WHICH CHINA AND BRITAIN MUST COOPERATE BUT WHERE THE OUTCOME COULD NOT BE PREDICTED OR STATED IN ADVANCE. WE WOULD BE TOUCHING ON THESE MATTERS IN THE WORKING PAPER ON EXTERNAL ECONOMIC RELATIONS WHICH I HOPED TO HAND OVER THE FOLLOWING DAY. I HOPED SHEET WOULD RECEIVE DETAILED AND REALISTIC EXAMINATION AND WOULD NOT MEET WITH VAGUE AND GENERALISED STATEMENTS.

12. IN STRESSING FINALLY THE IMPORTANCE OF DETAIL IF WE WERE TO ARRIVE AT ARRANGEMENTS THAT WOULD MEET THE COMMON AIM I DREW ATTENTION TO STATEMENTS BY YAO AND ZHOU NAN WHICH GAVE ME SOME ENCOURAGEMENT. YAO HAD SAID THAT MORNING HE HOPED THROUGH FULL CONSULTATIONS AN IDENTITY OF VIEWS COULD BE REACHED ON HOW TO MAKE PRACTICAL ARRANGEMENTS. ZHOU HAD SAID IN NEW YORK TO YOU THAT IF WE CHANGED OUR APPROACH OF INSISTING ON CONTINUED BRITISH ADMINISTRATION THEN DETAILED DISCUSSIONS ON ALL PRACTICAL ASPECTS OF THE ISSUE COULD BEGIN IMMEDIATELY. (UKMIS NEW YORK TEL NO 006 TO HONG KONG). YAO WAS WELL AWARE THAT THERE HAD BEEN A BIG CHANGE IN OUR APPROACH AS EXPRESSED IN THE PRIME MINISTER'S MESSAGE. WE WISHED TO ENGAGE IN DETAILED DISCUSSIONS ON ALL ASPECTS.

13. YAO SPOKE AGAIN BRIEFLY BEFORE THE END OF THE MORNING. HE REITERATED HIS VIEW THAT DISCUSSION ON MATTERS OF PRINCIPLE WAS OF VITAL IMPORTANCE. HE UNDERSTOOD MY VIEWS ON THE IMPORTANCE OF DETAIL BUT HELD A DIFFERENT VIEW. HE DREW A DISTINCTION BETWEEN THE POLICIES WHICH CHINA WOULD ADOPT TOWARDS HONG KONG AFTER 1997, WHICH WERE CHINA'S INTERNAL AFFAIR, AND IN WHICH THEY WOULD WELCOME OUR SUGGESTIONS, AND MATTERS CONCERNING BRITISH INTERESTS IN HONG KONG AND SINO-BRITISH CO-OPERATION IN THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG, WHERE THEY HOPED TO HAVE DETAILED DISCUSSION WITH US. TAKING NO ACCOUNT OF WHAT I HAD SAID, HE REPEATED THAT THERE WERE SOME SPECIFIC POINTS WHICH WERE FOR THE FUTURE SAR GOVERNMENT AND NOT FOR US TO DISCUSS. HE ALSO ADDED THAT DETAILED DISCUSSION

~~WHAT I HAD SAID, HE REPEATED THAT THERE WERE SOME SPECIFIC
POINTS WHICH WERE FOR THE FUTURE SAR GOVERNMENT
AND NOT FOR US TO DISCUSS. HE ALSO ADDED THAT DETAILED DISCUSSION
IN MANY AREAS REQUIRED A CERTAIN AMOUNT OF SPECIALIST KNOWLEDGE
WHICH NEITHER HE NOR I HAD AND WE COULD THEREFORE NOT EMBARK
UPON IT. MOREOVER, ALTHOUGH WE STRESSED THE NEED FOR DETAIL,
WE WERE RELUCTANT TO GIVE A CLEAR ANSWER AS TO
WHAT WAS MEANT BY THE BRITISH LINK OR ROLE. THESE WERE ISSUES OF
PRINCIPLE AND THE CHINESE SIDE WOULD RETAIN DOUBTS ABOUT
OUR INTENTIONS UNTIL THEY HAD
HEARD SOME CLARIFICATION. YAO PROMISED TO CONTINUE TOMORROW.~~

14 SEE MIFT FOR COMMENT

CRADOK

NNN

PARA 7.

LINE 9 W THERE WOULD BE NO EXTERNAL SUPERVISION ETC

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DD 130200Z PEKING

GRS 528

SECRET

DESKBY 130200Z

FM FCO 121339Z NOV 83

TO IMMEDIATE PEKING

TELEGRAM NUMBER 1184 OF 12 NOVEMBER

INFO IMMEDIATE HONG KONG

PERSONAL FOR AMBASSADOR

YOUR TELS NOS 1179 AND 1180 AND HONG KONG TELNO 1728: FUTURE OF HONG KONG

- A.J.C. $\frac{14}{11}$
f-a.
1. I AM GRATEFUL FOR YOUR REPORTS ON YOUR MEETINGS WITH YAO GUANG AND FOR YOUR AND THE GOVERNOR'S COMMENTS. I AGREE THAT YOUR CONVERSATION ON 10 NOVEMBER WAS USEFUL IN CLARIFYING THE POSITION AFTER DENG XIAO PING'S DISCUSSION WITH M. THORN, AND IN PREPARING A GOOD ATMOSPHERE FOR THE NEXT ROUND ON 14/15 NOVEMBER.
 2. AT THE SAME TIME I APPRECIATE THE PROBLEMS WHICH THE GOVERNOR HAS POINTED OUT, IN PARTICULAR THE NEED TO KEEP EXCO WITH US AND TO AVOID GIVING THE IMPRESSION TO THEM THAT WE ARE GIVING AWAY POINTS TOO SOON.
 3. ON THE QUESTION OF RESERVATION OF POSTS FOR BRITISH PERSONNEL, I UNDERSTAND THE ARGUMENT WHICH YOU EMPLOYED WITH YAO GUANG. HOWEVER I THINK WE MUST AVOID MOVING TOO QUICKLY ON THIS POINT. MINISTERS HAVE NOT TAKEN A DEFINITE VIEW ON IT EITHER WAY. I HOPE THEREFORE THAT IN THE FORMAL TALKS IT WILL BE POSSIBLE TO AVOID GIVING THE IMPRESSION THAT WE HAVE MADE A DEFINITE COMMITMENT. IN PARTICULAR I SUGGEST THAT YOU SHOULD AVOID REPEATING THE CONCEPT THAT BRITISH PERSONNEL AFTER 1997 WOULD BE IN HONG KONG (BEGIN UNDERLINING) AT THE INVITATION OF THE GOVERNMENT OF THE SPECIAL ADMINISTRATIVE REGION (CEASE UNDERLINING). THAT PHRASE IS A CLEAR NEGATION OF THE CONCEPT OF RESERVATION AND ITS USE ON THE RECORD MIGHT BE TACTICALLY DIFFICULT FOR US IF NOT COUNTER-PRODUCTIVE.
IN GENERAL YOU SHOULD USE THE FORMULA IN PARA 2 OF HONG KONG TELNO 1703 AND NOT GO BEYOND THAT EXCEPT TO ILLUSTRATE YOUR POINT.

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4. ON PERSONNEL, YOU AND THE GOVERNOR MAY WISH TO DISCUSS THE POINT IN PARA 1 OF HCNG KONG TELNO 1703 ABOUT THE PRACTICAL DIFFICULTY OF GETTING EX-PATRIATE CIVIL SERVANTS TO CONTINUE TO SERVE IN THE RUN UP TO 1997 WITHOUT SOME SECURITY OF TENURE. IF YOU JUDGE IT HELPFUL YOU COULD MAKE THIS POINT IN ORDER TO DEMONSTRATE TO THE CHINESE THAT THE PROBLEM IS COMPLEX.
5. ON THE QUESTION OF 'LINKS OF AUTHORITY' TO LONDON, I AGREE THAT YOU SHOULD DEPLOY AGAIN, FOR THE RECORD, THE FORMULA IN THE LAST TWO SENTENCES OF PARA 5 OF YOUR TELNO 1179, IE. THAT AUTHORIZED IN ATHENS TELNO 1 TO PEKING.
6. I TAKE THE GOVERNOR'S POINT ABOUT THE POSSIBLE IMPLICATIONS OF DISCUSSION OF THE ROYAL INSTRUCTIONS, LETTERS PATENT, ETC. WHILE CLEARLY CHANGE IN HONG KONG WOULD REQUIRE A CHANGE IN THE FORM OF CONSTITUTIONAL DOCUMENTS, WE MUST AVOID ABANDONING IMPORTANT POINTS OF SUBSTANCE CONTAINED IN THEM. IF THE CHINESE RAISE THE SUBJECT IN THE NEXT ROUND YOU SHOULD CONTINUE SIMPLY TO LISTEN BUT NOT TO OFFER COMMENT.
7. FOR THE REST I AGREE THAT YOU SHOULD FOLLOW THE GENERAL LINE OF PARA 5 OF YOUR SECOND TUR, I.E. TO PRESS THE STEP-BY-STEP APPROACH AND TO ENCOURAGE THE CHINESE TO RESPOND TO OUR PAPERS. ESSENTIALLY WE SHOULD SIT TIGHT ON OUR PRESENT POSITION.
8. ON THE QUESTION OF POSSIBLE EARLIER DISCUSSION OF CENTRAL CONSTITUTIONAL AND ADMINISTRATIVE QUESTIONS, THIS RAISES IMPORTANT QUESTIONS OF TACTICS AND OUR RELATIONSHIP WITH EXCO, IF NOT OF STRATEGY. WE SHALL NEED TO CONSIDER THE POSSIBILITY CAREFULLY IN THE LIGHT OF THE NEXT ROUND OF TALKS.

HOWE

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

ED/PUSD

D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGET

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PS/HOME SECRETARY

PS/CHANCELLOR OF THE EXCHEQUER

PS/LORD PRIVY SEAL

PS/SECRETARY FOR TRADE AND
INDUSTRY

COPIES TO: (VIA ADR)

MR ROBERTS NEWS DEPT

MR BURROWS LEGAL ADVISERS

MR COLES NO 10 DOWNING ST

SIR A PARSONS " "

MR MARTIN ASSESSMENT STAFF
CABINET OFFICE

MR GOODALL CABINET OFFICE

MR BRENNAN " "

PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL

PRIME MINISTER

12
M

HONG KONG

The Foreign Office letter and enclosures attached amount to a formidable collection of paper. This is not helped by the fact that the Foreign Secretary is in Athens. But I think that I can simplify the position for you.

The next round of talks in Hong Kong is on Monday and Tuesday. The recommendation to the Foreign Secretary is that, during that round, Sir Percy Cradock should pursue the policy already agreed by Ministers. The only new point is that he will make it clear, as he has already done informally, that any British personnel who remain in official posts in Hong Kong after 1997 will not, provided the final package is satisfactory to us, be appointed by London or be responsible to London; they would be there to serve the government of the special administrative region.

I have told the FCO that they can instruct Sir Percy Cradock on these lines for the next round, provided of course that Sir Geoffrey Howe is content. In other words, there is no need for you to say anything unless you disagree - in which case the Duty Clerk should tell the FCO during the weekend.

The other telegrams attached describe a disagreement between Sir Percy Cradock and the Governor. But this disagreement is not relevant to the next round of talks and I do not think that you need focus on it now. But you may wish to look at the telegrams so that you can see the issues involved.

A.J.C.

11 November 1983



Foreign and Commonwealth Office

London SW1A 2AH

11 November 1983

Dear John,

Future of Hong Kong

My letter of 10 November provided a round-up of recent developments. Since then we have received a report from Sir Percy Cradock on his dinner with Yao Guang on 10 November, and his recommendations for the next round of discussions (Peking telegrams numbers 1179 and 1180, copies enclosed). There have also been telegrams from both the Ambassador and the Governor which reveal a difference of opinion between them on how we should respond to Chinese suspicions about our position (Peking telegram number 1176 and Hong Kong telegram number 1707, copies also enclosed).

As Sir Percy Cradock has commented, his discussion with Yao Guang suggests that Chinese suspicions may to some extent have been quieted. In the light of this, the Ambassador recommends that at the next round of talks we should continue on the present lines.

We have not yet been able to consult Sir Geoffrey Howe. But in view of the shortness of time before the next round begins, I enclose copies of three telegrams which we have just despatched to Sir Geoffrey in Athens giving advice on the issues raised. Mr Luce agrees with the general lines of this advice. As you will see, we recommend that Sir Percy Cradock's recommendations on the handling of the next round should be accepted. The third of the enclosed telegrams contains a draft of a brief instructions telegram to Peking. On the differences between the Ambassador and the Governor, we conclude that, while these should be examined as soon as possible, they need not affect our line in the 14/15 November round of talks.

/We shall

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We shall let you know if Sir Geoffrey has any comment on the advice in these telegrams. If the Prime Minister agrees, the instructions telegram to Peking would be despatched from the FCO, if possible in the course of Saturday 12 November.

Your ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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OUT TELEGRAM

(A)

Classification and Caveats

SECRET

Precedence/Deskby

IMMEDIATE 111630Z

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	SECRET
CAVEATS	4	
DESKBY	5	DESKBY 111630Z
FM FCO	6	FM FCO NOVEMBER 83
PRE/ADD	7	TO IMMEDIATE ATHENS
TEL NO	8	TELEGRAM NUMBER
	9	For Private Secretary
	10	PEKING TELNOS 1179 AND 1180: FUTURE OF HONG KONG
	11	1. MIFT contains preliminary comments on the difference of view
	12	between the <u>Governor</u> and the <u>Ambassador</u> on how and when to tackle
	13	the central issue of the constitutional and administrative
	14	arrangements. This telegram considers the instructions for the
	15	Ambassador for the next round on <u>14 and 15 November</u> , and results
	16	from a discussion between <u>officials and Mr Luce</u> .
	17	2. We agree with the Ambassador that his conversation with Yao
	18	Guang had <u>some mildly encouraging aspects</u> . There is no
	19	suggestion that the talks are likely to break down next time,
	20	even though Chinese suspicions of our intentions remain! They
	21	appear ready to offer some comment on our paper on legal matters
///	22	and there is clearly much which could be discussed on external
//	23	trade matters. Sir Percy's explanations are clearly having
/	24	some impact in removing the misunderstandings on the Chinese
	25	side and he should continue to draw on these in the next round.

ms

NNNN ends telegram	BLANK	Catchword 3.	
File number	Dept Private Office	Distribution	
Drafted by (Block capitals) PETER RICKETTS		<i>PS</i> <i>PS/Mr Luce</i> <i>PS/PUS</i> <i>Mr Wright</i> <i>Mr Giffard</i> <i>Mr Donald</i> <i>Md/HK1</i>	
Telephone number			
Authorised for despatch <i>P. Ricketts</i>			
Comcen reference	Time of despatch		<i>Md/FZ1</i> <i>Md/PUS1</i> <i>Legal Advisers</i>

OUT TELEGRAM (CONT)

Classification and Caveats

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3. There seems some ambiguity in Chinese minds on the key question of personnel. In the end Yao Guang appears to have conceded that there could be both officials and advisers after 1997. But a key point obviously for the Chinese is that the functionaries and advisers in the administration of Hong Kong after 1997 must owe allegiance to the SAR Government and not to Britain. As it is, the officials in Hong Kong owe their primary allegiance to the Hong Kong Government, but clearly the Chinese are most worried about those in authority who are now directly appointed by London, headed by the Governor. There is a lot to be explored here, although not so soon as the round on 14/15 November. We need to have brought EXCO into the picture first and taken the necessary policy decisions.

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4. As for our posture at the next round, we agree with the Ambassador's broad proposals in paragraph 5 of his telno 1180. You will note that the Ambassador used the formula proposed in paragraph 6 of FCO telno 460 (paragraph 5 of his telno 1179) and asked if Yao Guang thought it would help if he made a formal statement in Monday's talks on these lines. We recommend that he should do so.

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5. In short, we consider that the Ambassador should continue to follow the path mapped out at the Prime Minister's meeting with EXCO last month. Admittedly we shall have to tackle the central issues examined in MIFT in good time before the session on 7/8 December, but for the moment we should not depart from the main threads of the Prime Minister's message last month. If this line is agreed, the instructions to the Ambassador in Peking need only be very brief. My second IFT contains a draft.

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OUT TELEGRAM

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Classification and Caveats

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IMMEDIATE DESKBY 111600Z

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TEL NO

1 ZCZC
2 GRS
3 SECRET
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5 DESKBY 111600Z
6 FM FCO
7 TO IMMEDIATE ATHENS
8 TELEGRAM NUMBER
9 FOR PRIVATE SECRETARY ~~FROM RICKETTS~~
10 MIPT: FUTURE OF HONG KONG
11 1. While the instructions for the next round of talks in Peking
12 do not require any adjudication now on the argument between the
13 Ambassador and the Governor (Peking telno 1176 and Hong Kong
14 telno 1707) we shall clearly have to come to grips soon with the
15 issues they have raised. The Secretary of State may find it
16 helpful to have the following preliminary comments.
17 2. The difference reflects the familiar dilemma of negotiating a
18 settlement satisfactory to the Chinese, which is also a acceptable
19 in Hong Kong and which will sustain confidence there. Both
20 protagonists are skilfully arguing their own corners but tend to
21 underestimate each other's problems.
22 3. The Ambassador argues that the Prime Minister's latest
23 message, which conditionally proposes exploration of the Chinese
24 ideas, must logically exclude our proposing arrangements which we
25 know the Chinese would not accept. He sees as the keypoint our

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File number	Dept HKD	Distribution PS PS/Mr Wace PS/PUS Mr Wright Mr Gifford Mr Donald Md/ HKD Legal Advisers. Md/FEI Mr/PUS
Drafted by (Block capitals) R D CLIFT		
Telephone number 233 3184		
Authorised for despatch <i>R. Ricketts</i>		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats
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DESKBY 111600Z

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 2 explicit acknowledgement, for the purposes of the discussion,
 3 that there can be no continuation of an authoritative link with
 4 the UK after 1997. (This term and the shorthand phrase "Link of
 5 authority", which the Ambassador has used, should be read as
 6 meaning any system under which instructions can be given by HMG
 7 to the Hong Kong Government or any of its officials, whether in
 8 the present form of your own relationship with the Governor or by
 9 any other channel). Sir Percy maintains that, equally for the
 10 purposes of the discussion, we should also give up the idea of
 11 reserving posts for British personnel, which the Chinese suspect
 12 to be a device to maintain an authoritative link.
 13 4. Moreover the Ambassador takes the view that if we are to make
 14 any progress in a detailed discussion of safeguards to be built
 15 into the Chinese proposals, we shall need to tackle, at an earlier
 16 stage than we had envisaged, the central question of Government
 17 institutions in Hong Kong, including the position of the
 18 Governor. He has proposed that we should be prepared to deal
 19 with this at the round of talks tentatively scheduled for
 20 7/8 December, if not before.
 21 5. The Governor bases his objections to the Ambassador's
 22 proposals on two grounds. In the first place he believes that we
 23 should be giving away too much too soon. He does not disagree
 24 with the concept that British personnel employed in Hong Kong
 25 should not be answerable to London but he opposes our giving up
 26 the reservation of posts at this stage. (There is a dispute
 27 between the two on whether the principle of reservation of posts
 28 has been agreed as one of HMG's aims. The Governor quotes a number
 29 of documents in which the idea has been mentioned, including
 30 Annex 2 of the "Reappraisal Study" submitted to Ministers in
 31 August of this year. However all the papers in question have been
 32 illustrative. The position on this point is that while Ministers
 33 have noted the possibility of reservation of posts as something
 34 which we might try to achieve, they have given no firm view on

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OUT TELEGRAM (CONT)

Classification and Caveats

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IMMEDIATE
DESKBY 111600Z

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1 <<<<
 2 whether it would be practicable).
 3 6. The Governor's other objection is the more fundamental charge
 4 that we should be making a major change of strategy; that this
 5 would not tally with EXCO's interpretation of the agreement with
 6 the Prime Minister; and that to tackle the central questions of
 7 administration early on would not be acceptable to EXCO and would
 8 damage confidence.
 9 7. The Ambassador's basic position seems entirely defensible in
 10 logic but he has not paid sufficient attention to the political
 11 realities in Hong Kong and to the fact that the touchstone of any
 12 agreement is not merely whether it can be negotiated with China
 13 but ^{also} whether it will command confidence in the territory and work
 14 in practice. Sir S Y Chung and his supporters in EXCO may be
 15 wrong in the interpretation which they are putting on the agreement
 16 with the Prime Minister but we shall not help matters by reading
 17 the riot act to them when they appear to be backtracking, as the
 18 Ambassador has suggested. EXCO are our main means of demonstrating
 19 acceptability and we must keep them with us. They must be fully
 20 consulted and persuaded rather than driven. How to convince them
 21 of the force of the Ambassador's logic will require all the
 22 Governor's skill, much patience and perhaps more time than
 23 Sir Percy estimates.
 24 8. The Ambassador's idea that we should tackle the question of
 25 the Governorship early on will need very careful consideration.
 26 We are not at this stage convinced that it would be right to do
 27 this as early as 7 December. It would mean an abandonment or
 28 major modification of the 'building block' approach, which we have
 29 agreed, ie. fleshing out possible safeguards in detailed areas
 30 before tackling the most contentious problems. More importantly,
 31 it could only be tackled by a more explicit acceptance of the
 32 severance of the British link. Logical though that might be for
 33 the purpose of the negotiations and under our qualification of
 34 conditionality, it is doubtful whether EXCO would accept it

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OUT TELEGRAM (CONT)

	Classification and Caveats	IMMEDIATE	Page
	SECRET	DESKBY 111600Z	4

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 2 without careful preparation.
 3 9. On the question of employment of personnel, the disagreement
 4 may be more apparent than real. Sir Percy Cradock's telegram
 5 number 1177 is helpful in showing that he is not against our
 6 arguing with the Chinese that particular posts can usefully be
 7 filled by British people. The Governor may under-estimate the
 8 chances of making progress on this issue. The Ambassador's
 9 argument, however, that we cannot, on the one hand demand autonomy
 10 for Hong Kong and on the other ^{maintain} ~~argue~~ that autonomy can be limited
 11 by a mandatory imposition of British personnel, is compelling.
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OUT TELEGRAM

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Classification and Caveats

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ZCZC	1	ZCZC
GRS	2	GRS
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CAVEATS	4	
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FM FCO	6	FM FCO
PRE/ADD	7	TO IMMEDIATE ATHENS
TEL NO	8	TELEGRAM NUMBER
	9	FOLLOWING FOR PRIVATE SECRETARY
	10	MIPT: HONG KONG
	11	1. Following is draft of instructions to HM Ambassador Peking.
	12	BEGINS: Your telegram numbers 1179 and 1180.
	13	I agree with the proposals in paragraph 5 of your second TUR
	14	for the line to adopt at the next round. I would see value
	15	in following up your suggestion to Yao Guang that you should
	16	make a formal statement for the record on the lines of the
	17	formula in paragraph 5 of your first TUR. ENDS
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File number		Dept		Distribution	
Drafted by (Block capitals) PRIVATE SECRETARY				PS	Hd/HKD
Telephone number 233 4641				PS/Mr Luce	Hd/FED
Authorised for despatch				PS/PUS	Hd/PUSD
				Mr Wright	Legal Advisers
				Mr Giffard	
				Mr Donald	
Comcen reference		Time of despatch			

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FM PEKING 110645Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1179 OF 11 NOVEMBER

INFO IMMEDIATE HONG , ATHENS (FOR PRIVATE SECRETARY)

MY TELNO 1176: FUTURE OF HONG KONG: DINNER WITH WAO GUANG

1. I HAD YAO GUANG TO DINNER LAST NIGHT: GALSWORDY AND YAO'S INTERPRETER WERE ALSO PRESENT. FOLLOWING IS A COLLATED ACCOUNT OF THE CONVERSATION WHICH LASTED OVER 4 HOURS. THE POINTS ARE NOT NECESSARILY IN THE ORDER IN WHICH THEY WERE RAISED.

2. GUARANTEES.

YAO SAID THAT HE COULD UNDERSTAND THAT THE BRITISH WISHED TO HAVE A FULL ACCOUNT OF CHINESE POLICIES. HE BELIEVED THAT THEY HAD BEEN MADE CLEAR THROUGH VARIOUS CHANNELS. AFTER 1997 THE STATUS QUO WOULD BE MAINTAINED. THE CAPITALIST SYSTEM WOULD NOT CHANGE, NOR WOULD THE POLITICAL SITUATION CHANGE FOR 50 YEARS. THE CHINESE HAD ADDED THE WORD ' ' BASICALLY ' ' WHEN SPEAKING OF THE LAWS, BECAUSE THERE WOULD HAVE TO BE SOME CHANGES. (SEE PARA 11.) AS TO WHO WOULD RUN HONG KONG , IT WOULD NOT BE THOSE WHO HAD BEEN PRACTISING SOCIALISM IN CHINA, BUT THOSE WHO HAD BEEN PRACTISING CAPITALISM IN HONG KONG. ARTICLE 31 OF THE CHINESE CONSTITUTION WOULD PROVIDE A LEGAL BASIS FOR WRITING A BASIC LAW FOR HONG KONG IN WHICH ALL THESE THINGS WOULD BE ENSHRINED.

3. THE POINT MIGHT BE NOT SO MUCH THAT BRITIAN DID NOT UNDERSTAND CHINESE POLICIES AS THAT SHE WISHED TO KNOW WHAT ASSURANCES CHINA COULD GIVE TO ENSURE THEIR IMPLEMENTATION. IN RESPONSE TO MY QUESTION HE SAID THAT CHINA DID HAVE SUCH ASSURANCES. THEY LAY IN THE CHINESE CONSTITUTION, AND IN THE GENERAL STABILITY AND UNITY IN CHINA SINCE THE THIRD PLENUM. SINCE THAT TIME CHINA, THOUGH SOCIALIST, HAD PAID GREAT ATTENTION TO SEEKING TRUTH FROM FACTS. CHAIRMAN DENG HAD SAID TO MR HEATH THAT CHINA WOULD NOT DO THINGS IN HONG KONG IN ACCORDANCE WITH THE WISHES OF ONE SIDE ONLY. CHINA WOULD RESPECT HONG KONG'S HISTORY AND PRESENT CONDITION. IN DEALING WITH HONG KONG THEY WOULD NOT START FROM THE SITUATION ON THE MAINLAND BUT FROM THE SITUATION IN HONG KONG. I SAID THAT WE CERTAINLY DID WISH TO KNOW ABOUT WHAT ASSURANCES AND GUARANTEES CHINA COULD OFFER. ONE FORM OF ASSURANCE WAS TO PROVIDE DETAIL ON ARRANGEMENTS AFTER 1997. DETAIL WAS NEEDED IF CONFIDENCE WAS TO BE MAINTAINED THAT HONG KONG'S SYSTEMS WERE GOING TO BE LITTLE CHANGED. IT WAS ALSO ESSENTIAL IF ANY AGREEMENT WAS TO GET THROUGH PARLIAMENT.

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4. STEP BY STEP APPROACH. YAO GUANG SAID THAT THE WORKING PAPERS WE WERE PROVIDING WERE USEFUL, BUT IT WAS ANOTHER MATTER WHETHER THEY COULD BE DISCUSSED ONE BY ONE. READING THESE PAPERS CHINA WOULD GET AN IDEA OF HOW WELL BRITAIN UNDERSTOOD HER POLICIES. CHINA WOULD BE ABLE TO MAKE SOME EXPLANATIONS. I SAID THAT IT WOULD BE VERY USEFUL IF CHINA WOULD GIVE HER VIEWS ON THE IDEAS IN THE PAPERS SO THAT WE COULD JUDGE WHETHER THEY WERE BROADLY ACCEPTABLE OR NOT. WE WERE NOT PROPOSING THAT WE SHOULD REACH A SEPARATE FINAL AGREEMENT ON EACH AREA BEFORE MOVING ON TO THE NEXT. ALL WE NEEDED TO DO WAS TO GO IN A SYSTEMATIC WAY THROUGH THEM AND SEE IF THERE WERE ANY BIG DIFFERENCES BETWEEN THE TWO SIDES. WE WOULD NOT GO INTO EXCESSIVE DETAIL. YAO SAID THIS APPROACH WAS NOT IMPOSSIBLE BUT HE WONDERED WHETHER THERE WAS PERHAPS NOT ANOTHER WAY OF GETTING TO UNDERSTAND OUR DIFFERENCES. CHINA WANTED TO WORK OUT A BILATERAL AGREEMENT WITH THE UK. WHY COULD WE NOT HOLD OUR DISCUSSIONS ON THE BASIS OF A DRAFT? I SAID THAT WE WERE NOT AGAINST THAT AT ALL: BUT AT THE MOMENT WE DID NOT KNOW WHAT TO PUT IN SUCH A DRAFT. THIS WAS THE POINT OF THE PRESENT PROCEDURE. HE SAID THAT IF WE WERE INTERESTED IN A PACKAGE A BILATERAL AGREEMENT WAS THE BEST WAY TO APPROACH IT. I SAID THAT WE BROADLY AGREED WITH THIS, BUT THAT WE MUST FIRST DISCUSS THE VARIOUS AREAS SO AS TO ESTABLISH THE SORT OF THINGS WHICH COULD GO INTO AN AGREEMENT.

5. JOINT ADMINISTRATION.

THIS GAVE ME AN OPPORTUNITY TO RAISE THE QUESTION OF JOINT ADMINISTRATION AND TO SPEAK AS IN MY TEL 1170 AMENDED BY YOUR 460 TO ATHENS AND HONG KONG TEL 1703. I SAID THAT WE WERE VERY CONCERNED ABOUT A BASIC MISUNDERSTANDING WHICH SEEMED TO HAVE BEEN EVIDENT FROM WHAT MR DENG HAD SAID TO M. THORN ABOUT JOINT ADMINISTRATION. WE HAD SUGGESTED THAT FOR THE PURPOSES OF THIS DISCUSSION WE SHOULD PROCEED ON THE BASIS OF THE CHINESE PROPOSALS. WE KNEW VERY WELL THAT THEY WERE BOUND UP WITH THE CHINESE PREMISE. AT THE MINISTER'S SUGGESTION I HAD PUT FORWARD ON 28 OCTOBER SOME INFORMAL IDEAS, WHICH WERE ON THE BASIS OF THE CHINESE PROPOSALS. WE HAD TALKED OF PERSONNEL QUESTIONS. I WISHED TO MAKE IT CLEAR THAT ANY BRITISH PERSONNEL WHO REMAINED IN ADMINISTRATIVE OR JUDICIAL POSTS IN HONG KONG AFTER 1997 WOULD BE THERE ON THE INVITATION OF THE GOVERNMENT OF THE SPECIAL ADMINISTRATIVE REGION (SAR). THEY WOULD BE THERE TO SERVE THE GOVERNMENT OF THE SAR AND WOULD BE RESPONSIBLE TO IT. THEY WOULD NOT BE APPOINTED BY LONDON OR RESPONSIBLE TO LONDON. THE BRITISH ROLE WOULD BE ONE OF ASSISTANCE NOT AUTHORITY. FOR THE PURPOSES OF THE DISCUSSIONS, AS PROPOSED IN THE PRIME MINISTER'S MESSAGE OF 14 OCTOBER, WE WERE SINCERELY PREPARED TO EXAMINE WHETHER SATISFACTORY ARRANGEMENTS COULD BE BUILT ON THE BASIS OF THE CHINESE PROPOSALS. AS WE UNDERSTOOD THEM THEY DID NOT INVOLVE ANY LINK OF ACCOUNTABILITY OR RESPONSIBILITY TO LONDON AFTER 1997.

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6. YAO RESPONDED BY SAYING THAT SURELY IT WOULD BE BETTER TO BRING OUT THESE IDEAS STRAIGHT AWAY AND TO TELL THE CHINESE EXACTLY WHAT WE HAD IN MIND. WHAT BRITISH ROLE WERE WE SPEAKING OF, AND WHAT POSTS? I SAID THAT WE HAD NO TRICKS UP OUR SLEEVE. WE WERE DEVELOPING OUR IDEAS AS FAST AS WE COULD AND WRITING THEM INTO THE WORKING PAPERS. IT HAD BEEN EASIEST TO START WITH THE LEAST DIFFICULT, BUT WE WOULD COME TO THE HARDER ONES. YAO SAID THAT, SPEAKING FRANKLY, THE CHINESE SIDE STILL HAD DOUBTS. HE WISHED TO LOOK FORWARD AND NOT TO SETTLE OLD SCORES, BUT CHINA COULD HARDLY FAIL TO LOOK BACK AT THE COURSE OF THE 5 ROUNDS OF TALKS. FOR THREE MONTHS BRITAIN HAD MAINTAINED THAT SHE WISHED TO CONTINUE TO ADMINISTER HONG KONG. THIS HAD LEFT A DEEP IMPRESSION ON THE CHINESE SIDE. IN HER RECENT MESSAGE THE PRIME MINISTER HAD STILL SAID THAT THE BRITISH VIEW HAD NOT CHANGED. HOWEVER SHE HAD ALSO SAID THAT WE SHOULD SEE WHAT COULD BE BUILT ON THE CHINESE PROPOSALS AND THAT THE AMBASSADOR HAD ADDED THAT BRITAIN WAS NOT ANY MORE INSISTING ON BRITISH ADMINISTRATION AS A PREREQUISITE. IT WAS BECAUSE OF CHINA'S LINGERING DOUBTS THAT THE CHINESE SIDE AT THE LAST ROUND HAD RAISED QUESTIONS ABOUT THE TYPE OF ROLE AND LINK BRITAIN ENVISAGED. THEY WISHED TO CLEAR THE MISTS. WE HAD STILL NOT GIVEN A CLEAR ANSWER.

7. I INTERJECTED THAT I HAD AT LEAST TOLD THE MINISTER THINGS WHICH WERE NOT ENVISAGED. YAO ACKNOWLEDGED THAT THIS WAS HELPFUL. HOWEVER HE WENT ON TO SAY THAT HE STILL HAD THE IMPRESSION THAT THERE WERE SOME THINGS THAT BRITAIN DID NOT WISH TO SAY AT THE PRESENT TIME. WE APPEARED TO BE WAITING FOR THE APPROPRIATE MOMENT. WE SHOULD TELL THE CHINESE SOON WHAT WAS IN OUR MINDS SO AS TO DISPEL THEIR DOUBTS. I ASKED WHETHER IT WOULD BE HELPFUL IF I TOLD THE CHINESE SIDE FORMALLY IN THE TALKS WHAT I HAD TOLD YAO TONIGHT. HE SAID THAT IT WOULD. IF WE DID NOT GIVE OUR CLEAR VIEWS ON MATTERS AFFECTING SOVEREIGNTY IT WOULD BE DIFFICULT TO REACH AN AGREEMENT. ON THE PRIME MINISTER'S STATEMENT THAT OUR VIEWS HAD NOT CHANGED, I SAID THAT WE MIGHT WELL HAVE OUR OWN VIEWS ON WHAT AN IDEAL ARRANGEMENT WOULD BE, BUT NEVERTHELESS WE WERE READY IN THE INTERESTS OF REACHING AN AGREED SOLUTION TO BE FLEXIBLE.

8. PERSONNEL.

ON PERSONNEL, YAO SAID THAT TO SPEAK OF HAVING POSTS IN HONG KONG ACTUALLY OCCUPIED BY BRITISH PERSONNEL AFTER 1997 AND TO HAVE BRITISH ADVISERS WERE TWO DIFFERENT THINGS. THIS WAS A MATTER WHICH TOUCHED ON THE DIGNITY OF SOVEREIGN COUNTRY. ADVISERS WOULD NOT HAVE AUTHORITY, BUT WOULD ONLY BE THERE TO GIVE ADVICE. THIS WOULD REMAIN SO EVEN IF WE WERE SPEAKING OF OFFICIALS WHO HAD NO ACCOUNTABILITY OR RESPONSIBILITY TO LONDON AND WORKED UNDER THE AUTHORITY OF THE SAR GOVERNMENT. I ASKED WHETHER HE WAS SAYING THAT CHINA WOULD NOT ACCEPT ANYTHING OTHER THAN ADVISERS. HE SAID

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THAT HE HAD NOT BEEN SAYING THIS: WHAT HE WAS SAYING WAS THAT THE TWO CONCEPTS WERE DIFFERENT. I AGREED. I SAID THAT I HAD BEEN SPEAKING OF BRITISH PERSONNEL STAYING AS OFFICIALS. I RECALLED THAT MR DENG HAD MENTIONED ZIMBABWE TO M. THORN: THERE HAD BEEN MANY BRITISH IN ZIMBABWE WHO HAD REMAINED ON IN CIVIL SERVICE POSTS AND IN THE ARMED FORCES AND POLICE AFTER INDEPENDENCE. THERE WERE STILL A NUMBER OF WHITE MINISTERS AND UNTIL RECENTLY THE CHIEF JUSTICE WAS WHITE. THE LATTER HAD BEEN APPOINTED MR MUGABE.

9. YAO HAD EVIDENTLY NOT HEARD THAT DENG MENTIONED ZIMBABWE, AND ASKED IF I RAISED IT IN ORDER TO DEMONSTRATE WHAT WE WANTED IN HONG KONG. I SAID THAT THIS HAD NOT BEEN MY INTENTION: I HAD MERELY NOTED MR DENG'S REFERENCE TO ZIMBABWE AND SOUGHT TO ESTABLISH EXACTLY WHAT HAD HAPPENED THERE. I SAID HOWEVER THAT THERE WERE ABOUT 900 BRITISH PERSONNEL WORKING IN VARIOUS CAPACITIES AT VARIOUS LEVELS IN THE HONG KONG CIVIL SERVICE. THEIR CAREERS WERE IN HONG KONG. SOME WOULD HAVE RETIRED BEFORE 1997, BUT MANY WOULD NOT. YAO APPEARED INTERESTED IN THIS. HE SAID THAT ALL GOVERNMENT IN HONG KONG AFTER 1997 WOULD HAVE TO BE BY PEOPLE OWING LOYALTY TO THE SAR GOVERNMENT NOT BRITAIN. THIS WOULD BE TRUE BOTH OF PERSONS HOLDING OFFICIAL POSTS AND ADVISERS. I REPEATED THAT WE SAW OUR ROLE AS BEING ONE OF ASSISTANCE NOT AUTHORITY.

10. M. THORN

I REPEATED RATHER MORE FORCEFULLY TO YAO GUANG THAN ON TUESDAY THAT DENG'S HAVING RAISED WITH AN OUTSIDER, M. THORN, THE MOST INTIMATE MATTERS FROM OUR NEGOTIATIONS, INCLUDING MATTERS WHICH I HAD MENTIONED IN INFORMAL CONVERSATION TO THE MINISTER, HAD BEEN EXTREMELY DAMAGING. IF I HAD HAD ANYTHING AT ALL TO SAY ABOUT OUR PROPOSALS I HOPED THAT THE CHINESE SIDE WOULD COME TO ME, OR IF THEY PREFERRED SEND A MESSAGE TO BRITISH MINISTERS. YAO INDICATED THAT HE HAD UNDERSTOOD THIS POINT. HE MADE NO ATTEMPT TO DEFEND DENG'S ACTION.

11. LEGAL MATTERS

AT THE BEGINNING OF OUR CONVERSATION YAO SAID THAT HE HAD EXAMINED OUR PAPER ON LEGAL MATTERS. THE CHANGES WHICH THE CHINESE WERE PROPOSING WERE NOT JUST ON TERMINOLOGY (CONTRARY TO HIS STATEMENT ON 29 OCTOBER). THERE WOULD HAVE TO BE SOME CHANGES OF SUBSTANCE AND THESE INVOLVED THE ROYAL INSTRUCTIONS, THE LETTERS PATENT, AND THE COLONIAL REGULATIONS. IN GENERAL CHINA WOULD INSIST ON CHANGES TO PROVISIONS WHICH WERE DETRIMENTAL TO THE SOVEREIGNTY OF THE PRC, AND THOSE WHICH HAD A COLONIAL FLAVOUR. IN ANSWER TO MY QUESTION HE CONFIRMED THAT 'COLONIAL FLAVOUR' REFERRED MAINLY TO TERMINOLOGY. YAO SAID THAT THE CHINESE SIDE HAD BEEN STUDYING THIS MATTER VERY CAREFULLY WITH EXPERTS ON BRITISH AND HONG KONG LAW. THEY WOULD BE ABLE TO OFFER SOME COMMENTS AT THE NEXT ROUND. I SAID THAT THIS WAS VERY USEFUL AND EXACTLY THE SORT OF THING WHICH OUR WORKING PAPERS WERE DESIGNED TO ESTABLISH.

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12. EXTERNAL TRADE MATTERS

WE HAD A BRIEF DISCUSSION OF EXTERNAL TRADE MATTERS ON WHICH I SAID THAT WE WOULD SUBMIT A PAPER ON MONDAY. YAO SAID THAT CHINESE POLICY ON EXTERNAL TRADE WAS VERY CLEAR. THE SAR WOULD HAVE THE RIGHT TO SEND DELEGATIONS TO ATTEND INTERNATIONAL CONFERENCES UNDER THE NAME OF HONG KONG(CHINA). I SAID THAT IT WAS NOT SUFFICIENT JUST TO HAVE POLICIES ON THIS MATTER. WE HAD TO PERSUADE THIRD PARTIES TO AGREE THINGS. THERE WOULD BE PEOPLE WHO WOULD SEEK TO TAKE ADVANTAGE OF ANY CHANGE IN HONG KONG'S STATUS IN ORDER TO DEPRIVE HER OF SOME OF HER TRADING RIGHTS. THERE WOULD NEED TO BE A COOPERATIVE APPROACH BETWEEN BRITAIN AND CHINA. YAO SAID THAT HE ENTIRELY AGREED. HE ASKED IF WE WOULD HAVE IDEAS ON HOW WE SHOULD APPROACH THESE MATTERS. I SAID THAT WE WOULD, BUT TRUSTED THAT THE CHINESE WOULD ALSO HAVE IDEAS.

13 . DATES FOR FURTHER ROUNDS .

YAO SAID THAT HE HAD TAKEN NOTE OF THE DATES WHICH WE HAD PROPOSED. 30 NOVEMBER AND 1 DECEMBER WOULD BE DIFFICULT FOR THE CHINESE SIDE BECAUSE OF THE ABSENCE OF THE FOREIGN MINISTER SHORTLY BEFORE WITH HU YAOBANG IN JAPAN. THE CHINESE SIDE HAD THEREFORE THOUGHT OF HAVING JUST ONE ROUND INSTEAD OF TWO, AND HAVING IT IN EARLY DECEMBER. THE DATES OF 7 AND 8 DECEMBER WERE CONVENIENT FOR THEM. MEANWHILE WE SHOULD CONTINUE TO HAVE REGULAR INFORMAL CONTACTS AT WHICH WE COULD PURSUE OUR BUSINESS. I SAID THAT WE WOULD REPLY FORMALLY TO THIS NEXT WEEK, BUT THAT I THOUGHT THE SCENARIO HE ENVISAGED WOULD BE ACCEPTABLE.

14. THE PREMISE.

AT THE END OF THE EVENING, AND AS IF TO CHECK OFF THE LAST POINT OF HIS BRIEF, YAO SAID THAT IT WAS A VERY GREAT PITY THAT WE WERE NOT ABLE TO AFFIRM THE PREMISE. THIS WOULD MAKE EVERYTHING SO MUCH EASIER. THE CHINESE UNDERSTOOD PARLIAMENTARY DEMOCRACIES, AND UNDERSTOOD THAT ANY AGREEMENT WOULD HAVE TO BE RATIFIED BY PARLIAMENT, BUT SURELY AS A GOVERNMENT WE COULD AFFIRM THE PREMISE FOR OUR GOVERNMENT TO GOVERNMENT DISCUSSIONS. I REPEATED THE STANDARD POINTS ABOUT THE CONSTITUTION. I THEN SOUGHT TO PERSUADE HIM THAT HE WAS REALLY ARGUING ABOUT NOTHING. THE PRIME MINISTER HAD ALREADY SAID THAT THE DISCUSSIONS SHE HAD PROPOSED IN HER MESSAGE OF 4 OCTOBER SHOULD BE ON THE BASIS OF THE CHINESE PROPOSALS. IT WAS THEREFORE A MATTER OF PURE LOGIC THAT THEY WOULD ALSO BE ON THE BASIS OF THE CHINESE PREMISE, SINCE THAT WAS ITSELF THE BASIS OF THE CHINESE PROPOSALS. FINALLY YAO SAID THAT THE CHINESE SAW TWO POSSIBLE INTERPRETATIONS OF THE BRITISH POSITION. THE FIRST WAS THAT BY SAYING THE TALKS SHOULD BE ON THE BASIS OF THE CHINESE PROPOSALS THIS WAS IN FACT TANTAMOUNT TO AFFIRMING THE PREMISE FOR THE PURPOSES OF THE

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DISCUSSIONS. THE SECOND WAS THAT BRITAIN STILL HAD SOME RESERVATIONS AND WOULD BE PROPOSING SOMETHING WHICH WOULD BE INCONSISTENT WITH THE PREMISE. I SAID THAT HE SHOULD ADOPT THE FIRST INTERPRETATION. HE REPLIED THAT THE CHINESE WERE STILL NOT YET FULLY ASSURED ON THIS POINT. I SAID THAT THIS WAS WHY WE HAD PROPOSED A STEP BY STEP APPROACH SO THAT CONFIDENCE WOULD BE BUILT UP. THE CHINESE WOULD BE ABLE TO SEE IN THE COURSE OF THIS THAT WE WERE SINCERE.

15. MRS THATCHER'S PHONE-IN WAS NOT MENTIONED AT ANY POINT.

16. SEE MIFT FOR COMMENT.

CRADOCK

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/PUSD

D/HD/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

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PS/HOME SECRETARY

PS/CHANCELLOR OF THE EXCHEQUER

PS/LORD PRIVY SEAL

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COPIES TO: (VIA ADR)

MR ROBERTS NEWS DEPT

MR BURROWS LEGAL ADVISERS

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MR MARTIN ASSESSMENT STAFF
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MR GOODALL CABINET OFFICE

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PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1180 OF 11 NOVEMBER
INFO IMMEDIATE HONG KONG, ATHENS (FOR PRIVATE SECRETARY)

MIPT: FUTURE OF HONG KONG: DINNER WITH YAO GUANG
COMMENT

1. I FIND LAST NIGHT'S CONVERSATION MILDLY ENCOURAGING. IT DOES NOT LOOK AS THOUGH DENG'S INTERVENTION WITH THORN HAS DONE AS MUCH DAMAGE AS I AT FIRST FEARED POSSIBLE. THERE CLEARLY WAS A SERIOUS MISUNDERSTANDING ON THE CHINESE SIDE. BUT AFTER OUR EXPLANATIONS WE HAVE BEEN ABLE TO GET BACK TO SOMETHING LIKE THE POSITION AFTER MY INFORMAL CONVERSATION WITH YAO ON 28 OCTOBER. WE ARE PERHAPS EVEN A LITTLE BIT NEARER TO THE STEP-BY-STEP APPROACH, AS YAO HAS INDICATED THAT THE CHINESE ARE PREPARED TO HAVE GENERALISED DISCUSSIONS ON OUR PAPERS.

2. IT IS HOWEVER STILL EVIDENT THAT THE CHINESE REMAIN SUSPICIOUS OF OUR INTENTIONS, MAINLY BECAUSE WE ARE UNWILLING TO SHOW OUR HAND ON THE PRECISE MEANING OF 'THE BRITISH ROLE'. THE MOST THE CHINESE ARE PREPARED TO DO IS TO ADMIT THAT THERE IS A POSSIBILITY THAT WE MEAN WHAT WE SAY. FOR THE MOMENT I THINK WE HAVE HELD THE LINE BY THE EXPLANATIONS WHICH I HAVE BEEN ABLE TO GIVE IN MY INFORMAL CONVERSATIONS WITH YAO. I PROPOSE TO REPEAT THESE EXPLANATIONS DURING THE COURSE OF THE NEXT ROUND, DRAWING ENTIRELY ON WHAT HAS ALREADY BEEN SAID ON AUTHORITY IN THE INFORMAL CONVERSATIONS. THIS IS ESSENTIAL TO DRIVE THE POINTS HOME, AND TO GIVE YAO SOMETHING WHICH HE CAN REPORT TO HIS LEADERS.

3. WE HAVE ALSO EXPLORED FURTHER THE QUESTION OF PERSONNEL, WHICH IS CLEARLY GOING TO BE THE MOST DIFFICULT AREA. ALTHOUGH THE CHINESE HAVE SAID THAT THERE IS A DIFFERENCE BETWEEN FUNCTIONARIES AND ADVISERS, YAO WAS NOT RULING OUT THE POSSIBILITY OF BRITISH PERSONNEL REMAINING AS FUNCTIONARIES. I BELIEVE THAT THERE IS A CHANCE, DESPITE THE OBVIOUS SENSITIVITY OF THIS QUESTION TO THE CHINESE, THAT WE SHALL GET A REASONABLE DEAL HERE, PROVIDED THAT WE CAN SATISFY THE CHINESE ON THE MAIN CONSTITUTIONAL AND ADMINISTRATIVE QUESTIONS.

4. MY CONCLUSION IS THAT THERE IS NOW STRONG ADVANTAGE TO US IN TACKLING THE CENTRAL ISSUE OF THE CONSTITUTIONAL AND ADMINISTRATIVE ARRANGEMENTS AT AN EARLY STAGE. BY DOING SO WE SHALL CREATE A CLIMATE IN WHICH WE CAN MAXIMISE OUR CHANCES OF GETTING WHAT WE WANT IN OTHER AREAS. CONVERSELY

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IF WE HOLD OUT WE SHALL ONLY CONFIRM SUSPICIONS THAT WE ARE UP TO NO GOOD. SINCE WE ARE CERTAINLY GOING TO HAVE TO PUT A PAPER TO THE CHINESE ON THESE SUBJECTS AT SOME STAGE, I DO NOT THINK THAT WE HAVE ANYTHING TO LOSE, AND INDEED WE HAVE MUCH TO GAIN, BY DOING SO EARLIER THAN ORIGINALLY INTENDED. I HOPE THAT WE SHALL CONSIDER DOING SO AT OR BEFORE THE ROUND ON 7/8 DECEMBER SO THAT THERE CAN BE A DISCUSSION OF THE SUBJECT AT THAT ROUND.

5. I SEE THE ROUND ON 14 AND 15 NOVEMBER BROADLY AS FOLLOWS. I PROPOSE TO BEGIN WITH A SHORT STATEMENT ADVOCATING OUR STEP BY STEP APPROACH AND EXPLAINING WHY IT IS NECESSARY. I WOULD THEN INVITE YAO TO RESPOND TO THE LEGAL AND ECONOMIC PAPERS, AND TO ENLARGE ON THE CHINESE PROPOSALS. FOLLOWING THIS WE WOULD PUT IN OUR THIRD PAPER ON EXTERNAL ECONOMIC RELATIONS. WE SHALL HAVE TO JUDGE HOW TO PROCEED THEREAFTER ON THE BASIS OF YAO'S OPENING STATEMENT. BUT I AM CONFIDENT THAT THERE WILL BE PLENTY OF OPPORTUNITY TO REPEAT THE EXPLANATIONS GIVEN IN THE INFORMAL CONTACTS AS OUTLINED IN PARA 2 ABOVE.

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FUTURE OF HONG KONG

LIMITED

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FROM PEKING 100855Z NOV 83

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1176 OF 10/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG, ATHENS (FOR PRIVATE SECRETARY

HONG KONG TEL NO 1699 AND FCO TEL NO 460 TO ATHENS:

FUTURE OF HONG KONG.

1. I SHALL OF COURSE SPEAK TO YAO GUANG THIS EVENING AS INSTRUCTED IN YOUR TUR AND WE SHALL NEED TO CONSIDER THE LINES TO BE TAKEN ON 14 AND 15 NOVEMBER IN THE LIGHT OF TONIGHT'S TALK.
2. IN THE MEANTIME, HOWEVER, I AM AFRAID I HAVE TO TAKE UP HONG KONG TUR. IT REVEALS A FUNDAMENTAL DIFFERENCE BETWEEN THIS EMBASSY AND THE GOVERNOR. THIS MUST BE CLARIFIED IF WE ARE NOT TO BECOME COMPLETELY STUCK.
3. THE PRIME MINISTER'S MESSAGE OFFERED - WITHOUT COMMITMENT- TO SEE WHAT COULD BE BUILT ON THE CHINESE PROPOSALS. THE LATTER ARE BASED ON THE PRESUME THAT BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION WILL PASS TO CHINA IN 1997. IT FOLLOWS AS NIGHT FOLLOWS DAY THAT THESE DISCUSSIONS WITHOUT COMMITMENT MUST BE BASED ON THE ASSUMPTION THAT THERE WILL BE NO LINK OF AUTHORITY BETWEEN THE UK AND THE HONG KONG ADMINISTRATION AFTER 1997. IF WE DO NOT ACCEPT THIS THE COURSE WHICH WE ARE PURSUING IS DOOMED TO FAILURE FROM THE START, AND INDEED WILL GENERATE SUCH SUSPICION AND RESENTMENT ON THE CHINESE SIDE THAT WE WOULD HAVE DONE BETTER NEVER TO EMBARK ON IT.
4. IF THE ABOVE IS ACCEPTED, IT FOLLOWS THAT WHEN, IN THE COURSE OF THESE DISCUSSIONS WITHOUT COMMITMENT, WE COME TO TALK OF THE CONSTITUTIONAL AND ADMINISTRATIVE ARRANGEMENTS, WE CANNOT PUT FORWARD IDEAS WHICH ENVISAGE THE CONTINUATION OF ANY LINK OF AUTHORITY BETWEEN THE UK AND HONG KONG. THE ONLY QUESTION ABOUT THIS IS ONE OF TIMING. WE HAD EARLIER THOUGHT THAT THIS STAGE SHOULD COME LATER IN OUR DISCUSSIONS. I NOW RECOMMEND THAT IT SHOULD COME EARLIER, OR AT LEAST THAT WE SHOULD GIVE AN INDICATION OF THE MAIN LINES OF OUR IDEAS. THERE IS, HOWEVER, NO NEW CONCESSION WHATSOEVER INVOLVED. IT IS A MATTER OF EXPLAINING WHAT IS MEANT BY THE PRIME MINISTER'S MESSAGE, MUCH AS WE HAVE ALREADY BEEN DOING. THE CONDITIONALITY REMAINS THE SAME AS IN THE PRIME MINISTER'S MESSAGE. WHAT WE ARE TRYING TO DO IS TO CONVINCCE THE CHINESE THAT WE MEAN WHAT WE SAY WHEN WE SPEAK OF CONSTRUCTIVE DISCUSSIONS BASED ON THEIR PROPOSALS.

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5. IT FOLLOWS THAT WE DO NOT AGREE WITH THE GOVERNOR'S SUGGESTION (HIS PARA 2) THAT THIS WOULD BE A FURTHER CONCESSION. NOR DO WE AGREE WITH THE SUGGESTION THAT IT WOULD BE "TANTAMOUNT TO IMPLICIT AFFIRMATION OF THE CHINESE PREMISE". SUCH AFFIRMATION CAN ONLY OCCUR IF THE CONDITIONALITY ATTACHED TO THE PRIME MINISTER'S MESSAGE IS REMOVED. NOR DO WE AGREE THAT THIS WILL COMPROMISE THE POSSIBILITY FOR BUILDING OTHER LINKS WITH BRITAIN INTO THE ARRANGEMENTS. THE POSITION NOW IS THAT FOR THE PURPOSE OF THESE DISCUSSIONS, LINKS OF AUTHORITY ARE IMPOSSIBLE, WHEREAS OTHER LINKS SHOULD BE NEGOTIABLE. WHAT WE ARE PROPOSING DOES NOT AFFECT THAT. IN FACT, UNLESS WE GET RID OF THE POINT ABOUT AUTHORITY WE HAVE NO CHANCE OF NEGOTIATING LESSER LINKS.

6. PARA 3 OF HONG KONG TUR ARGUES THAT MY PROPOSAL GOES BEYOND THE TERMS OF THE PRIME MINISTER'S MESSAGE, AS EXCO UNDERSTAND IT. IT WILL BE CLEAR FROM THE ABOVE THAT WE REGARD THE PROPOSAL AS IMPLICIT IN THE PRIME MINISTER'S MESSAGE. INDEED, IT IS THE ONLY WAY OF CARRYING OUT HER INSTRUCTIONS OF OCTOBER AND SEEING WHETHER WE CAN BUILD SOMETHING OF VALUE ON THE BASIS OF THE CHINESE PROPOSALS. THE QUESTION, THEREFORE, IS WHETHER WE ARE TO ALLOW EXCO TO BE THE ARBITERS OF WHAT IS MEANT BY THE PRIME MINISTER'S MESSAGE. WE DO NOT UNDERESTIMATE THE DIFFICULTIES WHICH THE GOVERNOR MAY HAVE WITH EXCO. NEVERTHELESS, AS WE HAVE SAID BEFORE, WE REGARD IT AS VITAL THAT IN ANY CASE WHERE THEY APPEAR TO BE BACKTRACKING FROM THE COURSE PROPOSED IN THE MESSAGE AND AGREED BY THEM, THEY SHOULD BE FIRMLY REMINDED OF THE RATIONALE OF THAT COURSE AND OF THE PRIME MINISTER'S REFUSAL TO CONTEMPLATE CONFRONTATION (THE ONLY ALTERNATIVE) UNTIL IT HAS BEEN FULLY EXPLORED. THIS MEANS A SERIOUS EFFORT ON OUR PART TO CONSTRUCT A WORTHWHILE BUILDING ON THE FOUNDATION OF THE CHINESE PROPOSALS. THIS OF COURSE INCLUDES A SECTION ON THE CONSTITUTIONAL AND ADMINISTRATIVE ARRANGEMENTS.

7 THE LINE PROPOSED IN PARA 4 OF HONG KONG TUR IS NOT A SUBSTITUTE FOR WHAT WE ARE PROPOSING. WE CAN AND SHALL CONTINUE TO ARGUE VIGOROUSLY THAT WE HAVE GONE AS FAR AS WE CAN IN THE AFFIRMATION OF THE CHINESE PREMISE. HOWEVER, THE "FUTURE PAPERS" WHICH THE GOVERNOR MENTIONS MUST INCLUDE PAPERS ON THE CONSTITUTIONAL AND ADMINISTRATIVE POSITION. AS ARGUED ABOVE, THESE CANNOT CONTAIN ANY PROPOSAL FOR A LINK OF AUTHORITY BETWEEN THE UK AND HONG KONG. ALL WE ARE PROPOSING IS THAT WE SHOULD TELL THE CHINESE THIS NOW INSTEAD OF WAITING FOR IT TO EMERGE WHEN WE PRESENT A PAPER ON THIS SUBJECT. IF WE DO NOT DO THIS NOW WE SHALL FAIL IN OUR IMMEDIATE TASK, WHICH IS TO DISSIPATE CHINESE SUSPICION, PARTICULARLY AT THE TOP, THAT WE STILL PLAN TO KEEP SOME OF THE POWER OF ADMINISTRATION. WE SHALL ALSO RULE OUT WHATEVER CHANCE THERE MAY STILL BE OF THE CHINESE ACCEPTING OUR STEP-BY-STEP APPROACH.

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8. FINALLY, I COME TO THE SUGGESTION IN PARA 5 OF HONG KONG
THAT CERTAIN POSITIONS IN HONG KONG SHOULD BE RESERVED
FOR BRITISH PERSONNEL. THIS IS, OF COURSE, NOT THE SAME
AS SAYING THAT THEY COULD BE FILLED BY BRITISH PERSONNEL AND
YAO HAS ALREADY DRAWN THIS DISTINCTION. I WAS NOT AWARE
THAT ANY SUCH SUGGESTION HAD BEEN MADE, LET ALONE ACCEPTED.
I WOULD REGARD IT AS HIGHLY INADVISABLE. OUR MAIN CONCERN
IN SEEKING TO DEVELOP THE CHINESE PROPOSALS IS TO PRESERVE FOR
HONG KONG AS LARGE A DEGREE OF AUTONOMY UNDER PRC SOVEREIGNTY
AS WE CAN. BY SUGGESTING THAT HONG KONG SHOULD NOT HAVE
AUTONOMY IN DECIDING WHETHER POSTS SHOULD BE FILLED BY UK
PERSONNEL OR LOCAL PERSONNEL OR PERSONNEL FROM THIRD COUNTRIES
AFTER 1997, WE SHOULD SERIOUSLY UNDERMINE OUR OWN ARGUMENTS
FOR SUCH AUTONOMY AND DAMAGE THE LOGIC OF OUR POSITION.
IF WE COULD LAY DOWN THINGS WHICH WOULD NOT BE OPEN TO
QUESTION BY THE AUTONOMOUS GOVERNMENT, WHY SHOULD THE CHINESE NOT
ALSO DO SO? MOREOVER, IT WOULD SEEM INTOLERABLY PATERNALISTIC TO
THE CHINESE AND WOULD, I THINK, SERIOUSLY PREJUDICE OUR ATTEMPTS
TO GET A REASONABLE NUMBER OF UK PERSONNEL RETAINED IN AN
AUTONOMOUS HONG KONG ADMINISTRATION. DENG'S SUSPICIONS
WOULD BE SEEN TO BE CONFIRMED AND MY ASSURANCES TO YAO PROVED
FALSE. THE CHINESE MAY WELL ACCEPT THAT AN AUTONOMOUS HONG KONG
SHOULD DECIDE ON AND APPOINT SUCH PEOPLE:
~~I AM QUITE SURE THEY WOULD NOT ACCEPT THAT~~
WE SHOULD. IN ANY CASE, WE ARE SURELY TRYING TO GUARANTEE HONG KONG
AGAINST CHINA, NOT AGAINST THE HONG KONG PEOPLE.

CRADOCK

FUTURE OF HONG KONG

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D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

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- 3 -
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MR DONALD
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~~HD/FED~~

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Mr Roberts News *D*

RESIDENT CLERK

IMMEDIATE

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DESKBY FCO 110900Z
DESKBY PEKING 110600Z
DESKBY ATHENS 110700Z
FROM HONG KONG 110440Z NOV 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1707 OF 11 NOVEMBER 1983
INFO IMMEDIATE PEKING AND ATHENS (FOR PRIVATE SECRETARY)

ADVANCE COPY

PEKING TELNO 1176: FUTURE OF HONG KONG

1. I AGREE THAT THERE IS A NEED TO CLARIFY OUR PRESENT STRATEGY AND OBJECTIVES.
2. AS I UNDERSTAND IT, THE COURSE ON WHICH WE ARE NOW EMBARKED IS THAT RECOMMENDED IN PEKING TELNO 1068 AS AMPLIFIED BY MY TELNO 1581, AND ENDORSED BY MINISTERS IN FCO TELNO 718 TO PEKING. IT IS A COURSE WHICH INVOLVES MOVING BY STAGES FROM THE RELATIVELY UNCONTENTIOUS AREAS WHERE WE HAVE ALREADY SUBMITTED WORKING PAPERS THROUGH SUCH MATTERS AS INTERNATIONAL TRADING AND ECONOMIC ARRANGEMENTS, AND THE INTERNAL WORKINGS OF THE HONG KONG ADMINISTRATION, TO WHAT WE ENVISAGE TO BE THE MOST CONTROVERSIAL QUESTIONS, IN PARTICULAR THE ROLE, APPOINTMENT AND AUTHORITY OF THE GOVERNOR, AND SECURITY. IT WAS OUR HOPE THAT BY THE TIME WE CAME TO THESE LAST QUESTIONS WE WOULD HAVE ESTABLISHED THROUGH DETAILED DISCUSSION OF THE LESS SENSITIVE AREAS THE EXTENT TO WHICH THE CHINESE WOULD ALLOW HONG KONG REAL AUTONOMY AND EXTERNAL CONTACTS, AND WHAT GUARANTEES OR ASSURANCES THEY WOULD BE READY TO CONCEDE. THE CHINESE MAY BE ARGUING AGAINST THIS BUT THAT IS NO REASON TO BE IMMEDIATELY DEFLECTED FROM IT.
3. THE AMBASSADOR NOW ENVISAGES A DIFFERENT COURSE IN WHICH WE WOULD DEAL WITH THE CENTRAL QUESTIONS OF ADMINISTRATION SOON, BEFORE WE HAVE ANY CLEAR IDEA OF THE REST OF THE PACKAGE, AND THAT WE SHOULD DO SO HAVING ALREADY CONCEDED THAT THERE IS NO POSSIBILITY OF ANY LINK OF AUTHORITY OR RESPONSIBILITY BETWEEN THE UK AND HONG KONG. THIS MAY BE THE BEST WAY TO REACH EARLY AGREEMENT WITH THE CHINESE, BUT IT CARRIES THE DANGER, TO WHICH I DREW ATTENTION IN MY TELNO 1674, THAT WE WILL END UP WITH A PACKAGE WHICH IS NEGOTIABLE WITH THE CHINESE BUT WHICH WILL NOT BE REGARDED AS ACCEPTABLE HERE AND WILL NOT MAINTAIN CONFIDENCE.
4. AS I SAID IN THAT TELEGRAM, THE HEART OF THE MATTER FROM THE POINT OF VIEW OF MAINTAINING CONFIDENCE HERE IS THE QUESTION OF

4. AS I SAID IN THAT TELEGRAM, THE HEART OF THE MATTER FROM THE POINT OF VIEW OF MAINTAINING CONFIDENCE HERE IS THE QUESTION OF GUARANTEES AND ASSURANCES. ONE OF THE MOST IMPORTANT OF THESE GUARANTEES MUST BE THE NUMBER AND STRENGTH OF THE CONTINUING BRITISH LINKS WHICH WE ARE ABLE TO BUILD INTO THE SYSTEMS. WE NOW HAVE VIRTUALLY RULED OUT IN ADVANCE ANY LINKS OF AUTHORITY OR RESPONSIBILITY, AND THE AMBASSADOR HAS GONE A LONG WAY, IN HIS CONVERSATION WITH YAO GUANG ON 8 NOVEMBER TOWARDS EXCLUDING THE POSSIBILITY OF RESERVING POSTS FOR EXPATRIATE BRITISH OFFICIALS. THE CHINESE POSITION IS THAT SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION MUST REVERT TO CHINA. WE ARE NOW INTERPRETING THAT FOR THEM, IN A RESTRICTIVE SENSE, BEFORE WE HAVE TESTED HOW FAR THEIR POSITION COULD BE QUOTE FINESSED, UNQUOTE AND WHAT EXTERNAL LINKS COULD BE ACCOMMODATED WITHIN IT.

5. THE SUGGESTION REGARDING EXPATRIATE OFFICIALS HAS APPEARED IN MANY OF THE STUDIES WHICH HAVE BEEN MADE ON POSSIBLE SAFEGUARDS, AND WHICH HAVE BEEN THE SUBJECT OF CORRESPONDENCE BETWEEN THE EMBASSY, OURSELVES AND THE DEPARTMENT. IT IS TO BE FOUND, FOR EXAMPLE, IN ANNEX III OF THE QUOTE REAPPRAISAL UNQUOTE STUDY SUBMITTED TO MINISTERS IN AUGUST THIS YEAR (PARA 11(C)) AND IN THE DEPARTMENT'S LATEST SAFEGUARDS PAPER. IF WE ARE NOW TO RULE OUT ANY RESERVED POSITIONS FOR EXPATRIATE BRITISH OFFICIALS, AS WELL AS ANY LINKS OF AUTHORITY, THERE WILL BE PRECIOUS LITTLE LEFT FOR US TO PROPOSE IN THE WAY OF BRITISH LINKS. AS FAR AS I CAN SEE THE REMAINING LINKS WOULD AMOUNT TO LITTLE MORE THAN THOSE DESCRIBED IN THE LEGAL SYSTEM WORKING PAPER, THE POSSIBILITY OF AN INDEPENDENT FINANCIAL COMMISSION WITH SOME BRITISH MEMBERSHIP, AND THE POSSIBILITY THAT THE UK MIGHT PROVIDE TRAINING AND OTHER ASSISTANCE FOR THE POLICE AND A LOCAL DEFENCE FORCE. BUT THE AMBASSADOR MAY WISH TO SPECIFY WHAT QUOTE OTHER LINKS UNQUOTE HE HAS IN MIND (PARA 5 OF HIS TUR). MOREOVER I DO NOT SEE HOW WE CAN QUOTE GET A REASONABLE NUMBER OF UK PERSONNEL RETAINED IN AN AUTONOMOUS HONG KONG ADMINISTRATION UNQUOTE (PARA 8 OF PEKING TUR) IF SOME AGREEMENT IS NOT REACHED BEFOREHAND ON WHO THOSE PEOPLE MIGHT BE AND WHICH POSTS THEY MIGHT OCCUPY. THE CONTINUITY AND INTEGRITY OF THE CIVIL SERVICE ARE ESSENTIAL TO THE FUTURE STABILITY OF THE ADMINISTRATION (MY TEL NO 1700). WE CANNOT EXPECT EXPATRIATE CIVIL SERVANTS TO CARRY ON UNTIL 1997 IF THEIR ONLY GUARANTEE OF FUTURE EMPLOYMENT IS THE POSSIBILITY THAT THE AUTONOMOUS ADMINISTRATION MIGHT THEREAFTER CHOOSE TO ASK SOME OF THEM TO CONTINUE IN OFFICE, ON THE BASIS THAT THEY CAN BE ALSO BE DISMISSED AT WILL.

6. AT THE RISK OF REPEATING MYSELF, I AM CONCERNED THAT WE MAY NOW BE MAKING A MAJOR SHIFT IN OUR STRATEGY WITHOUT PROPER CONSIDERATION OF THE POLICY ISSUES INVOLVED, AND WITHOUT THE CONSULTATION WITH EXCO TO WHICH WE ARE COMMITTED. I FEAR ALSO THAT IN SEEKING TO GET ROUND THE NEW OBSTACLE RAISED BY DENG'S ATTITUDE AS REVEALED IN HIS CONVERSATION WITH M. THORN WE ARE OURSELVES VOLUNTEERING RESTRICTIVE INTERPRETATIONS OF THE CHINESE PROPOSALS WHICH THE CHINESE THEMSELVES HAVE NOT STIPULATED. IF WE CONTINUE TO DO THIS WE MAY FIND OUT THAT WE END UP WITH A PACKAGE WHICH AMOUNTS TO LITTLE MORE THAN THE CHINESE PLAN, AND WHICH WE WILL OURSELVES HAVE PROPOSED. I THEREFORE THINK IT ESSENTIAL THAT BEFORE WE GO FURTHER DOWN THIS PATH WE SHOULD HAVE A MUCH CLEARER IDEA OF THE SHAPE OF THE PACKAGE AT WHICH WE ARE AIMING.

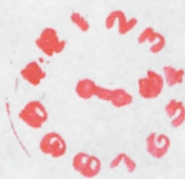
OURSELVES HAVE PROPOSED. I THEREFORE THINK IT ESSENTIAL THAT BEFORE WE GO FURTHER DOWN THIS PATH WE SHOULD HAVE A MUCH CLEARER IDEA OF THE SHAPE OF THE PACKAGE AT WHICH WE ARE AIMING.

7. THIS TELEGRAM HAS BEEN DRAFTED WITHOUT BENEFIT OF THE AMBASSADOR'S REPORT ON HIS DINNER WITH YAO GUANG ON 10 NOVEMBER. BUT AS REGARDS TACTICS FOR THE NEXT ROUND OF THE TALKS ON 14/15 NOVEMBER, IT REMAINS MY VIEW THAT WE SHOULD NOT MAKE FURTHER CONCESSIONS AT THIS STAGE (AND I CONTINUE TO REGARD OUR VOLUNTEERING THE GENERAL AND EFFECTIVE EXCLUSION OF ANY LINK OF AUTHORITY AND RESPONSIBILITY BETWEEN THE UK AND HONG KONG AS A CONCESSION, HOWEVER CORRECT THE AMBASSADOR'S LOGICAL ARGUMENT MAY BE). IT MAY WELL BE THAT THE CHINESE ARE SIMPLY TESTING HOW MUCH FURTHER THEY CAN PUSH US TOWARDS EXPLICIT ACCEPTANCE OF THEIR PREMISE. UNLESS WE ARE PREPARED TO SIT TIGHT AT LEAST FOR THE NEXT ROUND WE SHALL BE IN DANGER OF GETTING ON TO THE SLIPPERY SLOPE WHICH LEADS INEXORABLY TO THE OLD OPTION C: ACCEPTING THE CHINESE PREMISE AND NEGOTIATING THE BEST DEAL WE CAN ON THAT BASIS.

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11 NOV 1983



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FM HONG KONG 110840Z NOV 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1714 OF 11 NOVEMBER 1983
INFO PRIORITY PEKING

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HONG KONG: DEVELOPMENT OF THE GOVERNMENTAL STRUCTURE

1. IN MY TELNO 1674 I SAID THAT THE INTERNAL STRENGTH OF THE GOVERNMENTAL STRUCTURE WOULD BE A KEY ELEMENT IN THE GUARANTEES FOR HONG KONG AFTER 1997 AND THAT IT WOULD BE OUR AIM TO DEVELOP THE EXISTING INSTITUTIONS AT ALL LEVELS IN SUCH A WAY AS TO MAKE THEM SELF-SUSTAINING AND, BY BUILDING IN CHECKS AND BALANCES, TO MINIMIZE THE OPPORTUNITIES FOR CHINESE INTERFERENCE. WE HAVE GIVEN MUCH THOUGHT HERE TO HOW THIS COULD BEST BE DONE. OUR STARTING POINT HAS BEEN THE BELIEF THAT STABILITY WILL BE BEST SERVED BY BUILDING ON EXISTING INSTITUTIONS.
2. IN CONSIDERING HOW OUR EXISTING INSTITUTIONS COULD BEST BE DEVELOPED, WE HAVE VERY MUCH IN MIND THAT QUITE APART FROM THE PEKING TALKS THERE ARE GROWING SIGNS OF PUBLIC INTEREST IN GREATER PARTICIPATION IN THE RUNNING OF HONG KONG. THIS HAS BEEN ENCOURAGED BY PUBLIC INVOLVEMENT IN DISTRICT ADMINISTRATION. SO THERE IS A DEMAND FOR FURTHER EVOLUTION OF THE STRUCTURE WHICH IT WOULD BE WISE TO SATISFY.
3. BEGINNING AT DISTRICT LEVEL WE HAVE SET IN HAND A REVIEW OF THE DISTRICT ADMINISTRATION SYSTEM. THE DISTRICT BOARDS ARE PARTLY ELECTED AND PARTLY APPOINTED AND THEIR ROLE IS ADVISORY. OUR REVIEW WILL CONSIDER WHETHER THEY SHOULD BECOME, BY STAGES, ENTIRELY ELECTED AND IN WHAT AREAS THEY MIGHT BE GIVEN LOCAL EXECUTIVE POWERS.
4. AT THE NEXT LEVEL THE URBAN COUNCIL IS HALF ELECTED AND HALF APPOINTED. ITS AREA OF RESPONSIBILITY IS CONFINED TO THE URBAN AREA. OUR AIM WILL BE TO FIND A WAY OF EXTENDING THE ELECTIVE SYSTEM AT THIS LEVEL TO THE REST OF THE TERRITORY THROUGH THE ESTABLISHMENT OF A SECOND REGIONAL COUNCIL WITH AT LEAST HALF THE MEMBERS ELECTED BY DIRECT FRANCHISE. WE WOULD AIM TO BRING THIS INTO EFFECT EITHER AT THE TIME OF THE NEXT URBAN COUNCIL ELECTIONS IN 1986, OR BEFORE THEN IF PRACTICABLE.
5. THERE WOULD THEN BE A CONSTITUENCY BASED ELECTIVE SYSTEM BOTH AT DISTRICT BOARD AND REGIONAL COUNCIL (URBAN COUNCIL) LEVEL THROUGHOUT THE TERRITORY.
6. NORMALLY IN A BRITISH DEPENDENT TERRITORY THE NEXT STEP WOULD BE TO CREATE A DIRECTLY ELECTED LEGISLATIVE COUNCIL. IN HONG KONG BECAUSE OF THE CHINESE ATTITUDE IT HAS ALWAYS BEEN CONSIDERED TOO RISKY TO HAVE A DIRECTLY ELECTED COUNCIL. THERE IS A DANGER THAT ELECTIONS AT THIS LEVEL COULD LEAD TO COMPETITION BETWEEN COMMUNIST, NATIONALIST AND OTHER FACTIONS TO A GREATER DEGREE THAN HAS OCCURRED AT LOWER LEVELS.

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17.

7. I AM THEREFORE THINKING IN TERMS, ONCE ELECTIONS ARE ESTABLISHED THROUGHOUT THE TERRITORY AT REGIONAL LEVEL, OF GENERATING THE MEMBERSHIP OF THE LEGISLATIVE COUNCIL IN PART THROUGH ELECTIONS BASED ON QUOTE COLLEGES UNQUOTE OF DISTRICT BOARD MEMBERS AND REGIONAL COUNCIL MEMBERS, AND IN PART FROM REPRESENTATIVES OF IDENTIFIED FUNCTIONAL GROUPS, SUCH AS INDUSTRIAL ASSOCIATIONS, THE UNIVERSITIES, THE MEDICAL PROFESSION, LABOUR BOARDS ETC. THIS WOULD DIFFUSE POLITICAL POWER WIDELY IN THE COMMUNITY AND MAKE THE LEGISLATIVE COUNCIL LESS OPEN TO MANIPULATION BY ANY ONE GROUP, WHETHER CONSTITUENCY-BASED, PARTY-BASED OR BASED ON ECONOMIC POWER. THE NEXT STEP WOULD BE TO PROVIDE FOR A MEANS OF CREATING AN EXECUTIVE COUNCIL OTHER THAN BY A SIMPLE APPOINTMENT. WORKING ON THE PRINCIPLE OF TAKING THE PATTERN OF EXISTING INSTITUTIONS AS OUR STARTING POINT WE COULD ENVISAGE THE COUNCIL CONSISTING OF 3 OR 4 EX-OFFICIO MEMBERS FROM THE SENIOR CIVIL SERVICE, AS NOW: RESERVED SEATS FOR A REPRESENTATIVE OF ONE OF THE NOTE-ISSUING BANKS AND A REPRESENTATIVE OF OVERSEAS COMPANIES ESTABLISHED HERE: AND 7 OR 8 MEMBERS ELECTED BY LEGISLATIVE COUNCIL FROM AMONG THEIR OWN NUMBER.

8. WE HAVE CONSIDERED WHETHER A QUOTE MEMBERSHIP UNQUOTE I.E. MINISTERIAL SYSTEM COULD BE INTRODUCED SO THAT UNOFFICIAL MEMBERS OF THE EXECUTIVE COUNCIL COULD BECOME RESPONSIBLE FOR GOVERNMENT PORTFOLIOS. I HAVE CONCLUDED THAT, IN THE CIRCUMSTANCES OF HONG KONG, THIS WOULD LIMIT THE MEMBERSHIP OF EXECUTIVE COUNCIL TO THOSE WEALTHY ENOUGH TO BECOME FULL TIME POLITICAL FIGURES. BUT MORE IMPORTANT, SUCH AN INNOVATION WOULD INTRODUCE AN UNCERTAIN NEW ELEMENT TO THE POLITICAL SCENE HERE AT A TIME WHEN THERE WILL BE ENOUGH UNCERTAINTIES ANYWAY. MY CONCLUSION IS THAT, AT LEAST AT THE FIRST STAGE, THE SYSTEM SHOULD REMAIN AS IT IS NOW WITH DEPARTMENTS BEING SUPERVISED BY SECRETARIES IN THE GOVERNMENT SECRETARIAT (THE LOCAL EQUIVALENT OF PERMANENT UNDER-SECRETARIES) WHO SUBMIT PROPOSALS TO THE EXECUTIVE COUNCIL FOR ENDORSEMENT, AMENDMENT, OR REJECTION.

9. THERE WOULD REMAIN THE ISSUE OF THE WAY IN WHICH THE FUTURE GOVERNOR/CHIEF EXECUTIVE SHOULD BE SELECTED AND APPOINTED, WHICH I WILL MAKE THE SUBJECT OF A SEPARATE TELEGRAM.

10. I DO NOT SUGGEST THAT IT IS NECESSARY TO COME TO CONCLUSIONS NOW ON THE DETAILS OF THE PATTERN I HAVE SET OUT ABOVE: AND THERE MAY NEED TO BE AMMENDMENT IN THE LIGHT OF PUBLIC RESPONSES AT EACH STAGE: BUT IF WE ARE TO PRESENT A PAPER WITHIN THE NEXT FEW MONTHS TO THE CHINESE ON ARRANGEMENTS (NEXT TWO WORDS UNDERLINED) AFTER 1997 WE SHOULD HAVE A REASONABLY CLEAR IDEA IN OUR MINDS AS TO WHAT STRUCTURE WE WOULD HOPE TO SEE IN PLACE SOMETIME (NEXT WORD UNDERLINED) BEFORE THAT DATE. BOTH THE CONCEPT ITSELF AND THE DETAILS OF A CONTINUING DEVELOPMENT OF THE GOVERNING INSTITUTIONS OF THIS COLONY BETWEEN NOW AND 1997 WOULD NEED TO BE ENDORSED BOTH BY THE EXECUTIVE COUNCIL AND BY MINISTERS BEFORE THE EXISTENCE OF SUCH INSTITUTIONS COULD BE TAKEN AS OUR STARTING POINT FOR THE PERIOD AFTER 1997.

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11. IN DEVISING THIS PLAN WE HAVE HAD VERY MUCH IN MIND THE NEED TO TAKE INTO ACCOUNT NOT ONLY CHINESE SUSCEPTIBILITIES, BUT ALSO THE NEED TO PRODUCE INSTITUTIONS WHICH WOULD BE COMPATIBLE WITH WHATEVER ARRANGEMENTS FOR THE ADMINISTRATION OF THE TERRITORY ARE MADE FOR A PERIOD AFTER 1997. THE ARRANGEMENTS SET OUT ABOVE ARE DESIGNED TO PRODUCE INSTITUTIONS MORE DEMONSTRABLY REPRESENTATIVE THAN THOSE NOW IN EXISTENCE HERE, BUT WHOSE PATTERN AND APPEARANCE WOULD BE FAMILIAR TO THE POPULATION. THE PATTERN IS ALSO DESIGNED TO BALANCE THE NEED FOR EFFECTIVE GOVERNMENT AGAINST A REQUIREMENT NOT TO CONCENTRATE POWER ON ANY SMALL GROUP IN THE SYSTEM, THUS MAKING IT MORE DIFFICULT FOR IT TO BE MANIPULATED BY ANY SMALL GROUP INTERNALLY, OR VULNERABLE TO PRESSURE EXTERNALLY.

12. I PROPOSE TO BEGIN DRAFTING AN OUTLINE PAPER FOR THE EXECUTIVE COUNCIL ON THE LINES OF THE ABOVE. BUT BEFORE DOING SO WOULD BE GRATEFUL TO KNOW WHETHER THIS GENERAL CONCEPT IS IN LINE WITH THE THINKING OF MINISTERS IN THE FCO.

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FUTURE OF HONG KONG

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10 JMB
(no second
carbon)

10 DOWNING STREET

From the Private Secretary

11 November 1983

FUTURE OF HONG KONG

The Prime Minister has noted the contents of your letter of 10 November.

A. J. COLES

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

SECRET

CONFIDENTIAL



Tom
(no second carbon)

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

JIC ASSESSMENTS ON HONG KONG

Thank you for your minute of 9 November in which you propose a wider circulation of JIC assessments on Hong Kong. The Prime Minister has minuted that she does not wish the circulation list to be extended in this way.

A. J. COLES

11 November 1983

CONFIDENTIAL

Ms Christine LOH



14/11

Jul

10 DOWNING STREET

From the Private Secretary

10 November 1983

Thank you for your letter of 2 November.

I should like to have another talk. My difficulty is that next week is very busy because we leave on 21 November for the Commonwealth Heads of Government meeting in Delhi.

It might be possible to arrange a meeting on Tuesday, 15 November, possibly in the evening, or on Thursday, 17 November. Would you like to give me a ring on 01-930 4433?

ASC
has finished
with her papers
now

A. J. COLES

Shen
16/11/83

Ms Christine Loh

SECRET



Prime Minister.

Foreign and Commonwealth Office

This will bring you
up to date.

London SW1A 2AH

10 November, 1983

A.J.C. 10/11

Dear John,

mb

Future of Hong Kong

With my letter of 9 November I enclosed a telegram which Mr Luce had sent to Sir Geoffrey Howe in Athens commenting on recent exchanges between Sir Percy Cradock and the Chinese negotiator. This letter provides a round-up of recent developments.

As you know, the Chinese reacted reasonably favourably to the line which our negotiators took at the meeting on 19/20 October. In consultation with Hong Kong and Peking papers have been prepared on the Hong Kong legal and financial systems, suggesting ways in which safeguards might be built in after 1997. These were passed to the Chinese Ministry of Foreign Affairs on 4 November. A further paper, on external economic relations, will be ready to be passed over at the next session of talks on 14/15 November.

The Chinese have continued to play down their propaganda. In Hong Kong and elsewhere there has been a very marked reduction in criticism of the Hong Kong authorities and HMG. The exception has been over the question of the 'deadline' in September 1984. Here there has been some confusion. A Chinese Vice Foreign Minister was reported last week as having indicated to a group of Japanese journalists that negotiations could continue after that date. He appears in fact to have been misreported. The Chinese accordingly felt they had to issue a number of corrections including a firm statement on 9 November by the Ministry of Foreign Affairs to the effect that they would definitely issue a statement in September 1984 whether agreement had been reached with HMG or not. In essence we see no change in the Chinese position on the deadline.

A more worrying development came when Deng Xiaoping received M. Gaston Thorn, the President of the European Commission on 5 November. He gave Thorn a very full survey of the position reached in the talks and included detailed criticism of HMG's attitude. His line was that the position taken in the Prime Minister's message delivered before the last round of talks was still unsatisfactory to Peking. He maintained that we were still seeking some kind of directing role in Hong Kong's administration after 1997. He described this as an effort to establish 'co-administration' or 'administration of the territory in disguise'. He added that the British attitude had shown some changes but their actual ideas had not. M. Thorn told European Community Ambassadors in Peking about his conversation with Deng. He did not consult Sir Percy Cradock beforehand but he did subsequently provide a full record of his conversation with Deng.

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(I enclose a copy of Peking telno 1154 containing this). In commenting on the Deng/Thorn exchange, Sir Percy Cradock said that Deng had probably been given a misleading account of a conversation which he, the Ambassador, had had with the Chinese negotiator Yao Guang on 28 October, when Sir Percy had suggested by way of illustration that two of the jobs which might be filled by British people could be the Commissioner of Police and the Attorney General.

On the Ambassador's recommendation, we authorised him to speak to Yao Guang on 8 November in order to clarify the position. (An account of that meeting is in Peking telno 1160, enclosed with my letter of 9 November). Sir Percy explained in detail the ideas which he had put to Yao on an informal basis, making clear that these were intended as examples to be studied in the context of our examination of the Chinese proposals suggested in the Prime Minister's recent message. It followed that we were not thinking of personnel being appointed by the British Government or responsible to London; they would be serving the Government of Hong Kong and engaged at their request.

Yao, who was friendly throughout, was grateful for this explanation but went on to make comments which showed clearly that Deng Xiaoping was suspicious of British intentions. He commented that it was difficult for the Chinese to believe that the British side were not actually seeking some form of co-administration. He cited as alleged evidence for this the Prime Minister's remarks on Hong Kong in her recent phone-in programme on the World Service. He maintained that because Mrs Thatcher had said that the British view on Hong Kong had not changed, this suggested that our readiness to hold talks on the basis of the Chinese proposals did not indicate any real change of attitude. He added that 'in his view the Chinese side did not agree with the step-by-step approach', suggested by HMG. 'Detailed discussion would be little use where principles had not been clearly affirmed'. Sir Percy refuted Yao's points strongly and succeeded in getting Yao to acknowledge that there was a clear difference between the 'joint administration' about which Deng had spoken and the informal suggestions which the Ambassador had made on 28 October.

In commenting on this exchange, Sir Percy said that the Chinese remained suspicious and that there was a danger of slipping back in the negotiations. The Chinese continued to hanker after an explicit affirmation of their premise. He proposed that, in order to forestall this, we should be prepared to make at least a general formal statement for the record to the effect that in building on the Chinese proposals as envisaged in the Prime Minister's message we envisage no link of authority between post-1997 Hong Kong and the UK.

The Governor of Hong Kong, who had also been given an account by Thorn of his discussions in Peking, was equally concerned at the possibility of a setback in the talks but strongly opposed a move on the lines suggested by the Ambassador at this stage. He saw it as giving away too much



to the Chinese too soon and judged that EXCO would not endorse it.

The Ambassador is clearly right in seeing important danger signals in the latest Chinese attitude. The remarks to M. Thorn were obviously intended as a message to be passed to HMG. While they may have been based on a misinterpretation of Sir Percy Cradock's earlier remarks they also show a continuing Chinese preoccupation with their premise. Their argument that HMG still wish to retain a controlling interest in Hong Kong may have been overstated in order to put pressure on us. But we believe that it is based on deep-rooted suspicion, and reflects Deng's own views. On the basis of the Ambassador's reports and the Governor's comments, Mr Luce telegraphed Sir Geoffrey Howe in Athens, giving his views on the position and also commenting on proposals by Sir Percy Cradock for the line which he should take at a dinner which he is having with Yao Guang today. He suggested that although we might have to consider the Ambassador's suggestion soon, it would be premature for us to make any move now. This view has been broadly endorsed by Sir Geoffrey Howe in Athens.

We now await the Chinese reaction to the Ambassador's representations and their response to the papers which we presented on 4 November.

As soon as we receive the Ambassador's report on his dinner with Yao Guang, we shall send you recommendations for the line which our negotiators should take on 14 November. In view of the shortness of time we shall probably have to put these recommendations in parallel to Sir Geoffrey Howe in Athens.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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DESKBY 071230Z

FROM PEKING 070815Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1154 OF 7/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG AND PRIORITY
UKREP BRUSSELS

MIPT: FUTURE OF HONG KONG: CHINESE REMARKS TO THORN

1. TRANSLATION OF THORN'S RECORD IS AS FOLLOWS.

BEGINS

THE QUESTION OF HONG KONG WAS RAISED REPEATEDLY AND
INSISTENTLY BY THE CHINESE SIDE, BOTH IN THE FORMAL DISCUSSIONS
BETWEEN THORN, DENG AND FOREIGN MINISTER WU AND IN THE
COURSE OF INFORMAL DISCUSSIONS BETWEEN THORN AND ZHOU NAN. IN ALL
THE CONTACTS THE CHINESE POSITION APPEARED CONCERTED AND COHERENT.

DISCUSSIONS WITH DENG

2. DENG SAID THAT AS REGARDS REUNIFICATION OF CHINA, THERE WERE
TWO PROBLEMS: TAIWAN AND HONG KONG. THE CHINESE ENVISAGED A
SETTLEMENT OF THESE QUESTIONS OVER A RELATIVELY LONG PERIOD OF
TIME. SINCE THE FOUNDATION OF THE PRC, CHINA HAD CONSCIOUSLY
PUT THE PROBLEM OF HONG KONG TO ONE SIDE. BUT NOW THEY HAD RAISED
THE QUESTION OF THE RECOVERY OF HONG KONG'S SOVEREIGNTY IN
1997. THERE WERE MORE THAN 13 YEARS TO THAT TIME.

3. DENG SAID HE DID NOT WISH TO TACKLE THE PROBLEM OF HONG KONG
WITH THORN, NEVERTHELESS A MEMBER STATE OF THE COMMUNITY
WAS INVOLVED IN THE MATTER. IT WAS EASY TO RESOLVE THE PROBLEM: IN
1997 THERE WOULD BE NO REASON FOR CHINA NOT TO RECOVER SOVEREIGNTY
OVER HONG KONG. IN SEPTEMBER 1982 WHEN HE HAD MET MRS THATCHER
HE HAD SAID TO HER THAT IT WOULD BE A GOOD THING IF THE MATTER
COULD BE RESOLVED UNDER HER GOVERNMENT. A SOLUTION WOULD NOT DAMAGE
BRITISH INTERESTS. BY PUTTING AN END TO THE COLONIALIST ERA,
BRITAIN WOULD ENHANCE HER REPUTATION. MRS THATCHER CONTINUED
TO THE PRESENT TIME TO INSIST ON THE VALIDITY OF THE THREE
TREATIES, WHEREAS IN FACT THESE WERE UNEQUAL TREATIES.

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4. AT THE SECOND ROUND OF NEGOTIATIONS BRITAIN HAD PROPOSED THAT AFTER 1997 SOVEREIGNTY OVER HONG KONG WOULD RETURN TO CHINA BUT THE RIGHT OF ADMINISTRATION WOULD REMAIN WITH BRITAIN. THIS AMOUNTED TO A CONTINUATION OF THEIR COLONIAL RULE, WHICH OF COURSE WOULD NOT DO. AT THE LATEST ROUND THE BRITISH HAD NO LONGER TALKED OF THE RIGHT OF ADMINISTRATION OVER THE TERRITORY. THEY HAD SAID THAT AFTER 1997 THE BRITISH SHOULD PARTICIPATE TO A CERTAIN EXTENT IN THE ADMINISTRATION OF HONG KONG. THIS WOULD NOT DO EITHER. IT AMOUNTED TO ADMINISTRATION OF THE TERRITORY IN DISGUISE. THE BRITISH ATTITUDE HAD SHOWN SOME CHANGES BUT THEIR ACTUAL IDEAS HAD NOT.

THE POINT OF DEPARTURE OF THE BRITISH ANALYSIS WAS THAT IF HONG KONG WAS PROSPEROUS IT WAS THANKS TO BRITISH ADMINISTRATION. THIS WAS MISTAKEN. BRITAIN WAS MAKING HERSELF THE ADVOCATE OF COLONIALISM. THE CHINESE HAD NOT RESPONDED PUBLICLY TO THIS ARGUMENT WHILE NEGOTIATIONS WERE IN PROGRESS. BUT THEY HOPED THAT THE BRITISH GOVERNMENT WOULD MAINTAIN A CLEAR MIND OVER THE MATTER. AS FOR THE QUESTION OF PARTICIPATION IN THE ADMINISTRATION, THE BRITISH WISHED TO MAINTAIN A DROIT DE REGARD OVER THE POLICE AND THE COURTS. THAT POSED A VERY SERIOUS PROBLEM FOR THE CHINESE.

5. THE HONG KONG DOLLAR HAD RECENTLY BEEN IN DIFFICULTIES. THE CHINESE KNEW THAT THE BRITISH HAD ENGINEERED IT IN ORDER TO EXERT PRESSURE ON CHINA, BUT HAD NOT SAID SO IN PUBLIC. THERE REMAINED 13 YEARS AND THE CHINESE DID NOT KNOW WHAT FURTHER MACHINATIONS THE BRITISH WOULD GET UP TO. BUT THEY WERE NOT AFRAID. THE PREVIOUS YEAR PREMIER ZHAO, MRS THATCHER AND HE HIMSELF HAD ALL EXPRESSED THE HOPE THAT IN THE 13 YEARS REMAINING NEITHER SIDE WOULD DO ANYTHING TO DAMAGE THE SITUATION IN HONG KONG. HE HAD SAID TO MRS THATCHER THAT IF THE SITUATION BECAME IRRETRIEVABLE THE CHINESE GOVERNMENT WOULD DECIDE WHEN AND HOW TO RECOVER SOVEREIGNTY OVER HONG KONG. AFTER 1997 THE INHABITANTS OF HONG KONG WOULD ADMINISTER THE TERRITORY. IF THE SITUATION DEMANDED IT THE CHINESE SIDE WOULD RECONSIDER THE MANNER OF ADMINISTERING HONG KONG. BUT EVEN IF THERE WAS A CHANGE IN THE ADMINISTRATION THERE WOULD STILL BE NO CHANGE IN THE SOCIAL SYSTEM IN HONG KONG.

6. THE CHINESE HOPED THAT THE BRITISH GOVERNMENT WOULD APPROACH THE PROBLEM WITH A MORE THOROUGH AND LONG TERM VIEW. THE TWO SIDES HAD GOOD RELATIONS AND GOOD PROSPECTS FOR COOPERATION. THE CHINESE HOPED THAT THE BRITISH WOULD DO NOTHING TO DAMAGE LONG TERM RELATIONS BECAUSE OF THIS MATTER. FOR THEIR PART THE CHINESE SAW NO NEED FOR THERE TO BE DAMAGE TO THE PROSPECTS FOR COOPERATION. ACCORDING TO CHINESE IDEAS FOR THE ADMINISTRATION OF HONG KONG IT WOULD BE THE HONG KONG CHINESE WHO GOVERNED THE TERRITORY. THIS WOULD NOT DAMAGE BRITISH INTERESTS. IT WAS SIMPLY THAT THE COLONIAL IMAGE

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AND REPUTATION WOULD BE DISCARDED. PERHAPS BRITAIN WOULD LOSE CERTAIN BENEFITS? BUT MRS THATCHER HAS SAID THAT BRITAIN RECEIVED NO PROFIT FROM HONG KONG. DENG SAID HE DID NOT BELIEVE THIS. IF THAT WAS REALLY THE CASE THEN BRITAIN WOULD HAVE NOTHING TO LOSE AFTER 1997.

7. THERE WAS NO QUESTION OF BRITISH PARTICIPATION IN THE ADMINISTRATION OF HONG KONG AFTER 1997. BUT DURING A TRANSITION PERIOD IT WOULD BE POSSIBLE TO INVITE BRITISH ADVISERS IN , FOR EXAMPLE, THE FIELDS OF THE POLICE AND THE FINANCIAL SYSTEM. ONE COULD THINK OF ZIMBABWE AS AN EXAMPLE OF THIS TYPE OF ADMINISTRATION. THE NEGOTIATIONS WOULD CONTINUE IN A FRIENDLY FASHION BUT THERE WAS NOT VERY MUCH TIME LEFT. THE CHINESE HAD TOLD MRS THATCHER THAT THEY HOPED THE NEGOTIATIONS COULD BE COMPLETED IN TWO YEARS. IT WAS NECESSARY TO REACH AGREEMENT AND A JOINT STATEMENT BEFORE SEPTEMBER 1984. THE CHINESE WISHED TO COMPLETE MATTERS BEFORE THEN.

DISCUSSIONS WITH WU

8. WU SAID THAT DENG HAD IN JULY THIS YEAR MADE A SHORT SPEECH IN WHICH HE HAD SET OUT THE BASIS OF THE CHINESE POSITION. THE MATTER WAS OF INTEREST TO MANY COUNTRIES BECAUSE OF THE QUESTION OF THE SECURITY OF FOREIGN CAPITAL IN HONG KONG AFTER CHINA RECOVERED SOVEREIGNTY OVER THE TERRITORY. THE INTENTION OF THE CHINESE GOVERNMENT WAS THAT HONG KONG SHOULD BECOME A SPECIAL ADMINISTRATIVE REGION. THIS IMPLIED NO CHANGE IN THE SOCIAL AND LEGISLATIVE SYSTEMS IN HONG KONG, NO CHANGE IN ITS STATUS AS AN INTERNATIONAL FINANCIAL CENTRE, AND NO THREAT TO FOREIGN CAPITAL, PARTICULARLY BRITISH CAPITAL. HONG KONG COULD CONTINUE TO HAVE PREFERENTIAL RELATIONS WITH THE REST OF THE WORLD. AFTER RECOVERING SOVEREIGNTY, CHINA WOULD NOT SEND OFFICIALS TO ADMINISTER THE REGION. IT WOULD BE IN THE HANDS OF THE CITIZENS OF HONG KONG.

9. IN FIVE ROUNDS OF TALKS BRITAIN HAD MAINTAINED A VERY RIGID POSITION, ACCEPTING THE TRANSFER OF SOVEREIGNTY BUT INSISTING ON THE MAINTENANCE OF A BRITISH ADMINISTRATION. BUT IT APPEARED FROM THE LATEST INDICATIONS THAT THE BRITISH ATTITUDE WAS MORE FLEXIBLE. IN ANY CASE, FOR CHINA, DISCUSSION OF THE PRINCIPLE OF SOVEREIGNTY WAS IMPOSSIBLE, AS WAS DISCUSSION OF THE RIGHT OF ADMINISTRATION FOR THE REGION. BRITAIN WOULD HAVE TO ACCEPT THESE TWO PRINCIPLES. AS IT WAS A QUESTION CONCERNING A FRIENDLY COUNTRY, CHINA HOPED THAT THE SIXTH ROUND OF TALKS (IN MID-NOVEMBER IN PEKING) WOULD ENABLE PROGRESS TO BE MADE TOWARDS A SOLUTION WHICH WOULD BE BEST FOR PRESERVING STABILITY AND PROSPERITY IN HONG KONG.

Hong Kong
Future of
1910

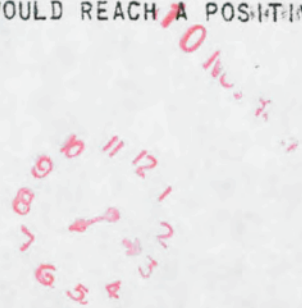
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THORN'S REMARKS

10. THE PRESIDENT DID NOT TAKE UP A POSITION ON THE PROBLEM. HE UNDERLINED THAT IT WAS A BILATERAL PROBLEM BETWEEN BRITAIN AND CHINA IN WHICH THE COMMISSION HAD NO BUSINESS TO INTERVENE OF COURSE THE NEGOTIATIONS WERE FOLLOWED WITH GREAT INTEREST BECAUSE THEY WERE SEEN AS A TEST OF HOW A PROBLEM BETWEEN AN EC MEMBER STATE AND CHINA COULD BE RESOLVED. THE COMMISSION HOPED THAT THE NEGOTIATIONS WOULD REACH A POSITIVE OUTCOME.

ENDS.

CRADOCK



FUTURE OF HONG KONG

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- ED/PUSD
- D/ED/PUSD (MR FLOWER)
- RESEARCH DEPT (MR WALKER)
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Prime Minister 8

The Defence Secretary has accepted the Foreign Secretary's view that Invincible should not visit Hong Kong and that the visits of other ships should be staggered. There may be public comment.

A.S.C. 10/11

MO 25/15

9th November 1983

Foreign and Commonwealth Secretary

RN TASK GROUP DEPLOYMENT TO HONG KONG

In your minute of 25th October you asked that the plans for HMS INVINCIBLE to visit Hong Kong early in the New Year should be dropped and that the programmes of the accompanying destroyer and frigates should also be rearranged to reduce the visibility of their visits.

2. Cancellation of INVINCIBLE's visit would come as a bitter disappointment, both to the ship's company and to their wives, families and friends. The visit was programmed not only to allow for a substantial period of self-maintenance but also, and importantly, to give the ship's company a well-earned break after a heavy programme of goodwill visits, demonstrations and exercises. Hong Kong is an especially popular port of call and its deletion from the ship's programme will come especially hard after INVINCIBLE has earned such glowing reports during her recent visits to India, Malaysia and Singapore. Wives and dependants have been planning for several months to fly out to join the ship, on especially favourable financial terms which Hong Kong is unique in being able to offer. The only sensible alternative to Hong Kong would be Singapore, because of the need for self-maintenance; but since costs are considerably higher, far fewer dependants could be expected to be able to afford to fly out there. The disappointment and consequential dampening effect on morale, both on board ship and at home, should not be under-rated.

3. If there was any prospect of the advice from our Ambassador in Peking and the Governor of Hong Kong altering in the weeks ahead there might be some attraction in keeping our options open a little longer.



But the grounds for optimism are not great; and since time is in any case fast running out if alternative arrangements are to be made, especially for the families, we need to take a firm decision now.

4. We must recognise that we will face tricky presentational problems if the news that the programme has been altered becomes public. There is already speculation in the Hong Kong press about whether or not INVINCIBLE is to visit. Preliminary planning has been in hand for some months now ever since the outline programme was agreed by your Department, although at FCO request everything possible has been done latterly to keep this confidential. Leaving aside the risk that the news of any change of plan will leak out, INVINCIBLE will be known to be in the vicinity: she will be taking passage twice through the South China Sea en route to and from Japan.

5. So far as the Chinese are concerned I take it that you have discounted the possibility that they will seek to make capital of what could be represented as a climb down. It could be argued that, if they are seeking an opportunity to take us to task, they will seize it however many ships are present. There is also the question of attitudes in Hong Kong where there could be damaging speculation that omission of Hong Kong from INVINCIBLE's programme implies a weakening of resolve on the Government's part to safeguard the interests of the people of Hong Kong in the current negotiations. In this respect I presume you are satisfied there is no risk that, in response to such speculation, the Unofficial members of the Executive Council might request the reinstatement of Hong Kong in INVINCIBLE's itinerary.

6. For all these reasons, I have considerable misgivings about the cancellation of INVINCIBLE's visit. But as I cannot claim there are overriding military reasons to maintain the planned deployment, I must reluctantly agree to make the change in the programme for which you have asked. I have therefore asked my officials to put to yours revised proposals, which will allow also for the staggering of the visits by the other warships, as soon as possible. There will be little scope for flexibility: in particular, INVINCIBLE will have to proceed



straight to Singapore from Japan to undergo self-maintenance there instead of at Hong Kong. But I am sure that it will be possible to reach the early agreement that is now essential. It goes without saying that I should be strongly opposed to any further proposals to revise the Hong Kong element of the Task Group programme.

7. I am copying this minute to the Prime Minister and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "M. A. S.", written in a cursive style.

Ministry of Defence

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9 NOV 1972

MR. COLES

HONG KONG

In the last 24 hours, a difference of opinion has emerged between Percy Cradock and Teddy Youde. After a difficult session with Yao Guang (Peking Telno 1160) Percy Cradock recommended that we should be prepared to make a formal statement for the record to the effect that we "envisage no link of authority between post-1997 Hong Kong and the UK" (Peking Telno 1161). Teddy Youde (Hong Kong Telno 1699) feels that we should not let the Chinese rush us into further concessions. Percy's suggestion would go beyond the terms of the Prime Minister's message as EXCO understand it and we would be in trouble.

Percy's judgement has been impeccable so far. However, on this occasion, I think that Teddy Youde is right. It would be premature to give more ground, even on the usual conditional basis. If we did, we would have a row with EXCO which might well become public. Equally, we could not hope to convince EXCO in advance.

In the end, Percy may well be proved right and the talks will again grind to a halt. But the wheels are still moving and it would be premature for us to have another major policy review, including EXCO, until we see how the next round goes.

FCO at official level feel the same. They are sending a telegram to the Foreign Secretary in Athens today proposing instructions which effectively come down on Teddy Youde's side.

A.D. PARSONS
9 November 1983

Sir A. Parsons.

I am afraid this did not reach me until

this morning.

2. The J.R. saw and endorsed last night the telegram to which you refer.

3. I have also asked the F/C.O. for a full yr. date (there etc.) by tonight.

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DESKBY 090900Z

FM HONG KONG 090800Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1699 OF 9 NOVEMBER 1983

INFO IMMEDIATE PEKING

PEKING TELSNOs 1160 AND 1161 : FUTURE OF HONG KONG:
AMBASSADOR'S MEETING WITH YAO GUANG

1. I HAVE NOT HAD TIME TO STUDY THE AMBASSADOR'S REPORT IN DETAIL BUT AGREE GENERALLY WITH THE ASSESSMENT OF THE CHINESE POSITION AS SET OUT IN PARA 3 OF PEKING TELNO 1161.

2. THE IMPLICATIONS OF WHAT DENG SAID TO THORN, AND WHAT YAO HAS NOW CONFIRMED TO THE AMBASSADOR ARE SERIOUS AND WILL REQUIRE VERY CAREFUL CONSIDERATION. I DO NOT THINK WE SHOULD LET THE CHINESE RUSH US INTO FURTHER CONCESSIONS. IN PARTICULAR, I DO NOT AGREE THAT WE SHOULD GO AS FAR AS IS SUGGESTED IN PARA 4 OF PEKING TEL UNDER REFERENCE. TO TELL THE CHINESE THAT QUOTE WE ENVISSAGE NO LINK OF AUTHORITY BETWEEN POST-1997 HONG KONG AND THE UK UNQUOTE WOULD BE TANTAMOUNT TO IMPLICIT AFFIRMATION OF THE CHINESE PREMISE. MOREOVER, IF WE WERE EXPLICITLY TO RULE OUT (NEXT WORD UNDERLINED) ANY QUOTE LINK OF AUTHORITY UNQUOTE AT THIS EARLY STAGE WE SHOULD NO DOUBT THEN BE INVITED TO RENOUNCE OTHER BRITISH LINKS BEFORE THE GAME HAS STARTED. THE SCOPE FOR BUILDING CONTINUING BRITISH LINKS INTO THE VARIOUS SYSTEMS WOULD BE DRASTICALLY REDUCED AND THE PROSPECTS FOR CONSTRUCTING QUOTE ARRANGEMENTS OF LASTING VALUE TO THE PEOPLE OF HONG KONG UNQUOTE ON THE BASIS OF THE CHINESE PROPOSALS WOULD BE SERIOUSLY PREJUDICED.

3. A MOVE OF THIS KIND WOULD ALSO GO BEYOND THE TERMS OF THE PRIME MINISTER'S MESSAGE AS EXCO UNDERSTAND IT, AND I VERY MUCH DOUBT WHETHER UNOFFICIALS WOULD BE WILLING TO ENDORSE SUCH A STEP SO SOON AFTER WE HAVE TOLD THE CHINESE EMPHATICALLY THAT MRS THATCHER'S MESSAGE IS AS FAR AS WE CAN GO TO MEET THE PREMISE.

4. IT IS THEREFORE MY VIEW THAT WE SHOULD CONTINUE TO ARGUE VIGOROUSLY THAT WE HAVE GONE AS FAR AS WE CAN, AND IN FAVOUR OF OUR STEP BY STEP APPROACH: THAT WE SHOULD PUT IN THE ADDITIONAL PAPER ON HONG KONG'S EXTERNAL ECONOMIC RELATIONS (WHICH EXCO APPROVED WITHOUT AMENDMENT TODAY): AND THAT WE SHOULD USE THE THREE PAPERS SO FAR APPROVED AND FUTURE ONES TO DEMONSTRATE TO THE CHINESE THAT WE ARE WORKING ON THE BASIS OF THEIR PROPOSALS AND ARE READY TO GET DOWN TO PRACTICAL DISCUSSION OF THE IMPLICATIONS OF THOSE PROPOSALS POST-1997.

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5. I ALSO BELIEVE WE MUST BE CAREFUL IN DISCUSSING THE POSSIBLE EMPLOYMENT OF BRITISH OFFICIALS AFTER 1997. IT WAS INDEED OUR THOUGHT HERE, AND I THOUGHT IT WAS ACCEPTED, THAT CERTAIN POSTS MIGHT BE RESERVED FOR BRITISH PERSONNEL AS ONE OF THE GUARANTEES. WE SHOULD NOT ABANDON THIS PREMATURELY: IT DOES NOT AMOUNT TO QUOTE CO-ADMINISTRATION UNQUOTE.

6. WHEN THE AMBASSADOR SEES YAO GUANG AGAIN TOMORROW HE WILL NO DOUBT CONTINUE TO REFUTE THE CONTENTION THAT WE ARE WORKING FOR SOME FORM OF JOINT ADMINISTRATION. BUT I HOPE HE WILL LEAVE YAO IN NO DOUBT THAT THE PRIME MINISTER'S MESSAGE IS AS FAR AS WE CAN GO ON THE PREMISE.

YOUDE

FUTURE OF HONG KONG

LIMITED

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ED/PLANNING STAFF
ED/PUSD
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RESEARCH DEPT (MR WALKER)
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DESBKY 081130Z FCO

DESKBY 090030Z HONG KONG

FROM PEKING 081100Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1161 OF 8/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG: MEETING WITH YAO GUANG.

1. YAO WAS GENERALLY DEFENSIVE. HE CLEARLY WISHED TO AVOID A ROW AND, GIVEN THE NATURE OF MY REMARKS AND THE INVOLVEMENT OF DENG HIMSELF, HIS RESPONSE WAS ABOUT AS LOW-KEY AS WE COULD HAVE EXPECTED. HE REMAINED FRIENDLY THROUGHOUT, RECOGNISED PROGRESS MADE IN THE LAST ROUND, AND LOOKED FORWARD TO MY PRIVATE DINNER FOR HIM ON 10 NOVEMBER.

2. HE ALSO ACKNOWLEDGED FAIRLY CLEARLY TWICE IN THE CONVERSATION THAT THERE WAS A GREAT DIFFERENCE BETWEEN THE JOINT ADMINISTRATION OF WHICH DENG SPOKE, AND THE INFORMAL SUGGESTION HE MADE ON 28 OCTOBER. IT IS QUITE LIKELY THAT HE HAD MADE AN INACCURATE REPORT OF THAT CONVERSATION.

3. IT IS, HOWEVER, VERY CLEAR THAT THE CHINESE STILL HARBOUR DEEP SUSPICION OF OUR MOTIVES. THEY HAVE APPARENTLY BEEN WORRIED BY THE REPORTS OF THE PRIME MINISTERS 'PHONE-IN. THIS, OUR UNWILLINGNESS TO SHOW OUR HAND FULLY ON THE BRITISH LINK, AND A PROBABLY INACCURATE REPORT OF THE 28 OCTOBER CONVERSATION, HAVE COMBINED TO THREATEN A SLIPPING BACK. IT WAS APPARENT ON 28 OCTOBER THAT OUR IDEAS ON A STEP BY STEP APPROACH MIGHT NOT BE ACCEPTABLE AND THIS HAS NOW BEEN CONFIRMED. WHAT THE CHINESE ARE SAYING IS THAT IF WE EXPLICITLY AFFIRM THE PREMISE THERE COULD BE STEP BY STEP PROGRESS BUT IF WE ARE NOT WILLING TO DO SO WE SHALL NEED TO PUT ALL OUR CARDS ON THE TABLE QUICKLY.

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4. IN THIS SITUATION, IF WE ARE TO DISSIPATE SUSPICION AND MAINTAIN THE MOMENTUM, I THINK WE SHALL HAVE BE PREPARED TO MAKE AT LEAST A GENERAL, FORMAL STATEMENT FOR THE RECORD TO THE EFFECT THAT IN BUILDING ON THE CHINESE PROPOSALS AS ENVISAGED IN THE PRIME MINISTER'S MESSAGE, WE ENVISAGE NO LINK OF AUTHORITY BETWEEN POST-1997 HONG KONG AND THE UK. THIS WOULD BE SUBJECT TO THE SAME CONDITIONALITY AS THE REST OF THE DISCUSSIONS PROPOSED IN THE PRIME MINISTER'S MESSAGE, AND IS ALREADY IMPLICIT IN OUR PROPOSAL TO ATTEMPT TO BUILD ON THE CHINESE PROPOSALS. BUT IT NEED TO BE MADE EXPLICIT. I THINK ALSO THAT WE SHALL HAVE TO BE PREPARED TO TALK IN MORE DETAIL ABOUT THE CENTRAL ISSUES OF ADMINISTRATION, MUCH SOONER THAN ORIGINALLY ENVISAGED. OTHERWISE WE FACE A REGRESSION TO THE OLD WRANGLE ON PRINCIPLE

CRADOCK

FUTURE OF HONG KONG

LIMITED

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ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD(MR. FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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PS/MR LUCE

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DESKBY 081100Z FCO

DESKBY 090030Z HONG KONG

FROM PEKING 081000Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1160 OF 8/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: MEETING WITH YAO GUANG.

1. WHEN I CALLED ON YAO GUANG ON 8 NOVEMBER I SAID THAT M. THORN HAD GIVEN ME AN ACCOUNT OF HIS CONVERSATIONS WITH DENG AND WU. AS A RESULT, I HAD BEEN INSTRUCTED TO RAISE THE QUESTION OF DENG'S COMMENTS AS REPORTED TO ME BY M9 THMRN (YTUR TEL NO 767)

2. I SAID THAT DENG APPARENTLY BELIEVED THE BRITISH SHIDUYAD BEEN ARGUING FOR SOME KIND OF JOINT ADMINISTRATION IN HONG KONG. IF MY IMPRESSION WAS CORRECT THIS WAS A SERIOUS MISAPPREHENSION. WE HAD MADE VERY PLAIN THAT WE WERE PROCEEDING ON THE BASIS OF THE CHINESE PROPOSALS. THE CHINESE PROPOSALS AS DESCRIBED BY THE CHINESE THEMSELVES WERE INTIMATELY BOUND UP WITH THE CHINESE PREMISE.

AT OUR DINNER ON 28 OCTOBER THE IDEAS I HAD PUT TO YAO ON AN INFORMAL BASIS WERE, OF COURSE, ON THE CLEAR UNDERSTANDING THAT WE WOULD BE WORKING ON THE BASIS OF THE CHINESE PROPOSALS AND THAT ANY ADMINISTRATIVE POSTS OCCUPIED IN 1997 BY BRITISH PERSONNEL WOULD BE SO OCCUPIED BECAUSE THESE PERSONNEL HAD BEEN SOUGHT BY THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION. THEY WOULD BE SERVING THE GOVERNMENT OF THE SAR. THEY WOULD NOT BE APPOINTED BY THE BRITISH GOVERNMENT NOR WOULD THEY BE RESPONSIBLE TO LONDON. THEY WOULD BE RESPONSIBLE TO THE HEAD OF THE SAR GOVERNMENT. NOTHING COULD BE MORE REMOTE THAN THIS FROM ANY IDEA OF JOINT ADMINISTRATION. WE WERE THEREFORE MYSTIFIED AT DENG'S COMMENTS TO THORN AND HOPED THAT THE MISUNDERSTANDING COULD BE CLEARED UP WITHOUT DELAY.

3. YAO GUANG SAID HE WAS NOT PRESENT AT THE INTERVIEW WITH THORN AND THEREFORE DID NOT KNOW THE CONTENTS OF THE TALK. HE WAS GRATEFUL TO LEARN OF OUR REACTION AND FOR MY COMMENTS. HE WOULD REPORT. HE WENT ON TO SAY THAT IN HIS PERSONAL VIEW AT THE 5TH ROUND EFFORTS HAD BEEN MADE BY THE BRITISH SIDE AND THE CHINESE HAD EXPLICITLY AFFIRMED THOSE EFFORTS. HENCE THE USE OF USEFUL AND CONSTRUCTIVE AS ADJECTIVES IN THE COMMUNIQUE. BUT THERE WERE STILL SOME DIFFERENCES BETWEEN THE TWO SIDES AND THESE WERE DIFFERENCES OF PRINCIPLE. IT WAS NATURAL THAT THERE SHOULD BE DIFFERENCES AND THE CONTINUATION OF THE TALKS WAS AIMED AT SOLVING THEM.

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4. YAO THEN WENT ON TO REFER TO MRS THATCHER'S REMARKS AT THE RECENT 'PHONE-IN PROGRAMME. HE QUOTED HER AS SAYING THAT THE BRITISH VIEW HAD NOT CHANGED AND THAT THE TALKS WERE BASED SIMPLY ON THE JOINT COMMUNIQUE WITH ITS REFERENCES TO MAINTENANCE OF STABILITY AND PROSPERITY. HE HAD JUST SAID THAT THE TALKS WERE BEING HELD ON THE BASIS OF THE CHINESE PROPOSALS: THE MESSAGE WAS CLEAR. BUT WHAT WAS THE BASIS OF THE CHINESE PROPOSALS? DID WE HAVE DIFFERING VIEWS OF THESE PROPOSALS? THE CHINESE PROPOSALS AND THE PRINCIPLES ON WHICH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION WOULD BE RESUMED WERE CLEAR. THE PRIME MINISTER HAD SAID THAT HER OPINION HAD NOT CHANGED. THEY WERE AWARE OF THE BRITISH VIEWS ABOUT HONG KONG FROM THE 5TH ROUND. WE WISHED TO PROCEED ON THE BASIS OF THE CHINESE PROPOSALS. BUT HOW COULD THE TWO (THE OUR STATEMENTS IN THE 5TH ROUND AND THE PRIME MINISTER'S RADIO COMMENTS) GO TOGETHER?

5. THE PRIME MINISTER HAD ALSO TOLD JOURNALISTS THAT THE UK INTENDED TO MAINTAIN ITS LINK WITH HONG KONG. WHAT WAS THE NATURE OF THIS LINK? CHINA HAD ALREADY MADE PLAIN ITS BOTTOM LINE. THE TALKS SHOULD BE CONDUCTED FRANKLY AND COMPREHENSIVELY. WHY COULD THE BRITISH SIDE NOT PUT FORWARD ALL ITS IDEAS, IF WE WERE NOT THINKING OF CO-ADMINISTRATION. RAPID PROGRESS COULD THEN ENSURE. THERE WAS NOT MUCH TIME LEFT.

6. MR LUCE HAD SAID THAT THE TWO SIDES WOULD HOLD DETAILED DISCUSSIONS. AT THE DINNER WITH ME ON 28 OCTOBER YAO HAD SAID THERE WERE TWO WAYS OF PROCEEDING. ONE WAS WHAT THE CHINESE SHOULD REITERATE THEIR POLICY PACKAGE AND THE BRITISH SIDE SHOULD COMMENT. THE SECOND METHOD WAS THAT WE SHOULD PROCEED STEP BY STEP AS ADVOCATED BY THE BRITISH. IN HIS VIEW THE CHINESE SIDE DID NOT AGREE WITH THE STEP BY STEP APPROACH. DETAILED DISCUSSIONS WOULD BE LITTLE USE WHERE PRINCIPLES HAD NOT BEEN CLEARLY AFFIRMED. YAO WENT ON TO SAY THAT AT THE PRESENT STAGE IT WAS DIFFICULT FOR THE CHINESE TO BELIEVE THAT THE BRITISH SIDE WERE NOT ACTUALLY SEEKING SOME FORM OF CO-ADMINISTRATION. HE SUGGESTED THAT WE COULD CONTINUE OUR DISCUSSIONS ON THIS POINT AT MY PRIVATE DINNER FOR HIM ON 10 NOVEMBER.

7. HE THANKED YAO FOR HIS COMMENTS AND SAID HE HOPED HE WOULD PASS ON MY EXPLANATION ON THE MATTER OF JOINT ADMINISTRATION. HE HOPED HE HIMSELF UNDERSTOOD THE GREAT DIFFERENCE BETWEEN WHAT HE HAD ACTUALLY PUT FORWARD AS AN INFORMAL IDEA AND WHAT WE WERE REPORTED AS HAVING SAID. HE ONCE AGAIN WENT OVER THE DIFFERENCES. YAO SAID IT WAS A FACT THAT THE BRITISH SIDE HAD NEVER MENTIONED CO-ADMINISTRATION. BUT HE HAD SAID THAT IN FUTURE THE POSITIONS OF CHIEF OF POLICE AND ATTORNEY-GENERAL SHOULD BE FILLED BY UK PERSONNEL. HE INTERJECTED AND SAID THAT HE HAD BEEN VERY CAREFUL IN MY CHOICE OF WORDS. HE REPEATED THAT IF THE NEW HONG KONG GOVERNMENT WISHED TO EMPLOY CERTAIN BRITISH PEOPLE IN CERTAIN POSTS THIS WOULD BE A GOOD THING AS IT WOULD

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HELP THE ATMOSPHERE AT THE TIME. HE MADE IT PLAIN, HOWEVER, THAT THIS WOULD DEPEND ON THE WISH OF THE GOVERNMENT OF THE SAR. THIS WAS VERY DIFFERENT FROM BRITISH PERSONNEL BEING APPOINTED BY HMG. HE HAD ALSO MADE PLAIN THAT IN REFERRING TO THE CHIEF OF POLICE AND ATTORNEY-GENERAL HE WAS MERELY GIVING ILLUSTRATIVE EXAMPLES. YAO THEN CONCEDED THAT RESERVING POSTS FOR BRITISH OFFICIALS WAS ONE MATTER, WHEREAS FOR THE SAR GOVERNMENT TO CHOOSE TO EMPLOY THEM WAS QUITE ANOTHER. HE SAID HE HAD SPOKEN OF THE LATTER COURSE. IT WAS VERY IMPORTANT THAT THE CHINESE LEADERS UNDERSTOOD THIS.

IT SEEMED THAT THEY HAD BEEN WORKING ON THE BASIS OF AN INACCURATE REPORT. HE REPEATED THAT WE WERE SINCERELY OPERATING ON THE BASIS OF THE CHINESE PROPOSALS. HE ASKED FOR CLARIFICATION AND EARLY CONFIRMATION THAT THE DIFFERENCE BETWEEN THE IDEAS HE HAD FLOATED INFORMALLY AND THE MISCONCEPTION THAT WE WERE PRESSING FOR JOINT ADMINISTRATION HAD BEEN ACCEPTED.

8. HE WENT ON TO SAY THAT WE COULD PURSUE THE OTHER POINTS YAO HAD MADE AT MY DINNER ON THURSDAY, BUT HE WOULD WISH TO MAKE SOME PRELIMINARY COMMENTS. AS REGARDS THE PRIME MINISTER'S 'PHONE-IN PROGRAMME, HE WOULD TAKE YAO THROUGH THE DETAILED TEXT ON THURSDAY, BUT HE COULD TELL HIM NOW THAT THE CHINESE REPORTS OF IT WERE NOT ENTIRELY ACCURATE. IN ANY EVENT, THE CHINESE HAD RECEIVED THE PRIME MINISTER'S CONSIDERED THOUGHTS ON THIS MATTER IN THE MESSAGE OF 14 OCTOBER. IT WAS TO THAT AND TO THE COMMENTS OF THE BRITISH NEGOTIATORS THAT THEY DIRECT THEIR ATTENTION.

9. AS REGARDS THE STEP BY STEP APPROACH, HE STILL BELIEVED THIS WAS THE RIGHT METHOD IN ORDER TO BUILD UP CONFIDENCE BETWEEN THE TWO SIDES. THE EVENTS OF THE LAST FEW DAYS HAD SHOWN THAT CONFIDENCE WAS VERY MUCH IN NEED OF FOSTERING.

10. HE SAID THAT ONCE AGAIN YAO SEEMED TO BE HANKERING AFTER AN EXPLICIT AFFIRMATION OF THE CHINESE PREMISE. HE WENT OVER THE GROUND IN EARLIER EXCHANGES, EXPLAINING THE PARLIAMENTARY CONSTRAINTS ON THE PRIME MINISTER AND THE FACT THAT THE CHINESE SHOULD RECOGNISE HOW FAR THEY HAD GOT AND NOT ASK FOR THE IMPOSSIBLE. WE WISHED TO PROCEED ON A BUSINESSLIKE BASIS AND NOT REVERT TO STERILE ARGUMENTS ABOUT PRINCIPLE. THE CHINESE SIDE HAD PRESSED US FOR DETAILS. WE HAD NOW PUT FORWARD PAPERS. WE WISHED TO GET DOWN TO DETAILED DISCUSSION OF THEM.

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11. I THEN RAISED A FURTHER POINT ON DENG'S REMARKS TO THRON, QUOTING DENG'S COMMENT THAT ALTHOUGH THE BRITISH ATTITUDE HAD SHOWN SOME SIGNS OF CHANGE, OUR ACTUAL IDEAS HAD NOT. WE OUR SIDE FOUND THIS A PARTICULARLY DISAPPOINTING AND WORRYING COMMENT. I HAD ON A NUMBER OF OCCASIONS EXPLAINED THAT FOR THE PURPOSES OF THE DISCUSSIONS WE WERE NO LONGER INSISTING ON BRITISH ADMINISTRATION AS A PREREQUISITE. THE CHINESE HAD, IN THE PAST, DESCRIBED THIS AS AN INSURMOUNTABLE OBSTACLE. IT HAD BEEN REMOVED. THAT REPRESENTED A VERY REAL CHANGE IN OUR IDEAS. WHEN I DELIVERED THE PRIME MINISTER'S MESSAGE ON 14 OCTOBER I EXPRESSED THE HOPE THAT THE CHINESE SIDE WOULD RECOGNISE THE IMPORTANCE OF THE STEP WE WERE TAKING AND WOULD RESPOND APPROPRIATELY. DENG'S COMMENTS FAILED TO RECOGNISE ANY REAL CHANGE ON OUR SIDE AND, INDEED, HE HAD SAID THE CHINESE WOULD HAVE TO BE READY FOR FURTHER BRITISH MACHINATIONS. THIS CAME NEAR TO SAYING WE WERE NOT NEGOTIATING IN GOOD FAITH, AND TO CASTING DOUBT ON THE SINCERITY OF THE PRIME MINISTER'S MESSAGE. THESE WERE NOT COMMENTS THAT WOULD HELP A SERIOUS AND CONSTRUCTIVE NEGOTIATION WHICH WE STILL SINCERELY SOUGHT.

12. YAO SAID, RATHER DEFENSIVELY, THAT DENG HAD READ THE PRIME MINISTER'S MESSAGE. HE HAD ALSO UNDERSTOOD THE CONTENTS OF THE PRIME MINISTER'S 'PHONE-IN. HE WAS FAMILIAR WITH THE CONTENT OF THE TALKS AND WAS VERY WELL INFORMED. I SAID I HOPED HE UNDERSTOOD THE EFFORTS WE HAD MADE. YAO DREW ATTENTION TO DENG'S REFERENCE TO THE CHANGE IN CERTAIN RESPECTS IN OUR ATTITUDE. IN ADDITION TO HIS PERSONAL INTEREST IN POST-1997 ARRANGEMENTS, DENG WAS ALSO CONCERNED OVER THE TRANSITIONAL, THE PRE-1997, PERIOD. WHEN HE SAW THE PRIME MINISTER IN 1982 DENG HAD SAID THAT HE HOPED THE TWO SIDES WOULD AVOID ANY MAN MADE TURBULENCE IN HONG KONG, OTHERWISE CHINA MIGHT HAVE TO RECONSIDER ITS TIMING AND METHOD OF RESUMPTION OF SOVEREIGNTY. DENG'S REMARKS WERE WELL-MEANT: THEY HAD BEEN MADE IN A POSITIVE AND CONSTRUCTIVE SPIRIT. HE WAS HOPING WE WOULD FIND A GOOD SOLUTION.

13. I SAID I WAS VERY ENCOURAGED TO HEAR THAT DENG'S REMARKS WERE MADE IN A HELPFUL WAY. WHAT WE MOST WANTED WAS AGREEMENT THAT THERE HAD BEEN SOME MISUNDERSTANDING OVER JOINT ADMINISTRATION. YAO RESPONDED THAT IT WAS RIGHT TO RECOGNISE THAT DIFFERENCES EXISTED AND REPEATED HIS EARLY COMMENT THAT THERE WAS A CLEAR DIFFERENCE BETWEEN POSTS BEING RESERVED AND POSTS BEING FILLED AT THE REQUEST OF THE SAR. THIS ISSUE INVOLVED THE SOVEREIGNTY AND DIGNITY OF A SOVEREIGN STATE. HE ADVISED US TO MAKE VERY CLEAR WHAT WE MEANT BY A BRITISH LINK, BRITISH PARTICIPATION AND OUR ROLE IN HONG KONG AFTER 1997. ONCE THIS WAS CLEAR WE COULD GO AHEAD IN THE TALKS. BUT AT PRESENT A STEP BY STEP APPROACH WAS UNACCEPTABLE. HE REITERATED THAT TIME BEFORE SEPTEMBER 1984 WAS RUNNING OUT.

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14. I SAID I NOTED HIS COMMENTS ON THE BRITISH ROLE AND WOULD REPORT. I THEN WENT ON TO RAISE A FURTHER POINT ON THE DENG-THORN EPISODE. I HOPED YAO WOULD UNDERSTAND THAT I DID SO IN THE SINCERE WISH TO FURTHER OUR TALKS. I HAD RECEIVED M. THORN'S ACCOUNT IN THE FIRST INSTANCE IN A MEETING ATTENDED BY THE OTHER NINE EC AMBASSADORS. THIS WAS ONLY NATURAL WHEN THE CHINESE COMMENTS WERE MADE TO A PERSON WHO REPRESENTED, IN THE ECONOMIC SPHERE AT LEAST, 10 EUROPEAN COUNTRIES. THESE REMARKS WERE THEREFORE BROADCAST THROUGHOUT PEKING AND WE SHOULD NOT BE SURPRISED IF THERE WAS A LEAK. ANY SUCH LEAK WOULD NOT BE THE BRITISH RESPONSIBILITY. I WENT ON TO SAY THAT SPEAKING ON INSTRUCTIONS I THOUGHT IT EXTREMELY UNFORTUNATE THAT A RESPONSE TO POINTS MADE IN THE COURSE OF INFORMAL BILATERAL CONVERSATION IN THE MARGINS OF NEGOTIATIONS WHICH WE HAD BOTH AGREED MUST REMAIN SECRET, SHOULD HAVE BEEN MADE TO A THIRD PARTY. WE WOULD REMAIN VERY INTERESTED IN ANY RESPONSE BY THE CHINESE SIDE TO OUR SUGGESTIONS ON HONG KONG AND WE LOOKED FORWARD TO THEIR COMMENTS ON THE WORKING PAPERS WE HAD DELIVERED. HOWEVER, I PROFOUNDLY HOPED THAT IN THE FUTURE ANY SUCH REACTIONS WOULD BE MADE TO ME OR MY STAFF, OR IF THE CHINESE SIDE PREFERRED, IN A MESSAGE TO BRITISH MINISTERS. THE MINISTER HAD ASKED FOR OUR IDEAS ON THE BRITISH LINK BUT I WISHED TO BE CERTAIN THAT THE CHINESE RESPONSE WOULD BE MADE TO US AND THAT I WOULD NOT HAVE TO SEEK IT FROM THE HANDS OF SOME ITINERANT EUROPEAN OR OTHER VISITOR TO PEKING.

15. YAO REPLIED THAT DURING THE 5TH ROUND HE HAD MADE AN EXPLICIT REQUEST FOR DETAILS OF OUR INTENDED FUTURE ROLE. I POINTED OUT THAT WEN HAD GIVEN AN INFORMAL REACTION TO THIS REQUEST THE RESPONSE HAD NOT COME BACK TO ME. YAO WENT ON THAT IT WAS ONLY NATURAL THAT DENG SHOULD MAKE REMARKS TO A THIRD PARTY. THORN AS A GUEST HAD WANTED TO HEAR ABOUT HONG KONG. I ASKED WHETHER HE MEANT THAT THORN HAD RAISED THE MATTER. AFTER SOME HAVERING, HE SAID HE WAS NOT SURE, BUT IT WAS A MATTER OF GENERAL INTEREST. HE ALSO SAID THAT THE CHINESE HAD MADE REMARKS TO MR HEATH IN THE SAME WAY. DENG'S COMMENTS WERE MADE IN A POSITIVE SPIRIT AND WERE DESIGNED TO BE A HELPFUL REMINDER TO OUR BRITISH FRIENDS. I HAD SAID THAT THE BRITISH SIDE WAS NOT SEEKING CO-ADMINISTRATION BUT IT WAS DIFFICULT TO BELIEVE THIS. IF THERE WERE MISUNDERSTANDINGS HE HOPED THAT THE BRITISH SIDE WOULD CLARIFY THE SITUATION.

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16. HE THEN SAID THAT OF COURSE THERE WAS GENERAL INTEREST IN THE SUBJECT OF HONG KONG. WE WERE CONSTANTLY ASSAILED BY QUESTIONS BUT GAVE GENERAL AND EVASIVE ANSWERS. THIS WAS VERY DIFFERENT FROM TAKING UP WITH THIRD PARTIES SOME OF THE MOST DELICATE QUESTIONS IN THE NEGOTIATIONS. THE PARALLEL WITH MR HEATH WOULD NOT STAND. MR HEATH WAS A FORMER BRITISH PRIME MINISTER AND A MAN OF TOTAL DISCRETION. MOREOVER, THE EMBASSY WAS PRESENT AT THE INTERVIEW. HE CONTINUED THAT HE HAD ONLY LEARNED OF THE CHINESE DOUBTS ABOUT JOINT ADMINISTRATION BECAUSE OF THORN'S VISIT. THE SIMPLE WAY FOR SUCH DOUBTS TO BE CLARIFIED WAS FOR YAO TO ASK ME TO CALL.

16. SEE MIFT FOR COMMENT.

CRADOCK

FUTURE OF HONG KONG

LIMITED

ED/ERD

ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD (MR FLOWER)

RESEARCH DEPT (MR WALKER)

LEGAL ADVISER (SIR IAN SINCLAIR)

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

COPIES TO: (VIA DISTR. ROOM)

SIR PHILIP MOORE BUCKINGHAM PALACE

PS/LORD PRESIDENT OF THE COUNCIL

PS/HOME SECRETARY

PS/CHANCELLOR OF THE EXCHEQUER

PS/LORD PRIVY SEAL

PS/SECRETARY FOR TRADE AND INDUSTRY

COPIES TO: (VIA ADR)

MR ROBERTS NEWS DEPT

MR BURROWS LEGAL ADVISERS

MR COLES NO 10 DOWNING ST

SIR A PARSONS " "

MR MARTIN ASSESSMENT STAFF CABINET OFFICE

MR GOODALL CABINET OFFICE

MR BRENNAN " "

PS/S OF S FOR DEFENCE

PS/ATTORNEY GENERAL

SECRET



Prime Minister.
We discussed. You
need only read the first
telegram enclosed.

Foreign and Commonwealth Office

London SW1A 2AH

9 November, 1983

Dear John,

A. d. C. $\frac{9}{11}$

Future of Hong Kong

You will have seen Peking telegram numbers 1160, 1161 and 1170 and Hong Kong telegram number 1699 about Sir Percy Cradock's meeting yesterday with Yao Guang (I enclose copies).

I also enclose a copy of a telegram containing the advice which Mr Luce has this evening sent to Sir Geoffrey Howe in Athens on the line which the Ambassador should take at his dinner with Yao on 10 November. I shall, as agreed, let you have tomorrow a synopsis of recent developments. I shall also let you have as soon as possible advice on the approach to the next round of talks on 14/15 November, taking account of anything which may emerge from the Ambassador's dinner with Yao.

Yours ever,

Peter Ricketts

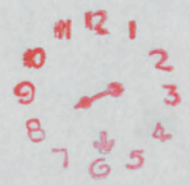
(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET



-9 NOV 1985



OUT TELEGRAM

		Classification and Caveats SECRET	Precedence/Deskby IMMEDIATE 091700Z
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CLASS
CAVEATS
DESKBY
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TEL NO

1	ZCZC
2	GRS
3	SECRET
4	
5	091700Z
6	FM FCO
7	TO IMMEDIATE ATHENS
8	TELEGRAM NUMBER
9	REPEATED INFO IMMEDIATE HONG KONG, PEKING
10	FOR SECRETARY OF STATE FROM MR LUCE
11	PEKING TELNOS 1160, 1161 AND 1170 AND HONG KONG TELNO 1699:
12	FUTURE OF HONG KONG
13	1. It is clear from recent telegrams that the Chinese
14	still suspect us of trying to engineer a "co-administration"
15	of Hong Kong after 1997.
16	2. Deng Xiaoping's line as reported in TURs may have arisen
17	partly from misinterpretation of remarks made by Sir P Cradock
18	to Yao Guang on 28 October. But I am sure that the Ambassador
19	is right in saying that the Chinese remain deeply suspicious
20	of us, that they have not in any way given up their aim of
21	getting us to acknowledge their premise, and that they will
22	continue to apply pressure to this end. Deng's remarks, and
23	the renewed reference to the September 1984 deadline suggest
24	we are seeing another attempt to turn the screw now.
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File number	Dept HKD	Distribution FUTURE OF HONG KONG	
Drafted by (Block capitals) R D CLIFT			
Telephone number 233 3184			
Authorised for despatch <i>A. E. Arnold</i>			
Comcen reference	Time of despatch		

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2 ~~affirmation from the Chinese Foreign Ministry that they intend~~
3 ~~unilaterally to announce their "plan" for Hong Kong in September~~
4 ~~1984 whether agreement has been reached or not.~~ It is true that
5 so far Chinese propaganda has not been renewed, but the tap could
6 be turned on at short notice. I suspect that the Chinese are
7 waiting to assess our performance at the next round on 14/15
8 November and that the Ambassador may well be right that we shall
9 have a rougher ride than we had hoped for.

10 3. Sir P Cradock has recommended that we should be prepared to
11 make a general formal statement, still within the context of the
12 Prime Minister's message and subject to the same conditionality,
13 that we envisage no link of authority between post 1997 Hong Kong
14 and the UK. The Governor argues strongly against this, believing
15 that we should be forced to give away too much too soon and
16 saying that EXCO would oppose such a move. In Peking telno
17 1170, the Ambassador suggests the line he should take at his
18 private dinner on 10 November with Yao Guang. This would
19 include remarks going a long way towards his suggested formula.

20 4. There is of course logic in what the Ambassador proposes:
21 provided that we kept within the terms of the Prime Minister's
22 message, it could certainly be argued that discussion on the
23 basis of the Chinese proposals must rule out an authoritative
24 British link. But, while I would not go so far as the Governor
25 in seeing such a move as implicit affirmation of the Chinese
26 premise, it would certainly be regarded as yet another
27 significant step on ^{and I do not recommend it now.} our part. Likely opposition by EXCO
28 Unofficials is an important factor arguing against such a move
29 now. Another is that Sir P Cradock, on instructions, has
30 explained our position to Yao Guang and put forward skilful
31 arguments to counter Deng's suspicions. We do not know what will
32 be the result of Yao's report of that conversation. Moreover, we
33 have given the Chinese two working papers, on the legal system
34 and finance, and it would be legitimate to ask for their reaction

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Classification and Caveats
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2 to them. We may run into problems if the Chinese take the line
3 that they cannot agree to "a step-by-step" approach, as indicated
4 by Yao Guang. But tactically I suggest that it would be right
5 for the Ambassador to continue to argue, on the lines such as
6 already deployed, that we have already taken a significant step
7 semi colon that we are interested in examining whether a
8 satisfactory solution can be devised on the basis of the Chinese
9 proposals semi colon and that this can only effectively be done
10 by a discussion of detailed areas.

11 5. If that does not succeed we shall have to consider the
12 Ambassador's suggestion carefully, yet again weighing up the
13 balance of argument between a further move designed to keep the
14 talks going and probable confrontation with its consequences for
15 confidence in Hong Kong. But I am sure that for the moment we
16 should stand on our position.

17 6. On para 3 of Sir P Cradock's telno 1170, I agree the general
18 thrust, but suggest that he should alter the passage from the
19 third sentence to the end of the paragraph to read:
20 "With suitable (begin underlining) caveats (cease underlining)
21 about conditionality, we were sincerely prepared to ^aexamine
22 whether satisfactory arrangements could be built on the basis of
23 the Chinese proposals which, as we understood them, did not
24 involve administrative accountability or responsibility to London
25 in the arrangements after 1997."

26 7. On the Ambassador's suggestions for covering the criticisms
27 of the Prime Minister's phone-in, I think that in para 4 Sir
28 Percy should avoid repeating our view about British
29 administration being the "best and surest basis for Hong Kong's
30 continued stability and prosperity". This can only irritate the
31 Chinese leaders. A better line might be that Mrs Thatcher was
32 merely recalling the joint Communique of September 1982. In a
33 public comment in response to an unsolicited question she clearly
34 could not make any reference to confidential exchanges with

This is correct - the only change that is published

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2 Chinese leaders.

3 8. If you agree with these comments they could serve as an
4 instruction to Sir P Cradock for his next meeting with Yao Guang
5 on 10 November. You may wish to telegraph your view directly to
6 Peking.

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8 HOWE

9 NNNN

Agreed



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Catchword

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DESKBY 091200Z FCO

FM PEKING 091000Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1170 OF 9 NOVEMBER

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: DINNER WITH YAO GUANG

1. AS YOU KNOW, YAO GUANG IS DINING WITH ME ON 10 NOVEMBER. YOU MAY FIND IT HELPFUL TO HAVE AN IDEA OF THE BROAD LINES I PROPOSE TO FOLLOW.

2. I SHALL BEGIN BY POINTING OUT TO HIM AGAIN ON A PERSONAL BASIS, THE DAMAGE CAUSED AND THREATENED BY THE CHINESE STYLE OF COMMUNICATION. IT IS VITAL THAT THEY SHOULD USE THE CHANNELS AVAILABLE TO THEM AND PRESERVE SECRECY. IF THEY HAVE ANY DOUBTS OR QUESTIONS ABOUT OUR PROPOSALS OR IDEAS, THE OBVIOUS COURSE IS TO SUMMON ME OR A MEMBER OF MY STAFF.

3. I WOULD THEN COVER, ONCE AGAIN, THE GROUND IN PARA 2 OF MY TELNO 1160, REEMPHASISING THAT ANY BRITISH PERSONNEL REMAINING IN OR BEING APPOINTED TO OFFICE AFTER 1997 WOULD BE THERE AT THE SPECIFIC REQUEST OF, AND UNDER THE AUTHORITY OF THE HONG KONG SAR, WHICH COULD REMOVE THEM IF AND WHEN IT WISHED, SUBJECT TO THEIR CONTRACTS. OUR ROLE WOULD BE ONE OF ASSISTANCE NOT AUTHORITY. I WOULD REPEAT, WITH APPROPRIATE CAVEATS ABOUT CONDITIONALITY, THAT WE WERE SINCERELY OPERATING ON THE BASIS OF THE CHINESE PROPOSALS. WE UNDERSTAND THAT THESE PROPOSALS PRECLUDED ANY POSSIBILITY OF ADMINISTRATIVE ACCOUNTABILITY OR RESPONSIBILITY TO LONDON IN THE POST-1997 ARRANGEMENTS. IT WAS IMPORTANT THAT THE CHINESE SIDE SHOULD FULLY UNDERSTAND THAT IN THE DISCUSSIONS PROPOSED IN THE PRIME MINISTER'S MESSAGE WE HAD NO INTENTION OF PROPOSING SUCH LINKS OR OTHER ARRANGEMENTS INCONSISTENT WITH THE CHINESE PROPOSALS.

4. AS REGARDS THE PRIME MINISTER'S 'PHONE-IN, IF ASKED ABOUT 'NO CHANGE' I WOULD SAY THAT THE PRIME MINISTER, IN ANSWER TO A QUESTION WHETHER THERE WAS 'ANY CHANGE IN HER OPINION ON THAT MATTER', SAID 'WE HAVE HAD NO BASIC CHANGE'. I WOULD EXPLAIN THIS BY REFERENCE TO HER MESSAGE WHICH STATED THAT OUR SINCERE VIEW REMAINED THAT BRITISH ADMINISTRATION WAS THE BEST AND SUREST BASIS FOR HONG KONG'S CONTINUED STABILITY AND PROSPERITY. HOWEVER, IN OUR WISH TO ACCOMMODATE CHINESE VIEWS WE WERE READY TO SEE WHAT COULD BE BUILT ON THE BASIS OF THE CHINESE PROPOSALS. THIS MIGHT NOT BE IN OUR VIEW AN IDEAL ARRANGEMENT, BUT IF WE COULD REACH AGREEMENT ON THAT BASIS WE WERE PREPARED TO MAKE RECOMMENDATIONS TO PARLIAMENT. IN OTHER WORDS, THE PRIME MINISTER WAS SIMPLY SAYING, IN MORE GENERAL TERMS, WHAT HER MESSAGE OF 14 OCTOBER SAID. IN ANYTHING, IT DEMONSTRATED FURTHER OUR FLEXIBILITY.

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5. AS REGARDS THE PRIME MINISTER'S REFERENCE TO THE BRITISH LINK, IF ASKED HE WOULD TAKE THE LINE THAT THE PRIME MINISTER EMPHASISED THAT THE PRECISE NATURE OF ANY LINK MUST BE A MATTER

FOR CONFIDENTIAL NEGOTIATION. THIS SHOWED THAT SHE HAD NO SPECIFIC LINK IN MIND.

6. BUT IN GENERAL MY LINE WOULD BE THAT THE CHINESE SHOULD DIRECT THEIR MINDS NOT TO GENERAL PUBLIC COMMENTS ON RADIO PHONE-INS BUT TO THE TEXT OF THE PRIME MINISTER'S MESSAGE TO THE CHINESE GOVERNMENT AND THE EXPLANATION OF IT GIVEN BY THE NEGOTIATING TEAM.

7. THIS WOULD LEAD ME ON TO EXPLAIN OUR NEED FOR AGREEMENT ON THE POINTS PUT FORWARD IN OUR PAPERS OF PROPOSALS. THE GENERALISED STATEMENTS ABOUT THE CHINESE PLAN WHICH WE HAD SO FAR HEARD SIMPLY WOULD NOT SUFFICE. FIRST, BECAUSE PEOPLE IN HONG KONG NEEDED ASSURANCE THAT THE DETAIL OF THE VARIOUS HONG KONG SYSTEMS WOULD REMAIN LARGELY UNALTERED IF THE BRITISH ADMINISTRATIVE LINK WERE TO BE BROKEN. CONFIDENCE WOULD OTHERWISE VANISH OVERNIGHT. SECONDLY BECAUSE THERE WAS NO POSSIBILITY OF SECURING PARLIAMENTARY APPROVAL FOR ARRANGEMENTS BASED ONLY ON THE VAGUE ASSURANCES OF THE CHINESE PLAN AS AT PRESENT ENUNCIATED. THIS, COUPLED WITH THE ADVANTAGE OF INCREASING MUTUAL CONFIDENCE, WAS WHY WE FIRMLY BELIEVED WE SHOULD PROCEED ON A STEP-BY-STEP BASIS.

8. ANY COMMENTS ON THE ABOVE LINE SHOULD REACH ME DESKBY 1000900Z

9. ON 11 NOVEMBER HE SHALL TELEGRAPH AN ACCOUNT OF THE CONVERSATION AND SUGGESTIONS ON THE LINE FOR THE NEXT ROUND.

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FUTURE OF HONG KONG

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SECRET
DESKBY 090900Z
FM HONG KONG 090800Z NOV 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1699 OF 9 NOVEMBER 1983
INFO IMMEDIATE PEKING

PEKING TELSNOs 1160 AND 1161 : FUTURE OF HONG KONG:
AMBASSADOR'S MEETING WITH YAO GUANG

1. I HAVE NOT HAD TIME TO STUDY THE AMBASSADOR'S REPORT IN DETAIL BUT AGREE GENERALLY WITH THE ASSESSMENT OF THE CHINESE POSITION AS SET OUT IN PARA 3 OF PEKING TELNO 1161.

2. THE IMPLICATIONS OF WHAT DENG SAID TO THORN, AND WHAT YAO HAS NOW CONFIRMED TO THE AMBASSADOR ARE SERIOUS AND WILL REQUIRE VERY CAREFUL CONSIDERATION. I DO NOT THINK WE SHOULD LET THE CHINESE RUSH US INTO FURTHER CONCESSIONS. IN PARTICULAR, I DO NOT AGREE THAT WE SHOULD GO AS FAR AS IS SUGGESTED IN PARA 4 OF PEKING TEL UNDER REFERENCE. TO TELL THE CHINESE THAT QUOTE WE ENVISAGE NO LINK OF AUTHORITY BETWEEN POST-1997 HONG KONG AND THE UK UNQUOTE WOULD BE TANTAMOUNT TO IMPLICIT AFFIRMATION OF THE CHINESE PREMISE. MOREOVER, IF WE WERE EXPLICITLY TO RULE OUT (NEXT WORD UNDERLINED) ANY QUOTE LINK OF AUTHORITY UNQUOTE AT THIS EARLY STAGE WE SHOULD NO DOUBT THEN BE INVITED TO RENOUNCE OTHER BRITISH LINKS BEFORE THE GAME HAS STARTED. THE SCOPE FOR BUILDING CONTINUING BRITISH LINKS INTO THE VARIOUS SYSTEMS WOULD BE DRASTICALLY REDUCED AND THE PROSPECTS FOR CONSTRUCTING QUOTE ARRANGEMENTS OF LASTING VALUE TO THE PEOPLE OF HONG KONG UNQUOTE ON THE BASIS OF THE CHINESE PROPOSALS WOULD BE SERIOUSLY PREJUDICED.

3. A MOVE OF THIS KIND WOULD ALSO GO BEYOND THE TERMS OF THE PRIME MINISTER'S MESSAGE AS EXCO UNDERSTAND IT, AND I VERY MUCH DOUBT WHETHER UNOFFICIALS WOULD BE WILLING TO ENDORSE SUCH A STEP SO SOON AFTER WE HAVE TOLD THE CHINESE EMPHATICALLY THAT MRS THATCHER'S MESSAGE IS AS FAR AS WE CAN GO TO MEET THE PREMISE.

4. IT IS THEREFORE MY VIEW THAT WE SHOULD CONTINUE TO ARGUE VIGOROUSLY THAT WE HAVE GONE AS FAR AS WE CAN, AND IN FAVOUR OF OUR STEP BY STEP APPROACH; THAT WE SHOULD PUT IN THE ADDITIONAL PAPER ON HONG KONG'S EXTERNAL ECONOMIC RELATIONS (WHICH EXCO APPROVED WITHOUT AMENDMENT TODAY); AND THAT WE SHOULD USE THE THREE PAPERS SO FAR APPROVED AND FUTURE ONES TO DEMONSTRATE TO THE CHINESE THAT WE ARE WORKING ON THE BASIS OF THEIR PROPOSALS AND ARE READY TO GET DOWN TO PRACTICAL DISCUSSION OF THE IMPLICATIONS OF THOSE PROPOSALS POST-1997.

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5. I ALSO BELIEVE WE MUST BE CAREFUL IN DISCUSSING THE POSSIBLE EMPLOYMENT OF BRITISH OFFICIALS AFTER 1997. IT WAS INDEED OUR THOUGHT HERE, AND I THOUGHT IT WAS ACCEPTED, THAT CERTAIN POSTS MIGHT BE RESERVED FOR BRITISH PERSONNEL AS ONE OF THE GUARANTEES. WE SHOULD NOT ABANDON THIS PREMATURELY: IT DOES NOT AMOUNT TO QUOTE CO-ADMINISTRATION UNQUOTE.

6. WHEN THE AMBASSADOR SEES YAO GUANG AGAIN TOMORROW HE WILL NO DOUBT CONTINUE TO REFUTE THE CONTENTION THAT WE ARE WORKING FOR SOME FORM OF JOINT ADMINISTRATION. BUT I HOPE HE WILL LEAVE YAO IN NO DOUBT THAT THE PRIME MINISTER'S MESSAGE IS AS FAR AS WE CAN GO ON THE PREMISE.

YOUDE

FUTURE OF HONG KONG

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GRS 400

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DESBKY 081130Z FCO

DESKBY 090030Z HONG KONG

FROM PEKING 081100Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1161 OF 8/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG: MEETING WITH YAO GUANG.

1. YAO WAS GENERALLY DEFENSIVE. HE CLEARLY WISHED TO AVOID A ROW AND, GIVEN THE NATURE OF MY REMARKS AND THE INVOLVEMENT OF DENG HIMSELF, HIS RESPONSE WAS ABOUT AS LOW-KEY AS WE COULD HAVE EXPECTED. HE REMAINED FRIENDLY THROUGHOUT, RECOGNISED PROGRESS MADE IN THE LAST ROUND, AND LOOKED FORWARD TO MY PRIVATE DINNER FOR HIM ON 10 NOVEMBER.

2. HE ALSO ACKNOWLEDGED FAIRLY CLEARLY TWICE IN THE CONVERSATION THAT THERE WAS A GREAT DIFFERENCE BETWEEN THE JOINT ADMINISTRATION OF WHICH DENG SPOKE, AND THE INFORMAL SUGGESTION HE MADE ON 28 OCTOBER. IT IS QUITE LIKELY THAT HE HAD MADE AN INACCURATE REPORT OF THAT CONVERSATION.

3. IT IS, HOWEVER, VERY CLEAR THAT THE CHINESE STILL HARBOUR DEEP SUSPICION OF OUR MOTIVES. THEY HAVE APPARENTLY BEEN WORRIED BY THE REPORTS OF THE PRIME MINISTERS 'PHONE-IN. THIS, OUR UNWILLINGNESS TO SHOW OUR HAND FULLY ON THE BRITISH LINK, AND A PROBABLY INACCURATE REPORT OF THE 28 OCTOBER CONVERSATION, HAVE COMBINED TO THREATEN A SLIPPING BACK. IT WAS APPARENT ON 28 OCTOBER THAT OUR IDEAS ON A STEP BY STEP APPROACH MIGHT NOT BE ACCEPTABLE AND THIS HAS NOW BEEN CONFIRMED. WHAT THE CHINESE ARE SAYING IS THAT IF WE EXPLICITLY AFFIRM THE PREMISE THERE COULD BE STEP BY STEP PROGRESS BUT IF WE ARE NOT WILLING TO DO SO WE SHALL NEED TO PUT ALL OUR CARDS ON THE TABLE QUICKLY.

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4. IN THIS SITUATION, IF WE ARE TO DISSIPATE SUSPICION AND MAINTAIN THE MOMENTUM, I THINK WE SHALL HAVE TO BE PREPARED TO MAKE AT LEAST A GENERAL, FORMAL STATEMENT FOR THE RECORD TO THE EFFECT THAT IN BUILDING ON THE CHINESE PROPOSALS AS ENVISAGED IN THE PRIME MINISTER'S MESSAGE, WE ENVISAGE NO LINK OF AUTHORITY BETWEEN POST-1997 HONG KONG AND THE UK. THIS WOULD BE SUBJECT TO THE SAME CONDITIONALITY AS THE REST OF THE DISCUSSIONS PROPOSED IN THE PRIME MINISTER'S MESSAGE, AND IS ALREADY IMPLICIT IN OUR PROPOSAL TO ATTEMPT TO BUILD ON THE CHINESE PROPOSALS. BUT IT NEED TO BE MADE EXPLICIT. I THINK ALSO THAT WE SHALL HAVE TO BE PREPARED TO TALK IN MORE DETAIL ABOUT THE CENTRAL ISSUES OF ADMINISTRATION, MUCH SOONER THAN ORIGINALLY ENVISAGED. OTHERWISE WE FACE A REGRESSION TO THE OLD WRANGLE ON PRINCIPLE

CRADOCK

FUTURE OF HONG KONG

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DESKBY 081100Z FCO

DESKBY 090030Z HONG KONG

FROM PEKING 081000Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1160 OF 8/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: MEETING WITH YAO GUANG.

1. WHEN I CALLED ON YAO GUANG ON 8 NOVEMBER HE SAID THAT M. THORN HAD GIVEN ME AN ACCOUNT OF HIS CONVERSATIONS WITH DENG AND WU. AS A RESULT, I HAD BEEN INSTRUCTED TO RAISE THE QUESTION OF DENG'S COMMENTS AS REPORTED TO ME BY M9 THORN (YTUR TEL NO 767)

2. I SAID THAT DENG APPARENTLY BELIEVED THE BRITISH SHOULD HAVE BEEN ARGUING FOR SOME KIND OF JOINT ADMINISTRATION IN HONG KONG. IF MY IMPRESSION WAS CORRECT THIS WAS A SERIOUS MISAPPREHENSION. WE HAD MADE VERY PLAIN THAT WE WERE PROCEEDING ON THE BASIS OF THE CHINESE PROPOSALS. THE CHINESE PROPOSALS AS DESCRIBED BY THE CHINESE THEMSELVES WERE INTIMATELY BOUND UP WITH THE CHINESE PREMISE.

AT OUR DINNER ON 28 OCTOBER THE IDEAS I HAD PUT TO YAO ON AN INFORMAL BASIS WERE, OF COURSE, ON THE CLEAR UNDERSTANDING THAT WE WOULD BE WORKING ON THE BASIS OF THE CHINESE PROPOSALS AND THAT ANY ADMINISTRATIVE POSTS OCCUPIED IN 1997 BY BRITISH PERSONNEL WOULD BE SO OCCUPIED BECAUSE THESE PERSONNEL HAD BEEN SOUGHT BY THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION. THEY WOULD BE SERVING THE GOVERNMENT OF THE SAR. THEY WOULD NOT BE APPOINTED BY THE BRITISH GOVERNMENT NOR WOULD THEY BE RESPONSIBLE TO LONDON. THEY WOULD BE RESPONSIBLE TO THE HEAD OF THE SAR GOVERNMENT. NOTHING COULD BE MORE REMOTE THAN THIS FROM ANY IDEA OF JOINT ADMINISTRATION. WE WERE THEREFORE MYSTIFIED AT DENG'S COMMENTS TO THORN AND HOPED THAT THE MISUNDERSTANDING COULD BE CLEARED UP WITHOUT DELAY.

3. YAO GUANG SAID HE WAS NOT PRESENT AT THE INTERVIEW WITH THORN AND THEREFORE DID NOT KNOW THE CONTENTS OF THE TALK. HE WAS GRATEFUL TO LEARN OF OUR REACTION AND FOR MY COMMENTS. HE WOULD REPORT. HE WENT ON TO SAY THAT IN HIS PERSONAL VIEW AT THE 5TH ROUND EFFORTS HAD BEEN MADE BY THE BRITISH SIDE AND THE CHINESE HAD EXPLICITLY AFFIRMED THOSE EFFORTS. HENCE THE USE OF USEFUL AND CONSTRUCTIVE AS ADJECTIVES IN THE COMMUNIQUE. BUT THERE WERE STILL SOME DIFFERENCES BETWEEN THE TWO SIDES AND THESE WERE DIFFERENCES OF PRINCIPLE. IT WAS NATURAL THAT THERE SHOULD BE DIFFERENCES AND THE CONTINUATION OF THE TALKS WAS AIMED AT SOLVING THEM.

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4. YAO THEN WENT ON TO REFER TO MRS THATCHER'S REMARKS AT THE RECENT 'PHONE-IN PROGRAMME. HE QUOTED HER AS SAYING THAT THE BRITISH VIEW HAD NOT CHANGED AND THAT THE TALKS WERE BASED SIMPLY ON THE JOINT COMMUNIQUE WITH ITS REFERENCES TO MAINTENANCE OF STABILITY AND PROSPERITY. HE HAD JUST SAID THAT THE TALKS WERE BEING HELD ON THE BASIS OF THE CHINESE PROPOSALS: THE MESSAGE WAS CLEAR. BUT WHAT WAS THE BASIS OF THE CHINESE PROPOSALS? DID WE HAVE DIFFERING VIEWS OF THESE PROPOSALS? THE CHINESE PROPOSALS AND THE PRINCIPLES ON WHICH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION WOULD BE RESUMED WERE CLEAR. THE PRIME MINISTER HAD SAID THAT HER OPINION HAD NOT CHANGED. THEY WERE AWARE OF THE BRITISH VIEWS ABOUT HONG KONG FROM THE 5TH ROUND. WE WISHED TO PROCEED ON THE BASIS OF THE CHINESE PROPOSALS. BUT HOW COULD THE TWO (IE OUR STATEMENTS IN THE 5TH ROUND AND THE PRIME MINISTER'S RADIO COMMENTS) GO TOGETHER?

5. THE PRIME MINISTER HAD ALSO TOLD JOURNALISTS THAT THE UK INTENDED TO MAINTAIN ITS LINK WITH HONG KONG. WHAT WAS THE NATURE OF THIS LINK? CHINA HAD ALREADY MADE PLAIN ITS BOTTOM LINE. THE TALKS SHOULD BE CONDUCTED FRANKLY AND COMPREHENSIVELY. WHY COULD THE BRITISH SIDE NOT PUT FORWARD ALL ITS IDEAS, IF WE WERE NOT THINKING OF CO-ADMINISTRATION. RAPID PROGRESS COULD THEN ENSURE. THERE WAS NOT MUCH TIME LEFT.

6. MR LUCE HAD SAID THAT THE TWO SIDES WOULD HOLD DETAILED DISCUSSIONS. AT THE DINNER WITH ME ON 28 OCTOBER YAO HAD SAID THERE WERE TWO WAYS OF PROCEEDING. ONE WAS THAT THE CHINESE SHOULD REITERATE THEIR POLICY PACKAGE AND THE BRITISH SIDE SHOULD COMMENT. THE SECOND METHOD WAS THAT WE SHOULD PROCEED STEP BY STEP AS ADVOCATED BY THE BRITISH. IN HIS VIEW THE CHINESE SIDE DID NOT AGREE WITH THE STEP BY STEP APPROACH. DETAILED DISCUSSIONS WOULD BE LITTLE USE WHERE PRINCIPLES HAD NOT BEEN CLEARLY AFFIRMED. YAO WENT ON TO SAY THAT AT THE PRESENT STAGE IT WAS DIFFICULT FOR THE CHINESE TO BELIEVE THAT THE BRITISH SIDE WERE NOT ACTUALLY SEEKING SOME FORM OF CO-ADMINISTRATION. HE SUGGESTED THAT WE COULD CONTINUE OUR DISCUSSIONS ON THIS POINT AT MY PRIVATE DINNER FOR HIM ON 10 NOVEMBER.

7. HE THANKED YAO FOR HIS COMMENTS AND SAID HE HOPED HE WOULD PASS ON MY EXPLANATION ON THE MATTER OF JOINT ADMINISTRATION. HE HOPED HE HIMSELF UNDERSTOOD THE GREAT DIFFERENCE BETWEEN WHAT HE HAD ACTUALLY PUT FORWARD AS AN INFORMAL IDEA AND WHAT WE WERE REPORTED AS HAVING SAID. HE ONCE AGAIN WENT OVER THE DIFFERENCES. YAO SAID IT WAS A FACT THAT THE BRITISH SIDE HAD NEVER MENTIONED CO-ADMINISTRATION. BUT HE HAD SAID THAT IN FUTURE THE POSITIONS OF CHIEF OF POLICE AND ATTORNEY-GENERAL SHOULD BE FILLED BY UK PERSONNEL. HE INTERJECTED AND SAID THAT HE HAD BEEN VERY CAREFUL IN MY CHOICE OF WORDS. HE REPEATED THAT IF THE NEW HONG KONG GOVERNMENT WISHED TO EMPLOY CERTAIN BRITISH PEOPLE IN CERTAIN POSTS THIS WOULD BE A GOOD THING AS IT WOULD

- 2 -
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HELP THE ATMOSPHERE AT THE TIME. I MADE IT PLAIN, HOWEVER, THAT THIS WOULD DEPEND ON THE WISH OF THE GOVERNMENT OF THE SAR. THIS WAS VERY DIFFERENT FROM BRITISH PERSONNEL BEING APPOINTED BY HMG. I HAD ALSO MADE PLAIN THAT IN REFERRING TO THE CHIEF OF POLICE AND ATTORNEY-GENERAL I WAS MERELY GIVING ILLUSTRATIVE EXAMPLES. YAO THEN CONCEDED THAT RESERVING POSTS FOR BRITISH OFFICIALS WAS ONE MATTER, WHEREAS FOR THE SAR GOVERNMENT TO CHOOSE TO EMPLOY THEM WAS QUITE ANOTHER. I SAID I HAD SPOKEN OF THE LATTER COURSE. IT WAS VERY IMPORTANT THAT THE CHINESE LEADERS UNDERSTOOD THIS.

IT SEEMED THAT THEY HAD BEEN WORKING ON THE BASIS OF AN INACCURATE REPORT. I REPEATED THAT WE WERE SINCERELY OPERATING ON THE BASIS OF THE CHINESE PROPOSALS. I ASKED FOR CLARIFICATION AND EARLY CONFIRMATION THAT THE DIFFERENCE BETWEEN THE IDEAS I HAD FLOATED INFORMALLY AND THE MISCONCEPTION THAT WE WERE PRESSING FOR JOINT ADMINISTRATION HAD BEEN ACCEPTED.

8. I WENT ON TO SAY THAT WE COULD PURSUE THE OTHER POINTS YAO HAD MADE AT MY DINNER ON THURSDAY, BUT I WOULD WISH TO MAKE SOME PRELIMINARY COMMENTS. AS REGARDS THE PRIME MINISTER'S 'PHONE-IN' PROGRAMME, I WOULD TAKE YAO THROUGH THE DETAILED TEXT ON THURSDAY, BUT I COULD TELL HIM NOW THAT THE CHINESE REPORTS OF IT WERE NOT ENTIRELY ACCURATE. IN ANY EVENT, THE CHINESE HAD RECEIVED THE PRIME MINISTER'S CONSIDERED THOUGHTS ON THIS MATTER IN THE MESSAGE OF 14 OCTOBER. IT WAS TO THAT AND TO THE COMMENTS OF THE BRITISH NEGOTIATORS THAT THEY DIRECT THEIR ATTENTION.

9. AS REGARDS THE STEP BY STEP APPROACH, I STILL BELIEVED THIS WAS THE RIGHT METHOD IN ORDER TO BUILD UP CONFIDENCE BETWEEN THE TWO SIDES. THE EVENTS OF THE LAST FEW DAYS HAD SHOWN THAT CONFIDENCE WAS VERY MUCH IN NEED OF FOSTERING.

10. I SAID THAT ONCE AGAIN YAO SEEMED TO BE HANKERING AFTER AN EXPLICIT AFFIRMATION OF THE CHINESE PREMISE. I WENT OVER THE GROUND IN EARLIER EXCHANGES, EXPLAINING THE PARLIAMENTARY CONSTRAINTS ON THE PRIME MINISTER AND THE FACT THAT THE CHINESE SHOULD RECOGNISE HOW FAR THEY HAD GOT AND NOT ASK FOR THE IMPOSSIBLE. WE WISHED TO PROCEED ON A BUSINESSLIKE BASIS AND NOT REVERT TO STERILE ARGUMENTS ABOUT PRINCIPLE. THE CHINESE SIDE HAD PRESSED US FOR DETAILS, WE HAD NOW PUT FORWARD PAPERS. WE WISHED TO GET DOWN TO DETAILED DISCUSSION OF THEM.

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SECRET

11. I THEN RAISED A FURTHER POINT ON DENG'S REMARKS TO THRON, QUOTING DENG'S COMMENT THAT ALTHOUGH THE BRITISH ATTITUDE HAD SHOWN SOME SIGNS OF CHANGE, OUR ACTUAL IDEAS HAD NOT. WE OUR SIDE FOUND THIS A PARTICULARLY DISAPPOINTING AND WORRYING COMMENT. I HAD ON A NUMBER OF OCCASIONS EXPLAINED THAT FOR THE PURPOSES OF THE DISCUSSIONS WE WERE NO LONGER INSISTING ON BRITISH ADMINISTRATION AS A PREREQUISITE. THE CHINESE HAD, IN THE PAST, DESCRIBED THIS AS AN INSURMOUNTABLE OBSTACLE. IT HAD BEEN REMOVED. THAT REPRESENTED A VERY REAL CHANGE IN OUR IDEAS. WHEN I DELIVERED THE PRIME MINISTER'S MESSAGE ON 14 OCTOBER I EXPRESSED THE HOPE THAT THE CHINESE SIDE WOULD RECOGNISE THE IMPORTANCE OF THE STEP WE WERE TAKING AND WOULD RESPOND APPROPRIATELY. DENG'S COMMENTS FAILED TO RECOGNISE ANY REAL CHANGE ON OUR SIDE AND, INDEED, HE HAD SAID THE CHINESE WOULD HAVE TO BE READY FOR FURTHER BRITISH MACHINATIONS. THIS CAME NEAR TO SAYING WE WERE NOT NEGOTIATING IN GOOD FAITH, AND TO CASTING DOUBT ON THE SINCERITY OF THE PRIME MINISTER'S MESSAGE. THESE WERE NOT COMMENTS THAT WOULD HELP A SERIOUS AND CONSTRUCTIVE NEGOTIATION WHICH WE STILL SINCERELY SOUGHT.

12. YAO SAID, RATHER DEFENSIVELY, THAT DENG HAD READ THE PRIME MINISTER'S MESSAGE. HE HAD ALSO UNDERSTOOD THE CONTENTS OF THE PRIME MINISTER'S 'PHONE-IN. HE WAS FAMILIAR WITH THE CONTENT OF THE TALKS AND WAS VERY WELL INFORMED. HE SAID HE HOPED HE UNDERSTOOD THE EFFORTS WE HAD MADE. YAO DREW ATTENTION TO DENG'S REFERENCE TO THE CHANGE IN CERTAIN RESPECTS IN OUR ATTITUDE. IN ADDITION TO HIS PERSONAL INTEREST IN POST-1997 ARRANGEMENTS, DENG WAS ALSO CONCERNED OVER THE TRANSITIONAL, PRE-1997, PERIOD. WHEN HE SAW THE PRIME MINISTER IN 1982 DENG HAD SAID THAT HE HOPED THE TWO SIDES WOULD AVOID ANY MAN MADE TURBULENCE IN HONG KONG, OTHERWISE CHINA MIGHT HAVE TO RECONSIDER ITS TIMING AND METHOD OF RESUMPTION OF SOVEREIGNTY. DENG'S REMARKS WERE WELL-MEANT: THEY HAD BEEN MADE IN A POSITIVE AND CONSTRUCTIVE SPIRIT. HE WAS HOPING WE WOULD FIND A GOOD SOLUTION.

13. HE SAID HE WAS VERY ENCOURAGED TO HEAR THAT DENG'S REMARKS WERE MADE IN A HELPFUL WAY. WHAT WE MOST WANTED WAS AGREEMENT THAT THERE HAD BEEN SOME MISUNDERSTANDING OVER JOINT ADMINISTRATION. YAO RESPONDED THAT IT WAS RIGHT TO RECOGNISE THAT DIFFERENCES EXISTED AND REPEATED HIS EARLY COMMENT THAT THERE WAS A CLEAR DIFFERENCE BETWEEN POSTS BEING RESERVED AND POSTS BEING FILLED AT THE REQUEST OF THE SAR. THIS ISSUE INVOLVED THE SOVEREIGNTY AND DIGNITY OF A SOVEREIGN STATE. HE ADVISED US TO MAKE VERY CLEAR WHAT WE MEANT BY A BRITISH LINK, BRITISH PARTICIPATION AND OUR ROLE IN HONG KONG AFTER 1997. ONCE THIS WAS CLEAR WE COULD GO AHEAD IN THE TALKS. BUT AT PRESENT A STEP BY STEP APPROACH WAS UNACCEPTABLE. HE REITERATED THAT TIME BEFORE SEPTEMBER 1984 WAS RUNNING OUT.

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SECRET

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SECRET

14. HE SAID HE NOTED HIS COMMENTS ON THE BRITISH ROLE AND WOULD REPORT. HE THEN WENT ON TO RAISE A FURTHER POINT ON THE DENG-THORN EPISODE. HE HOPED YAO WOULD UNDERSTAND THAT HE DID SO IN THE SINCERE WISH TO FURTHER OUR TALKS. HE HAD RECEIVED M. THORN'S ACCOUNT IN THE FIRST INSTANCE IN A MEETING ATTENDED BY THE OTHER NINE EC AMBASSADORS. THIS WAS ONLY NATURAL WHEN THE CHINESE COMMENTS WERE MADE TO A PERSON WHO REPRESENTED, IN THE ECONOMIC SPHERE AT LEAST, 10 EUROPEAN COUNTRIES. THESE REMARKS WERE THEREFORE BROADCAST THROUGHOUT PEKING AND WE SHOULD NOT BE SURPRISED IF THERE WAS A LEAK. ANY SUCH LEAK WOULD NOT BE THE BRITISH RESPONSIBILITY. HE WENT ON TO SAY THAT SPEAKING ON INSTRUCTIONS HE THOUGHT IT EXTREMELY UNFORTUNATE THAT A RESPONSE TO POINTS MADE IN THE COURSE OF INFORMAL BILATERAL CONVERSATION IN THE MARGINS OF NEGOTIATIONS WHICH WE HAD BOTH AGREED MUST REMAIN SECRET, SHOULD HAVE BEEN MADE TO A THIRD PARTY. WE WOULD REMAIN VERY INTERESTED IN ANY RESPONSE BY THE CHINESE SIDE TO OUR SUGGESTIONS ON HONG KONG AND WE LOOKED FORWARD TO THEIR COMMENTS ON THE WORKING PAPERS WE HAD DELIVERED. HOWEVER, HE PROFOUNDLY HOPED THAT IN THE FUTURE ANY SUCH REACTIONS WOULD BE MADE TO ME OR MY STAFF, OR IF THE CHINESE SIDE PREFERRED, IN A MESSAGE TO BRITISH MINISTERS. THE MINISTER HAD ASKED FOR OUR IDEAS ON THE BRITISH LINK BUT HE WISHED TO BE CERTAIN THAT THE CHINESE RESPONSE WOULD BE MADE TO US AND THAT HE WOULD NOT HAVE TO SEEK IT FROM THE HANDS OF SOME ITENERANT EUROPEAN OR OTHER VISITOR TO PEKING.

15. YAO REPLIED THAT DURING THE 5TH ROUND HE HAD MADE AN EXPLICIT REQUEST FOR DETAILS OF OUR INTENDED FUTURE ROLE. HE POINTED OUT THAT WEN HE GAVE AN INFORMAL REACTION TO THIS REQUEST THE RESPONSE HAD NOT COME BACK TO ME. YAO WENT ON THAT IT WAS ONLY NATURAL THAT DENG SHOULD MAKE REMARKS TO A THIRD PARTY. THORN AS A GUEST HAD WANTED TO HEAR ABOUT HONG KONG. HE ASKED WHETHER HE MEANT THAT THORN HAS RAISED THE MATTER. AFTER SOME HAVERING, HE SAID HE WAS NOT SURE, BUT IT WAS A MATTER OF GENERAL INTEREST. HE ALSO SAID THAT THE CHINESE HAD MADE REMARKS TO MR HEATH IN THE SAME WAY. DENG'S COMMENTS WERE MADE IN A POSITIVE SPIRIT AND WERE DESIGNED TO BE A HELPFUL REMINDER TO OUR BRITISH FRIENDS. HE HAD SAID THAT THE BRITISH SIDE WAS NOT SEEKING CO-ADMINISTRATION BUT IT WAS DIFFICULT TO BELIEVE THIS. IF THERE WERE MISUNDERSTANDINGS HE HOPED THAT THE BRITISH SIDE WOULD CLARIFY THE SITUATION.

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SECRET

16. HE THEN SAID THAT OF COURSE THERE WAS GENERAL INTEREST IN THE SUBJECT OF HONG KONG. WE WERE CONSTANTLY ASSAILED BY QUESTIONS BUT GAVE GENERAL AND EVASIVE ANSWERS. THIS WAS VERY DIFFERENT FROM TAKING UP WITH THIRD PARTIES SOME OF THE MOST DELICATE QUESTIONS IN THE NEGOTIATIONS. THE PARALLEL WITH MR HEATH WOULD NOT STAND. MR HEATH WAS A FORMER BRITISH PRIME MINISTER AND A MAN OF TOTAL DISCRETION. MOREOVER, THE EMBASSY WAS PRESENT AT THE INTERVIEW. HE CONTINUED THAT HE HAD ONLY LEARNED OF THE CHINESE DOUBTS ABOUT JOINT ADMINISTRATION BECAUSE OF THORN'S VISIT. THE SIMPLE WAY FOR SUCH DOUBTS TO BE CLARIFIED WAS FOR YAO TO ASK ME TO CALL.

16. SEE MIFT FOR COMMENT.

CRADOCK

FUTURE OF HONG KONG

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RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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-6-
SECRET

GRS 320

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FROM PEKING 030850Z NOV 83

TO PRIORITY FCO

TELEGRAM NUMBER 1141 OF 3/11/83

REPEATED FOR INFO TO PRIORITY HONG KONG

HONG KONG TEL NO 1642: VISIT OF SPANISH FOREIGN MINISTER:

REMARKS ON HONG KONG

1. MORAN STATED PUBLICLY WHILE HERE THAT HE WAS PARTICULARLY INTERESTED IN CHINA'S POSITION ON HONG KONG, BECAUSE OF THE SIMILARITY TO THE GIBRALTAR QUESTION.
2. AT A BANQUET GIVEN BY FOREIGN MINISTER WU XUEQIAN ON 29 OCTOBER MORAN SAID THAT SPAIN AND CHINA FIRMLY OPPOSED RACISM AND COLONIALISM. HE ADDED THAT THERE WERE QUESTIONS LEFT OVER FROM HISTORY CONCERNING THE TERRITORY OF BOTH COUNTRIES. SUCH QUESTIONS COULD ONLY BE SOLVED THROUGH REALISTIC AND CONSTRUCTIVE DIALOGUE BETWEEN THE PARTIES INVOLVED. THE DIALOGUE HAD TO GIVE DUE CONSIDERATION TO THE PARTICULAR FEATURES OF THE AGE. QUESTIONS OF SOVEREIGNTY AND TERRITORIAL INTEGRITY COULD NOT BE OPEN FOR DISCUSSION. THESE REMARKS WERE REPORTED IN PEOPLE'S DAILY ON 31 OCTOBER.
3. MORAN MET DENG XIAOPING ON 30 OCTOBER AND AFTERWARDS SPOKE TO REPORTERS. HE SAID DENG HAD TOLD HIM THAT THE QUESTION OF WHO WOULD ADMINISTER HONG KONG AFTER PEKING REGAINED SOVEREIGNTY WAS NOT NEGOTIABLE. DENG HAD REITERATED THAT THE TALKS DEALT ONLY WITH ASSURING THE COLONY'S STABILITY AND PROSPERITY UNTIL (SIC) 1997.

*Mr. Moran is too clever
for his own good.*

A.S.C. 4/11.

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4. THE REPORT OF DENG'S REMARKS ON HONG KONG TO MORAN APPEARED ONLY AS AN AFP DESPATCH AND WAS NOT IN THE CHINESE PRESS. WE SUSPECT THAT THE REFERENCE TO STABILITY AND PROSPERITY (NEXT WORD UNDERLINED) UNTIL 1997 WAS THE RESULT OF A MIS-UNDERSTANDING ON THE PART OF AFP OR THE SPANISH. WE ARE TRYING TO CLARIFY THIS, BUT FOR THE MOMENT THE SPANISH EMBASSY ARE ADHERING RIGIDLY TO INSTRUCTIONS TO TELL US NOTHING AT ALL ABOUT EXCHANGES ON HONG KONG. WE SHALL RAISE THE POINT INFORMALLY WITH THE MFA WHEN A SUITABLE OPPORTUNITY ARISES.

CRADOCK.

FUTURE OF HONG KONG

LIMITED

ED/HKD

ED/FED

ED/PLANNING STAFF

ED/PUSD ^{SED}

D/ED/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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²
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Mr. John Cole
Private Secretary
10 Downing Street
London
England

November 2nd 1983

Dear Mr. Cole,

Since the last time we met in Hong Kong during the Prime Minister's visit alot has happened and for sure, the excitement is just beginning !

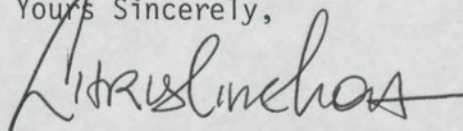
The HK Government is aware of the fact that the Hong Kong Observers have been invited to present our views to the Peking Government. A date has been set for December 4th 1983. We have been working on a position paper over the past two months and I believe the final version will be ready in about a week's time.

Although we have had a number of exchanges with members of the Hong Kong Government it may be useful to have a chance to talk to you. I will be in London on business between November 12th and 26th, perhaps we can meet then.

I am not sure what is the best way to contact you upon arrival but I will be staying at The Berkeley, perhaps you can leave a message there for me on the 12th as to how I can get in-touch.

I look forward to seeing you again.

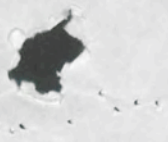
Yours Sincerely,



Christine Loh
Chairman
Hong Kong Observers

Handwritten signature or name, possibly "M. J. ...".

7 NOV 1983
Circular postmark with numbers 1 through 12 around the perimeter.



MJ

1 November 1983

I write to thank you for your letter of 31 October enclosing the original of the letter of 19 October to the Prime Minister from the Prime Minister of Canada.

AJC

Mr. John Schram.

059

SECRET

MJ

2

1 November 1983

Hong Kong

I enclose a letter which the Prime Minister has signed in reply to Mr. Trudeau's letter of 21 October. I should be grateful if you could arrange for its delivery.

AJC

Peter Ricketts Esq
Foreign and Commonwealth Office

SECRET

NK

SECRET



LPO

cc FCO, 1

SUBJECT
cc Helms

10 DOWNING STREET

Hong Kong: Initial Pt 9

THE PRIME MINISTER

1 November 1983

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 171/83

Dear Peire.

I was grateful for your message passed to me by your High Commissioner on 21 October. And thank you for your kind words about my visit to Canada. I greatly enjoyed my stay and found our discussions most valuable.

I was interested by Chinese Foreign Minister Wu Xueqian's recent comments to you about Hong Kong. As you suggest, they broadly reflect what we know already of China's plan for Hong Kong as a Special Administrative Region of China. There are, however, one or two interesting differences of emphasis which further underline our belief that the Chinese have not fully thought through their plan.

The latest round of Sino-British talks on Hong Kong, which took place on 19/20 October, was an encouraging one. Confidence in Hong Kong was strengthened by the joint statement which described the round as useful and constructive. The next session will be held on 14 and 15 November, again in Peking.

/I believe

SECRET

NR

S E C R E T

- 2 -

I believe that we have made progress in persuading the Chinese to get down to more practical discussions of concrete questions. We shall keep you in the picture as the talks proceed, in particular with a view to Premier Zhao Ziyang's visit to Canada in January.

*Y
Lansman*

Raymond

The Right Honourable Pierre Elliott Trudeau, P.C., M.P.

S E C R E T

PART 9 ends:-

Canadian High Commission

to ABC

31/10

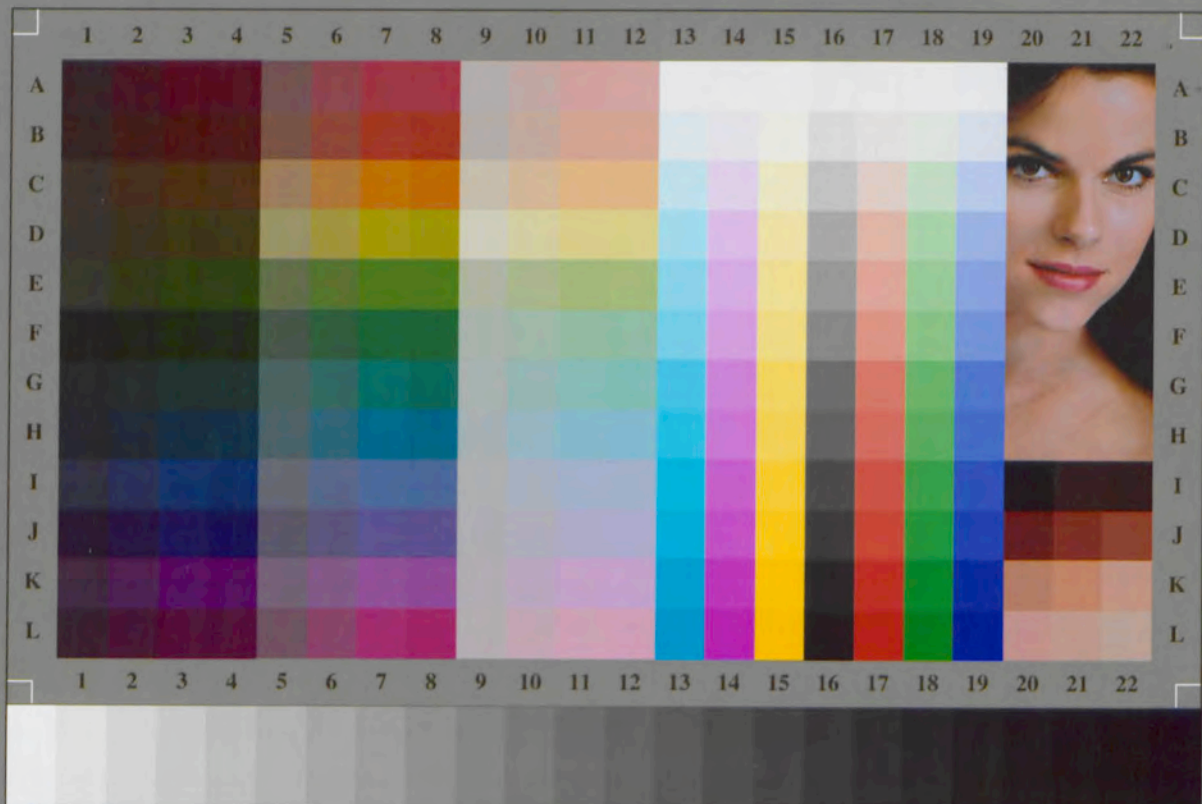
PART 10 begins:-

PM to Trudeau (T171/83)

1/11

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