

SECRET

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Future of Hong Kong

HONG KONG

Territorial Leases

Part I June 1979

Part 15 July 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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11-7-84							
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PREM 19/1266



10 DOWNING STREET

PART 15 ENDS

Hong Kong Tel 2182 31/7

PART 16 BEGINS

NOTE on FCS visit to Hong Kong
and China

71... 53

PS
PB/PDS
PS/MR LUCE
~~MR ROBERTS~~
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SIR W HARDING
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TO IMMEDIATE F C O
TELEGRAM NUMBER 2182 OF 31 JULY

IMMEDIATE

ADVANCE COPY

FOLLOWING IS TEXT OF MY STATEMENT TO EXCO THIS EVENING

BEGINS:-

1. I ASKED TO SEE YOU ALL STRAIGHT AWAY BECAUSE THERE HAVE BEEN VERY IMPORTANT DEVELOPMENTS ON WHICH I WISHED TO SPEAK TO YOU PERSONALLY.

2. WE DISCUSSED AT OUR LAST MEETING THE LINE I WOULD TAKE IN PEKING WHEN I PRESENTED THE PRIME MINISTER'S LETTER. IN THAT LETTER WE PROPOSED TO THE CHINESE THAT WE SHOULD SET ASIDE THE LOCATION OF THE JOINT GROUP WHILE WE DISCUSSED COMPOSITION AND TERMS OF REFERENCE; WITH THE AIM OF LOOKING AT THE QUESTION AGAIN IN ALL ITS ASPECTS AND THE OTHER ASPECTS OF THE NEGOTIATIONS. WE COULD THEN ASSESS WHETHER THE AGREEMENT AVAILABLE WOULD BE AN ACCEPTABLE ONE.

I SPOKE FIRMLY TO THIS BRIEF ON MY ARRIVAL. THE CHINESE RESPONSE WAS SWIFT AND BLUNT. IT WAS CONVEYED TO SIR PERCY CRADOCK BY ZHOU NAN OUTSIDE THE FORMAL TALKS AND REINFORCED LATER IN THE DAY TO ME BY THE CHINESE FOREIGN MINISTER. THE MESSAGE WAS A SIMPLE ONE. UNLESS THE QUESTION OF THE LOCATION OF THE JOINT GROUP IN HONG KONG COULD BE SETTLED DURING MY VISIT THERE WOULD BE NO MOVEMENT ON OTHER MATTERS, AND, MORE SERIOUS, THE TALKS WOULD FAIL. IT HAD BEEN MADE

COULD BE SETTLED DURING MY VISIT THERE WOULD BE NO MOVEMENT ON OTHER MATTERS, AND, MORE SERIOUS, THE TALKS WOULD FAIL. IT HAD BEEN MADE CLEAR TO US ON MANY OCCASIONS THAT DENG HIMSELF ATTACHED GREAT IMPORTANCE TO LOCATION IN HONG KONG AND HE WAS IMPATIENT TO SECURE SUCH A CONCLUSION.

SOME OF THE BACKGROUND TO THIS WAS ALSO REVEALED INDIRECTLY TO US. IT WAS MADE CLEAR THAT CHINESE LEADERS, IN PARTICULAR, THE CHINESE PRIME MINISTER, WOULD BE LEAVING PEKING ON MONDAY (I.E. YESTERDAY) FOR IMPORTANT MEETINGS OUTSIDE PEKING DURING AUGUST. DENG WAS ALREADY IN BEIDAIHO. WE WERE TOLD THAT THERE WOULD BE FURTHER IMPORTANT MEETINGS IN SEPTEMBER. DECISIONS ON HONG KONG WOULD BE TAKEN AT THESE MEETINGS. THE MAIN ISSUES HAD THEREFORE TO BE BROUGHT TO A CONCLUSION DURING MY VISIT. THIS MESSAGE WAS REINFORCED BY THE CHINESE DECLINING TO GIVE ANY TIME FOR MY MEETING WITH PRIME MINISTER ZHAO, AND REMAINING SILENT ON THE IDEA OF A MEETING WITH DENG UNTIL OUR RESPONSE WAS KNOWN. ALSO CLEAR THAT THE CHINESE WERE THEMSELVES NERVOUS ABOUT DENG.

THERE WAS A SECOND PART TO THIS PROPOSITION. THIS WAS THAT THEY COULD DELAY THE SETTING UP OF THE GROUP IN HONG KONG UNTIL 1986. SO FAR, NOT SO GOOD. IN RESPONSE TO THE STRONG CASE I HAD MADE FOR THE GROUP CONTINUING AFTER 1997 (THE MIRROR IMAGE - THE POINT TO WHICH SIR S Y ATTACHED SO MUCH IMPORTANCE) THEY WOULD ALSO AGREE TO IT CONTINUING IN EXISTENCE UNTIL THE YEAR 2000. THIS WAS THE FURTHERS THEY WOULD GO. THE SIGNIFICANCE OF THE YEAR 2000 WAS APPARENTLY WISEORCENTURYWOULD BE T

WE WERE THEREFORE FACED WITH THE PROSPECT OF BREAKDOWN. VERY CLEAR THAT CHINESE WERE NOT BLUFFING. THEY MADE IT CLEAR THAT THE DEAL WAS OFF IF WE HAD INSISTED ON RETURNING TO LONDON AND REFLECTING AT LEISURE. I THOUGHT IT RIGHT TO TURN AN ULTIMATUM INTO AN OPPORTUNITY; TO MAKE A MAJOR PUSH ON OUR MAIN POINTS AT A TIME WHEN THEY WERE CLEARLY UNDER PRESSURE FROM THEIR LEADERSHIP. IN CONSULTATION WITH THE PRIME MINISTER, I FOUGHT FOR THREE OBJECTIVES. THE FIRST WAS TO DELAY THE ARRIVAL OF THE GROUP IN HONG KONG FURTHER. THE SECOND WAS TO OBTAIN TERMS OF REFERENCE WHICH WOULD MAKE IT UNMISTAKABLY CLEAR THAT IT WAS TO HAVE NO PART IN THE ADMINISTRATION OF HONG KONG, AND WOULD DIVIDE ITS ACTIVITIES INTO TWO PERIODS, IN ORDER TO LEAVE THE MORE SENSITIVE ISSUES UNTIL LATER. THRIDLY TO COUPLE ANY DECISION ON LOCATION OF THE JOINT GROUP WITH OUR KEY REQUIREMENTS ON THE MAIN AGREEMENT. OTHER ISSUES INCLUDED:

- NUMBER OF MEMBERS OF THE JOINT GROUP
- HOW MANY SUPPORTING STAFF
- APPOINTMENT OF MEMBERS

I WILL NOT GO INTO DETAIL ON HOW THESE OBJECTIVES WERE ACHIEVED. ON SUNDAY I HAD TWO PERSONAL MEETINGS IN RESTRICTED SESSION WITH FOREIGN MINISTER WU AND A MEETING ON MONDAY WITH PREMIER ZHAO. IN THE MEANTIME THE TWO DELEGATIONS DIVIDED UP INTO WORKING GROUPS ON THE MAIN AGREEMENT AND ON THE JOINT LIAISON GROUP. THE SITUATION WAS DEVELOPING BY THE HOUR AND IT WAS ONLY ON MONDAY EVENING THAT THE DOCUMENTS WERE COMPLETED IN PREPARATION

GROUP. THE SITUATION WAS DEVELOPING BY THE HOUR AND IT WAS ONLY ON MONDAY EVENING THAT THE DOCUMENTS WERE COMPLETED IN PREPARATION FOR THE MEETING WITH DENG.

THE RESULTS ARE RECORDED IN THE PAPERS BEFORE YOU. AS YOU WILL SEE FROM THE TEXT OF THE MAIN AGREEMENT WE ACHIEVED:

(A) THE REMOVAL OF LANGUAGE FROM THE CHINESE DRAFT WHICH WAS PREJUDICIAL TO OUR POSITION ON THE STATUS OF HONG KONG:

(B) A PROVISION THAT BOTH THE JOINT DECLARATION AND ITS ANNEXES WILL BE STIPULATED IN THE BASIC LAW:

(C) A PROVISION RECORDING THE (NEXT WORD UNDERLINED) AGREEMENT OF BOTH SIDES THAT THE JOINT DECLARATION AND ITS ANNEXES WILL BE PUT INTO EFFECT. IN OTHER WORDS LEGALLY BINDING:

(D) A PROVISION RECORDING THAT THE JOINT DECLARATION AND ITS ANNEXES WILL BE EQUALLY BINDING. MOREOVER, ANNEXES ARE ANNEXES: THE CONCEPT OF A SEPARATE EXCHANGE OF NOTES AND PROTOCOL HAS GONE.

IN RETURN WE HAD TO DROP THE ELABORATION OF THE CHINESE 12 POINTS FROM THE MAIN AGREEMENT IN EXCHANGE FOR AGREEMENT TO BRING THE 12 POINTS INTO LINE WITH THE ANNEXES. BUT THIS IS OFFSET BY THE PROVISIONS I HAVE JUST DESCRIBED WHICH MAKES THE ANNEXES AS BINDING AS THE MAIN AGREEMENT. WE WERE ABLE TO ACCEPT THE TITLE OF JOINT DECLARATION ONCE IT WAS AGREED THAT EVERYTHING WAS BINDING: THE WHOLE IS NOW A LEGALLY-BINDING INTERNATIONAL AGREEMENT.

ON THE JOINT LIAISON GROUP I FOUGHT HARD TO POSTPONE THE ESTABLISHMENT OF THE GROUP IN HONG KONG. 1 JULY 1988 WAS THE FURTHEST I COULD PUSH THEM AND EVEN THAT HAD TO BE NEGOTIATED WITH PREMIER ZHAO HIMSELF. BUT IN RETURN WE OBTAINED EXPLICIT UNDERTAKINGS IN THIS TEXT THAT THE GROUP WILL NOT BE AN ORGAN OF POWER: THAT IT WILL PLAY NO PART IN THE ADMINISTRATION OF HONG KONG: THAT IT WILL HAVE NO SUPERVISORY ROLE: AND THAT THE MEMBERS AND STAFF OF THE GROUP WILL ONLY CONDUCT ACTIVITIES WITHIN THE FUNCTIONS OF THE GROUP. ZHAO AGREED THAT ALL THIS WOULD BE MADE PUBLIC. THE DOCUMENT RECORDING THIS (BASICALLY OUR DRAFT), WILL ALSO BE AN ANNEX AND WILL THUS BE LEGALLY BINDING TOO. THE GROUPS OPERATIONS ARE DIVIDED INTO TWO PERIODS WITH THE MORE SENSITIVE SUBJECT - THE TRANSITION IN 1997 COMING INTO THE SECOND HALF, I.E. FROM 1991 ONWARDS.

I NOW COME TO THE POINT TO WHICH SIR S Y ATTACHES GREAT IMPORTANCE
CHINESE AGREEMENT THAT THE GROUP SHOULD CONTINUE ITS WORK UNTIL THE YEAR 2000. I TRIED HARD FOR 2002 BUT THE CHINESE WERE IMMOVABLE ON THIS. THEY PRESSED HARD TO LIMIT ITS FUNCTIONS AFTER 1997. I SUCCESSFULLY RESISTED THIS LIMITATION.

THE BALANCE SHEET THUS LOOKS LIKE THIS. FIRSTLY, WE AVOIDED BREAKDOWN, THE CONSEQUENCES OF WHICH WOULD HAVE BEEN INCALCULABLE. THERE IS NO DOUBT THAT THIS IS WHAT WOULD HAVE FACED US IF WE HAD NOT MOVED DURING MY VISIT ON THE LOCATION OF THE JOINT LIAISON GROUP IN HONG KONG. SECONDLY, WE HAVE AGREED THE TEXT OF A LEGALLY BINDING

NOT MOVED DURING MY VISIT ON THE LOCATION OF THE JOINT LIAISON GROUP IN HONG KONG. SECONDLY, WE HAVE AGREED THE TEXT OF A LEGALLY BINDING INTERNATIONAL AGREEMENT WHICH MEETS OUR ESSENTIAL REQUIRMENTS AND HAVE ENSURED THAT ITS PROVISIONS AND THOSE OF ITS ANNEXES WILL BE STIPULATED IN THE BASIC LAW. THIRDLY, WE HAVE HAD TO GIVE ON THE LOCATION OF THE GROUP IN HONG KONG, BUT WE HAVE DELAYED ITS ESTABLISHMENT HERE UNTIL 1988: BOUND IT HARD AND FAST TO NON-INTERVENTION: AND EXTENDED ITS LIFE TO 2000.


THERE IS STILL IMPORTANT WORK TO BE DONE ON THE ANNEXES. BUT I HAVE DENG'S ASSURANCE THAT THE CHINESE WILL APPROACH THIS IN THE SAME COOPERATIVE SPIRIT AS THE MAIN AGREEMENT. I TRUST YOU WILL AGREE THAT AS A PACKAGE THAT IS A VERY RESPECTABLE RESULT AND ONE WHICH WILL PAVE THE WAY TO AN AGREEMENT WHICH WILL PROVE ACCEPTABLE IN HONG KONG.

COMMENT

THE ABOVE TEXT WAS CAREFULLY PREPARED FOR THE CONFIDENTIAL DISCUSSION WITH EXCO AND REFLECTS THE REALNTY OF THE TOUGH NEGOTIATIONS WE HAD WITH THE CHINESE. BUT IT SHOULD NOT REPEAT NOT BE USED IN PUBLIC IF WE ARE TO AVOID INFRINGING THE OBLIGATION OF CONFIDENTIALITY.

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 FURTHEST THEY WOULD GO. THE SIGNIFICANCE OF THE YEAR 2000 WAS APPARENTLY HISTORIC: IT WOULD BE THE START OF A NEW CENTURY.

WE WE

IMMEDIATE

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PS/PDS

PS/MR LUCE

~~MR NELSON~~

ED/PED

PS/LADY YOUNG

SIR W HARDING

~~PRESIDENT CHAIR~~

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FM HONG KONG 311040Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 2176 OF 31 JULY

INFO IMMEDIATE PEKING

FOLLOWING FROM PRIVATE SECRETARY.

**FUTURE OF HONG KONG: SECRETARY OF STATE'S MEETING WITH CHAIRMAN
 DENG XIAOPING.**

SUMMARY

1. THE SECRETARY OF STATE HAD NINETY MINUTES WITH DENG THIS MORNING. DENG WAS EVIDENTLY WELL PLEASED WITH THE POINTS OF AGREEMENT REACHED DURING THE VISIT. BUT HE AGAIN EXPRESSED CONCERN, AS HE HAD DONE IN APRIL, THAT IN THE PERIOD BEFORE 1997 THE HONG KONG GOVERNMENT WOULD TAKE ACTION IN THE FIELD OF FINANCE, LAND AND THE PUBLIC SERVICE THAT WOULD ADVERSELY AFFECT THE INTERESTS OF THE FUTURE SAR, AND CHINA. THE SECRETARY OF STATE APPLAUDED DENG'S CONCEPT OF "ONE COUNTRY TWO SYSTEMS", ANSWERED HIS POINTS IN DETAIL AND ASSURED HIM THAT THE PRESENT PRUDENT MANAGEMENT OF HONG KONG WOULD CONTINUE.

DETAIL

2. IN THE COURSE OF INTRODUCTORY EXCHANGES, DENG OBSERVED THAT THE TWO SIDES COULD BE SAID TO HAVE ALMOST REACHED AGREEMENT ON THE HONG KONG QUESTION. ONLY SMALL DETAILS REMAINED. THE THANKED THE SECRETARY OF STATE AND ALL CONCERNED WITH THIS ACHIEVEMENT, WHICH WOULD SET AN EXAMPLE TO THE WORLD.

3. THE SECRETARY OF STATE REPLIED THAT THE PRIME MINISTER AND HE BOTH ATTACHED GREAT IMPORTANCE TO THIS SUBJECT. HE WAS VERY GLAD THAT SUBSTANTIAL PROGRESS HAD BEEN MADE AND PAID A TRIBUTE TO WU'S ROLE. DENG'S IDEA OF ONE COUNTRY TWO SYSTEMS WAS OF GREAT IMPORTANCE IN CARRYING THROUGH THE HISTORIC ENTERPRISE OF ENSURING HONG KONG'S CONTINUING STABILITY AND PROSPERITY BOTH BEFORE AND AFTER 1997. SOME IMPORTANT ISSUES REMAINED TO BE RESOLVED IN SPIRIT OF THIS APPROACH.

4. AFTER A LONG DIGRESSION ON ONE COUNTRY/TWO SYSTEMS, DENG SAID THAT HIS STRONG PERSONAL CONVICTION WAS THAT IT WOULD WORK IN THE CASE OF HONG KONG. THE QUESTION OF SOVEREIGNTY WOULD NOW BE SOLVED. THE CENTRAL CHINESE GOVERNMENT HAD NO INTENTION OF TAKING A SINGLE PENNY



HIS STRONG PERSONAL CONVICTION WAS THAT IT WOULD WORK IN THE CASE OF HONG KONG. THE QUESTION OF SOVEREIGNTY WOULD NOW BE SOLVED. THE CENTRAL CHINESE GOVERNMENT HAD NO INTENTION OF TAKING A SINGLE PENNY FROM HONG KONG. COOPERATION WOULD BE NEEDED NOT ONLY BETWEEN BRITAIN AND CHINA BUT ALSO WITH JAPAN, THE U.S. ETC. IT WAS THE DUTY OF ALL PARTIES TO HELP MAINTAIN HONG KONG'S STABILITY AND PROSPERITY. AT PRESENT CHINA EARNED DOLLARS 51,000 MILLION A YEAR IN FOREIGN EXCHANGE FROM HONG KONG. IF THERE WERE DISTURBANCES, THESE FOREIGN EXCHANGE EARNINGS WOULD FALL, PERHAPS BY DOLLARS 2,000 MILLION. HE DID NOT THINK THAT WOULD HAPPEN, IF CHINA AND BRITAIN CONTINUED TO COOPERATE. CHINA DID NOT WANT TROUBLE, BUT ALSO CHINA WAS NOT AFRAID OF IT.

5. DENG CONTINUED THAT HE WAS VERY CONCERNED ABOUT THE PERIOD BEFORE 1997. IF THIS WENT WELL, SO WOULD THE SAR. THE FIRST ISSUE HE RAISED WAS PERSONNEL. THERE WERE MANY COMPETENT PEOPLE IN HONG KONG (HE INTERJECTED THAT HE DID NOT INCLUDE PEOPLE LIKE SIR S.Y. CHUNG, WHO HAD EVIDENTLY IRRITATED DENG WHEN IN PEKING RECENTLY). HONG KONG PEOPLE, NOT PEKING PEOPLE, SHOULD RUN HONG KONG. THE MAIN DEPARTMENTS OF THE HONG KONG GOVERNMENT SHOULD BE RUN BY "PATRIOTS". THE OVERWHELMING NUMBER OF GOVERNMENT OFFICIALS SHOULD ALSO BE PATRIOTS. BY THIS HE MEANT THOSE WHO LOVED HONG KONG AND THE MOTHERLAND, I.E. FAVOURED REUNIFICATION WITH CHINA.

6. THE SECRETARY OF STATE ASSURED DENG THAT WE WERE DETERMINED TO DO ALL WE COULD TO ENSURE A SMOOTH TRANSITION IN 1997. WE CARED AS MUCH ABOUT THIS AS DID CHINA. BOTH COUNTRIES HAD THE HIGHEST INTEREST IN MAINTAINING STABILITY. HE HOPED THAT IN THE YEARS UNTIL 1997 WE WOULD CONTINUE TO COOPERATE, AND THAT CHINA WOULD LISTEN TO BRITAIN'S ADVICE. HE ENTIRELY AGREED THAT HONG KONG PEOPLE SHOULD RUN HONG KONG. THE HONG KONG GOVERNMENT WERE ALREADY BRINGING FORWARD HONG KONG PEOPLE INTO SENIOR POSITIONS (HE WENT ON TO GIVE EXAMPLES). DENG COMMENTED THAT THE IMPORTANT QUESTION WAS WHAT KIND OF PEOPLE THEY WERE. BRITAIN AND CHINA SHOULD TACKLE THIS QUESTION IN THE LATTER HALF OF THE TRANSITION PERIOD. IT WAS NOT NECESSARY TO HAVE LEFTIST PEOPLE IN SENIOR POSITIONS. BUT THEY MUST BE PATRIOTS. ?

7. DENG THEN PUT THE FOLLOWING POINTS, MAKING IT CLEAR HE WAS ADDRESSING THE GOVERNOR:

(I) NOTHING SHOULD BE DONE TO AFFECT THE VALUE OF THE HONG KONG DOLLAR. ITS CREDIBILITY WAS BASED ON THE LARGE SUM IN THE EXCHANGE FUND. HE UNDERSTOOD THAT THERE WAS MORE IN THE EXCHANGE FUND THAN THE TOTAL OF HONG KONG DOLLARS ISSUED. THERE SHOULD BE NO CHANGE IN THAT SITUATION.

(II) LAND.

THE CHINESE HAD AGREED THAT LAND LEASES COULD BE GRANTED BY THE HONG KONG GOVERNMENT FOR 50 YEARS AFTER 1997. THEY HAD ALSO AGREED THAT THE HONG KONG GOVERNMENT COULD USE THE INCOME FROM PREMIA CORRESPONDING TO THE PERIOD AFTER 1997. THEY HAD DONE SO ON CONDITION THAT INCOME FROM THE LAND LEASES SHOULD BE USED FOR LAND DEVELOPMENT AND CAPITAL CONSTRUCTION: NOT FOR CURRENT EXPENDITURE.

(III) HE HOPED THE HONG KONG GOVERNMENT WOULD NOT INCREASE THE SIZE OF THE PUBLIC SERVICE BEFORE 1997, NOR MAKE SUBSTANTIAL INCREASES

(III) HE HOPED THE HONG KONG GOVERNMENT WOULD NOT INCREASE THE SIZE OF THE PUBLIC SERVICE BEFORE 1997, NOR MAKE SUBSTANTIAL INCREASES IN THEIR SALARIES AND PENSION RIGHTS. OTHERWISE THE SAR GOVERNMENT WOULD BE FACED WITH A MAJOR BURDEN.

(IV) HE HOPED THE HONG KONG GOVERNMENT ~~WOULD~~ NOT SEEK TO IMPOSE A TEAM OF THEIR OWN PEOPLE ON THE FUTURE SAR GOVERNMENT.

(V) HE HOPED THE HONG KONG WOULD DISCOURAGE A WHOLESALE FLIGHT OF CAPITAL. HE MENTIONED JARDINES AND RUMOURS THAT THE HONG KONG AND SHANGHAI BANK WAS THINKING OF MOVING ITS CAPITAL OUT OF HONG KONG. U.S. AND JAPANESE CAPITAL WOULD NOT LEAVE; THEY HAD SAID THAT IF OTHERS LEFT, THEY WOULD BRING IN MORE. IF BRITISH CAPITAL STAYED, SO WOULD THE REST. HE HOPED THE GOVERNOR COULD PERSUADE THE HONG KONG SHANGHAI BANK NOT TO MOVE OUT.

8. THE SECRETARY OF STATE UNDERLINED THE COMMON OBJECTIVE OF BRITAIN AND CHINA IN PRESERVING PROSPERITY AND STABILITY IN HONG KONG. HE ADDED THAT, IN FAIRNESS TO SIR S.Y. CHUNG, IT SHOULD BE SAID THAT HE AND HIS COLEAGUES ALSO CARED ABOUT THE FUTURE OF HONG KONG. THE GOVERNOR'S PRIME PURPOSE WAS TO PRESERVE ALL THAT WE AND CHINA CARED ABOUT IN HONG KONG. HE ASSURED DENG THAT, DRAWING ON HIS EXPERIENCE AS CHANCELLOR AND CHAIRMAN OF THE IMF INTERIM COMMITTEE, NO COUNTRY'S FINANCES WERE MORE PRUDENTLY MANAGED THAN THOSE OF HONG KONG. THAT WOULD CONTINUE. THE SAME APPLIED TO THE PUBLIC SERVICE. HE ENTIRELY AGREED ABOUT THE FUNDAMENTAL IMPORTANCE OF THE HONG KONG DOLLAR FOR HONG KONG'S ECONOMY. WE WOULD CONTINUE TO SUSTAIN IT AS WE HAD DONE IN THE PAST. THE EXCHANGE FUND WOULD CONTINUE TO BE MANAGED FOR THE GOOD OF THE HONG KONG ECONOMY.

9. ON LAND, THE SECRETARY OF STATE SAID THAT DENG NEED HAVE NO FEAR. HE GAVE HIS PERSONAL ASSURANCE THAT THE HONG KONG GOVERNMENT WOULD CONTINUE TO MANAGE LAND IN THE BEST INTERESTS OF THE SAR. WE HAD PUT PROPOSALS TO CHINESE EXPERTS.

10. ON THE HONG KONG AND SHANGHAI BANK, THE SECRETARY OF STATE MADE CLEAR THAT IT HAD NO PLANS TO MOVE. THE JARDINES MOVE HAD NOT BEEN TIMELY, BUT THEY HAD AT LEAST MAINTAINED THEIR HQ AND OPERATIONS IN HONG KONG. THE MAIN POINT WAS THAT BRITAIN AND CHINA NEEDED TO WORK TOGETHER TO ENSURE THAT HONG KONG REMAINED A MAGNET FOR CAPITAL. WE ALL WANTED TO SEE THE U.S. AND JAPAN KEEPING THEIR CAPITAL IN HONG KONG. BUT THIS WAS NOT A DECISION FOR GOVERNMENTS. IT REQUIRED THE CONTINUING CONFIDENCE THAT THE CAPITALIST SYSTEM WOULD CONTINUE. THAT WAS WHY WE WERE SEEKING COMPREHENSIVE AND PRECISE PROVISIONS ON SUCH ISSUES AS THE LAW, CIVIL AVIATION ETC. HE HOPED THAT THE CHINESE SIDE WOULD LISTEN TO OUR ADVICE ON THIS.

11. DENG SAID THIS WAS VERY GOOD. THE CHINESE SIDE HAD THE HIGHEST TRUST IN THE SECRETARY OF STATE AND THE PRIME MINISTER. THEY HAD COME TO THAT CONCLUSION IN THE COURSE OF THE HONG KONG NEGOTIATIONS. HE WAS FULL OF CONFIDENCE THAT ONE COUNTRY TWO SYSTEMS WOULD WORK.

12. IN CONCLUSION DENG INVITED THE QUEEN TO VISIT CHINA AND SAID THAT PRIME MINISTER ZHAO HOPED TO VISIT THE U.K. NEXT YEAR; BOTH

CTIONS REPORTED SEPARATELY.

12. IN CONCLUSION DENG INVITED THE QUEEN TO VISIT CHINA AND SAID THAT PRIME MINISTER ZHAO HOPED TO VISIT THE U.K. NEXT YEAR; BOTH INVITATIONS REPORTED SEPARATELY.

13. HE ASKED FOR HIS GOOD WISHES TO BE CONVEYED TO THE PRIME MINISTER AND EXPRESSED HIS THANKS FOR HER CONTRIBUTION TO THE SOLUTION OF THE HONG KONG QUESTION.

14. ON THE WAY TO THE AIRPORT, ZHOU MAN TOLD THE SECRETARY OF STATE THAT THERE WAS AN ADDITIONAL POINT WHICH DENG INTENDED TO MENTION. THIS WAS THAT HE HOPED THE HONG KONG GOVERNMENT WOULD NOT UNDERTAKE VERY LARGE PROJECTS BEFORE 1997 WHICH WOULD BE A SUBSTANTIAL DRAIN ON THE SAR'S RESOURCES.

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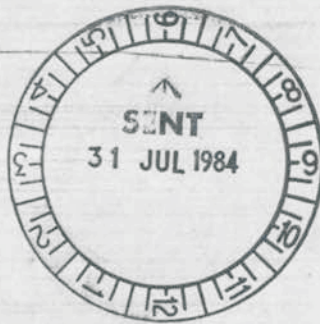
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FROM PEKING 310412Z JULY 84
TO F L A S H FCO
TELNO 1679 OF 31/7/84.

FOLLOWING FROM PRIVATE SECRETARY

MEETING WITH SHAIRMAN DENG XIAOPING: INVITATIONS TO THE QUEEN AND PRIME MINISTER

1. THE SECRETARY OF STATE SAW CHAIRMAN DENG XIAOPING THIS MORNING. REPORTING TELEGRAM WILL FOLLOW SHORTLY. BUT YOU SHOULD KNOW IMMEDIATELY THAT AT THE CONCLUSION OF THE MEETING, DENG EXTENDED ON BEHALF OF THE CHINESE GOVERNMENT AN INVITATION TO HER MAJESTY THE QUEEN TO VISIT CHINA AT A TIME CONVENIENT TO HER. THE SECRETARY OF STATE THANKED DENG AND UNDERTOOK TO CONVEY THE INVITATION TO THE QUEEN. IN DOING SO HE POINTED OUT THAT TH QUEEN'S PROGRAMME OF OVERSEAS VISITS WAS OF COURSE PLANNED WELL AHEAD.

2. DENG ALSO SAID THAT THE CHINESE PRIME MINISTER ZHAO ZIYANG LOOKED FORWARD TO VISITING BRITAIN EARLY NEXT YEAR. HE HAD NOT INCLUDED BRITAIN ON HIS RECENT EUROPEAN TOUR BECAUSE IT WOULD NOT HAVE BEEN APPROPRIATE GIVEN THE STATE OF THE HONG KONG NEGOTIATIONS AT THAT TIME. THE SECRETARY OF STATE AGAIN THANKED DENG AND SAID THAT WE WOULD BE VERY GLAD TO SEE ZHAO AT A MUTUALLY CONVENIENT DATE.

3. YOU WILL WISH TO ALERT THE PALACE AND NO.10 TO THESE INVITATIONS AS DENG, OR THE CHINESE, MAY WELL MAKE THEM PUBLIC TODAY IN PEKING.

EVANS

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PS/PUS

PS/MR LUCE

~~PS/MR ROBERTS~~~~ED/ED~~~~ED/ED~~

PS | LADY YOUNG

SIR W HARDING

RESIDENT CLERK

COPIES TO:

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MR COLES, NO. 10 DOWNING ST

MR ROBERTS, NEWS DEPT

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DESKBY 310830Z

FROM PEKING 310440Z JULY 84

TO IMMEDIATE FCO

TELNO 1677 OF 31/7/84

FROM PRIVATE SECRETARY

FUTURE OF HONG KONG: MEETING WITH CHINESE PRIME MINISTER 30 JULY

SUMMARY

1. THE SECRETARY OF STATE HAD NINETY MINUTES WITH ZHAO YESTERDAY. AGREEMENT AFTER CONSIDERABLE NEGOTIATION ON MOVE OF THE JOINT GROUP TO HONG KONG ON 1 JULY 1988 AND TO EXTENSION OF GROUP UNTIL 2000 SUBJECT TO ASSURANCES. ZHAO OPPOSED DIVISION OF PRE-1997 PERIOD INTO TWO PHASES. HE AGREED THAT SECRETARY OF STATE'S PUBLIC STATEMENT IN HONG KONG SHOULD MAKE CLEAR CHINESE ASSURANCES ABOUT WORK OF JOINT GROUP. BASIC LAW TO BE PROMULGATED BY 1990, PERHAPS IN 1988/89. THE SECRETARY OF STATE ARGUED THE NEED FOR COMPREHENSIVE AND CLEAR ANNEXES.

DETAIL

2. ZHAO WENT STRAIGHT TO THE POINT. HAD THE SECRETARY OF STATE RECEIVED ANY INSTRUCTIONS FROM LONDON ON THE TIMING OF THE JOINT GROUP'S MOVE TO HONG KONG?

3. THE SECRETARY OF STATE SAID THAT HIS TALKS WITH WU HAD BEEN SUEFUL. THEY HAD PAVED THE WAY FOR THE BREAKTHROUGH. BUT IMPORTANT WORK REMAINED TO BE DONE ON THE ANNEXES. HE SAID THE PRIME MINISTER HAD ASKED HIM TO CONVEY HER GOOD WISHES. SHE HAD A STRONG PERSONAL COMMITMENT TO ACHIEVING A GOOD AGREEMENT AND TO COOPERATING OVER ITS IMPLEMENTATION. AS HER LETTER MADE CLEAR, HMG WOULD WANT TO LOOK AT THE AGREEMENT AND ANNEXES AS A WHOLE BEFORE DECIDING IF THEY COULD BE COMMENDED. IT WAS VERY IMPORTANT THAT THEY SHOULD COMMAND CONFIDENCE IN PARLIAMENT AND IN HONG KONG.

4. ON THE JOINT GROUP, THE SECRETARY OF STATE SAID THAT THE TRANSITION IN 1997 SHOULD BE CARRIED OUT COMPETENTLY SO AS TO RETAIN CONFIDENCE. HE ATTACHED GREAT IMPORTANCE TO WU'S ASSURANCES



RETAIN CONFIDENCE. WE ATTACHED GREAT IMPORTANCE TO WU'S ASSURANCES THAT THE JOINT GROUP WOULD NOT BE AN ORGAN OF POWER, WOULD PLAY NO PART IN THE ADMINISTRATION OF HONG KONG AND WOULD NOT HAVE A SUPERVISORY ROLE. WE APPRECIATED THE AGREEMENT THAT THE GROUP SHOULD MEET IN HONG KONG, PEKING AND LONDON. THE CHINESE SIDE RECOGNISED THE CASE FOR DELAYING THE GROUP'S LOCATION IN HONG KONG. WU HAD FAVOURED 1968. THIS WAS EARLIER THAN DESIRABLE.

5. THE SECRETARY OF STATE SAID THAT HE HAD BEEN IN TOUCH WITH HIS COLLEAGUES IN LONDON ABOUT THE TIMING. THE BRITISH POSITION REMAINED THAT THE GROUP SHOULD MOVE TO HONG KONG IN 1989. THE GROUP WOULD OF COURSE COME INTO EXISTENCE IMMEDIATELY AFTER RATIFICATION. ONE YEAR THUS DIVIDED THE TWO SIDES.

6. ZHAO SAID THAT THE NAME, TASKS AND COMPOSITION OF THE GROUP WOULD NOT CAUSE DIFFICULTY. WU HAD CLARIFIED THE CHINESE POSITION ON THESE POINTS: HIS REMARKS REPRESENTED THE CHINESE GOVERNMENT'S POSITION. THE ONLY PURPOSE BEHIND THE CHINESE INSISTENCE ON NOT DELAYING ESTABLISHMENT OF THE GROUP IN HONG KONG WAS TO MAINTAIN STABILITY AND PROSPERITY. WU HAD ALREADY SAID THAT THE BASIC LAW WOULD BE PROMULGATED NO LATER THAN 1990. THE CHINESE SIDE MIGHT PROMULGATE IT IN 1988 OR 1989. HENCE THE CHINESE DECISION TO AGREE TO DELAY ESTABLISHMENT OF THE GROUP IN HONG KONG UNTIL 1988. THIS WAS A BIG CONCESSION MADE TO MEET THE BRITISH WISHES. IT WAS NOT WITHIN THEIR ORIGINAL PLAN BUT THEY WERE PREPARED TO MAKE THIS CONCESSION TO REMOVE THE OBSTACLES TO AN EARLY AGREEMENT.

7. THE BRITISH SIDE HAD REPEATEDLY SUGGESTED THAT THE BASIC LAW SHOULD BE PROMULGATED EARLY. THE CHINESE SIDE AGREED THAT EARLY PROMULGATION WOULD HELP CONFIDENCE IN HONG KONG. THE DECISION TO DELAY THE MOVE OF THE JOINT GROUP TO HONG KONG UNTIL 1988 HAD ALREADY HAD SOME EFFECT ON THE CHINESE SIDE, FURTHER DELAY WOULD UPSET THEIR WHOLE TIMETABLE FOR FUTURE WORK. IT WAS NOT JUST A QUESTION OF ONE OR TWO YEARS: THE TWO SIDES SHOULD PROCEED WITH THE GREATER INTEREST OF HONG KONG'S STABILITY AND PROSPERITY IN MIND. THEIR MAJOR CONCESSION HAD BEEN MADE IN A SPIRIT OF MUTUAL ACCOMMODATION. THIS WAS ALSO THE CASE FOR THEIR AGREEMENT TO PROLONG THE GROUP'S EXISTENCE UNTIL 2000. IT DEMONSTRATED CHINESE SINCERITY. IT MARKED THE BEGINNING OF A NEW ERA. HE HOPED THAT THEIR DISCUSSION ON ONE OR TWO YEARS NEED NOT BE CONTINUED AND THAT THE ISSUE WOULD BE FINALISED DURING THE VISIT.

8. THE SECRETARY OF STATE SAID HE AGREED WITH THE LATTER POINT. HE COULD ACCEPT THAT THE GROUP SHOULD END IN THE YEAR 2000. ON THE TIMING OF ITS MOVE TO HONG KONG, HE SUGGESTED THAT, TO RESOLVE THE DIFFERENCE BETWEEN THE TWO SIDES, THE GROUP SHOULD MOVE TO HONG KONG ON 1 JULY 1988. IF THIS WERE ACCEPTABLE, HE WOULD RECOMMEND IT TO THE PRIME MINISTER.

9. ZHAO PRESSED FOR CONFIRMATION THAT AGREEMENT HAD BEEN REACHED THAT THE GROUP WOULD MOVE TO HONG KONG ON 1 JULY 1988 WITH ITS STANDING MACHINERY. THE SECRETARY OF STATE INDICATED THAT HE HAD AGREED, SUBJECT TO THE OVERALL RESERVE THAT WE WOULD WANT TO LOOK AT THE PACKAGE AS A WHOLE AND DECIDE WHETHER WE COULD COMMEND IT TO PARLIAMENT. HE EMPHASISED THAT HIS AGREEMENT WAS ON THE BASIS OF THE JOINT GROUP. THE TEXT OF

AT THE PACKAGE AS A WHOLE AND DECIDE WHETHER WE COULD COMMEND IT TO PARLIAMENT. HE EMPHASISED THAT HIS AGREEMENT WAS ON THE BASIS OF THE TERMS SET OUT IN THE PAPER ON THE JOINT GROUP, THE TEXT OF WHICH HAD BEEN AGREED SUBJECT TO ONE POINT, AND ON THE BASIS OF THE ASSURANCES GIVEN BY STATE COUNCILLOR WU. THE PAPER WE HAD PUT FORWARD VISUALISED MOVEMENT TO A PERIOD OF INTENSIFIED COOPERATION IN THE LATER YEARS. WU HAD ACCEPTED THIS DOCUMENT IN PRINCIPLE ON 28 JULY. SINCE THEN, THE CHINESE SIDE HAD SAID THAT THEY DID NOT AGREE ABOUT THE TIMING OF THE TWO PHASES. THE DATE IN THE DOCUMENT WHICH WU HAD ACCEPTED IN PRINCIPLE WAS 1993. HE HOPED THAT THIS WAS ACCEPTABLE.

10. ZHAO SAID THAT THE TWO SIDES WERE STILL SOME DISTANCE APART ON THE DIVISION OF THE TRANSITION PERIOD. THIS COULD BE LEFT TO THE DELEGATIONS IF IT COULD NOT BE RESOLVED DURING THE VISIT. HOWEVER, HE SAW NO NEED TO DIVIDE THE TRANSITION PERIOD. IT WOULD BE DIFFICULT TO DECIDE ON CRITERIA FOR THE DIVISION: E.G. ON ESTABLISHMENT OF THE JOINT GROUP IN HONG KONG, PROMULGATION OF THE BASIC LAW OR IN 1993 AS SUGGESTED BY THE BRITISH SIDE. HE HAD APPRECIATED BRITISH STATEMENTS ABOUT VERY CLOSE COOPERATION IN THE TRANSITION PERIOD AND AS 1997 APPROACHED. THERE SHOULD NOT (NOT) BE A CLEAR-CUT DIVISION OF THE TRANSITIONAL PERIOD. AS AGREEMENT HAD BEEN REACHED ON THE JOINT GROUP, OTHER QUESTIONS SHOULD NOT BE DIFFICULT TO SOLVE. WU INTERJECTED THAT HE HAD SAID THAT THE CHINESE SIDE COULD AGREE IN PRINCIPLE THAT THE BRITISH DOCUMENT SHOULD SERVE AS A BASIS FOR DISCUSSION, NOT THAT THE CHINESE SIDE AGREED TO DIVIDING THE TRANSITION PERIOD AT 1993. ZHAO SUGGESTED THAT THIS POINT BE LEFT TO THE DELEGATIONS.

11. THE SECRETARY OF STATE SAID THAT THE QUESTION OF THE JOINT LIAISON GROUP HAD BEEN VERY CAREFULLY CONSIDERED BY THE PRIME MINISTER. HER APPROVAL ON THE DIFFICULT QUESTION OF TIMING HAD BEEN GIVEN ON THE BASIS THAT THE CHINESE ACCEPTED THE MAINPOINTS IN THE BRITISH PAPER ON THE GROUP, INCLUDING THE TWO PHASES, AND ON THE BASIS OF WU'S ASSURANCE.

12. ZHAO SAID THAT IF THE BRITISH SIDE STILL CONSIDERED DIVISION DESIRABLE, THIS COULD BE DISCUSSED FURTHER DURING THE VISIT. IF AGREEMENT WAS REACHED, SO MUCH THE BETTER. HE DID NOT THINK THE PROBLEM DIFFICULT TO SOLVE. BUT HE SOUGHT TO OPPOSE DIVISION. THE SECRETARY OF STATE SAID THAT HE WISHED TO RESOLVE THIS POINT DURING HIS VISIT, BECAUSE OF THE NEED TO PRESENT THE ARGUMENT ON THE JOINT GROUP TO PUBLIC OPINION IN HONG KONG SOON (THE POINT WAS RESOLVED IN FURTHER WORKING LEVEL EXCHANGES LATER - REPORTED SEPARATELY).

13. THE SECRETARY OF STATE REMINDED ZHAO OF HIS APRIL UNVEILING STATEMENT WHICH WU HAD DESCRIBED AS HELPFUL. HE WANTED TO MAKE A SIMILAR STATEMENT ON THIS TRIP. HE HOPED TO INCLUDE THE JOINT LIAISON GROUP IN THIS PRESENTATION. HE BELIEVED IT WOULD BE HELPFUL IF HE PRESENTED THE ISSUE HIMSELF IN HONG KONG AND THAT NEWS DID NOT REACH HONG KONG BEFORE HIS PRESENTATION. ZHAO AGREED THAT THE SECRETARY OF STATE COULD SPEAK ABOUT THE GROUP'S COMPOSITION AND TIMING OF ESTABLISHMENT IN HONG KONG AND THAT HE COULD MAKE PUBLIC THE ASSURANCES WE HAD RECEIVED FROM WU THAT THE GROUP

MAKE PUBLIC THE ASSURANCES WE HAD RECEIVED FROM WU THAT THE GROUP WOULD NOT INTERFERE IN HONG KONG AFFAIRS. HIS VISIT HAD GIVEN FRESH IMPETUS TO THE TALKS AND HAD BEEN SUCCESSFUL. HE APPRECIATED THE SECRETARY OF STATE'S EFFORTS.

14. ZHAO THANKED THE SECRETARY OF STATE FOR CONVEYING THE PRIME MINISTER'S LETTER. HE FULLY UNDERSTOOD THE IMPORTANCE THE PRIME MINISTER ATTACHED TO THE TALKS AND HER CONCERN. HER LETTER HAD HELPED ACHIEVE A BREAK-THROUGH. HE APPRECIATED HER FRIENDLY ATTITUDE AND STATESMANSHIP. HE ASKED THAT HIS GOOD WISHES AND THANKS FOR THE LETTER BE CONVEYED TO THE PRIME MINISTER.

15. ZHAO SAID HE WISHES TO REITERATE SIX POINTS:

(A) TO PROCEED WITH TWO SYSTEMS WITHIN ONE COUNTRY HAD BEEN A CAREFULLY CONSIDERED STRATEGIC POLICY DECISION. IT WAS BY NO MEANS AN EXPEDIENT. IT WOULD BE IMPLEMENTED IN EARNEST. CHINA MEANT WHAT SHE SAID.

(B) HE WELCOMED AGREEMENT ON THE MAIN AGREEMENT. THIS AND THE ANNEXES WOULD BE EQUALLY BINDING. THEY WOULD BE BINDING ON BOTH SIDES. THEIR CONTENTS WOULD BE REFLECTED IN THE BASIC LAW.

(C) FOR THE SAKE OF HONG KONG'S STABILITY AND PROSPERITY - THE CHINESE SIDE WAS READY TO EXPEDITE WORK IN DRAWING UP THE BASIC LAW. IT WOULD BE PROMULGATED NOT LATER THAN 1990. THE CHINESE SIDE WOULD TRY TO PROMULGATE IT IN 1989 OR 1989.

(D) IN THE PERIOD UP TO 1997, THE UK WOULD CONTINUE TO BE RESPONSIBLE FOR THE ADMINISTRATION OF HONG KONG. CHINA HAD NO INTENTION OF ENTERING INTO A CONDOMINIUM.

(E) THERE WERE NO BIG DIFFERENCES OVER THE NAME, TASKS OR COMPOSITION OF THE JOINT GROUP. HE THEN REITERATED IN STANDARD TERMS THE ASSURANCES ON THE GROUP'S ACTIVITIES.

(F) TO MEET BRITISH WISHES, THE CHINESE SIDE WAS PREPARED TO DELAY ESTABLISHMENT THERE UNTIL 1 JULY 1988 AND TO PROLONG THE GROUP'S EXISTENCE UNTIL 2000.

ALL THIS WOULD BE CONDUCIVE TO THE MAINTENANCE OF HONG KONG'S STABILITY AND PROSPERITY UP TO AND BEYOND 1997. IT TOOK FULL ACCOUNT OF RATIONAL BRITISH SUGGESTIONS AND MET BRITISH DIFFICULTIES.

16. THE SECRETARY OF STATE SAID THAT CONFIDENCE AND PROSPERITY DEPENDED VERY MUCH ON THE CONTENT OF THE ANNEXES. HE WAS GLAD THAT SIX ANNEXES WERE AGREED. VERY IMPORTANT ANNEXES REMAINED. THEY SHOULD CONTAIN ALL THE ELEMENTS NECESSARY FOR CONTINUITY AND CONFIDENCE. HE RECALLED ZHAO'S COMMENTS ABOUT LEAST POSSIBLE CHANGE AND GREATEST POSSIBLE CONTINUITY. HE HOPED THAT TOO MUCH ATTENTION WOULD NOT BE GIVEN TO TRIVIALITY. HE REFERRED TO THE NEED FOR ASSURANCES ABOUT THE LEGAL SYSTEM AND LAND, AND MORE SPECIFICALLY TO CIVIL AVIATION. IF CPA WAS TO CONTINUE TO EXPAND IT NEEDED TO BE ASSURED OF BEING ABLE TO RECOVER THE HUGE INVESTMENT THAT WAS NECESSARY. IT WAS EQUALLY IMPORTANT THAT THE REMAINING ANNEXES

TO CIVIL AVIATION: IF CPA WAS TO CONTINUE TO EXPAND IT NEEDED TO BE ASSURED OF BEING ABLE TO RECOVER THE HUGE INVESTMENT THAT WAS NECESSARY. IT WAS EQUALLY IMPORTANT THAT THE REMAINING ANNEXES SHOULD BE COMPREHENSIVE AND CLEAR.

17. ZHAO SAID THAT THE TWO SIDES COULD TRY TO INCLUDE AS MANY AGREED POINTS AS POSSIBLE, PROVIDED THEY DID NOT ADVERSELY AFFECT THE SOLEMNITY OF THE DOCUMENT. EXCESSIVE DETAIL WAS UNNECESSARY. ONLY IMPORTANT GENERAL PRINCIPLES OR DETAILS SHOULD BE INCLUDED. SOME PEOPLE IN HONG KONG MIGHT CLAIM THAT INCLUSION OF TOO MUCH DETAIL IN THE AGREEMENT, AND HENCE IN THE BASIC LAW, COULD ADVERSELY AFFECT THE AUTONOMY OF THE SAR.

18. THE SECRETARY OF STATE SAID THAT NO ONE SOUGHT UNNECESSARY DETAIL. SO FAR THE NEED FOR BREVITY, CLARITY AND PRECISION HAD BEEN BALANCED. DETAIL WAS REQUIRED NOT JUST TO REASSURE PEOPLE IN HONG KONG, BUT ALSO OVERSEAS INVESTORS. IT WOULD BE A GREAT PITY TO 'SPOIL THE SHIP FOR A HA'PORTH OF TAR'.

19. ZHAO SAID THAT AGREEMENT ON THE MOST IMPORTANT QUESTION HAD BEEN ACHIEVED. IT WOULD NOT BE DIFFICULT TO SETTLE OUTSTANDING ISSUES.

EVANS

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PS
PS/PUS
PS/MR LUCE
~~YF/ALISON~~
ED/ED
ED/ED
PS LADY YOUNG
SIR W HARDING
RESIDENT CLERK

COPIES TO:
^{POWELL}
MR COLES, NO. 10 DOWNING ST
MR ROBERTS, NEWS DEPT
SIR PERCY CRADOCK

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FH TOKYO 311200Z JUL 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 595 OF 31/7/84

AND TO IMMEDIATE HONG KONG (FOR PRIVATE SECRETARY)

INFO IMMEDIATE HONG KONG (FOR GOVERNOR)

INFO IMMEDIATE PEKING

MY TEL NO 582 : FUTURE OF HONG KONG:

OFFER BY MR NAKASONE TO SPEAK TO THE CHINESE.

1. HASEGAWA SUMMONED ME TO THE PRIME MINISTER'S OFFICE TODAY TO TELL ME THAT MR NAKASONE HAD APPROVED A MESSAGE TO BE SENT ON THURSDAY MORNING, 2 AUGUST, TO THE JAPANESE EMBASSY IN PEKING BY A SPECIAL COURIER, FOR TRANSMISSION TO HU YAOBANG. HE WONDERED WHETHER, BEFORE IT LEFT, I HAD ANYTHING TO SAY ABOUT YOUR CURRENT TALKS IN PEKING.

2. HE WENT ON TO TELL ME THAT IN MR NAKASONE'S LETTER IT WAS PROPOSED THAT THE POINTS AT (A) AND (B) IN PARAGRAPH 5 OF YOUR TEL NO 401 (ANY AGREEMENT MUST BE DETAILED AND LEGALLY BINDING; AND IT MUST BE CLEAR THAT THE BRITISH AND HONG KONG GOVERNMENTS HAD RESPONSIBILITY FOR HONG KONG UP TO 1997) WOULD BE ATTRIBUTED TO US, AS THE BRITISH VIEW. MR NAKASONE'S LETTER WOULD GO ON TO MAKE POINTS WHICH REINFORCED THESE BRITISH POINTS, SUCH AS THAT HONG KONG MUST REMAIN A FREE, CAPITALIST ECONOMY.

3. I REMINDED MR HASEGAWA THAT I HAD STRESSED THE DELICACY OF OUR APPROACH, AND THAT WE WERE HOPING MR NAKASONE WOULD SEE IT AS BEING IN JAPAN'S INTERESTS TO MAKE THE SORT OF POINTS WHICH HE WAS NOW PROPOSING TO ATTRIBUTE TO US. I SAID THAT I THOUGHT THAT THE MESSAGE IN THE FORM HE WAS NOW PROPOSING COULD BE DANGEROUS. WE WERE, AS I HAD REPEATEDLY TOLD HIM, ANXIOUS THAT THE CHINESE SHOULD NOT CONCLUDE THAT WE WERE BRIEFING THE JAPANESE IN CONFIDENCE (SEE LAST SENTENCE OF PARA 2 OF MY TELNO 569)

*Prime Minister.
This is being overtaken by events.
I have told the
FCO to
suggest to
the Japanese
that the
message be
put on ice
while the
results of
the latest
talks also
are absorbed.
A rather
different sort
of message
may be
needed
CDD
31/7*

4. AFTER SOME DISCUSSION IT WAS AGREED THAT MR NAKASONE'S PROPOSED LETTER WOULD NOT REPEAT NOT ISSUE PENDING MY RECEIPT OF FURTHER INSTRUCTIONS.

5. THIS HAS GONE WRONG. I THINK THAT MR NAKASONE IS NOT WILLING TO TAKE SO FIRM A LINE AS WE HAD HOPED. HE HAS TRIED TO SQUARE THE CIRCLE BY ATTRIBUTING TO US VIEWS WHICH WE HAD QUITE SPECIFICALLY EXPRESSED THE HOPE THAT HE WOULD SEE AS BEING IN JAPAN'S INTEREST.

6. IN THE CIRCUMSTANCES, YOU MAY WISH TO INSTRUCT ME IMMEDIATELY TO SAY TO MR HASEGAWA THAT THINGS HAVE DEVELOPED DURING YOUR VISIT TO PEKING(WITH A LITTLE INSIDE INFORMATION IF POSSIBLE) AND THAT WE SHOULD BE CONSIDERING THESE DEVELOPMENTS VERY CAREFULLY. MEANWHILE, THOUGH WE WERE GRATEFUL FOR MR NAKASONE'S WIVGS ZCPQNDYZNUKE THE SORT OF ACTION WE HAD REQUESTED, WE WERE PARTICULARLY CONCERNED THAT HE SHOULD NOT REPEAT NOT FOR THE TIME BEING ATTRIBUTE ANY VIEWS WHATSOEVER TO THE BRITISH GOVERNMENT . THIS WAS SIMPLY IN ORDER THAT THE CHINESE SHOULD NOT BE ABLE TO ACCUSE US OF ANY BREACH OF CONFIDENCE. WE RECOGNISED THAT IT WOULD, OF COURSE, BE HELPFUL FOR HIM TO EMPHASISE AT ANY OPPORTUNITY WHICH HE MIGHT HAVE THE DESIRABILITY THAT HONG KONG SHOULD CONTINUE AS A FREE, CAPITALIST ECONOMY.

7. GRATEFUL FOR VERY EARLY INSTRUCTIONS.

GIFFARD

NNNN

V

PARA SIX LINE SIX

..WE WERE GRATEFUL FOR MR NAKASONE'S WILLINGNESS TO TAKE THE SORT OF ACTION

SECRET



Foreign and Commonwealth Office
London SW1A 2AH

code
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From The Minister of State
Richard Luce MP

31 July 1984

NBOM
CDP
3/2

Jean Michelas.

You wrote to Geoffrey Howe on 24 July enclosing a note prepared by your officials on the subject of Hong Kong Licensing and British Airways Privatisation. I am replying in his absence in the Far East.

FCO officials, including Legal Advisers, were, as you know, fully consulted during the drafting of the note. In general we welcome the changes you are proposing, and feel that they adequately reconcile our concerns with regard to Hong Kong with your own requirements related to the forthcoming privatisation of British Airways.

The option which the note recommends is consistent with our general aim to reinforce Hong Kong's autonomy in many fields, including civil aviation, between now and 1997, so as to equip it as well as possible for a largely autonomous existence as a Special Administrative Region of China after that date. We attach great importance to this. In that connection we feel it will probably be desirable to extend autonomy beyond licensing arrangements to the establishment of separate air services arrangements: but we accept that this will need to be considered in the light of the eventual outcome of our negotiations with the Chinese. We hope too that the proposals will provide sufficient flexibility to enable Hong Kong to negotiate revised arrangements as necessary in the light of future changes in its air traffic requirements. And I have no doubt that the ending of BA's exemption from the need to obtain licenses from the Hong Kong Air Transport Licensing Authority will be much welcomed by Hong Kong.

I agree that your officials should now seek the views of the Secretary for Economic Services in Hong Kong on the proposals. I note the legislative implications contained in Annex D.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the Lord Privy Seal.

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

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Ridley

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PS | LADY YOUNG
SIR W HARDING
RESIDENT CLERK

COPIES TO:
P. WELLS
MR COLES, NO. 10 DOWNING ST
MR ROBERTS, NEWS DEPT
SIR PERCY CRADOCK

SECRET

FROM PEKING 301230Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1670 OF 30/7/84

INFO IMMEDIATE HONG KONG

FOLLOWING FROM PRIVATE SECRETARY

FUTURE OF HONG KONG: SECRETARY OF STATE'S DISCUSSION
WITH CHINESE FOREIGN MINISTER: EVENING 29 JULY

1. THE SECRETARY OF STATE RAISED INFORMALLY WITH WU AT DINNER LAST NIGHT THE SUBJECT OF PLA TROOPS IN HONG KONG AFTER 1997. HE SAID THAT THIS WAS A SENSITIVE SUBJECT FOR BOTH SIDES: REFERRED TO DENG'S RECENT PUBLIC OUTBURST ON THE SUBJECT: AND ASKED FOR WU'S ADVICE ON HOW THE ISSUE SHOULD BE DISCUSSED DURING HIS VISIT.

2. WU REPLIED THAT IF THE SECRETARY OF STATE DID RAISE THE SUBJECT IN THE FORMAL TALKS, HE WOULD CERTAINLY GET THE STANDARD CHINESE LINE IN REPLY PARTICULARLY IF HE RAISED THE MATTER WITH DENG. THE SECRETARY OF STATE POINTED OUT THAT AFTER 1997 THE HONG KONG SAR WOULD HAVE RESPONSIBILITY FOR INTERNAL SECURITY, ALTHOUGH WE OF COURSE ACCEPTED THAT THE CHINESE CENTRAL GOVERNMENT WOULD HAVE RESPONSIBILITY FOR FOREIGN AFFAIRS AND DEFENCE. IT WOULD BE OPEN TO CHINA TO STATION FORCES JUST ACROSS THE BORDER FROM HONG KONG AFTER 1997. WE WOULD UNDERSTAND IF THEY WISHED TO BRING A FEW TROOPS INTO HONG KONG FOR CEREMONIAL OCCASIONS. BUT WE CONTINUED TO SEE NO (NO) NEED FOR THEM TO BE STATIONED IN HONG KONG. WE HOPED THAT THE CHINESE WOULD EXERCISE GREAT RESTRAINT IN THIS AREA.

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3. WU ADMITTED THAT THE CHINESE HAD NOT THOUGHT THROUGH THE MODALITIES OF STATIONING FORCES IN HONG KONG. THIS WAS STILL A LONG WAY AHEAD. THE TWO SIDES SHOULD KEEP IN TOUCH IN THE MEANTIME ON SUCH SUBJECTS AS STRENGTHENING THE HONG KONG POLICE FORCE.

COMMENT

4. THE SECRETARY OF STATE CONSIDERS THAT THIS IS AS MUCH AS WELL SHALL GET FROM THE CHINESE ON THIS SUBJECT AT THIS TIME AND WILL THEREFORE NOT (NOT) BE RAISING THE ISSUE IN THE FORMAL TALKS DURING HIS VISIT.

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FROM PEKING 300615Z JULY 84
TO IMMEDIATE FCO
TELNO 1666 OF 30/7/84.

FOLLOWING FROM FOREIGN SECRETARY TO PRIME MINISTER

HONG KONG

1. I HAD A FURTHER DISCUSSION ON THE DATE OF LOCATION OF THE LIAISON GROUP IN HONG KONG WITH WU LAST NIGHT. I PRESSED HIM HARD TO ACCEPT 1989. HE SAID THAT HIS GOVERNMENT'S POSITION WAS THAT THE GROUP SHOULD MOVE INTO HONG KONG ON 1 JANUARY 1988. AFTER CONSIDERABLE DISCUSSION I SUGGESTED TO HIM THAT HE MIGHT RECOMMEND 1 JULY 1988 AS THE EFFECTIVE DATE SINCE THIS WOULD SPLIT THE DIFFERENCE ON A YEAR, AND WILL BE THE SAME TIME OF THE YEAR AS THE EXPIRY OF THE LEASE IN 1997.

2. WHEN I MET PREMIER ZHAO THIS MORNING I BEGAN BY ARGUING FOR 1989. ZHAO WAS ADAMANT THAT IT SHOULD BE 1988, BUT AFTER DISCUSSION WAS PREPARED TO ACCEPT 1 JULY 1988 AS A SENSIBLE ARRANGEMENT. HE EMPHASISED THAT THE CHINESE HAD MADE VERHH CONSIDERABLE CONCESSIONS ON THE LIAISON GROUP FROM THEIR ORIGINAL STARTING POSITION, ON THE DATE OF MOVING INTO HONG KONG AND ON EXTENDING THE PERIOD OF THE GROUP AFTER 1997 TO 2000. HE STRESSED THAT WE COULD NOT HAVE EXPECTED TO GET THAT.

3. MEANWHILE NEGOTIATIONS HAVE CONTINUED ON THE MAIN AGREEMENT AND OUR PAPER ON THE JOINT LIAISON GROUP. WE HAVE NOW AGREED LANGUAGE WITH THE CHINESE ON THE FOLLOWING KEY FEATURES OF THE MAIN AGREEMENT, NAMELY THAT THE ANNEXES SHOULD BE OF EQUAL FORCE WITH THE MAIN AGREEMENT, AND THAT THE POLICIES SET OUT IN THE MAIN AGREEMENT AND ANNEXES SHOULD BE STIPULATED IN THE BASIC LAW. WE HAVE ALSO SECURED AGREEMENT ON THE COMPOSITION AND FUNCTIONS OF THE JOINT LIAISON GROUP ON THE BASIS OF OUR PAPER WITH ONE POINT OUTSTANDING. I HOPE TO GET THIS CLEARED UP BEFORE I LEAVE. WE HAVE SENT OUR DELEGATIONS BACK TO GET ON WITH IT.

4. I AM DUE TO SEE DENG TOMORROW MORNING. HE MAY, OF COURSE, STILL SPRING SOME SURPRISES.

5. I AM CLEAR THAT WE HAVE PUSHED THE CHINESE TO THE LIMIT. THERE ARE STILL A NUMBER OF IMPORTANT ANNEXES ON WHICH WORK NEEDS TO BE DONE. THIS WILL CONTINUE IN THE WEEKS AHEAD BOTH IN PLEINARY AND IN THE WORKING GROUP. I HAVE NO DOUBT THAT THERE WILL BE SOME ROCKS

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SECRET

[Ho/Hro]

HO/FED

PS

PS/M. Lee

Si J. Harding

Mr. Burrell

Mr. Foot

No 10 D.S.

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THE AGREEMENT IS LEGALLY BINDING, THAT

ARE STILL A NUMBER OF IMPORTANT ANNEXES ON WHICH WORK NEEDS TO BE DONE. THIS WILL CONTINUE IN THE WEEKS AHEAD BOTH IN PLENARY AND IN THE WORKING GROUP. I HAVE NO DOUBT THAT THERE WILL BE SOME ROCKS ALONG THIS ROAD. BUT WE HAVE MADE SOME IMPORTANT BREAKTHROUGHS ON THIS VISIT AND ARE NOW BETTER PLACED TO COMPLETE THE NEGOTIATIONS IN SEPTEMBER. WE MUST ALSO GET ON WITH CONSIDERING AFTER THE SUMMER BREAK HOW TO FIT THE NECESSARY RATIFICATION PROCEDURES INTO THE 1984/85 LEGISLATIVE PROGRAMME IF WE FIND OURSELVES IN A POSITION TO GO AHEAD.

6. WE STILL FACE THE TRICKY PROBLEM OF PRESENTING THIS IN HONG KONG. THE PROSPECT OF THE LIAISON GROUP ARRIVING IN 1985 IN HONG KONG WILL AROUSE CONSIDERABLE CONCERN HERE ALTHOUGH LESS SO THAN IF WE HAD BEEN UNABLE TO SECURE THE CHANGES I HAVE DESCRIBED. BUT IT SHOULD BE HELPFUL THAT ZHAO AGREED THAT I SHOULD MAKE CLEAR IN PUBLIC ALL THEIR ASSURANCES THAT THE LIAISON GROUP WOULD NOT INTERFERE IN THE WORK OF THE HONG KONG GOVERNMENT NOR HAVE ANY SUPERVISORY ROLE. THE GOVERNOR'S ASSESSMENT IS THAT THE ANNOUNCEMENT COULD CAUSE SOME TUBBULENCE FOR A WHILE, BUT THAT HONG KONG SHOULD ABSORB IT BEFORE TOO LONG.

7. I AM VERY GRATEFUL TO YOU FOR YOUR SUPPORT IN REACHING THIS CONCLUSION.

EVANS

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b.c.P.C. 8A
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10 DOWNING STREET

From the Private Secretary

30 July, 1984

Dear Colin,

Future of Hong Kong: Nineteenth Round
of Talks

Thank you for your letter of 27 July reporting on the nineteenth round of talks on the future of Hong Kong. The Prime Minister has read this with interest. To some extent, it is of course overtaken by the discussions which the Secretary of State is currently holding in Peking. The Prime Minister hopes that some of the negative points listed in your letter as having emerged during the nineteenth round of talks will be put right in the course of Sir Geoffrey's discussions. This applies, in particular, to (b) (iii) and (iv).

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

yes surely.
(Signature)
C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

SECRET

MR



Foreign and Commonwealth Office

London SW1A 2AH

30 July 1984

NSPM who
has already read
the telegram
July. CDP 3077.

Dear Charles,

Visit of the Foreign Secretary to Peking

You may find it helpful to have a brief summary of the position we have now reached. The one outstanding meeting on the Foreign Secretary's programme is the call on Chairman Deng Xiaoping on the morning of 31 July.

Joint Liaison Group

After receiving the Prime Minister's instructions (FCO telno 907 to Peking) the Foreign Secretary had a further discussion with Foreign Minister Wu Xueqian and subsequently with Premier Zhao Ziyang. After arguing hard for 1989 as the date on which the joint group would become based in Hong Kong he put forward 1 July 1988 as a possible compromise. After discussion Premier Zhao was disposed to accept this. It was also agreed that the period of activity of the group would be extended after 1997 to the year 2000. In the working group set up to consider the other terms of reference of the joint liaison group, agreement has now almost been reached, on the basis of a paper (Peking telno 1655) submitted by the British side on its composition and functions.

Main Agreement

A parallel working group has been discussing the text of the main agreement. There is now agreed language on a number of key features, namely that the agreement is legally binding, that the annexes should be of equal force with the main agreement, and that the policies set out in the main agreement and annexes should be stipulated in the Basic Law. Work in the group is continuing.

Other Outstanding Issues

At the second session of talks with Foreign Minister Wu Xueqian on 29 July, Sir Geoffrey listed the other issues outstanding between the two sides - namely the texts of the

/annexes

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annexes on the legal system and individual rights; nationality; land; civil aviation; the Hong Kong public service; and constitutional arrangements and government structure. He emphasised the importance we attached to resolution of all these issues in ways which would take fully into account Hong Kong's interests. Wu said that in his view there was no difference in principle between the two sides on these issues. If both sides adopted a cooperative attitude it should be possible to find a satisfactory solution: in future discussions the Chinese delegation would take account of the points made by the Foreign Secretary.

There was no further discussion of substance on these issues. However, in the margins of the talks a member of the Chinese team offered clarification of the Chinese position on two aspects of the nationality problem. He reaffirmed Chinese opposition to any transmissibility of British nationality after 1997. But he also implied that holders of British passports would be able to use those passports to leave the SAR after 1997 and would only have to show their SAR identity cards on return. (In other words residents of Hong Kong after 1997 who had British nationality would not need a Chinese passport in order to leave and enter the territory. If this position is formally confirmed in the talks, it will meet one of the major concerns of Hong Kong residents.)

So far as we are aware, there has been no discussion of the other sensitive outstanding issues, namely defence and internal security. You will recall that the Chinese have not responded to our proposal that a local force should be set up before 1997 to deal with problems of internal security. Deng Xiaoping has placed very firmly on the public record the intention of the Chinese side that a garrison of the PLA should be based in Hong Kong after 1997.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

SECRET

For Secretary of State from PS/PM

Relating to. no 1657.

~~The Air Minister~~

I have consulted the Air Minister who agrees that you shall settle on the basis of the proposals in T.S., with the strong hope that you can obtain ~~the~~ agreement until 1989.

File No.

No. 10

OUTWARD

Security Classification	
SECRET	Dedip
Precedence	
DESKBY	Z

Department.....

Drafted by.....

(Block Capitals).....

Charles Powell

TELEGRAM

Tel. Extn.

FOR
COMMS. DEPT.
USE

Despatched (Date)
(Time)Z

POSTBYZ

PREAMBLE

(Time of Origin).....Z(G.M.T.)

(Restrictive Prefix).....

(Security Class.)..... SECRET DEDIP

(Caveat/
Privacy marking).....

(Codeword).....

(Deskby).....Z

TO..... Tel. No. of.....
(precedence) (post)

AND TO (precedence/post).....

AND TO SAVING.....

INFO.....

INFO SAVING.....

Distribution:-

[TEXT]

For Foreign Secretary from PS/PM

Future of Hong Kong

1. The Prime Minister has seen Peking tel. 1653. She is pleased with the way which things are going and agrees generally with what you are trying to do.

2. The Prime Minister has three specific points:

- (i) She does not (repeat not) attach high priority to extending the life of the Joint Liaison Group beyond the year 2000. She regards extension until then as already a useful and important concession which should have a positive impact on Hong Kong opinion. She doubts anyway whether the Chinese would be prepared to go beyond this.

/((ii)

Copies to:-

On the other hand, she attaches great importance to lengthening the period before location of the Joint Group in Hong Kong if at all possible. She feels that the Chinese probably will be ready to show some flexibility on this. The Prime Minister hopes that you will negotiate as hard as possible for deferment until 1990. The tactics are of course for you to judge. She suggests, however, that one possibility would be somehow to push the starting point of a two or three year deferment forward by linking it to some event, or perhaps by counting X years back from 1993. I do not know whether this is practicable. In any event, she is firm that two years is too little and hopes that you will be able to obtain some improvement on it.

(iii) The Prime Minister thinks it would be important for the statement in paragraph 4 of T.U.R. to be made publicly at the conclusion of the present round, either in Peking or Hong Kong, if agreement on the Joint Liaison Group is reached.

3. The above is of course on the assumption that the Chinese are prepared to stick to what Zhou Nan told Percy Cradock (paras 1 and 2 of T.U.R.) and Wu told you (para 4 of T.U.R.) on the other aspects of the Joint Group and of the agreement as a whole.

4 The Prime Minister would like, as you suggest, to have a ~~change~~^{chance} to comment again before you take a final position.

cm

44

FOCAB 003/29

ZZ CABINT OFFICE

GRS 81

S E C R E T

FM FCO 290738Z JUL 84

TO FLASH PEKING

TELEGRAM NUMBER 908 OF 29 JULY

FOR SECRETARY OF STATE'S PARTY
FROM PRIVATE OFFICE

MIPT: FUTURE OF HONG KONG

1. MIPT REFLECTS THE VIEWS OF THE PUS AND MR LUCE (BOTH CONSULTED).
2. THE PUS WONDERS WHETHER IT MIGHT NOT BE PRUDENT FOR US TO ENSHRINE THE CONCLUSIONS OF THESE DISCUSSIONS IN A FORMAL TEXT WHICH MIGHT BE LEFT WITH THE CHINESE. HE APPRECIATES HOWEVER THAT THERE MAY BE OBJECTIONS TO THIS, AND WOULD NOT WISH TO PRESS THE POINT.

HOWE

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SENT/RECD AT 200755Z WRB/+KJM

FOCAB 003/29

ZZ CABINT OFFICE

GRS 81

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SENT/RECD AT 200755Z WRB/+KJM

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FOCAB 002/29

ZZ CABINT OFICE

GRS 74

S E C R E T

FM FCO 290727Z JUL 84

TO FLASH PEKING

TELEGRAM NUMBER 907 OF 29 JULY

FOR SECRETARY OF STATE'S PARTY
FROM PRIVATE OFFICE:

YOUR TELNO. 1657

FUTURE OF HONG KONG

1. I HAVE CONSULTED THE PRIME MINISTER. SHE AGREES THAT YOU SHOULD SETTLE ON THE BASIS OF THE PROPOSALS IN YOUR TUR, WITH THE STRONG HOPE THAT YOU CAN OBTAIN DEFERMENT TILL 1989.
2. I ASSUME THAT THE PREMISE IN PARAGRAPH 3 OF FCO TELNO. 906 REMAINS VALID.
3. SEE ALSO MIFT.

HOWE

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SENT/RECD AT 290754Z WRB/KJM

PLASH

FOCAB 002/29

ZZ CABINT OFICE

GRS 74

S E C R E T

FM FCO 290727Z JUL 84

TO FLASH PEKING

TELEGRAM NUMBER 907 OF 29 JULY

43
44

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SENT/RECD AT 290754Z WRB/KJM

1 of 2 Copies for No 10

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file.

2nd copy
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Myt 1/8

RL 1/8/84

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DWF G 003/29

LIM 931/29

ZZ FCO

GRS 900

SECRET
FROM PEKING 290500Z JULY 84
TO F L A S H FCO
TELNO 1657 OF 29/7/84.

XXX 29/05497

FOLLOWING FROM FOREIGN SECRETARY FOR PRIME MINISTER

YOUR TELNO 906: FUTURE OF HONG KONG

1. THANK YOU FOR THESE HELPFUL INSTRUCTIONS.

2. I MET WU THIS MORNING IN RESTRICTED SESSION. I REPEATED THAT THE DIFFICULTIES OF THE LOCATION OF THE JOINT GROUP WERE REAL. BUT I ATTACHED GREAT IMPORTANCE TO MAKING A BREAKTHROUGH, IF POSSIBLE ON ALL OUTSTANDING ISSUES, DURING MY CURRENT VISIT. ON THAT BASIS WE WERE PREPARED IN PRINCIPLE TO APPROACH THE PROBLEM ON THE BASIS OF THE CHINESE PROPOSALS, PROVIDED THAT THE REQUIREMENTS OF BOTH SIDES COULD BE MET. POINTS OF MAJOR DIFFICULTY WOULD NEED TO BE RESOLVED BEFORE AGREEMENT WOULD BE POSSIBLE.

3. I SAID THAT THE CHINESE OFFER TO DELAY THE ESTABLISHMENT OF THE JOINT GROUP INDICATED THAT THEY UNDERSTOOD THE BASIS FOR OUR ARGUMENTS. HONG KONG NEEDED TIME TO DIGEST AN ANNOUNCEMENT OF THE GROUP AND THE PROSPECT OF THE GROUP ITSELF. TIMING AND PRESENTATION WERE EXTREMELY IMPORTANT. WE ACCEPTED THE CHINESE VIEW THAT 1993 WAS TOO LATE. WE COULD UNDERSTAND THAT THEY WOULD NOT WISH TO WAIT UNTIL THE NEXT DECADE. WE BELIEVED THAT A DELAY OF FIVE YEARS FROM NOW UNTIL 1989 WOULD BE UNDERSTOOD. IT WAS ALSO ESSENTIAL TO PROMULGATE PUBLICLY THE VERY IMPORTANT STATEMENTS ON THE JOINT GROUP AND MAIN AGREEMENT WHICH WU HAD MADE YESTERDAY (PARAGRAPH 2(III) OF YOUR TELEGRAM).

4. I REPEATED THAT WE WOULD WANT TO LOOK AT THE PACKAGE AS A WHOLE. I THEREFORE PROPOSED THAT TWO WORKING GROUPS SHOULD BEGIN MEETING AS SOON AS POSSIBLE TO FINALISE THE MAIN OUTSTANDING POINTS ON THE MAIN AGREEMENT AND OUR PAPER ON THE JOINT GROUP.

5. I TOLD WU THAT I LOOKED FORWARD TO DISCUSSING THESE POINTS THIS AFTERNOON WITH PREMIER ZHAO ZIYANG. I WOULD THEN NEED TO CONSULT YOU AGAIN AND WOULD WELCOME A FURTHER MEETING WITH CHINESE LEADERS TOMORROW. I REAFFIRMED THAT OF COURSE WE WOULD NEED TO LOOK AT THE AGREEMENT AS A PACKAGE BEFORE DECIDING WHETHER WE COULD RECOMMEND IT TO PARLIAMENT.

6. IN REPLY WU BEGAN BY ASKING WHETHER WE HAD PROPOSED THAT THE GROUP SHOULD START WORK IMMEDIATELY OR SHOULD START WORK IN 1989. I EXPLAINED THAT WE ENVISAGED THE GROUP STARTING WORK SOON AFTER THE SIGNATURE OF THE AGREEMENT, MEETING PERIODICALLY IN LONDON, PEKING AND HONG KONG, AND MOVING TO LOCATION IN HONG KONG IN 1989.

7. WU THEN SAID THAT WE HAD CLEARLY SERIOUSLY CONSIDERED THEIR PROPOSALS, AND THEY HAD GIVEN SERIOUS CONSIDERATION TO THE PRESENTATION WHICH I MADE YESTERDAY. THEY ATTACHED GREAT IMPORTANCE TO LOCATION OF THE GROUP IN HONG KONG. THE PURPOSE OF THE GROUP WOULD SIMPLY BE TO HELP MAINTAIN STABILITY AND CONFIDENCE IN HONG KONG. ESSENTIAL FACTORS FOR MAINTAINING STABILITY WERE: AN AGREEMENT SHOULD BE CONCLUDED BETWEEN BRITAIN AND CHINA ACCEPTABLE TO BOTH SIDES AND COMPRISING OF A MAIN AGREEMENT AND ANNEXES; AFTER THE SIGNATURE BOTH SIDES SHOULD FAITHFULLY ABIDE BY IT; NEITHER CHINA NOR BRITAIN SHOULD TRY TO ACT INDEPENDENTLY AFTER SIGNATURE. COOPERATION SHOULD BE INTENSIFIED.

8. WU SAID THAT, TAKING INTO ACCOUNT APPREHENSIONS EXPRESSED BY BRITAIN, THE CHINESE GOVERNMENT WAS NOW PREPARED TO SPEED UP PROMULGATION OF THE BASIC LAW TO A TIME BEFORE 1990.

9. WE WENT ON TO SAY THAT, TAKING ACCOUNT OF THE POINTS PUT FORWARD IN MY PRESENTATION YESTERDAY, THE CHINESE GOVERNMENT HAD GIVEN FURTHER CONSIDERATION TO THE TIMING OF THE LOCATION OF THE GROUP IN HONG KONG. THEY REALISED THAT THE BRITISH GOVERNMENT'S ATTITUDE WAS SERIOUS AND SINCERE. THEY THEREFORE NOW PROPOSED THAT THE LOCATION OF THE GROUP IN HONG KONG SHOULD BE DELAYED UNTIL 1988. HENCE THERE WAS ONLY THE DIFFERENCE ON ONE YEAR BETWEEN THE PROPOSALS OF THE TWO SIDES.

10. ON THE TIMING OF THE WORK OF THE GROUP AFTER 1997, HE CONTINUED, THE CHINESE SIDE TOOK ACCOUNT OF THE FACT THAT THE YEAR 2000 WAS A BEGINNING OF A NEW ERA. THIS WAS WHY THEY DID NOT WANT THE GROUP TO CONTINUE AFTER THE YEAR 2000. THEY HOPED THAT THE BRITISH SIDE WOULD BE PREPARED TO LOOK AT THIS QUESTION AGAIN.

11. WU CONFIRMED THAT THE CHINESE SIDE WERE PREPARED TO AGREE TO PUBLICATION OF THE ASSURANCES GIVEN BY HIM YESTERDAY. THE MODALITIES WOULD NEED TO BE WORKED OUT. HE AGREED THAT THE TWO WORKING GROUPS SHOULD START WORK IMMEDIATELY TO DISCUSS THE MAIN OUTSTANDING POINTS ON THE MAIN AGREEMENT AND OUR PAPER ON THE JOINT GROUP.

12. I SAID THAT WE WOULD REFLECT ON THE NEW CHINESE PROPOSAL. I LOOKED FORWARD TO SEEING PREMIER ZHAO THIS AFTERNOON AND WOULD REPORT TO YOU AFTERWARDS. I HOPED THAT I WOULD HAVE A CHANCE TO MEET OTHER CHINESE LEADERS TOMORROW WHEN I HAD BEEN ABLE TO CONSULT MY GOVERNMENT. WU SAID THAT IT WOULD BE MOST HELPFUL IF MY RESPONSE COULD BE READY IN TIME FOR THE MEETING WITH PREMIER ZHAO THIS AFTERNOON (0830Z). I EXPLAINED THAT YOU WOULD BE IN BED AND ENTITLED TO SLEEP BUT THAT WE SHOULD DO OUR BEST.

COMMENT

13. IN FACT I BELIEVE THAT THE NEW CHINESE PROPOSAL FULLY MEETS THE REQUIREMENTS SET OUT IN YOUR TELEGRAM. I SHOULD BE GRATEFUL THEREFORE FOR YOUR AUTHORITY TO SETTLE ON THIS BASIS, IF AT ALL POSSIBLE BY 0800Z TODAY. IF THIS IS NOT POSSIBLE BY THEN I CAN OBVIOUSLY PLAY THE HAND WITH ZHAO THIS AFTERNOON IN THE MEANTIME. BUT AGREEMENT ON THESE LINES IS LIKELY TO BE THE KEY TO A MEETING WITH DENG TOMORROW WHICH WILL BE IMPORTANT FOR SUBSTANCE AND PRESENTATION PURPOSES.

EVANS

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LIM 925/28

ZZ FCO

GRS LTR

SECRET

DE DIP

FLASH

Mr. C. Pole

No 10. D St.

FROM PEKING 281250Z JUL 84

SECRET

TO FLASH FCO

TELEGRAM NUMBER 1653 OF 28/7/84

FROM FOREIGN SECRETARY FOR PRIME MINISTER

FUTURE OF HONG KONG:

1. AT A LUNCH HE GAVE FOR SIR PERCY CRADOCK ON 28 JULY, ZHOU NAN MADE THE FOLLOWING OFFER. THE CHINESE WERE PREPARED TO DEFER ESTABLISHING THE JOINT LIAISON GROUP IN HONG KONG FOR TWO YEARS AFTER THE SIGNING (COMING INTO FORCE-- THE POINT NOT BEING ENTIRELY CLEAR) OF THE AGREEMENT. THEY WERE PREPARED TO ALLOW THE GROUP TO CONTINUE UNTIL THE YEAR 2000. THEY WERE PREPARED TO ADOPT, WITH MINOR MODIFICATIONS, THE PROPOSALS WE HAD MADE ON THE JOINT GROUP AND ABANDON THEIR PROTOCOL.
2. CRADOCK TOOK ZHOU AGAIN THROUGH OUR MAIN REMAINING DIFFICULTIES WITH THE CHINESE DRAFT AGREEMENT WHICH I HAD OUTLINED THAT MORNING. ZHOU INDICATED THAT THE CHINESE WERE PREPARED TO SEEK LANGUAGE TO RESOLVE THEM.

3. ON THE POSSIBILITY OF DEFERMENT, AN IDEA THEY READILY APPREHENDED FROM THE CHANGED PASSAGES IN YOUR LETTER, ZHOU MADE CLEAR THAT THEY COULD IN NO CIRCUMSTANCES ACCEPT DEFERMENT OF LOCATION IN HONG KONG UNTIL 1993 (THE POINT WE HAD IDENTIFIED IN OUR PROPOSALS TO THE CHINESE ON THE JOINT GROUP WHEN CLOSER COOPERATION WOULD BE NECESSARY). NOR WOULD THIS BE AFFECTED IF THERE WERE NO EXTENSION BEYOND 1997, IE LOCATION COULD NOT BE POSTPONED BEYOND TWO YEARS. MOREOVER, CHINESE LEADERS COULD NOT WAIT BEYOND THIS VISIT TO ACHIEVE A SOLUTION OF THIS ISSUE, NOR WERE THEY WILLING TO BARGAIN FURTHER. IF WE COULD NOT ACCEPT THIS OFFER DURING THE VISIT THE CHINESE WOULD WITHDRAW THE OFFERS THEY HAD MADE, AND THE NEGOTIATIONS AS A WHOLE WOULD FAIL.

3. ZHOU EMPHASISED REPEATEDLY THAT THIS WAS THE CHINESE BOTTOM LINE. HE PROMISED THAT HE WOULD LATER EXPLAIN TO CRADOCK WHY HE WAS IN IN NO POSITION TO MOVE ANY FURTHER. HE PRESSED FOR AN IMMEDIATE ANSWER SO THAT HIS LEADERS COULD BE BRIEFED. CRADOCK OFFERED NO ENCOURAGEMENT THAT WE COULD MOVE BEYOND THE POSITION TAKEN BY ME IN THE MORNING TALKS.

4. IN THE AFTERNOON SESSION WU MADE A SIMILAR THOUGH VAGUER AND SOMEWHAT MORE RESTRICTIVE OFFER, ON THE FOLLOWING LINES. THE JOINT LIAISON GROUP WOULD BE ESTABLISHED AFTER CONCLUSION OF THE AGREEMENT (SEMI-COLON) IT WOULD BE LOCATED IN HONG KONG FROM 1986, AND COULD REMAIN IN BEING UP TO , BUT NO LATER THAN, THE YEAR 2000. HE OFFERED, IN RETURN FOR OUR AGREEMENT TO THIS

PROPOSAL SUBSTANTIAL CONCESSIONS ON THE CHINESE DRAFT PROTOCOL AND SAID THAT OTHER ISSUES WOULD BECOME EASIER TO SOLVE. HE WAS PREPARED TO STATE EXPLICITLY THAT THE JOINT GROUP WOULD NOT BE AN ORGAN OF POWER: WOULD NOT INTERFERE WITH THE DAY TO DAY WORK OF THE HONG KONG GOVERNMENT: WOULD NOT HAVE A SUPERVISORY ROLE: AND WOULD NOT BE THE PREDECESSOR OF THE FUTURE GOVERNMENT OF THE SAR.

5. THE CHINESE OFFER WOULD APPARENTLY GIVE US THE FOLLOWING GAINS:

(A) CONTINUATION OF THE JOINT GROUP BEYOND 1997

SIR S Y CHUNG STRESSED TO ME IN HONG KONG THAT AN EXTENSION OF THE EXISTENCE OF THE GROUP BEYOND 1997 WOULD, AS EVIDENCE OF CONTINUING BRITISH INVOLVEMENT, BE A VERY VALUABLE AID TO CONFIDENCE IN HONG KONG.

(B) POSTPONEMENT FOR ABOUT TWO YEARS OF THE LOCATION OF THE GROUP IN HONG KONG:

(C) ACCEPTANCE WITH MINOR VARIATIONS OF OUR PROPOSALS ON COMPOSITION AND FUNCTIONS OF THE GROUP;

(D) CONCESSIONS ON SOME OF THE MORE DIFFICULT PARTS OF THE PROTOCOL AND A MORE FORTHCOMING ATTITUDE ON CERTAIN ASPECTS OF THE MAIN AGREEMENT, E.G. (I) LANGUAGE TO INDICATE THE BINDING NATURE OF THE WHOLE AGREEMENT INCLUDING ANNEXES; AND (II) A STATEMENT THAT THE WHOLE AGREEMENT INCLUDING THE ANNEXES WOULD BE REFLECTED IN THE BASIC LAW.

6. THE IMPORTANT SHORTCOMING IN THE PROPOSAL IS THAT THE DELAY IN LOCATING THE GROUP IN HONG KONG IS MUCH SHORTER THAN WE SET OUT TO OBTAIN.

7. [] MATERIAL WHICH WILL NOW BE AVAILABLE TO YOU FORECASTS:

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

(A) AN EARLY MEETING OF THE CHINESE PARTY SECRETARIATE IN WHICH THE HONG KONG QUESTION WILL BE REVIEWED AND DECISIONS TAKEN;

(B) A LIKELY CENTRAL COMMITTEE PLENUM IN SEPTEMBER. THERE IS SOME CORROBORATION OF THE FIRST FROM CONTACTS HERE. IF TRUE, THIS COULD WELL BE THE REASON WHY THE CHINESE ARE INSISTING THAT A SOLUTION MUST BE FOUND NOW.

8. THE KEY QUESTION IS CLEARLY WHETHER WE THINK THE CHINESE PROPOSALS ARE THEIR BOTTOM LINE, OR SOMEWHERE PRETTY NEAR. THE ASSESSMENT OF THE AMBASSADOR, THE GOVERNOR AND SIR PERCY CRADOCK, WITH WHICH I AGREE, IS THAT THE CHINESE WILL NOT ACCEPT LOCATION OF THE GROUP IN HONG KONG ANYTHING LIKE AS LATE AS 1993 AND THAT, THOUGH THERE MAY BE SOME MARGIN FOR MANOEUVRE ON THE TIMINGS AFTER 1984 AND AFTER 1997, THIS IS THE CHINESE BOTTOM LINE. IN SOME WAYS, PARTICULARLY THE EXTENSION OF THE GROUP AFTER 1997, IT GOES FURTHER THAN WE HAD EXPECTED. WU SAID AT THE TALKS THIS AFTERNOON THAT THE CHINESE COULD NEVER ACCEPT ANY ARRANGEMENTS WHEREBY THE LOCATION OF THE JOINT GROUP IN HONG KONG WOULD BE DEFERRED FOR A LONG TIME (EG UNTIL 1993).

9. WE ARE THEREFORE FACING A DIFFICULT CHOICE. WE HAVE ALWAYS TAKEN THE VIEW THAT WE SHOULD FIGHT AS HARD AS WE CAN TO RESIST CHINESE PRESSURE ON LOCATION OF THE JOINT GROUP UNTIL WE WERE CONFIDENT THAT WE HAD ESTABLISHED THEIR BOTTOM LINE, BUT THAT THIS IS NOT AN ISSUE ON WHICH WE SHOULD ALLOW THE TALKS TO BREAK DOWN. THIS POINT WAS PUT TO ME EXPLICITLY BY SOME PEOPLE IN HONG KONG. ONE COURSE WOULD BE SIMPLY TO NOTE THE NEW CHINESE POSITION SO AS TO PERMIT REFLECTION AND CONSULTATION IN LONDON AND HONG KONG. SO FAR I HAVE EMPHASISED THE EXTREME DIFFICULTY OF LOCATION IN HONG KONG AT ANY TIME (SEMI-COLN) ADVOCATED THE PROPOSAL IN YOUR MESSAGE (SEMI-COLN) AND ACCEPT THE IMPLICATION THERE AND IN OUR PROPOSALS ON THE JOINT GROUP THAT FROM 1993 THERE WOULD BE A WEAKER CASE AGAINST LOCATION IN HONG KONG. IF I ADOPT THAT COURSE THERE WILL BE DEADLOCK IN THE TALKS WITH WU.

I AM LIKELY TO SEE PREMIER ZHAO BUT WITHOUT AN ENCOURAGING MESSAGE AM UNLIKELY TO SEE OTHERS. ANY MEETING WITH LEADERS WOULD OF COURSE BE DIFFICULT IN SUCH CIRCUMSTANCES.

WE MUST EXPECT NEWS OF THIS SITUATION TO LEAK. TIME WOULD INEVITABLY PASS BEFORE INSTRUCTIONS COULD BE ISSUED AND I SHOULD NOT OF COURSE BE IN A POSITION TO TABLE THEM PERSONALLY WITH CHINESE LEADERS. NO PROGRESS COULD BE MADE IN THE TALKS UNTIL THESE NEW INSTRUCTIONS WERE ISSUED AND THERE WOULD BE A SERIOUS RISK OF THE WITHDRAWAL OF THE CHINESE OFFER WHICH COULD LEAD TO BREAKDOWN, OR TO A HARSH PUBLIC OUTBURST FROM THE CHINESE SIDE IN THE MEANWHILE. THIS WOULD DO GREAT DAMAGE AND WE ARE MOST UNLIKELY TO GAIN ANYTHING FROM THE DELAY. IT IS THE JUDGEMENT OF ALL AT THIS END THAT IF IN THE CIRCUMSTANCES WITH WHICH WE ARE NOW FACED I CANNOT GET THEM TO DEMONSTRATE FURTHER FLEXIBILITY DURING MY VISIT, THE CHANCES OF THEIR DOING SO AFTERWARDS ARE REMOTE. THE CHINESE ARE SAYING THAT THE BACK OF THE NEGOTIATION MUST BE BROKEN DURING MY CURRENT VISIT AND (INFORMALLY) THAT IT WOULD BE HARD FOR THEM TO RECEIVE ME AGAIN IN SEPTEMBER.

10. THE GOVERNOR'S ASSESSMENT IS THAT IF I RETURN FROM PEKING WITH THE TALKS IN DEADLOCK AND THIS LEAKS, THE EFFECT ON CONFIDENCE IN HONG KONG WOULD BE VERY SERIOUS. IF IN THE END WE HAD TO COME TO TERMS WITH THE CHINESE IN ORDER TO STEM A COLLAPSE IN HONG KONG, WHICH IS VERY POSSIBLE, WE MIGHT BE FACED WITH HARDENING CHINESE TERMS AND THE PROSPECT OF BEING SEEN PUBLICLY TO COMPLY WITH THEM

11. THE ALTERNATIVE IS TO SEE WHAT IMPROVEMENTS WE CAN MAKE TO THE CHINESE OFFER. I AM SURE THAT MY FIRST RESPONSE SHOULD NOT (NOT) BE TO ACCEPT THEIR PROPOSALS AS THEY STAND. I THINK THAT THE BETTER COURSE WOULD BE FOR ME TO EXPLORE WHETHER THERE COULD BE ANY ADVANCE, EG BY FURTHER DELAYING LOCATION OF THE JOINT GROUP IN HONG KONG AND/OR BY EXTENDING THE JOINT GROUP FOR A LONGER PERIOD AFTER 1997. MEANWHILE WE SHOULD SEEK IN THE MARGINS TO CONFIRM AS FAR AS POSSIBLE THAT CHINESE PROMISES TO SEEK ACCEPTABLE LANGUAGE IN THE MAIN AGREEMENT TEXT WILL BE HONOURED. IF IT PROVE S IMPOSSIBLE TO MAKE ANY FURTHER PROGRESS ON THE TIMING /LOCATION OF THE JOINT GROUP I SUGGEST THAT I SHOULD SAY THAT I WOULD HAVE TO REFER TO MY COLLEAGUES BUT THAT IF THE REST OF THE AGREEMENT PROVED SATOSFACTORY, WE MIGHT BE ABLE TO LIVE WITH A SOLUTION ON THE LINES ZHOU NAN HAS INDICATED. WE SHALL IN ANY EVENT HAVE TO LOOK AT THE PACKAGE AS A WHOLE. I WOULD CONSULT YOU AGAIN BEFORE TAKING A FINAL POSITION.

12. THIS IS NOT AN AGREEABLE DECISION TO HAVE TO TAKE BUT I SEE IT AS THE PREFEREABLE COURSE. ESSENTIALLY THE CHOICE WE FACE IS WHETHER TO MAKE THIS MOVE NOW OR AFTER A DAMAGING INTERVAL.

13. THE GOVERNOR AGREES WITH ABOVE RECOMMENDATIONS.

14. I SHOULD BE GRATEFUL FOR INSTRUCTIONS BY 282200Z

I AM EXPECTING TO SEE PREMIER ZHAO ZIYANG ON THE AFTERNOON OF 29 JULY.

EVANS

NNNN



Foreign and Commonwealth Office

London SW1A 2AH

27 July 1984

Prime Minister

C.D.P.
27/7.

Dear Charles,

Future of Hong Kong: Nineteenth Round of Talks

You may find it useful to have a brief account of the nineteenth round of talks on the future of Hong Kong which took place in Peking on 24 and 25 July.

The Chinese side tabled a revised draft joint declaration on the first day (copy attached). This was in response to the revised agreement we had tabled in the working group on 25 June. We pressed the Chinese to come up with a revised draft at that time, but they have only now produced it, just before the Secretary of State's visit. As we expected, the revised draft is not a great improvement on the original, and in some aspects is worse. On the positive side the Chinese have included:

- (a) parallel declarations by the two governments, as proposed by us, in which we declare that China will resume sovereignty over Hong Kong, and China declares what its policies towards Hong Kong will be after 1997;
- (b) some minor amendments to the 12 point plan (paragraph 4 of the text) at our insistence and have removed a reference to the "unequal treaties";
- (c) an attempt to meet our insistence that the agreement and annexes should be reflected in the Basic Law: paragraph 4 of the revised draft states that the Chinese draft note (equivalent to our annexes) contains an elaboration of the Chinese plans. Paragraph 7 says that the exchange of notes will be equally binding;
- (d) a joint declaration by the two governments in paragraph 5 that the UK will be responsible for Hong Kong up to 1997, although only for "administrative affairs" and not for the administration of the territory;
- (e) a reference to the joint group in paragraph 6 couched in more acceptable terms;

/(f)



- (f) Chinese acceptance that the agreement should enter into force on ratification rather than signature, but they insist that it should be ratified within 30 days of signature.

On the negative side the Chinese have:

- (a) included a Chinese declaration stating that they will recover the Hong Kong area, which is the common aspiration of the whole Chinese people (paragraph 2). This undermines the effect of our declaration in paragraph 3;
- (b) not included:
- (i) any equivalent of our "without prejudice" clause covering the position of the two governments on the history of Hong Kong;
 - (ii) any equivalent of paragraph 4 of our draft agreement which gives a fuller elaboration of China's policies towards Hong Kong after 1997;
 - (iii) any equivalent of paragraph 6 of our draft which makes the parallel declarations legally binding;
 - (iv) any indication that they would include articles on Hong Kong's participation in GATT, Nationality or land.

The Ambassador made a critique of the revised draft on the above lines. The Secretary of State will press the Chinese further on all these points during his visit.

Sir Richard Evans introduced our revised annex on nationality, which was handed to the Chinese on 19 July and Zhou Nan gave a preliminary Chinese response. Zhou said that our position was somewhat closer to that of the Chinese, but indicated three specific areas of difficulty, all of which seem to relate to the question of dual nationality. It was agreed that the annex should be referred to the working group. At first sight this is not a wholly discouraging response. The Chinese seem to have accepted a number of practical arrangements which would help to boost confidence in Hong Kong. But it would be unwise to draw any firm conclusions until detailed discussion begins in the working group.

Sir Richard Evans introduced our revised proposals on land in which we sought to meet Chinese concerns by:

/(a)



- (a) agreeing to an overall limit on the amount of land to be leased up to 1997; and
- (b) proposing that in the case of leases running beyond 1997, the rent payable should be increased after 1997 to ensure a continuing income to the Government of the Hong Kong SAR. Zhou Nan first reacted positively to these proposals, indicating Chinese flexibility, but then proposed the establishment of an independent land committee and a capital works fund committee, which should be composed of an equal number of Hong Kong people to be nominated by the Chinese and British sides. These bodies would make decisions on the granting of leases and the use of the fund. Zhou Nan presented these extremely disagreeable proposals as a Chinese compromise.

Finally, Zhou Nan criticised the British side for failing to table a draft document corresponding to the Chinese draft protocol (dealing with arrangements up to 1997) prior to the visit of Sir Geoffrey Howe. A Chinese official suggested in informal contacts after the talks that if Sir Geoffrey Howe was not coming to Peking to agree Chinese proposals on location and machinery of the joint group, he knew there would be confrontation. Zhou also suggested that a further visit by Sir Geoffrey in September might be difficult.

The working group has meanwhile been making good progress in discussion of the annexes to the agreement. We have now agreed annexes on (a) financial system; (b) monetary system; (c) economic system and external economic relations; (d) culture and education; (e) external relations; and (f) shipping. The Chinese have shown themselves ready in these discussions to add a reasonable amount of detail to these annexes, and even in the case of the annex on the legal system which is more contentious, have been prepared to accept our wording when we made a good case for it. The working group will have a recess after Sir Geoffrey Howe's visit until mid-August.

I am copying this letter to Private Secretaries to OD(K) members and to PS/Sir Robert Armstrong.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

JOINT DECLARATION OF THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AND THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND ON THE QUESTION OF HONG KONG (Revised draft 25 July 1984)

1. The Government of the People's Republic of China and the Government of the United Kingdom of Great Britain and Northern Ireland have reviewed with satisfaction the friendly relations existing between the two governments and peoples in recent years and agreed that a proper negotiated settlement of the question of Hong Kong, which is left over from the past, is conducive to the further strengthening and development of the relations between the two countries on a new basis. To this end, they have, after talks between the delegations of the two governments, agreed to issue this joint declaration.

2. The Government of the People's Republic of China declares that the Hong Kong area (including Hong Kong Island, Kowloon and the "New Territories" similarly hereafter) has been part of China's sacred territory since ancient times. To recover the Hong Kong area is the common aspiration of the entire Chinese people, including the compatriots in Hong Kong. Therefore, the Government of the People's Republic of China has decided to recover the Hong Kong area and resume exercise of sovereignty over it as from 1 July 1997.

3. The Government of the United Kingdom declares that it has agreed to restor the Hong Kong area to the People's Republic of China with effect from 1 July 1997 and withdraw all its troops from the area.

4. The Chinese government delcares that the guidelines of the People's Republic of China regarding the Hong Kong area are as follows:

(1) Upholding national unity and territorial integrity and taking account of the history of the Hong Kong area and its realities, the People's Republic of China has decided to establish, in accordance with the provisions of article 31 of the Constitution of the People's Republic of China, a Hong Kong Special Adminstrative Region upon resuming exercise of sovereignty over the Hong Kong



area.

(2) The Hong Kong Special Administrative Region will be directly under the authority of the Central People's Government of the People's Republic of China. It will enjoy a high degree of autonomy, except in foreign and defence affairs which are the responsibilities of the Central People's Government.

(3) The Hong Kong Special Administrative Region will be vested with the power of legislation and independent judicial power, including that of final adjudication. The laws currently in force will remain basically unchanged.

(4) The government of the Hong Kong Special Administrative Region will be constituted by local people. The Chief Executive will be appointed by the Central People's Government on the basis of the results of elections or consultations to be held locally. The principal officials will be nominated by the government of the special administrative region for appointment by the Central Peoples Government. The Chinese and Foreign Nationals working in the public and police services in the departments of the British authorities in Hong Kong may remain in employment. British and other foreign nationals may also be employed to serve as advisers to organs at various levels of the Hong Kong Special Administrative Region.

(5) The current social and economic systems in the Hong Kong area will remain unchanged, so will the life-style. Freedoms of person, of speech, of the press, of assembly, of association, of travel, of movement, of correspondence, of strike, of choice of occupation, of academic research and of religious belief will be ensured by law in the Hong Kong Special Administrative Region. Private property, ownership of enterprises, legitimate right of inheritance and foreign investment will be protected by law.

(6) The Hong Kong special administrative region will retain the status of a free port and a separate tariff area.

(7) The Hong Kong Special Administrative Region will retain the status of an international financial centre, and its markets for foreign exchange, gold, securities and futures will remain in

operation. There will be free flow of capital. The Hong Kong dollar will circulate and be convertible as usual.

(8) The Hong Kong Special Administrative Region will have independent finances. The Central People's Government will not levy taxes on it.

(9) The Hong Kong Special Administrative Region may establish mutually beneficial economic relations with the United Kingdom and other countries, whose economic interests in the Hong Kong area will be given due regard.

(10) Using the name of 'Hong Kong, China', the Hong Kong Special Administrative Region may on its own maintain and develop economic and cultural relations and sign agreements on these matters with foreign countries and relevant international organisations.

The government of the Hong Kong Special Administrative Region may issue on its own travel documents for entry into and exit from Hong Kong.

(11) The maintenance of public order in the Hong Kong Special Administrative Region will be the responsibility of its government.

(12) The above-stated guidelines regarding the Hong Kong special administrative region will be stipulated in a Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China to be promulgated by the National People's Congress of the People's Republic of China, and they will remain unchanged for fifty years.

The above-mentioned guidelines of the Chinese Government will be elaborated and set forth in the exchange of notes appended as Annex 1 to this joint declaration.

5. The two governments declare that the period between the date of the entry into force of this joint declaration and 30 June 1997 is the transition period, during which the government of the United Kingdom shall be responsible for the administrative affairs of the Hong Kong area and for maintaining and preserving its economic

prosperity and social stability. The government of the People's republic of China will give its cooperation in this connection.

6. The two governments agree to continue their discussions in a friendly spirit and to cooperate for the effective implementation of this joint declaration. For this purpose, within months of entry into force of this joint declaration, a Sino-British joint (liaison) group (joint committee) composed of an equal number of persons from each side and headed by officials of Ambassadorial rank will be set up , the task of which is to carry out coordination for the implementation of this joint declaration and discuss matters facilitating the smooth transfer of government and other questions which the two sides may deem necessary to discuss. The protocol on the hand-over of the Hong Kong area signed by the two governments is appended as annex 2 to this joint declaration.

7. This joint declaration is subject to ratification and shall enter into force on the date of the exchange of the instruments of ratification, which shall take place in Beijing within 30 days of the signing of this joint declaration. The joint declaration, the exchange of notes as its Annex 1, and the protocol as its Annex 2 will be equally binding.

Done in duplicate in Beijing on 1984 in the Chinese and English languages, both texts being equally authentic.

(signed)

Plenipotentiary of the
Government of the People's
Republic of China

(signed)

Plenipotentiary of the
Government of the United
Kingdom of Great Britain
and Northern Ireland

[Underlining indicates changes from original Chinese draft joint declaration]

Handwritten text: "Hd puter" with a faint circular stamp behind it.

27 JUL 1984

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Foreign and Commonwealth Office

London SW1A 2AH

27 July 1984

Dear Charles,

Hong Kong: Letter from Sir S Y Chung

/ Thank you for your letter of 13 July enclosing a letter from Sir S Y Chung. I enclose a draft reply from yourself to Sir S Y.

Sir S Y Chung has also written identical letters to the Secretary of State and Mr Luce. Ministers decided not to reply to these since Mr Luce has just met Sir S Y in Hong Kong and the Secretary of State will be seeing him during his current visit to the territory.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM

Reference

Mr Powell

DEPARTMENT:

TEL NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Sir S Y Chung
 Senior Unofficial Member
 Office of UMELCO
 Swire House, 12th Floor
 9-25 Chater Road
 HONG KONG

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 9 July to my predecessor, John Coles. I have read with interest the three proposals you made during the visit which you undertook to Peking with Miss Dunn and Mr Lee. I have also noted the results of the SRH poll in the South China Morning Post.

CAVEAT.....

Enclosures—flag(s).....

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TO IMMEDIATE F C O

TELEGRAM NUMBER 2145 OF 27 JULY

INFO IMMEDIATE PEKING

ROUTINE HONG KONG GOVERNMENT OFFICE LONDON,

HONG KONG GOVERNMENT REPRESENTATIVES WASHINGTON, NEW YORK, BRUSSELS
AND GENEVA.

FUTURE OF HONG KONG : PRESS COVERAGE.

SUMMARY:

1. SECRETARY OF STATE'S ARRIVAL : EMPHASIS ON BRITAIN'S
RESPONSIBILITY FOR HONG KONG'S ADMINISTRATION UNTIL 1997.
GENERALLY MODERATE PRESS EXPECTATIONS.

NEWS COVERAGE:

2. SECRETARY OF STATE'S VISIT: ALL PAPERS PROMINENTLY REPORTED THE
SECRETARY OF STATE'S ARRIVAL. IN THEIR HEADLINES MANY INDEPENDENT
PAPERS EMPHASISED HIS COMMENT THAT IT WAS COMMON GROUND BETWEEN
THE CHINESE AND BRITISH GOVERNMENTS THAT RESPONSIBILITY FOR THE
GOVERNMENT OF HONG KONG BETWEEN NOW AND 1997 RESTED WITH BRITAIN.
COMMUNIST NEWSPAPERS STRESSED HIS INDICATION THAT THE PEKING
NEGOTIATIONS WERE PROCEEDING ON COURSE.

COMMUNIST NEWSPAPERS STRESSED HIS INDICATION THAT THE PEKING NEGOTIATIONS WERE PROCEEDING ON COURSE.

3. THE NEWSPAPERS NOTED THAT THE GOVERNOR HAD RETURNED FROM PEKING EARLIER ON 26 JULY AND THAT A SPECIAL EXCO MEETING HAD BEEN HELD TO PREPARE FOR EXCO'S TALKS WITH THE SECRETARY OF STATE. SOURCES WERE QUOTED AS SAYING THAT TOPICS TO BE DISCUSSED WOULD INCLUDE THE JOINT LIAISON GROUP, THE ASSESSMENT OFFICE AND THE GREEN PAPER. AN UNOFFICIAL LEGCO MEMBER, MR CHEUNG YAN-LUNG, SAID THAT UNOFFICIALS WOULD RAISE STRONG OBJECTIONS TO THE PROPOSED JOINT LIAISON GROUP, WHICH WAS UNNECESSARY AND WOULD BE DAMAGING. MRS SELINA CHOW, UNOFFICIAL LEGCO MEMBER, WAS REPORTED TO HAVE SAID THAT UNOFFICIALS WOULD URGE THE SECRETARY OF STATE TO LIFT THE VEIL OF CONFIDENTIALITY OVER THE TALKS. MR CHOW HING-CHUEN AND SOME PRO-TAIWAN GROUPS WERE REPORTED TO BE SEEKING ACTIVELY TO LOBBY THE SECRETARY OF STATE.

4. OTHER ITEMS: INCLUDED A REPORT OF THE DEPARTURE FOR PEKING OF A DELEGATION FROM THE CHINESE CIVIL SERVANTS' ASSOCIATION: SOME EXPRESSION OF SUPPORT FOR MR T S LO'S PROPOSALS TO PRESERVE HONG KONG PEOPLE'S FREEDOM OF MOVEMENT: A REPORT THAT DENG XIAOPING HAD TOLD SIR Y K PAO THAT HE HAD WRONGLY CRITICISED HUANG HUA: AND A REPORT THAT DESPITE UNCERTAINTY OVER 1997 THE NUMBER OF HONG KONG PEOPLE SEEKING TO JOIN THE HONG KONG MILITARY SERVICE CORPS REMAINED VERY HIGH.

COMMENTARIES:

5. SECRETARY OF STATE'S VISIT: WAH KIU YAT PAO (INDEPENDENT) WAS GRATEFUL FOR THE SECRETARY OF STATE'S GOOD-WILL GESTURE IN VISITING HONG KONG BEFORE PEKING. IT URGED HIM TO DISCLOSE MORE OF THE PROGRESS OF THE TALKS. THE DAILY NEWS (INDEPENDENT) THOUGHT THE VISIT TO PEKING SHOWED THAT BRITAIN WAS SINCERE, CONFIDENT AND RESOURCEFUL IN SORTING OUT THE OUTSTANDING ISSUES IN THE TALKS: IT WAS CLEAR THAT BRITAIN WOULD NOT ACCEPT CHINA'S JOINT LIAISON GROUP PROPOSAL UNCONDITIONALLY. THE FINANCIAL DAILY (INDEPENDENT) WAS ALSO OPTIMISTIC ABOUT THE VISIT: IF THE SECRETARY OF STATE COULD RESOLVE THE DIFFERENCES OF THE JOINT GROUP, THE NATURE OF THE AGREEMENT AND THE QUESTION OF POLITICAL REFORM IN HONG KONG, THE VISIT WOULD BE THE PRELUDE TO AN AGREEMENT. SING TAO JIH PAO (INDEPENDENT) SUGGESTED THAT, AS WELL AS DISCUSSING THE JOINT LIAISON GROUP, THE SECRETARY OF STATE WOULD TRY TO CONVINCE THE CHINESE TO FORGET THE SEPTEMBER DEADLINE SO THAT A DETAILED AGREEMENT WOULD BE WORKED OUT. THE STANDARD (ENGLISH LANGUAGE) NOTED WITH SATISFACTION THAT THE NEGOTIATIONS WERE ON COURSE.

6. THE EXPRESS (INDEPENDENT) WAS LESS SANGUINE. THE SECRETARY OF STATE'S VISIT WOULD ONLY BE USEFUL AND CONSTRUCTIVE IF HE SERIOUSLY-

6. THE EXPRESS (INDEPENDENT) WAS LESS SANGUINE. THE SECRETARY OF STATE'S VISIT WOULD ONLY BE USEFUL AND CONSTRUCTIVE IF HE SERIOUSLY CONSIDERED THE DEMANDS OF HONG KONG PEOPLE AND DREW A CLEAR BOTTOM LINE IN THE TALKS. IF BRITAIN CONTINUED TO CONCEDE TO EVERY DEMAND FROM PEKING, HONG KONG WOULD SUFFER GREATLY.

7. PRO-PEKING PAPER: THE COMMERCIAL DAILY DENIED THAT THERE WAS ANY CRISIS IN THE TALKS OR THAT BRITAIN WAS LIKELY TO REJECT CHINA'S PROPOSAL FOR A JOINT LIAISON GROUP. TIN FUNG YAT PAO SAID THAT MR LUCE, MR ADLEY AND MR HEALEY ALL WAS MERITS IN THE JOINT LIAISON GROUP PROPOSAL: IT WOULD BE IMPOSSIBLE FOR UMELCO TO RESIST IT. TIN TIN DAILY NEWS CONSIDERED THAT BRITAIN WAS USING THE QUESTION OF HONG KONG PEOPLE'S VIEWS AS AN EXCUSE TO DELAY REACHING AN AGREEMENT ON THE FUTURE. BUT FURTHER DELAYS IN THE TALKS WOULD NOT REPEAT NOT BENEFIT BRITAIN.

8. GREEN PAPER: THE ECONOMIC JOURNAL (INDEPENDENT) SUGGESTED THAT HONG KONG'S FUTURE GOVERNORS SHOULD BE ELECTED FROM UMELCO, WHICH HAD EXPERIENCE OF THE WORKINGS OF GOVERNMENT: IF A JOINT GROUP WAS SET UP THE CHINESE TEAM MIGHT INCLUDE UMELCO MEMBERS WHO HAD ABANDONED THE SINKING BRITISH SHIP. A TA KUNG PAO (COMMUNIST) COLUMNIST CONTINUED TO CRITICISE THE GREEN PAPER AND THE FAILURE TO CONSULT CHINA ABOUT ITS CONTENTS: HONG KONG'S LOCAL GOVERNMENT MUST OPERATE WITHIN THE FRAMEWORK OF THE CENTRAL GOVERNMENT. BUT AT LEAST BEFORE 1988 THE PROPOSED REFORMS WERE ONLY NOMINAL, NOT SUBSTANTIVE: IT WAS TOO EARLY NOW TO TALK OF REFORMS IN 1991.

HADDON-CAVE

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27 July 1984

Thank you for your letter of 9 July to my predecessor, John Coles. I have read with interest the three proposals you made during the visit which you undertook to Peking with Miss Dunn and Mr Lee. I have also noted the results of the SRH poll in the South China Morning Post.

Charles Powell

Sir S Y Chung

ea



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TELEGRAM NUMBER 2140 OF 27 JULY
INFO IMMEDIATE PEKING

FUTURE OF HONG KONG : SECRETARY OF STATE'S DISCUSSION WITH EXCO.

SUMMARY

1. ALMOST THREE AND A HALF HOURS USEFUL DISCUSSION IN A GOOD ATMOSPHERE. NO (NO) DISSENT FROM GENERAL TACTICS PROPOSED FOR SECRETARY OF STATE'S VISIT TO PEKING. DISCUSSION FOCUSED HEAVILY ON JOINT GROUP AND ITS LOCATION. AGREED ON NEED TO CONSIDER POSSIBILITY OF CHINESE REJECTION OF DEVICE IN PRIME MINISTER'S LETTER. UNOFFICIALS VERY CONCERNED THAT HONG KONG GOVERNMENT'S AUTHORITY NOT UNDERMINED. EMERGING CONSENSUS THAT DEFERRAL OF LOCATION IN HONG KONG TO 1993 COMBINED WITH TIGHT TERMS OF REFERENCE (AND PROLONGATION BEYOND 1997 IF OBTAINABLE) COULD MAKE LOCATION IN HONG KONG BEARABLE. LATEST DRAFT OF PAPER ON JOINT GROUP DISTRIBUTED AND DISCUSSED.

DETAIL

2. THE SECRETARY OF STATE REVIEWED THE CURRENT STATE OF THE TALKS AND IDENTIFIED THE MAIN SUBJECTS FOR DISCUSSION DURING HIS VISIT TO PEKING AS:

- (A) AGENDA ITEM 2 AND THE JOINT GROUP IN PARTICULAR.
- (B) THE FORM AND CONTENT OF THE AGREEMENT AND REINFORCING THE CRITIQUE OF THE LATEST CHINESE DRAFT.

(B) THE FORM AND CONTENT OF THE AGREEMENT AND REINFORCING THE CRITIQUE OF THE LATEST CHINESE DRAFT.

(C) OTHER OUTSTANDING POINTS FROM AGENDA ITEM 1 SUCH AS CONSTITUTIONAL ARRANGEMENTS AND GOVERNMENT STRUCTURE, NATIONALITY, PUBLIC SERVICE, CIVIL AVIATION, THE BRITISH PROPOSAL FOR AN INTERNAL SECURITY FORCE AND LAND.

3. THE MAIN POINTS OF INTEREST FROM DISCUSSION FOLLOWING THE SECRETARY OF STATE'S PRESENTATION WERE AS FOLLOWS:

(A) CONTINUING ANXIETY ON THE PART OF UNOFFICIALS TO HAVE HMG'S BOTTOM LINE MORE CLEARLY IDENTIFIED. SIR S Y CHUNG IN PARTICULAR PRESSED THE SECRETARY OF STATE TO SAY THAT THE INCLUSION OF OUR ARTICLE 6 IN THE MAIN AGREEMENT (EFFECT OF WHICH IS TO MAKE ITS PROVISIONS BINDING) WAS VITAL.

(B) UNOFFICIAL MEMBERS SAID THAT THE FOCUS OF ANXIETIES REFLECTED TO THEM BY HONG KONG PEOPLE WAS THE PROSPECT IMPLICIT IN CHINESE PROPOSALS FOR THE JOINT GROUP THAT THERE WERE NOT EVEN 13 YEARS OF GOOD GOVERNMENT FREE FROM CHINESE INTERFERENCE TO BE LOOKED FORWARD TO.

4. IN DISCUSSION OF THE DRAFT PAPER FOR HANDING TO THE CHINESE ON ITEM 2 THE MAIN POINTS OF INTEREST WERE AS FOLLOWS:

(A) THE SECRETARY OF STATE SAID THAT IT WAS IMPORTANT TO FACE UP TO THE PROSPECT THAT THE CHINESE MIGHT REJECT OUR PROPOSAL TO DEFER DISCUSSION. WE MIGHT BE FACED WITH A CHOICE BETWEEN ACCEPTING LOCATION IN HONG KONG AT AN EARLY DATE AND NO AGREEMENT AT ALL.

(B) NO UNOFFICIAL MEMBER SUGGESTED THAT IT WOULD BE BETTER TO HAVE NO AGREEMENT THAN TO ACCEPT CHINESE PROPOSALS ON LOCATION OF A JOINT GROUP IN HONG KONG IF THEY INSISTED ON THEM. BUT IT WAS CLEAR FROM ALL THEIR COMMENTS THAT THEY REGARDED IT AS A HIGH PRICE TO PAY. HOWEVER, THERE WAS A GENERAL CONSENSUS THAT TYING THE CHINESE DOWN ON TERMS OF REFERENCE AND DEFERRING THE ESTABLISHMENT OF THE JOINT GROUP IN HONG KONG UNTIL 1993 WOULD MAKE LOCATION IN HONG KONG BEARABLE. SOME MEMBERS, NOTABLY SIR S Y CHUNG AND MR SANDBERG, CONSIDERED THAT PROLONGATION BEYOND 1997, IF OBTAINABLE, WOULD REPRESENT A MAJOR REASSURANCE.

(C) THERE WAS A LENGTHY AND BROADLY SATISFACTORY DISCUSSION OF THE TEXT OF THE PRESENT DRAFT OF THE PAPER FOR HANDING TO THE CHINESE.

THERE WAS ALSO SOME DISCUSSION OF WHETHER THE IDEA OF PROLONGATION BEYOND 1997 SHOULD BE IN THE PAPER OR MADE ORALLY. MR SANDBERG AND SIR S Y CHUNG WERE STRONGLY OF THE VIEW THAT IT SHOULD BE IN THE PAPER. THE SECRETARY OF STATE AND I POINTED OUT THE DANGER THAT IF THE PROPOSAL WAS PRESENTED IN THE PAPER WITHOUT EARLIER PREPARATION THIS MIGHT RESULT IN INSTANT REJECTION. THE SECRETARY OF STATE ASSURED THE COUNCIL THAT THE PROLONGATION PROPOSAL WOULD BE MADE.

PROPOSAL WOULD BE MADE.

5. THERE WAS ALSO SOME DISCUSSION OF THE MAIN AGREEMENT. THE ABSENCE FROM THE LATEST CHINESE DRAFT OF ANYTHING CORRESPONDING TO OUR ARTICLE 6 AND THE IMPRECISION OF THE COMMITMENT TO DRAFT THE BASIC LAW IN ACCORDANCE WITH THE AGREEMENT WERE THE MAIN POINTS OF CONCERN.

6. SIR S Y CHUNG PUT IN A STRONG PLEA FOR UMELCO MEMBERS TO BE MORE FULLY IN THE PICTURE, AND AT THE VERY LEAST TO BE TOLD AS MUCH AS THE PRESS WERE BEING TOLD IN LONDON DURING UNATTRIBUTABLE BRIEFINGS.

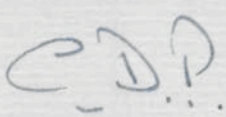
WQNR

CONFIDENTIAL

PRIME MINISTER

Hong Kong

It is possible that Geoffrey Howe will need to consult you by telegram over the weekend about the state of his discussions with the Chinese on the Joint Liaison Group. The most likely time is Sunday afternoon. I have made arrangements with the Foreign Office to be warned as soon as there are any telegrams on this subject. I have also alerted Mr. Luce and Sir Antony Acland in case you need to consult them, either by telephone or by summoning them to a meeting at Chequers.


C. D. POWELL
27 July, 1984


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FROM PEKING 260450Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1622 OF 26/7/84

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: ROUND 19: DINNER:

DISCUSSION WITH ZHOU NAN

1. I SPENT ABOUT AN HOUR YESTERDAY EVENING ALONE WITH ZHOU NAN AFTER MY DINNER FOR THE DELEGATION.

YOUR VISIT

2. ZHOU SAID HE HAD SEEN REPORTS IN THE BRITISH PRESS THAT YOU WERE CONSIDERING A FURTHER VISIT TO PEKING IN SEPTEMBER. I SAID I COULD NEITHER SUBSTANTIATE NOR DENY THESE REPORTS. ZHOU SAID HE WISHED TO EMPHASISE THAT ALL SENIOR CHINESE LEADERS WOULD BE VERY BUSY IN SEPTEMBER. IT WOULD BE VERY DIFFICULT FOR THEM TO RECEIVE VISITORS AT THAT TIME. YOUR VISIT THIS MONTH WAS VERY IMPORTANT. IT WAS DIFFERENT FROM YOUR APRIL VISIT (SEM-CLN) THE STAKES WERE HIGHER AND THE TIME FOR THE ACHIEVEMENT OF AN AGREEMENT WAS SHORTER.

ITEM 2

ITEM 2

3. ZHOU SAID THAT CHINESE LEADERS WERE VERY DISAPPOINTED WITH THE REPORT OF ROUND 19 WHICH HE HAD ALREADY SUBMITTED. IT SHOWED NO BRITISH FLEXIBILITY OVER THE JOINT GROUP. HIS ~~LEADER~~ LEADERS WERE PUZZLED AND WORRIED ABOUT YOUR VISIT.

4. ZHOU ASKED IF YOU WOULD BE COMING WITH NEW PROPOSALS OR IF YOU WOULD MERELY RECITE OUR POSITION AS OUTLINED IN MY 31 MAY STATEMENT. I REPLIED THAT I HAD ALREADY EXPLAINED THE PURPOSES OF YOUR VISIT. ZHOU SAID THAT IT WAS VERY IMPORTANT THAT YOU SHOULD SPEAK YOUR MIND FROM THE OUTSET DURING YOUR MEETINGS WITH WU. THESE THREE MEETINGS WERE VERY IMPORTANT. THEY WOULD SET THE SCENE FOR EVERYTHING. ALTHOUGH WU WAS A SENIOR AND INFLUENTIAL LEADER, HE WOULD BE UNABLE TO RESPOND IMMEDIATELY TO ANY PROPOSALS. DISCUSSION WITH OTHER LEADERS WOULD BE NECESSARY BEFORE DECISIONS COULD BE TAKEN. THERE WAS LITTLE TIME. THIS WAS THE REAL REASON WHY HE HAD SUGGESTED A MEETING WITH SIR PERCY CRADOCK AS EARLY AS POSSIBLE

5. ZHOU AGAIN TALKED ABOUT THE NEED FOR THE CHINESE SIDE TO SEE A BRITISH DRAFT TO CORRESPOND TO THE CHINESE DRAFT PROTOCOL. HE SAID THAT ONLY THEN COULD THE CHINESE SIDE JUDGE PRECISELY WHAT WE WANTED OVER THE JOINT GROUP AND OTHER SUBJECTS COVERED BY THE DRAFT PROTOCOL.

6. HE CONCLUDED BY SAYING THAT CHINA COULD NOT WAIT UNTIL 1993 FOR THE ESTABLISHMENT OF THE JOINT GROUP (HE DID NOT AT THAT POINT SAY ESTABLISHMENT (NEXT THREE WORDS UNDERLINED) IN HONG KONG). HE HOPED YOU UNDERSTOOD HOW MUCH IMPORTANCE CHINESE LEADERS ATTACHED TO BASING THE JOINT GROUP IN HONG KONG.

JOINT DECLARATION

7. ZHOU SAID HE HAD BEEN DISAPPOINTED BY MY PRELIMINARY COMMENTS. THE CHINESE THOUGHT THEY HAD MOVED A LONG WAY WITH THEIR REVISED DRAFT. HE ASKED WHY WE OBJECTED TO ITS PARAGRAPHS 2 AND 3. I SAID THAT IT USED LANGUAGE WHICH MADE IT SEEM AS THOUGH THE UNITED KINGDOM WAS SUBMITTING TO CHINA. I REPEATED THE OTHER DEFICIENCIES WE SAW IN THE DRAFT. ZHOU SAID THAT NATIONALITY OR LAND COULD NOT BE DEALT WITH IN THE MAIN AGREEMENT. THEY WERE TOO TECHNICAL AS SUBJECTS TO BE DEALT WITH THERE. NATIONALITY BELONGED IN THE EXCHANGE OF NOTES, AND LAND IN THE PROTOCOL.

8. ZHOU ASKED HOW LONG A DELAY WE ENVISAGED BEFORE RATIFICATION. I REMINDED HIM OF OUR POSITION: IMPLEMENTING LEGISLATION WILL BE NECESSARY BEFORE RATIFICATION. IT WAS NOT A QUESTION OF 30, 40 OR EVEN 50 DAYS.

8. ZHOU ASKED HOW LONG A DELAY WE ENVISAGED BEFORE RATIFICATION. I REMINDED HIM OF OUR POSITION: IMPLEMENTING LEGISLATION WILL BE NECESSARY BEFORE RATIFICATION. IT WAS NOT A QUESTION OF 30, 40 OR EVEN 50 DAYS.

LAND

9. ZHOU CLAIMED THAT THE CHINESE SIDE HAD MADE A BIG STEP. THEY COULD HAVE WAITED TO DO SO. HE SAID THAT THERE WAS SCOPE FOR MORE CHINESE FLEXIBILITY ON LAND IF WE MOVED ON LOCATION OF THE JOINT GROUP.

COMMENT

10 ZHOU WAS PLAYING THE WORRIED MAN. HE SAID THAT CHINESE LEADERS WERE PREPARED TO CONTEMPLATE BREAKDOWN. HIS OWN POSITION WAS BECOMING DIFFICULT. HE WAS CONSISTENTLY REPORTING THAT WE WANTED AN AGREEMENT. BUT HIS LEADERS WERE BEGINNING TO WONDER.

11. OTHER DISCUSSION WILL BE REPORTED SEPARATELY

EVANS

NNNN

3. ZHOU SAID THAT CHINESE LEADERS WERE VERY DISAPPOINTED WITH THE REPORT OF ROUND 19 WHICH HE HAD ALREADY SUBMITTED. IT SHOWED NO BRITISH FLEXIBILITY OVER THE JOINT GROUP. HIS LEADERS WERE PUZZLED AND WORRIED ABOUT YOUR VISIT.

4. ZHOU ETC

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ED/UND

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FM WASHINGTON 252234Z JULY 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 2267 OF 25 JULY

INFO IMMEDIATE LUANDA, ROUTINE UKMIS NEW YORK, PRETORIA

LUANDA TELNO 22 TO WASHINGTON (NOT TO ALL): ANGOLA/NAMBIA

1. GELBARD (DIRECTOR, SOUTHERN AFRICAN AFFAIRS) TOLD US THAT WISNER MET KITO IN CAPE VERDE ON 25 JULY. KITO'S PROPOSAL FOR THIS MEETING HAD BEEN RELAYED LATE ON 23 JULY THROUGH THE MOZAMBICANS, WHO HAD INDICATED THAT HE WISHED TO DISCUSS CUBAN TROOP WITHDRAWAL AND THE FOLLOW-UP TO THE JMC.
2. WISNER TELEPHONED GELBARD FROM CAPE VERDE ON AN OPEN LINE TO SAY THAT THE TALKS WERE GOING WELL AND WOULD CONTINUE ON 26 JULY. THE KEY ISSUES WERE BEING DISCUSSED. THE SIMULTANEOUS SWAPO/AG TALKS, HOWEVER, HAD FALLEN APART. ALTHOUGH SWAPO HAD APPARENTLY TRIED HARD TO MAKE PROGRESS, VAN NIEKERK AND CLEARY HAD DEMONSTRATED NO FLEXIBILITY. ANY MENTION OF SCR 435 HAD PROVED ANATHEMA TO THE SOUTH AFRICANS. IN WISNER'S PRELIMINARY VIEW (HE HAD NOT BEEN ABLE TO TALK TO THE SOUTH AFRICAN SIDE) THE AG'S HARDLING ATTITUDE WAS PRESUMABLY TACTICAL: FURTHER TALKS WERE NOT RULED OUT.
3. WISNER'S VISIT TO CAPE VERDE (BUT NOT REPEAT NOT HIS PURPOSE) HAS LEAKED TO THE PRESS HERE, WHO SUSPECT HIS INVOLVEMENT WITH THE AG/SWAPO MEETING. FOR SOME REASON, THE WASHINGTON OFFICE OF REUTERS BELIEVE THAT BRITISH OFFICIALS ARE ALSO IN CAPE VERDE.

HANNAY

Public Response to the Statement issued by the Unofficial Members of the Hong Kong Executive and Legislative Councils on 9th May 1984:

THE FUTURE OF HONG KONG

On the 9th of May 1984 the Unofficial Members of the Hong Kong Executive and Legislative Councils issued a statement titled "The Future of Hong Kong" which reflected the fears and wishes of the 5.3 million residents, and which also included a number of suggestions as to how those anxieties might be allayed.

The position paper received wide coverage in Hong Kong as well as in the United Kingdom and other overseas countries.

A 10-member UMELCO delegation visited London at that time to exchange views with the Prime Minister, Senior Ministers, Members of the House of Commons and House of Lords and other interested parties, including the media.

During their visit the delegation in London received hundreds of telexes of support from District Boards, organisations, and individuals in Hong Kong. At the same time, the UMELCO Office in Hong Kong also received hundreds of messages of support from the local population.

Since the delegation's return there has been considerable comment on the UMELCO position paper, much of it supportive, some of it critical and a small portion non-committal.

Following is a summary of the response received by the UMELCO Office since the statement was issued more than two months ago:—

- District Boards* — The Unofficial Members of 14 of the 18 District Boards expressed full support.
- One District Board approved of the statement in part, and three offered no opinion.
- No District Board totally disapproved of the statement.
- Organisations* — A total of 1,509 organisations expressed their views. 1,504 fully approved of the statement.
- Another four organisations approved of the statement in part, and one organisation said it disapproved.
- Individuals* — Altogether 8,400 individual messages of total support were received, against 17 which disapproved of the position paper. Another 10 approved of part of the paper.

In addition to this response the influential English-language newspaper the South China Morning Post commissioned an independent survey carried out by Survey Research Hong Kong Limited.

The survey was conducted by telephone in Chinese, contacted a random sample of 605 people a little more than a week after the statement was issued.

Results showed:	<i>Full Approval</i>	<i>Part Approval</i>	<i>Disapprove</i>	<i>No Opinion</i>
	41 per cent	41 per cent	3 per cent	15 per cent

The UMELCO position paper listed the six main worries of the people of Hong Kong and the two questions most often and most urgently asked. It then went on to offer four suggestions which could help to allay the anxieties of residents.

The Six Worries:

- Will the essential elements of the Basic Law be enshrined in the Sino-British Agreement? If not, would not the British Government run the risk of signing an agreement which the Chinese side may later unilaterally alter on the grounds that it is in conflict with the Basic Law?
- If the Agreement is to be signed before the Basic Law is promulgated, should not Parliament withhold ratification until the details of the Basic Law are known?
- Should not the British Government insist on a mechanism which will ensure that the agreement is faithfully implemented?
- Should not Britain insist on retaining some residual status in Hong Kong beyond 1977 to provide re-assurance that the terms of the Agreement will be kept?
- Given the possibility that the Chinese authorities will seek to anticipate 1997 and start interfering with the administration of Hong Kong between now and then, will the British Government insist that it must retain effective control as the sovereign power, during the next 13 years?
- About half of Hong Kong's present population of 5.3 millions came to Hong Kong from China to seek a better life here. They do not relish the thought of a return to Chinese Communist rule. But what of the rest of the population? They are British nationals by birth (a small number by naturalisation) holding British passports with a right of abode in the British Dependent Territory of Hong Kong. What then will be the fate of Hong Kong's BDTCs? How will their rights and status be preserved? How will BDTCs continue to enjoy British protection? Will they, and other Hong Kong belongers who cannot accept the idea of living under Communist authority, have a right to settlement in the United Kingdom and should not the British Government negotiate settlement places for them?

The Two Questions:

- How is it proposed that acceptability is put to the test?
- What will be HMG's reaction if Hong Kong people do not accept the Agreement or parts of it?

The Four Suggestions:

Acceptability will depend on the Agreement now being negotiated:

- containing full details of the proposed administrative, legal, social and economic systems applicable after 1977;
- providing adequate and workable assurances that the terms of the Agreement will be honoured;
- stating that the provisions of the Basic Law will incorporate the provisions of the Agreement;
- guaranteeing that the rights of British nationals will be safeguarded.

The detailed breakdown of the response to this position paper is:

District Boards (elected and appointed non-government members)

	<i>District Population figures</i>	<i>% of Total</i>
<i>(a) Full approval</i>		
Central & Western (All members)	276,000	
Eastern (All members)	489,000	
Wan Chai (All members)	228,000	
Southern (All members)	232,000	
Mong Kok (8 of 12 members)	241,000	
Yau Ma Tei (All members)	179,000	
Wong Tai Sin (17 of 28 members)	490,000	
Sham Shui Po (15 of 22 members)	456,000	
North (All members)	130,000	
Sha Tin (All members)	250,000	
Tai Po (All members)	93,000	
Tsuen Wan (10 of 26 members)	665,000	
Tuen Mun (14 of 17 members)	192,000	
Yuen Long (17 of 19 members)	215,000	
	<hr/> 4,136,000	77.6
<i>(b) Approval in part</i>		
Kwun Tong (15 of 28 members)	658,000	12.3
<i>(c) Disapprove</i>		
	Nil	
<i>(d) No opinion</i>		
Kowloon City	450,000	
Islands	52,000	
Sai Kung	35,000	
	<hr/> 537,000	10.1
Total	<hr/> 5,331,000	100.0

Organisations

	<i>Membership</i>	
	<i>Constituent bodies</i>	<i>Persons</i>
<i>(a) Full approval</i>		
19 professional and academic groups	—	54,900
16 Trade and industrial associations	3,252	3,500
41 Civic organisations	6,436	44,800
11 Trade unions	20,080	156,700
13 Alumni associations and student unions	16	18,700
4 Civil service unions	11	21,700
1,322 Right-wing organisations and associations	—	500,000
78 Others	—	—
	<hr/> 30,095	<hr/> 1,031,500
1,504		

continued on p. 4

Organisations

	<i>Membership</i>	
	<i>Constituent bodies</i>	<i>Persons</i>
(b) <i>Approval in part</i>		
1 professional and academic group	—	9
3 Trade and industrial associations	7,000	—
(c) <i>Disapprove</i>		
1 Student organisation	9	—

Individuals

	<i>Number</i>
(a) Full approval	8,400
(b) Approval in part	10
(c) Disapprove	17

This fact sheet is intended to show the response obtained so far (18th July 1984) to the statement issued by UMELCO on the 9th May 1984.

The Unofficial Members of the Executive and Legislative Councils stress, however, that it should not be regarded as a definitive statement on the current views, wishes, fears and feelings of the people of Hong Kong.

The response data should only be regarded as indicative of views as expressed publicly by the community.

18th July 1984

UMELCO

Office of Unofficial Members of Executive and Legislative Councils
Swire House, 12th floor, 9-25 Chater Road, Hong Kong. Tel. 5-264027
TELEX NO. 62553 UMELC HX

South China Morning Post

Vol. XL No. 143

HONGKONG, FRIDAY, MAY 25, 1984

Price \$2.00

A solid 'Yes' vote for Umelco 80pc of quizzed approve

By HALIMA GUTERRES

The people of Hongkong have given Umelco's document of doubt a firm thumbs up, according to a special survey commissioned by the SCM Post.

The study conducted by SRH (Survey Research Hongkong Ltd), an independent research firm, found that eight out of 10 people interviewed said they approved, at least to a certain extent, the statement issued on the eve of Umelco's London mission.

The statement has sparked a major controversy in both London and Peking, with members of parliament as well as Chinese leaders condemning it as unrepresentative of the views of Hongkong people.

The survey, however, paints a totally different picture and appears to be a clear vindication of the Umelco line.

And as a further vote of confidence in Umelco, the survey found that four out of 10 people interviewed believed the statement would have a positive effect and that it would result in a more favourable agreement for Hongkong after 1997.

The high degree of support for the Umelco statement is significant, particularly in the light of attacks from British members of parliament — notably Mr Edward Heath — who claim that Umelco does

Where views came from

The survey was conducted by telephone among a random sample of 605 people from a wide cross-section of the community.

Of the total, 336 were men and 269 women.

White collar workers accounted for 135, blue collar workers 281, and the rest were either retired, housewives, students or unemployed.

The respondents, aged 19 and above, were interviewed between last Friday and Sunday — nine days after the Umelco statement was issued — and the findings were tabulated by computer.

not represent the views of Hongkong people.

And the results are clearly at variance with the belief of some MPs that Umelco represents the views of only a minority of people here.

When asked if they approved or disapproved of the statement, 41 per cent of the respondents indicated full approval, another 41 per cent said they approved in part and only a tiny three per cent disapproved of the statement.

The remaining 15 per cent had no opinion, a figure which our researchers said was not high and which indicated wide public interest in the statement.

While the timing of Umelco's visit has come under fire from the former Governor of Hongkong, Lord MacLehose, opinions in Hongkong were split down the middle on this question.

About four out of 10 peo-

What the people think

An SCM Post special survey

The following are the questions posed to the 605 respondents in the survey:

Question 1.
Awareness of Umelco Statement

	Of all respondents
Have seen or heard reports of the Umelco Statement	73%
Never heard of it	27%
	100%

In full

	Of all respondents
From TV	57%
From newspaper summary	38%
From radio	28%
From conversation	17%

• Respondents can check more than one answer each, hence total is more than 100 per cent.

Question 2.
Degree of approval or disapproval of statement

	Of all respondents
Full approval	41%
Approve in part	41%
Disapprove of it	3%
No opinion	15%

ple (39 per cent) felt the statement was made at the right time but roughly the same number (42 per cent) disagreed.

Of those who disagreed with the timing, 22 per cent said the statement came too late and 20 per cent thought it was too early.

Almost half of those interviewed (45 per cent) endorsed the views expressed in the statement.

Interestingly the next largest group of respondents (23 per cent) felt the manifesto was too cautious, even though it has already sparked an uproar in both London and Peking.

Only 13 per cent felt the statement was too strong and the remaining 19 per cent held no views on the subject.

Questioned about their views on the effect of the statement on the Peking talks,

Question 3.
Views on timing of statement

	Of all respondents
Right time	39%
Too late	22%
Too soon	20%
No opinion	19%

Question 4.
Views on expression of statement

	Of all respondents
Just right	45%
Too cautious	23%
Too strongly expressed	13%
No opinion	19%

Question 5.
Views on effect of statement on Peking talks

	Of all respondents
Result in a more favourable agreement for Hongkong	39%
No effect	24%
Result in a less favourable agreement for Hongkong	17%
No opinion	20%

sation, which would support the view that Umelco was a great talking point among Hongkong people.

Five questions were posed to the respondents and after the first one, which dealt with awareness of the statement, the interviewers read out a 250-word summary of the Umelco statement to the respondents.

The purpose of this was to refresh the memories of respondents.

The summary outlined the Umelco statement and drew attention to the fact that it "stresses the concerns and fears felt by many organisations and individuals who have made representations to it (Umelco) in recent months on the question of Hongkong's future as a special administrative zone under Chinese sovereignty after 1997.

"Specifically it asks whether the UK Government could retain 'some residual status' in Hongkong after that date and it seeks guarantees that the rights of British nationality will be safeguarded after British withdrawal.

"It advocates that the essential elements of the Basic Law be stated in the Sino-British agreement and likewise the provisions of the Basic Law will incorporate the provisions of the agreement.

"The statement reflects concern over the way negotiations over Hongkong's future have been progressing and a distrust of Chinese authorities to honour the terms of the agreement on Hongkong's future.

"It sets out the unanimous views of the Unofficial members of the Executive and Legislative Councils."

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MR POWELL

24 July 1984

HONG KONG: FOREIGN SECRETARY'S VISIT

1. Having looked at the briefs, I am concerned that we may be sending the Foreign Secretary to Peking with too little ammunition and with consequent high risk of failure.

2. The message from the Prime Minister which he will be carrying suggests that we put aside the question of the location of the Joint Liaison Group in Hong Kong for the present and discuss other aspects of the Group and other aspects of the negotiations, ie the main agreement and the Annexes. We should then return to the location issue at the end of the day. It may be that the Chinese will see enough flexibility in the message to encourage them to operate on these terms and conduct a discussion of other aspects of the Joint Group with the Secretary of State while he is in Peking or with the Ambassador immediately thereafter. But there seems to me considerable risk that the Chinese will not take this line and will say they are ready to discuss other aspects of the Joint Group, its functions, tasks and so forth, only when the principle of location in Hong Kong has been agreed.

3. If that situation arises there are broadly two possible responses the Secretary of State could make:

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- (a) He could say this is a new situation. We shall have to withdraw and reflect, or
- (b) He could use the formula we have employed to finesse other apparently insuperable obstacles we have encountered in the past: "we would be prepared without prejudice to examine together with the Chinese other aspects of the Joint Group on the premise that it was to be located in Hong Kong." We should then be in a position to explore how tightly we could draw the other terms of reference before deciding whether the package was tolerable or not.

4. Unless we are prepared to see the negotiations founder on the location of the Joint Group, which we agreed in our recent discussions with the Governor we were not, we shall eventually have to fall back on a formula like that in paragraph 3 (b) above. The short point therefore is whether we do this after the Secretary of State returns or whether he should be given contingent authority to deploy this kind of formula in the last resort in Peking. As I see it, the arguments point strongly to him being given the authority before he goes. If we wait until his return the visit will have failed and we must expect the news of that and the consequent deadlock to leak fairly rapidly. The Chinese attitude in other discussions ie in the main negotiations and in the Working Group, would be immediately affected and

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there would be a risk of some harsh public Chinese reaction making it even more difficult for us eventually to pick up the threads. Moreover, given Ministerial absences in August, new instructions would probably take some time to be issued and since they would be employed only by the Ambassador we should have missed the chance to open up the issues face to face with Chinese leaders. We should also have lost a lot of time.

4. I hope therefore that it can be agreed that, if all else fails, the Secretary of State may use the finesse outlined in paragraph 3 (b) above. He will, I believe, want to raise this with the Prime Minister at his meeting at 6.45 this evening.



PERCY CRADOCK

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With the Compliments

Mr Powell

of the

297

Unofficial Members of the Hong Kong

Executive & Legislative Councils

UMELCO

Office of the Unofficial
Members of the Executive
and Legislative Councils
12/F, Swire House,
Hong Kong

Sir P. Gaborcsori
PM will have seen
this in the
paper. I assume no
reply for her TEL.: 5-264027
TELEX NO. 62553 UMELC HX
C.D.D. -

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June 88

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GR 130

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FM TOKYO 240800Z JUL

TO IMMEDIATE FCO

TELNO 582 OF 24 JULY 84

INFO PRIORITY HONG KONG (FOR GOVERNOR), PEKING

MY TELNO 576 : FUTURE OF HONG KONG :

OFFER BY MR NAKASONE TO SPEAK TO THE CHINESE

1. HASEGAWA ASKED ME TO MEET HIM IN AN HOTEL AT NOON TODAY, 24 JULY. HE TOLD ME THAT MR NAKASONE HAD DECIDED ON REFLECTION NOT (NOT) TO DEPEND ON AN EMISSARY BUT TO COMMUNICATE PERSONALLY WITH HU YAQBANG. HIS MESSAGE WOULD GO THROUGH THE MINISTRY OF FOREIGN AFFAIRS AND THE JAPANESE AMBASSADOR IN PEKING, BUT VICE-MINISTER MATSUNAGA ALONE WOULD KNOW OF ITS BACKGROUND. THE INTENTION WAS TO TAKE ACTION BY THE END OF THIS WEEK.

2. IN ORDER IF POSSIBLE TO ELIMINATE ANY RISK OF MISUNDERSTANDING, HASEGAWA AGREED TO RETURN TO THE EMBASSY WITH ME TO CONFIRM IN DETAIL THE CRUCIAL PASSAGES OF MY INSTRUCTIONS (YOUR TEL NO 401 PARAGRAPHS 4 AND 5).

(REPEATED AS REQUESTED)

GIFFARD

FUTURE OF HONG KONG
LIMITED

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HD/FED
HD/PLANNING STAFF
HD/PUSD
DEP HD/PUSD
RESEARCH D (MR WALKER)
LEGAL ADVISERS(SIR J FREELAND)
PS
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FROM PEKING 231012Z JULY 84
TO IMMEDIATE FCO
TELNO 1556 OF 23/7/84
INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: MY LUNCH WITH ZHOU NAN

1. ZHOU NAN GAVE ME LUNCH TODAY. THOMSON WAS WITH ME. HE WAS ACCOMPANIED BY TWO OFFICIALS FROM THE WESTERN EUROPEAN DEPARTMENT.

2. I ACTED, AT DIFFERENT STAGES DURING THE LUNCH, ON THE INSTRUCTIONS IN YOUR TUR. I DID NOT BRING UP THE TEST OF ACCEPTIBILITY. NOR DID ZHOU. BUT THOMSON GAVE ONE OF THE TWO OFFICIALS A COPY OF YOUR WRITTEN ANSWER IN THE HOUSE LAST WEEK. ZHOU DID NOT MENTION THE GREEN PAPER. NOR DID I.

3. ON THE JOINT GROUP, ZHOU STARTED BY SAYING THAT HE HAD AUTHORITY TO TELL ME THEN AND THERE WHERE THE CHINESE COULD BE FLEXIBLE IF I COULD INDICATE FLEXIBILITY ON OUR PART ABOUT LOCATION AND MACHINERY. I SAID THAT I COULD NOT DO THIS. HE SAID HE WAS DISAPPOINTED. IT WAS HIS JOB AND MINE TO PREPARE FOR THE MEETINGS BETWEEN YOU AND THE CHINESE LEADERS SEMICOLON THE GREATER THE EXTENT THAT WE COULD EXPLORE THE GROUND TO BE DISCUSSED IN ADVANCE OF YOUR ARRIVAL, THE GREATER THE CHANCE THAT YOUR MEETINGS WOULD BE FRUITFUL. HE SAID EXPLICITLY THAT HE COULD NOT UNVEIL WHAT HE HAD BEEN AUTHORISED TO LET ME HAVE, ON THE CONTINGENT BASIS HE HAD OUTLINED, IF I WAS NOT PREPARED TO MEET HIM ON THIS BASIS.

4. I SAID I HAD REPORTED THAT LOCATION WAS A CENTRAL ISSUE FOR THE CHINESE AND THAT MACHINERY WAS ALSO IMPORTANT. COULD HE GIVE ME ANY INDICATION OF THE RELATIVE IMPORTANCE OF THE TWO? ZHOU REPLIED THAT, IF WE WISHED TO KNOW THE RELATIVE WEIGHT OF THE TWO IN NUMERICAL TERMS, HE WOULD PUT IT AT 60:40. BUT HE WANTED TO EMPHASISE THAT BOTH ISSUES WERE IMPORTANT.

5. I ASKED SHOU WHETHER CHINESE FLEXIBILITY COVERED THE TASKS OF A JOINT GROUP ONLY OR WHETHER IT WENT FURTHER THAN THIS. HE SAID THIS QUESTION WAS NOT REALLY LEGITIMATE IN THE CIRCUMSTANCES. BUT HE COULD SAY THAT THE DEFINITION OF TASKS OUGHT NOT TO BE DIFFICULT TO SETTLE, PROVIDED WE COULD AGREE TO SPLIT THE TRANSITIONAL PERIOD INTO TWO - A PERIOD UP TO THE PROMULGATION OF THE BASIC LAW AND THE PERIOD THEREAFTER. HE COULD ALSO TELL ME THAT THE AREA OF POTENTIAL CHINESE FLEXIBILITY EXTENDED TO LAND LEASES.

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6. I THEN ASKED HIM WHETHER CHINESE FLEXIBILITY MIGHT ALSO COVER THE ARTICLES IN THE CHINESE DRAFT PROTOCOL ABOUT THE PROVISION OF FINANCIAL INFORMATION AND THE HANDING OVER OF PROPERTY AND DOCUMENTS. HE JIBBED AT THIS, MERELY SAYING THAT THE ARTICLE ABOUT PROPERTY AND DOCUMENTS WAS A MATTER OF 'PROTOCOL'. I REMINDED HIM THAT HE HAD DESCRIBED IT TO ME ON AN EARLIER OCCASION AS A POLITICAL RATHER THAN A LEGAL QUESTION. HE RESPONDED BY SAYING THAT IT WAS A MATTER BOTH OF POLITICA AND OF PROTOCOL.

7. ZHOU SAID THAT WE COULD CALL THE CHINESE DRAFT PROTOCOL SOMETHING ELSE IF WE WISHED. BUT THERE WOULD HAVE TO BE A DOCUMENT SEPARATE FROM THE DECLARATION AND THE EXCHANGE OF NOTES. THE DECLARATION OUGHT NOT TO BE BURDENED WITH TOO MUCH ABOUT THE TRANSITIONAL PERIOD SEMICOLON AND THE EXCHANGE OF NOTES DEALT WITH POST-1997 ARRANGEMENTS. ZHOU ALSO SAID THAT THE ESTABLISHMENT OF A JOINT GROUP COULD NOT WAIT FOR THE PROMULGATION OF THE BASIC LAW. IN THE CHINESE VIEW, IT OUGHT TO BE SET UP AFTER SIGNATURE OF AN AGREEMENT.

8. ON THE SPIRIT IN WHICH YOU WOULD BE COMING TO CHINA, I USED THE LANGUAGE OF THE FIRST SENTENCE IN THE SECOND PARAGRAPH OF TUR. ZHOU SAID THAT HE NO LONGER HAD ANY DOUBTS ABOUT THE SPIRIT IN WHICH YOU WOULD BE COMING. HE HAD SEEN REPORTS 'FROM OTHER SOURCES' WHICH MADE IT CLEAR THAT YOU WOULD BE SEEKING TO AVOID CONFRONTATION.

9. SEE MY 3 IFTS.

EVANS

FUTURE OF HONG KONG
LIMITED

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FM HONG KONG 230850Z JUL 84
TO IMMEDIATE F C O
TELEGRAM NUMBER 2087 OF 23 JULY
INFO PRIORITY PEKING

FOR GALSWORTHY, HKD.

OUR TELNO. 1849 : FUTURE OF HONG KONG : FORTNIGHTLY REPORT ON
PUBLIC OPINION.

MR. LUCE'S VISIT AND THE ANNOUNCEMENT THAT THE SECRETARY OF STATE
IS TO COME HERE AGAIN, HAVE CAUSED MOUNTING SPECULATION THAT THE
TALKS IN PEKING HAVE REACHED A CRITICAL STAGE.

2. AS A RESULT OF CHINESE LEAKS, THE HONG KONG MEDIA HAVE FOCUSED
ON THE POSSIBLE ESTABLISHMENT OF A JOINT LIAISON GROUP IN HONG KONG
AS THE MAIN POINT CURRENTLY AT ISSUE. THE CHINESE HAVE PUT IT ABOUT
THAT PEKING IS DETERMINED ON SUCH A GROUP, BUT THAT HONG KONG HAS
NOTHING TO FEAR FROM IT. LI JUSHENG, A SENIOR NENA OFFICIAL IN
HONG KONG AND A MEMBER OF THE CHINESE NEGOTIATING TEAM, HAS SAID
PUBLICLY THAT A JOINT LIAISON OFFICE WOULD BE NECESSARY AFTER AN
AGREEMENT HAD BEEN SIGNED, BUT THAT IT WOULD NOT BE A WATCHDOG OR
MONITORING BODY. LI'S REMARKS SEEM TO HAVE REASSURED SOME SECTIONS
OF HONG KONG OPINION BUT THERE IS STILL STRONG DISTRUST OF CHINESE
INTENTIONS AMONG KEY GROUPS.

3. THE SOUTH CHINA MORNING POST HAS ARGUED CONSISTENTLY THAT THE
BRITISH SHOULD REJECT THE IDEA ON THE GROUNDS THAT ANY GROUP BASED
IN HONG KONG WOULD INTERFERE WITH THE GOVERNMENT. MANY INDEPENDENT
CHINESE LANGUAGE PAPERS HAVE, HOWEVER, CONCLUDED THAT A GROUP IN
HONG KONG IS INEVITABLE, AND URGE SIMPLY THAT ITS TERMS OF
REFERENCE SHOULD BE TIGHTLY DRAWN SO AS TO PREVENT IT INTERFERING
WITH GOVERNMENT POLICIES. DISTRICT OFFICERS REPORT THAT MOST PEOPLE
AT LOCAL LEVEL BELIEVE THAT A JOINT GROUP HERE WILL LEAD TO
CHINESE INTERFERENCE AND HOPE THAT THE BRITISH GOVERNMENT WILL REJECT
IT: BUT THAT SOME (MOSTLY YOUNGER PEOPLE) THINK A JOINT GROUP NEED
NOT INTERFERE WITH ADMINISTRATION.

4. THE COMMERCIAL ATMOSPHERE DURING THE PAST FORTNIGHT HAS BEEN
DOMINATED BY THE WEAKNESS OF THE HONG KONG DOLLAR, AND BY A
FLUCTUATING STOCK MARKET. THE DOLLAR HAS FACED ITS SEVEREST TEST
SINCE IT WAS PEGGED TO THE US DOLLAR LAST SEPTEMBER, AND REMAINS
UNDER SOME PRESSURE DESPITE A THREE AND A HALF PERCENT RISE IN
INTEREST RATES. WHILE THE STRENGTH OF THE US DOLLAR IS CLEARLY A
FACTOR IN THIS WEAKNESS, POLITICAL NERVOUSNESS IS ALSO RESPONSIBLE.

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/OPINION

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OPINION AT LOCAL LEVEL

5. REPORTS FROM DISTRICT OFFICERS AND OTHER GOVERNMENT SOURCES INDICATE INCREASING NERVOUSNESS. WHILE COMPARATIVELY FEW CONTACTS CLAIMED TO BE PLANNING EMIGRATION THEMSELVES, EVERYBODY KNEW PEOPLE WHO WERE DOING SO. THERE ARE SIGNS THAT KMT SUPPORTERS AND LEFT-WINGERS ARE PREPARING FOR 1985 DISTRICT BOARD ELECTIONS AND THERE ARE NERVOUS PREDICTIONS OF INCREASING POLITICAL POLARISATION.

GREEN PAPER ON REPRESENTATIVE GOVERNMENT

6. FIRST REACTIONS WERE GENERALLY AS EXPECTED. IT HAS BEEN BROADLY WELCOMED BY UNOFFICIALS, PROFESSIONAL GROUPS AND BUSINESS ORGANISATIONS, BUT CRITICISED AS INADEQUATE AND OVER-CAUTIOUS BY PRESSURE-GROUP PERSONALITIES.

ASSESSMENT OF VIEWS ON SINO-BRITISH AGREEMENT.

7. THE SECRETARY OF STATE'S ANNOUNCEMENT THAT A SPECIAL OFFICE WOULD BE SET UP IN HONG KONG TO COLLATE AND ASSESS VIEWS ON A SINO-BRITISH AGREEMENT HAS NOT YET BEEN FULLY DIGESTED. INITIAL INTEREST AMONGST A FEW PRESSURE GROUPS HAS CENTRED ON THE DECISION NOT TO HAVE A REFERENDUM. SOME HAVE EXPRESSED UNDERSTANDING OF THE DECISION, OTHERS HAVE CRITICISED IT.

BRAY

FUTURE OF HONG KONG
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HD/PLANNING STAFF
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DEP HD/PUSD
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LEGAL ADVISERS(SIR J FREELAND)
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SUBJECT

cc Master Ops

REVISED VISUAL 34
CFW



10 DOWNING STREET

THE PRIME MINISTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T133184

23 July 1984

My dear Prime Minister,

In my message to you of 14 October 1983 about the negotiations on the future of Hong Kong, I proposed that in pursuance of my earlier letter to you of 10 March 1983, and without prejudice to any final agreement, the negotiators on the two sides should discuss what effective measures other than continued British administration might be devised to maintain the stability and prosperity of Hong Kong and should explore further the Chinese ideas which had at that stage been explained to us. I proposed that their purpose should be to see whether Britain and China could together construct, on the basis of the proposals put forward by China, arrangements which would ensure lasting stability and prosperity for Hong Kong. I added that, if on this basis arrangements could be agreed that would ensure the maintenance of stability and prosperity of Hong Kong, the British Government would be prepared to recommend to Parliament a bilateral agreement enshrining them and to do its utmost to help with the introduction and implementation of such arrangements. I have been following with close interest the progress of the negotiations since that date, and have been pleased to note that some progress has been made both in furthering the understanding between the two sides and in drafting an agreement which would be acceptable to China and Britain, as well as to the people of Hong Kong. I was particularly glad to note the progress made during Sir Geoffrey Howe's visit to Peking in April.

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However, we are now approaching the end of the limited time available for the work of drafting an agreement. I think that I should in all sincerity let you know that I have become concerned in recent weeks that progress in the negotiations has slowed down, and certain points of serious difficulty have been identified. The British Government and I personally remain strongly committed to seeking an acceptable agreement on the future of Hong Kong, and if such an agreement is reached, will co-operate to the utmost with the Chinese Government in ensuring that it is put into operation successfully. However, I must urge you to bear in mind that the British Government cannot undertake such an agreement unless it is accepted by the British Parliament, and Parliament will attach great importance to the extent to which the agreement commands confidence in Hong Kong. Parliament will certainly insist that any agreement entered into by Britain should be balanced and binding, and should contain sufficient detail about what is to happen in Hong Kong after 1997 to convince people both in Hong Kong and elsewhere that the arrangements set out in it will work in practice, and will provide the basis for continued stability and prosperity. A draft agreement which did not fulfil these requirements would undoubtedly be rejected by Parliament, and I am sure that you will understand that I should not recommend an agreement to Parliament unless I was confident that it would be accepted. We on our side understand that there are political constraints on the Chinese Government, but I ask you to understand in turn that there are also political constraints on the British Government. Only an agreement which meets the political needs of both sides can be successful.

I have been particularly disturbed at the disagreement which has arisen in the negotiations on the location of a joint liaison group. The Chinese side have explained the importance which they attach to establishing such a group in Hong Kong at some time after the entry into force of the

agreement. We on our side have explained our firm conviction that the establishment now of a joint liaison group with standing machinery in Hong Kong would not only create the impression of condominium but would so undermine the authority of the Hong Kong Government as to render it extremely difficult to continue the effective administration of Hong Kong during the period between now and 1997. The uncertainties which the establishment of such a joint liaison group would cause would certainly not be dissipated by mere assurances that the group was not to be an organ of power. That the United Kingdom should remain and be seen to remain fully responsible for the administration of Hong Kong until 1997 has of course already been agreed between our two sides. If Britain's administration of the territory was seen or thought to be prejudiced in this period, the prosperity of Hong Kong would inevitably be damaged to the detriment of the interests of both Britain and China.

I wish to emphasise to you that the difficulties which we see in the Chinese proposal are genuine and practical and that our belief is sincerely held. Indeed news of this proposal has already caused great unease in Hong Kong. I ask you to reflect very carefully on what we have said. However, I am also concerned that our disagreement on this point should not so impede progress on the drafting of an agreement as to make it difficult to conclude it in the limited time available. I therefore suggest that we should for the present put aside the question of location of the group, and discuss instead its composition and functions, to see whether we can reach agreement on these points. At the same time we should continue our active negotiation on the form and content of an agreement on arrangements for Hong Kong after 1997. We should wish to look at the package which eventually resulted from our negotiations and at that stage consider our position on the joint liaison group in all its aspects.

Finally, I should like to convey to you and your colleagues my own determination and that of the British Government to seek solutions to our remaining difficulties. Only in this way can we exercise our joint historical responsibility to seek in co-operation a solution to this difficult question.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Zhao Ziyang

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FILE

OR
34

cc: FCO

Prime Minister
For tomorrow
morning's meeting

10 DOWNING STREET

THE PRIME MINISTER

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 133/84**

23 July 1984

CJP

24/7

cc MASTER
OPS

My dear Prime Minister,

In my message to you of 14 October 1983 about the negotiations on the future of Hong Kong, I proposed that in pursuance of my earlier letter to you of 10 March 1983, and without prejudice to any final agreement, the negotiators on the two sides should discuss what effective measures other than continued British administration might be devised to maintain the stability and prosperity of Hong Kong and should explore further the Chinese ideas which had at that stage been explained to us. I proposed that their purpose should be to see whether Britain and China could together construct, on the basis of the proposals put forward by China, arrangements which would ensure lasting stability and prosperity for Hong Kong. I added that, if on this basis arrangements could be agreed that would ensure the maintenance of stability and prosperity of Hong Kong, the British Government would be prepared to recommend to Parliament a bilateral agreement enshrining them and to do its utmost to help with the introduction and implementation of such arrangements. I have been following with close interest the progress of the negotiations since that date, and have been pleased to note that some progress has been made both in furthering the understanding between the two sides and in drafting an agreement which would be acceptable to China and Britain, as well as to the people of Hong Kong. I was particularly glad to note the progress made during Sir Geoffrey Howe's visit to Peking in April.

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Yours sincerely

Margaret Thatcher

His Excellency Mr. Zhao Ziyang

FUTURE OF HONG KONG

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FM TOKYO 200830Z JUL 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 576 OF 20/7/84

INFO PRIORITY HONG KONG (FOR GOVERNOR), AND PEKING.

MY TEL NO 569: FUTURE OF HONG KONG:
OFFER BY MR NAKASONE TO SPEAK TO THE CHINESE.

1. HASEGAWA ASKED ME TO CALL THIS AFTERNOON, 20 JULY. HE SAID THAT MR NAKASONE VALUED THE CONFIDENCE REPOSED IN HIM BY THE PRIME MINISTER. HE KNEW HOW DIFFICULT IT WAS TO EDUCATE THE CHINESE EVEN IN CERTAIN RUDIMENTARY ASPECTS OF ECONOMIC LIFE, FROM HIS OWN EXPERIENCE DURING HIS LAST VISIT TO PEKING. HE BELIEVED THAT IT WAS IN JAPAN'S INTERESTS TO TAKE ACTION ON THE LINES REQUESTED BY US. HE THOUGHT IT RIGHT TO TAKE ACTION AT THE POLITICAL LEVEL AND PROPOSED TO ASK ONE OF HIS MOST TRUSTED POLITICAL ASSOCIATES TO CONVEY A MESSAGE TO THE CHINESE LEADERS THROUGH THE CHINESE AMBASSADOR HERE (SONG ZHIGUANG). THE JAPANESE POLITICIAN SELECTED WOULD PROBABLY BE FORMER FOREIGN MINISTER ITO, PROVIDED HE HAD RECOVERED FROM SICKNESS CONTRACTED WHILE TAKING A MESSAGE TO CAIRO LAST WEEK (ABOUT JAPAN'S CANDIDATE FOR THE INTERNATIONAL COURT OF JUSTICE). IF NOT THROUGH ITO, MR NAKASONE MIGHT ACT THROUGH NIKAIDO, BUT I WAS GIVEN TO UNDERSTAND THAT ITO WOULD BE THE FIRST CHOICE. BOTH WERE FULLY IN MR NAKASONE'S

GIVEN TO UNDERSTAND THAT ITO WOULD BE THE FIRST CHOICE. BOTH WERE FULLY IN MR NAKASONE'S CONFIDENCE AND BOTH WERE TRUSTED BY THE CHINESE.

2. MR NAKASONE BELIEVED THAT IT WAS ESSENTIAL TO ACT SOON, AND HASEGAWA WHO IS AWARE THAT YOU ARE SHORTLY GOING TO PEKING, SAID HE WOULD EXPECT TO SUMMON ME TO AN OBSCURE RESTAURANT IN A FEW DAYS' TIME TO TELL ME HOW THINGS WERE GOING. INTERESTINGLY ENOUGH, HE VOLUNTEERED THAT IT WAS BETTER NOT TO DISCUSS THE MATTER AT ALL ON THE TELEPHONE.

3. AS REGARDS THE MINISTRY OF FOREIGN AFFAIRS, HASEGAWA TOLD ME THAT MR NAKASONE HAD DECIDED THAT THE VICE MINISTER (PUS EQUIVALENT, MATSUNAGA) ALONG SHOULD BE TOLD OF OUR APPROACH, BUT THAT HE WAS TO KEEP THIS KNOWLEDGE STRICTLY TO HIMSELF. IT WAS NOT TO BE CONVEYED TO THE FOREIGN MINISTER, NOR TO ANY OTHER OFFICIAL.

4. I TOLD HASEGAWA I KNEW THAT MR NAKASONE'S REACTION TO OUR APPROACH WOULD BE APPRECIATED HIGHLY.

GIFFARD

%

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

20 July, 1984

*You Duty Clerk
Told FCO, not here.*

The Foreign Secretary minuted the Prime Minister on 13 July about Undertakings by HMG to Hong Kong People, copies of which were sent to members of OD(K) and Sir Robert Armstrong.

Although we have recorded despatch of all copies, Sir Robert Armstrong has still not received his (envelope serial PS/84/6875). I should be grateful if all recipients of this note would confirm that they received only their own copy.

I am copying this to Private Secretaries of members of OD(K) and to Richard Hatfield for information.

*yours sincerely
Chris Brammer*

(C J Brammer)

Duty Clerk
10 Downing Street

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bc PC

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10 DOWNING STREET

From the Private Secretary

20 July 1984

Future of Hong Kong:
Visit to Hong Kong and Peking by the
Foreign and Commonwealth Secretary

Thank you for your letter of 17 July in which you propose certain minor amendments to the text of the message from the Prime Minister to Zhao Ziyang.

The Prime Minister agrees that the message should be amended as proposed. She also agrees that it would be better not to make reference to the timing of the establishment of the joint liaison group in the text of the message.

(C.D. POWELL)

Len Appleyard, Esq.,
Foreign and Commonwealth Office

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DESKBY 191000Z

FM HONG KONG 190840Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 2028 OF 19 JULY

INFO IMMEDIATE HONG KONG GOVERNMENT OFFICE LONDON, PEKING
INFO ROUTINE HK GOVT REPS WASHINGTON, CG NEW YORK, BRUSSELS,
UKMIS GENEVA

FUTURE OF HONG KONG: PRESS COVERAGE.

(A) GREEN PAPER

SUMMARY:

1. WIDESPREAD PUBLICITY. STRONG SUPPORT FROM MANY INDEPENDENT PAPERS. NCNA SAYS THAT CHINA ACCEPTS NO COMMITMENT REGARDING BRITAIN'S ARRANGEMENTS.

DETAIL:

2. ALL PAPERS GAVE VERY PROMINENT COVERAGE TO THE GREEN PAPER ON THE FURTHER DEVELOPMENT OF REPRESENTATIVE GOVERNMENT IN HONG KONG, WHICH WAS PRESENTED TO LEGCO AND PUBLISHED ON 18 JULY. SEVERAL PAPERS, INCLUDING COMMUNIST PAPERS, PUBLISHED THE CHINESE TEXT IN FULL. SOME HEADLINED THE GOVERNOR'S STATEMENT THAT THE GREEN PAPER HAD BEEN DRAWN UP WITH REGARD TO HONG KONG'S SPECIAL CIRCUMSTANCES AND THE NEED TO MAINTAIN GOOD RELATIONS WITH CHINA. OTHERS HEADLINED HIS STATEMENT THAT THE PROPOSALS HAD BEEN FRAMED SO AS TO ENSURE THERE NEED BE NO CONFLICT WITH THE PRINCIPLE OF CONTINUITY OF THE SYSTEMS IN FORCE BEFORE AND AFTER 1997.

3. UNOFFICIAL LEGCO AND DISTRICT BOARD MEMBERS, PROFESSIONALS AND BUSINESSMEN, GENERALLY WELCOMED THE GREEN PAPER. BUT SEVERAL PRESSURE GROUP SPOKESMEN WERE REPORTED TO HAVE CRITICISED IT FOR NOT PROPOSING SUFFICIENT DEMOCRATIZATION. A "RESPONSIBLE PERSON" OF NCNA HONG KONG, (LI CHONG, CHIEF EDITOR) WAS QUOTED BY COMMUNIST AND INDEPENDENT PAPERS AS SAYING THAT THE PAPER HAD BEEN DRAWN UP BY THE BRITISH SIDE AND THE CHINESE SIDE ACCEPTED NO COMMITMENT REGARDING IT (CHINESE: BU CHENG DAN YIWU). MISS DOROTHY LIU, A PRO-PEKING LAWYER, SAW THE GREEN PAPER AS A BRITISH TRICK TO RETAIN CONTROL OF HONG KONG: PATRIOTIC PEOPLE SHOULD NOT REPEAT NOT REGISTER TO VOTE. HO SAI-CHU (A CPPCC MEMBER) THOUGHT THE SINO-BRITISH TALKS SHOULD DISCUSS THE GREEN PAPER: HE FAVOURED GRADUALISM BUT THOUGHT THE PROPOSALS TOO CONSERVATIVE.

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4. PRESS COMMENT: MOST INDEPENDENT NEWSPAPERS PUBLISHED EDITORIALS IN SUPPORT OF THE GREEN PAPER, AGREEING IN PARTICULAR THAT DIRECT ELECTIONS AT THIS STAGE WOULD BE INAPPROPRIATE. COMMUNIST PAPERS MADE NO COMMENT. CENTRE DAILY NEWS (PRO-PEKING) SAID THAT THE PROPOSALS SEEMED DESIGNED TO ACT AS A BARRIER AGAINST CHINA'S INTERFERENCE IN THE TRANSITION PERIOD: GIVEN PEKING'S ASSURANCES, THIS WAS UNNECESSARY AND THE HONG KONG GOVERNMENT SHOULD INSTEAD CONCENTRATE ON A SMOOTH TRANSITION AND CONTINUITY. TIN TIN DAILY NEWS (PRO-PEKING) CALLED FOR FASTER DEMOCRATIZATION AND ALSO SUGGESTED THAT PEKING'S CONSENT SHOULD BE SOUGHT IN THE CASE OF AT LEAST HALF THE APPOINTED MEMBERS OF EXCO AND LEGCO. HONG KONG DAILY NEWS (PRO-TAIPEI), SUPPORTED THE GREEN PAPER.

YOUDE

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FM TOKYO 180645Z JUL 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 569 OF 18/7/84

INFO PRIORITY HONG KONG (FOR GOVERNOR) AND PEKING.

YOUR TELS NO 409 AND 401: FUTURE OF HONG KONG:

OFFER BY MR NAKASONE TO SPEAK TO THE CHINESE.

1. ACTION TAKEN ON 18 JULY WITH HASEGAWA, PRIVATE SECRETARY TO MR NAKASONE. SPEAKING IN ACCORDANCE WITH THE INSTRUCTIONS IN YOUR TEL NO 401, I STRESSED BOTH THE CONFIDENTIALITY OF THE BRIEFING AND THE DELICACY OF WHAT WE WERE ASKING.

2. HASEGAWA SAID THAT HE WOULD CONVEY THIS TO MR NAKASONE AT THE EARLIEST OPPORTUNITY. HE KNEW THAT MR NAKASONE WOULD WELCOME THE APPROACH, AS A MARK OF THE PRIME MINISTER'S CONFIDENCE IN HIM. MR NAKASONE WAS GREATLY CONCERNED WITH THE STABILITY OF ASIA, OF WHICH THE FUTURE OF HONG KONG WAS A PART. HASEGAWA COULD NOT, OF COURSE, FORECAST MR NAKASONE'S REACTION, BUT HE WOULD TELL ME OF IT, AS SOON AS POSSIBLE. HE BELIEVED MR NAKASONE MIGHT CONTEMPLATE TAKING ACTION ON THE LINES REQUESTED BY US THROUGH AN INTERMEDIARY IN WHOM HE HAD COMPLETE CONFIDENCE AND WHO WOULD BE TRUSTED ALSO BY THE CHINESE. (FORMER FOREIGN MINISTER ITO, WHO HAD BEEN TO CHINA FAIRLY RECENTLY, WAS THE SORT OF PERSON WHO MIGHT BE SELECTED.)

HASEGAWA SHOWED FULL UNDERSTANDING OF THE NEED TO AVOID DISCLOSING TO THE CHINESE THAT WE HAD BRIEFED MR NAKASONE.

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China

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3. WHEN I RAISED THE QUESTION WHETHER I MIGHT REPORT THE BRIEFING E.G. TO NAKAJIMA, HASEGAWA ASKED ME NOT REPEAT NOT FOR THE TIME BEING TO SPEAK TO A SENIOR OFFICIAL IN THE JAPANESE MINISTRY OF FOREIGN AFFAIRS. GREAT CARE WAS REQUIRED TO MAINTAIN CONFIDENTIALITY. HE SAID HE DID NOT WANT TO PUT ME INTO A DIFFICULT POSITION BUT ASKED ME TO ACCEPT HIS ASSURANCE THAT HE WOULD FIND A WAY TO SAFEGUARD MY POSITION WITH THE MINISTRY OF FOREIGN AFFAIRS, AND WOULD BE IN TOUCH AGAIN ABOUT THIS ALSO. I THANKED HIM AND AGREED THAT I WOULD NOT REPEAT NOT SPEAK TO ANYONE ELSE UNTIL I HEARD FURTHER FROM HIM.

GIFFARD

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- 2 -
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PC informed
C.D.P.
18/7

Prime Minister ^①
Agree Percy
Craddock's absence?

MR POWELL

18 July 1984

Yes

C.D.P. 18/7

Unless the Prime Minister sees objection,
I shall be away from Wednesday 25 July to
Friday 3 August, accompanying the Foreign
Secretary on his trip to Hong Kong and
Peking.

PERCY CRADOCK

PS /
PS/PUS
PS/MR LUCE
MR WILSON
ED/ED
ED/FED
PS / LADY YOUNG
SIR W HARDING

ADVANCE COPY COPIES TO:
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MR ROBERTS, NEWS DEPT
SIR PERCY CRADOCK

IMMEDIATE



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DESKBY 181200Z
FROM PEKING 181040Z JULY 84
TO IMMEDIATE FCO
TELNO 1488 OF 18/7/84
INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: YOUR VISIT TO PEKING

1. YOU MAY FIND IT HELPFUL TO HAVE MY VIEWS ABOUT WHERE WE NOW STAND IN THE NEGOTIATION AND ABOUT WHAT YOU MIGHT SEEK TO ACHIEVE DURING YOUR FORTHCOMING VISIT TO PEKING.

STATE OF PLAY IN THE NEGOTIATION

2. EXCEPT ON THE LANGUAGE OF THE ANNEXES (WHERE PROGRESS HAS BEEN STEADY, IF BY NO MEANS RAPID), WE HAVE NOT MADE A GREAT DEAL OF PROGRESS SINCE YOUR VISIT IN APRIL. THE ARGUMENT ABOUT THE LOCATION, CHARACTERISTICS AND TASKS OF A JOINT GROUP DURING THE PERIOD BEFORE 1997 HAD BEGUN BY THEN AND REMAINS UNRESOLVED NOW. WE HAVE GONE BACKWARDS RATHER THAN FORWARDS ABOUT THE STATIONING OF TROOPS SEMICOLON AND THERE HAS BEEN NO SUBSTANTIAL PROGRESS ON OTHER OUTSTANDING ISSUES TO DO WITH ARRANGEMENTS AFTER JUNE 1997 (NATIONALITY, CONSTITUTIONAL ARRANGEMENTS, THE PUBLIC SERVICE, LAND LEASES AND CIVIL AVIATION). WE HAVE BEEN TOLD QUITE OFTEN BY ZHOU NAN DURING RECENT WEEKS THAT THE CHINESE LEADERS ARE DISCONTENTED AND EVEN ANGRY.

3. A GREAT DEAL REMAINS TO BE DONE IF AN AGREEMENT IS TO BE READY FOR INITIALLING BY (SAY) 25 SEPTEMBER. WE MUST REACH AGREEMENT WITH THE CHINESE ON ALL THE OUTSTANDING ISSUES TO DO WITH ARRANGEMENTS AFTER JUNE 1997, ALL THE THE OUTSTANDING ISSUES TO DO WITH ARRANGEMENTS BEFORE JUNE 1997 (WHICH GO CONSIDERABLY WIDER THAN THE LOCATION, CHARACTERISTICS AND TASKS OF A JOINT GROUP), AND THE DOCUMENTARY EXPRESSION OF ALL THE ISSUES TO BE COVERED EXCEPT THOSE ON WHICH THE WORKING GROUP HAS SETTLED TEXTS ALREADY.

4. I WONDER HOW ALL THIS IS GOING TO BE ACHIEVED, GIVEN THAT THERE WILL ONLY BE TIME AFTER YOUR VISIT FOR FOUR OR SO FURTHER ROUNDS OF TALKS. I THINK THAT WE SHALL NEED TO SUBSTITUTE SOMETHING LESS FORMAL AND MORE FREQUENT FOR FORTNIGHTLY ROUNDS. THIS COULD PERHAPS TAKE THE FORM OF HALF-DAY MEETINGS BETWEEN ZHOU NAN AND ME TWICE A WEEK, WITH EACH PRINCIPAL SUPPORTED BY A TEAM OF THREE OR FOUR. IT WOULD NOT BE POSSIBLE, I IMAGINE, FOR THE GOVERNOR TO PARTICIPATE ALL THE TIME. BUT I WONDER WHETHER IT WOULD BE POSSIBLE FOR MCLAREN TO REPRESENT HIM AT LEAST SOMETIMES.

CHINESE ATTITUDES

5. I STILL BELIEVE THAT THE CHINESE WANT AN AGREEMENT. AN AGREEMENT WOULD GIVE THEM SEVERAL THINGS FROM US WHICH THEY

5. I STILL BELIEVE THAT THE CHINESE WANT AN AGREEMENT. AN AGREEMENT WOULD GIVE THEM SEVERAL THINGS FROM US WHICH THEY WOULD NOT OTHERWISE OBTAIN, NOTABLY UNDERTAKINGS FROM US IN RELATION TO SOVEREIGNTY AND ADMINISTRATION AND (TO USE THE WORDS OF ARTICLE 7 IN THE CHINESE DRAFT PROTOCOL) "FACILITIES AND COOPERATION IN THE PREPARATION FOR THE ESTABLISHMENT OF THE HONG KONG SAR GOVERNMENT". ON TOP OF THIS, AN AGREEMENT WOULD REDUCE THE RISK OF HONG KONG'S GOING DOWNHILL, WITH ALL THAT THIS WOULD IMPLY FOR CHINA'S ECONOMIC DEVELOPMENT SEMICOLON WOULD MAKE IT EASIER FOR CHINA TO WARP TAIWAN GRADUALLY ALONGSIDE SEMICOLON AND WOULD BE QUITE A FEATHER IN CHINA'S DIPLOMATIC CAP.

6. BUT I BELIEVE, TOO, THAT THE CHINESE HAVE THEIR BOTTOM LINE. FIRM COMMITMENTS BY US IN RELATION TO "SOVEREIGNTY" AND ADMINISTRATION ARE CERTAINLY PART OF IT. SO IS AGREEMENT ON OUR PART TO ENTER INTO ARRANGEMENTS FOR CLOSE COOPERATION BEFORE 1997. HERE THE KEY ISSUES ARE THE LOCATION OF A JOINT GROUP IN HONG KONG AND (PERHAPS A LITTLE BEHIND THIS) THE ESTABLISHMENT OF STANDING MACHINERY FOR SUCH A GROUP.

7. I DESCRIBED DENG XIAOPING DURING THE CONSULTATIONS IN LONDON AS A CANTANKEROUS AND OPINIONATED OLD MAN. I STICK BY THIS DESCRIPTION. HE IS OFTEN UNSCRUPULOUS ABOUT HOW HE GETS HIS WAY AND HAS NO QUALMS ABOUT HUMILIATING SOME OF HIS SENIOR ASSOCIATES IN PUBLIC. NOR, IN MY JUDGEMENT, IS HE VERY KNOWLEDGEABLE ABOUT HONG KONG. SECRET REPORTS HAVE MADE IT CLEAR THAT HE STILL HAS AN IDEE FIXE ABOUT OUR SIPHONING MONEY OUT OF HONG KONG AND THAT.

IN HIS JUDGEMENT, WE ATTACH GREAT IMPORTANCE TO THE PRESERVATION OF OUR "INTERESTS" IN HONG KONG. WE ARE ALWAYS IN DANGER OF A HASTY AND ILL-JUDGED DECISION BY DENG.

8. ZHOU NAN HAS LATELY BEEN AT PAINS TO EMPHASISE THAT ZHAI ZIYANG ALSO MATTERS A GREAT DEAL. I HAVE HAD CORROBORATION FROM THE BELGIAN AMBASSADOR THAT ZHAO CLOSELY CROSSEXAMINED ZHOU ABOUT THE PROGRESS OF THE TALKS AT PEKING AIRPORT ON HIS RETURN FROM HIS RECENT TOUR OF WESTERN EUROPE. JI PENGFEI IS KNOWLEDGEABLE, BUT HE IS NOT VERY SENIOR IN THE HIERARCHY (HE IS NOT EVEN ONE OF THE 22 MEMBERS OF THE POLITBURO). I DO NOT THINK THAT ZHOU NAN'S REPORTING LINE RUNS TO THE OTHER LEADERS THROUGH WU XUEQIAN. LIKE JI, HE IS NOT A MEMBER OF THE POLITBURO.

9. I TAKE SERIOUSLY WHAT ZHOU NAN HAS SAID TO ME ABOUT INTERNAL OPPOSITION. BUT I DO NOT THINK THAT THE OPPOSITION WHICH MATTERS IS TO BE FOUND IN THE STANDING COMMITTEE OF THE NATIONAL PEOPLE'S CONGRESS, WHERE HE HAS LOCATED IT. I THINK IT IS MORE IN THE CENTRAL COMMITTEE OF THE PARTY, WHICH WOULD ALMOST CERTAINLY HAVE TO APPROVE AN AGREEMENT AND WHICH (LIKE THE STANDING COMMITTEE) IS FULL OF ELDERLY CHAUVINISTS. IT IS ALSO IN THE ARMED FORCES. THERE IS EVIDENCE THAT SOME SENIOR PEOPLE IN THE ARMED FORCES OBJECT TO THE WHOLE THRUST OF CHINA'S CURRENT ECONOMIC POLICY, AND, AS PART OF THIS, OBJECT TO HONG KONG REMAINING A CAPITALIST ENCLAVE FOR 63 MORE YEARS.

YOUR AIMS

10. AGAINST THIS BACKGROUND, I SUGGEST THAT YOUR AIMS SHOULD BE:

(A) TO GET THE CHINESE TO AGREE TO THE PROPOSAL IN THE PRIME MINISTER'S MESSAGE TO ZHAO ZIYANG ABOUT THE HANDLING OF ISSUES IN RELATION TO A JOINT GROUP,

(B) TO GET THE CHINESE TO ACCEPT THAT AN AGREEMENT MUST BE BINDING, BALANCED AND DETAILED, AS WE DEFINE THESE REQUIREMENTS OURSELVES,

(B) TO GET THE CHINESE TO ACCEPT THAT AN AGREEMENT MUST BE BINDING, BALANCED AND DETAILED, AS WE DEFINE THESE REQUIREMENTS OURSELVES,

(C) TO GET THE CHINESE TO AGREE TO SELECTED KEY POINTS IN OUR REVISED PROPOSALS ON NATIONALITY, CONSTITUTIONAL ARRANGEMENTS AND LAND LEASES, AND

(D) TO MAKE IT CLEAR THAT WE DO HAVE A BOTTOM LINE.

CHINESE REACTIONS

11. THE CHINESE WILL NOT LIKE THE PROPOSAL ABOUT THE JOINT GROUP IN THE PRIME MINISTER'S MESSAGE TO ZHAO ZIYANG. BUT THEY MAY WELL BE EXPECTING SOMETHING WORSE SEMICOLON EG THAT YOU WILL INSIST ON CHINESE ACCEPTANCE OF OUR PROPOSALS ABOUT A JOINT LIAISON GROUP. DURING THE PAST WEEK, I HAVE DELIBERATELY TRIED TO PUT A LID ON CHINESE EXPECTATIONS WHEN SPEAKING TO ZHOU NAN. SO MUCH SAID, I SHALL OF COURSE TELL ZHOU NAN THAT YOU ARE NOT SEEKING CONFRONTATION (YOUR TELNO 787). I SHALL DO THIS, AND ACT ON YOUR OTHER RECENT INSTRUCTIONS, WHEN HE HAS LUNCH WITH ME AT MY HOUSE TOMORROW.

12. THERE WILL BE A DEVELOPING SITUATION THROUGHOUT YOUR TIME IN PEKING. YOU MAY NOT GET A DEFINITIVE CHINESE RESPONSE TO THE PROPOSAL ABOUT THE JOINT GROUP UNTIL YOU SEE ZHAO OR EVEN DENG. BEFORE THAT, YOU CAN EXPECT VERY CONSIDERABLE CHINESE PRESSURE TO ACCEPT THEIR PROPOSALS IN RELATION TO A JOINT GROUP, ESPECIALLY ON LOCATION AND MACHINERY. YOU CAN ALSO EXPECT PERSISTENT QUESTIONING ABOUT THE IMPLICATIONS OF THE SUGGESTION THAT THE TWO SIDES SHOULD FOR THE PRESENT PUT ASIDE THE QUESTION OF THE LOCATION OF THE GROUP.

13. WHEN THE CHINESE RESPONSE DOES COME, IT COULD BE A COUNTER-PROPOSAL. IN THAT CASE, YOU WOULD HAVE TO DECIDE HOW TO REACT TO IT ON THE SPOT (THIS COULD BE VERY DIFFICULT IF IT WERE MADE BY DENG TOWARDS THE END OF THE LAST MEETING OF THE VISIT). IF IT AMOUNTS TO A STRAIGHTFORWARD REJECTION, YOU WILL PRESUMABLY WISH TO SUGGEST THAT THE TWO SIDES SHOULD PAUSE AND REFLECT. I TAKE IT THAT YOUR OPERATIONAL OBJECTIVES IN SUCH A SITUATION WOULD BE TO GET THE CHINESE TO AGREE THAT THE NEGOTIATION SHOULD CONTINUE AND THAT NOTHING SHOULD BE SAID IN PUBLIC WHICH COULD PROMPT SPECULATION ABOUT DEADLOCK OR BREAKDOWN.

EVANS

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29 ^{calls} ~~12~~ ②

Foreign and Commonwealth Office

Prime Minister

London SW1A 2AH

17 July 1984

Agree minor
amendments as
marked on attached
text? Agree not

out

Dear Charles,

no refer to timing
of setting up of the Joint Liaison Group?

Future of Hong Kong: Visit to Hong Kong and Peking by the
Foreign and Commonwealth Secretary

CDD

17/7

Thank you for your letter of 14 July about the draft message from the Prime Minister to Zhao Ziyang.

Mr Luce discussed the draft text with EXCO in Hong Kong on 14 July. EXCO were broadly content with the text, but a number of members suggested that it would be inappropriate to refer to the word 'powers' in paragraph 5 of the draft message, since it is our intention that the group should have no powers as such. The Foreign Secretary thinks that this is a reasonable point and suggests that the sentence should read instead: 'discuss instead its composition and functions, to see whether'.

Sir S Y Chung and a number of members also suggested that the message should include a reference to the timing of the setting up of a joint group, both in relation to its initial establishment, and to the possibility of its continuation after 1997. These are certainly matters which the Foreign Secretary will try to explore with the Chinese while he is in Peking, but such exploration will need to be very delicately handled to avoid giving any appearance of retreating from the agreement which we have already given to the establishment of a joint group after the conclusion of the agreement. A bald reference to timing in the message without any further clarification could in his view lead to the Chinese drawing the wrong conclusion and thus diminish the chances of the message having a beneficial effect. He therefore thinks that it would be better to make no reference to the timing of the establishment of the group in the text of the message. He would however propose to reassure EXCO that he does intend to discuss both these aspects of timing with the Chinese during the visit.

/Following

S E C R E T



Following the meeting with EXCO, the Governor has made one further recommendation relating to the text of the draft message. He proposes that all references to 'joint group' in the text should be amended to 'joint liaison group'. This reflects a point which the Chinese have accepted in the negotiations. The Governor rightly suggests that we should pocket the concessions and we therefore propose that amendments in this sense should be made to the text.

Yours ever,

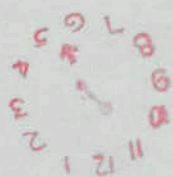
Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

S E C R E T

Hong Kong : Pulau A 15



17 JUL 1984

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GRS 1004
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DESKBY 120930Z
FM FCO 120820Z JULY 84
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 1270 OF 12 JULY
AND TO IMMEDIATE PEKING
FUTURE OF HONG KONG: MESSAGE FROM THE PRIME MINISTER TO
PREMIER ZHAO ZIYANG
THE PRIME MINISTER HAS NOW APPROVED THE TEXT OF A MESSAGE TO
PREMIER ZHAO ZIYANG, AS FOLLOWS.
BEGINS:

1. IN MY MESSAGE TO YOU OF 14 OCTOBER 1983 ABOUT THE NEGOTIATIONS ON THE FUTURE OF HONG KONG I PROPOSED THAT IN PURSUANCE OF MY EARLIER LETTER TO YOU OF 10 MARCH 1983, AND WITHOUT PREJUDICE TO ANY FINAL AGREEMENT, THE NEGOTIATORS ON THE TWO SIDES SHOULD DISCUSS WHAT EFFECTIVE MEASURES OTHER THAN CONTINUED BRITISH ADMINISTRATION MIGHT BE DEvised TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG AND SHOULD EXPLORE FURTHER THE CHINESE IDEAS WHICH HAD AT THAT STAGE BEEN EXPLAINED TO US. I PROPOSED THAT THEIR PURPOSE SHOULD BE TO SEE WHETHER BRITAIN AND CHINA COULD TOGETHER CONSTRUCT ON THE BASIS OF THE PROPOSALS PUT FORWARD BY CHINA, ARRANGEMENTS WHICH WOULD ENSURE LASTING STABILITY AND PROSPERITY FOR HONG KONG. I ADDED THAT, IF ON THIS BASIS ARRANGEMENTS COULD BE AGREED THAT WOULD ENSURE THE MAINTENANCE OF STABILITY AND PROSPERITY OF HONG KONG, THE BRITISH GOVERNMENT WOULD BE PREPARED TO RECOMMEND TO PARLIAMENT A BILATERAL AGREEMENT ENSHRINING THEM AND TO DO ITS UTMOST TO HELP WITH THE INTRODUCTION AND IMPLEMENTATION OF SUCH ARRANGEMENTS.
2. I HAVE BEEN FOLLOWING WITH CLOSE INTEREST THE PROGRESS OF THE NEGOTIATIONS SINCE THAT DATE, AND HAVE BEEN PLEASED TO NOTE THAT SOME PROGRESS HAS BEEN MADE BOTH IN FURTHERING THE UNDERSTANDING BETWEEN THE TWO SIDES AND IN DRAFTING AN AGREEMENT WHICH WOULD BE

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ACCEPTABLE TO CHINA AND BRITAIN, AS WELL AS TO THE PEOPLE OF HONG KONG. I WAS PARTICULARLY GLAD TO NOTE THE PROGRESS MADE DURING SIR GEOFFREY HOWE'S VISIT TO PEKING IN APRIL.

3. HOWEVER, WE ARE NOW APPROACHING THE END OF THE LIMITED TIME AVAILABLE FOR THE WORK OF DRAFTING AN AGREEMENT. I THINK THAT I SHOULD IN ALL SINCERITY LET YOU KNOW THAT I HAVE BECOME CONCERNED IN RECENT WEEKS THAT PROGRESS IN THE NEGOTIATIONS HAS SLOWED DOWN, AND CERTAIN POINTS OF SERIOUS DIFFICULTY HAVE BEEN IDENTIFIED. THE BRITISH GOVERNMENT AND I PERSONALLY REMAIN STRONGLY COMMITTED TO SEEKING AN ACCEPTABLE AGREEMENT ON THE FUTURE OF HONG KONG, AND IF SUCH AN AGREEMENT IS REACHED, WILL CO-OPERATE TO THE UTMOST WITH THE CHINESE GOVERNMENT IN ENSURING THAT IT IS PUT INTO OPERATION SUCCESSFULLY. HOWEVER, I MUST URGE YOU TO BEAR IN MIND THAT THE BRITISH GOVERNMENT CANNOT UNDERTAKE SUCH AN AGREEMENT UNLESS IT IS ACCEPTED BY THE BRITISH PARLIAMENT, AND PARLIAMENT WILL ATTACH GREAT IMPORTANCE TO THE EXTENT TO WHICH THE AGREEMENT COMMANDS CONFIDENCE IN HONG KONG. PARLIAMENT WILL CERTAINLY INSIST THAT ANY AGREEMENT ENTERED INTO BY BRITAIN SHOULD BE BALANCED AND BINDING, AND SHOULD CONTAIN SUFFICIENT DETAIL ABOUT WHAT IS TO HAPPEN IN HONG KONG AFTER 1997 TO CONVINCING PEOPLE BOTH IN HONG KONG AND ELSEWHERE THAT THE ARRANGEMENTS SET OUT IN IT WILL WORK IN PRACTICE, AND WILL PROVIDE THE BASIS FOR CONTINUED STABILITY AND PROSPERITY. A DRAFT AGREEMENT WHICH DID NOT FULFIL THESE REQUIREMENTS WOULD UNDOUBTEDLY BE REJECTED BY PARLIAMENT, AND I AM SURE THAT YOU WILL UNDERSTAND THAT I SHOULD NOT RECOMMEND AN AGREEMENT TO PARLIAMENT UNLESS I WAS CONFIDENT THAT IT WOULD BE ACCEPTED. WE ON OUR SIDE UNDERSTAND THAT THERE ARE POLITICAL CONSTRAINTS ON THE CHINESE GOVERNMENT, BUT I ASK YOU TO UNDERSTAND IN TURN THAT THERE ARE ALSO POLITICAL CONSTRAINTS ON THE BRITISH GOVERNMENT. ONLY AN AGREEMENT WHICH MEETS THE POLITICAL NEEDS OF BOTH SIDES CAN BE SUCCESSFUL.

4. I HAVE BEEN PARTICULARLY DISTURBED AT THE DISAGREEMENT WHICH HAS ARISEN IN THE NEGOTIATIONS ON THE LOCATION OF A JOINT ^{Liaison} GROUP. THE CHINESE SIDE HAVE EXPLAINED THE IMPORTANCE WHICH THEY ATTACH TO ESTABLISHING SUCH A GROUP IN HONG KONG AFTER THE ENTRY INTO

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FORCE OF THE AGREEMENT. WE ON OUR SIDE HAVE EXPLAINED OUR FIRM CONVICTION THAT THE ESTABLISHMENT OF A JOINT GROUP WITH STANDING MACHINERY IN HONG KONG WOULD NOT ONLY CREATE THE IMPRESSION OF CONDOMINIUM BUT WOULD SO UNDERMINE THE AUTHORITY OF THE HONG KONG GOVERNMENT AS TO RENDER IT EXTREMELY DIFFICULT TO CONTINUE THE EFFECTIVE ADMINISTRATION OF HONG KONG DURING THE PERIOD BETWEEN NOW AND 1997. THE UNCERTAINTIES WHICH THE ESTABLISHMENT OF SUCH A GROUP WOULD CAUSE WOULD CERTAINLY NOT BE DISSIPATED BY MERE ASSURANCES THAT THE GROUP WAS NOT TO BE AN ORGAN OF POWER. THAT THE UK SHOULD REMAIN FULLY RESPONSIBLE FOR THE ADMINISTRATION OF HONG KONG UNTIL 1997 HAS OF COURSE ALREADY BEEN AGREED BETWEEN OUR TWO SIDES. IF BRITAIN'S ADMINISTRATION OF THE TERRITORY WAS SEEN OR THOUGHT TO BE PREJUDICED IN THIS PERIOD, THE PROSPERITY OF HONG KONG WOULD INEVITABLY BE DAMAGED TO THE DETRIMENT OF THE INTERESTS OF BOTH BRITAIN AND CHINA.

5. I WISH TO EMPHASISE TO YOU THAT THE DIFFICULTIES WHICH WE SEE IN THE CHINESE PROPOSAL ARE GENUINE AND PRACTICAL AND THAT OUR BELIEF IS SINCERELY HELD. INDEED NEWS OF THIS PROPOSAL HAS ALREADY CAUSED GREAT UNEASE IN HONG KONG. I ASK YOU TO REFLECT VERY CAREFULLY ON WHAT WE HAVE SAID. HOWEVER, I AM ALSO CONCERNED THAT OUR DISAGREEMENT ON THIS POINT SHOULD NOT SO IMPEDE PROGRESS ON THE DRAFTING OF AN AGREEMENT AS TO MAKE IT DIFFICULT TO CONCLUDE IT IN THE LIMITED TIME AVAILABLE. I THEREFORE SUGGEST THAT WE SHOULD FOR THE PRESENT PUT ASIDE THE QUESTION OF THE LOCATION OF THE GROUP, AND DISCUSS INSTEAD ITS COMPOSITION, FUNCTIONS AND POWERS, TO SEE WHETHER WE CAN REACH AGREEMENT ON THESE POINTS. AT THE SAME TIME WE SHOULD CONTINUE OUR ACTIVE NEGOTIATION ON THE FORM AND CONTENT OF AN AGREEMENT ON ARRANGEMENTS FOR HONG KONG AFTER 1997. WE SHOULD WISH TO LOOK AT THE PACKAGE WHICH EVENTUALLY RESULTED FROM OUR NEGOTIATIONS AND AT THAT STAGE CONSIDER OUR POSITION ON THE JOINT GROUP IN ALL ITS ASPECTS.

6. FINALLY, I SHOULD LIKE TO CONVEY TO YOU AND YOUR COLLEAGUES MY OWN DETERMINATION AND THAT OF THE BRITISH GOVERNMENT TO SEEK SOLUTIONS TO OUR REMAINING DIFFICULTIES. ONLY IN THIS WAY CAN WE EXERCISE OUR JOINT HISTORICAL RESPONSIBILITY TO SEEK IN

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CO-OPERATION A SOLUTION TO THIS DIFFICULT QUESTION. ENDS
HONG KONG PLEASE PASS TO MR LUCE'S PARTY.
HOWE

FUTURE OF HONG KONG
LIMITED

HD/HKD
HD/FED
HD/PLANNING STAFF
HD/PUSD
DEP HD/PUSD
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DESKBY 161000Z

FROM PEKING 160935Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1439 OF 16/7/84

INFO IMMEDIATE HONG KONG

MY TELNO 1396: FUTURE OF HONG KONG: YOUR VISIT

1. ZHOU NAN TOOK ME ASIDE AT THE FRENCH AMBASSADOR'S NATIONAL DAY PARTY ON 14 JULY. WE HAD A CONVERSATION OF ABOUT 20 MINUTES, OUT OF EARSHOT OF ANYONE ELSE.

2. ZHOU SAID THAT HE WANTED TO UNDERLINE WHAT HE HAD SAID TO ME AT THE DINNER TWO DAYS BEFORE ABOUT THE DANGER OF CONFRONTATION. GIVEN THE PRESENT MOOD OF HIS LEADERS, HE FORESAW CONFRONTATION IF YOU WERE TO URGE ON THEM THE ACCEPTANCE OF OUR PROPOSALS ABOUT A JOINT LIAISON GROUP. CONFRONTATION COULD LEAD TO DEADLOCK (SEMI-COLON) DEADLOCK TO BREAKDOWN (SEMI-COLON) AND BREAKDOWN TO A VERY UNPLEASANT SITUATION. HE THOUGHT THAT IT WOULD BE USEFUL FOR HIM AND ME TO MEET INFORMALLY IN ADVANCE OF YOUR VISIT, TO WORK OUT A WAY OF RECONCILING THE POSITIONS OF THE TWO SIDES ABOUT A JOINT GROUP. WHAT DID I THINK OF THIS IDEA?

3. I TOLD ZHOU THAT I HAD ALREADY CONVEYED TO HIM (AND, THROUGH HIM, TO HIS LEADERS) THE PURPOSES OF YOUR VISIT. I WAS NOT PREPARED TO ELABORATE. NOR DID I THINK IT ALL LIKELY THAT I WOULD BE AUTHORISED TO WORK OUT A WAY OF RECONCILING THE POSITIONS OF THE TWO SIDES ABOUT A JOINT GROUP, EVEN ON A PERSONAL AN/OR HYPOTHETICAL BASIS. IT WAS FOR OUR PRINCIPALS TO DISCUSS, AND ATTEMPT TO RESOLVE, DIFFICULT PROBLEMS WE COULD NOT RESOLVE OURSELVES.

4. ZHOU TRIED VERY HARD TO GET ME TO SAY SOMETHING ABOUT THE CONSULTATIONS IN LONDON, CONCENTRATING ON THE SUBJECTS DISCUSSED AND THE VIEWS OF THE PRIME MINISTER AND YOURSELF. I ASKED ZHOU WHETHER HE WOULD EXPECT ME TO ASK HIM ABOUT THE CONSULTATIONS WHICH HE MUST HAVE WITH HIS LEADERS (SEMI-COLON) AND, IF I WERE TO DO THIS, WHETHER HE WOULD TELL ME ANYTHING



I ASKED ZHOU WHETHER HE WOULD EXPECT ME TO ASK HIM ABOUT THE CONSULTATIONS WHICH HE MUST HAVE WITH HIS LEADERS (SEMI-COLN) AND, IF I WERE TO DO THIS, WHETHER HE WOULD TELL ME ANYTHING ABOUT THEM

5. ZHOU THEN ABANDONED THIS LINE OF ATTACK. BUT HE RETURNED TO HIS SUGGESTION ABOUT AN ATTEMPT BY HIM AND ME TO RECONCILE THE POSITIONS OF THE TWO SIDES OVER THE JOINT GROUP. WE WENT ROUND IN THE SAME CIRCLE. WHILE WE WERE DOING THIS, HOWEVER, HE DID SAY THREE EXPLICIT THINGS:

(A) THE CHINESE LEADERS ATTACHED MORE IMPORTANCE TO THE LOCATION OF A JOINT GROUP IN HONG KONG THAT TO ANYTHING OTHER THAN SOVEREIGNTY AND ADMINISTRATION (SEMI-COLN)

(B) THE CHINESE SIDE MIGHT BE ABLE TO GIVE US WHAT WE WANTED OVER THE TASKS OF A GROUP IF WE COULD GIVE THEM WHAT THEY WANTED OVER LOCATION AND MACHINERY (SEMI-COLN)

AND

(C) THE CHINESE SIDE HAD NO WISH TO SHARE RESPONSIBILITY WITH US FOR THE ADMINISTRATION OF HONG KONG BEFORE 1997 (SEMI-COLN) IF WE DID WELL, THEY WOULD REJOICE (SEMI-COLN) IF WE DID BADLY, THEY WOULD BE GLAD TO BE OUT OF IT.

6. ZHOU ENDED BY SAYING THAT HE WOULD BE AVAILABLE AT ANY TIME IF I WANTED TO SEE HIM.

EVANS

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27

FROM: M H Jay
DATE: 16 July 1984

Mr Galsworthy, HKD

cc: Sir P Cradock -

FUTURE OF HONG KONG: NATIONALITY

1. The PUS saw, over the weekend, the paper attached to Mr Mound's minute of 12 July to the Private Secretary. The PUS has noted that this has now been circulated as an OD(K) paper. The PUS agrees with the recommendations in the paper, but has one comment on the Annex which you might like to take into account in any revision of the paper. The PUS takes it that paragraph 3 of the Annex is not covered by the preamble to paragraph 2 that 'the United Kingdom Government declare that...' since paragraph 3 deals with matters relating to Chinese sovereignty. The PUS is not clear of the status of paragraph 3: is it a joint declaration, for example? He has suggested that this point should be clarified in a subsequent draft in order to avoid misunderstanding with the Chinese.

M H Jay

M H Jay
PS/PUS

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PRIME MINISTER

Hong Kong: OD(K) 17 July

The main issue for discussion was to be Undertakings by HMG to Hong Kong people. But Sir Geoffrey Howe and Mr. Brittan will suggest that substantive discussion should be deferred until they can reach a common position. Time is pressing and you will want to set a deadline for this.

C.D.P.

16 July 1984

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Prime Minister
CDP 16/7.25

MR POWELL

16 July 1984

CDP 17/7

HONG KONG: OD(K) 17 JULY

1. There are two papers to be considered: Undertakings to Hong Kong people and Nationality.

Undertakings

2. The Foreign Secretary proposes that we give assurances of entry into the UK to three categories from Hong Kong:

a.

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OF THE PUBLIC RECORDS ACT

b. At normal retirement age, to administrative officers, policemen of the rank of Inspector or above, unofficial members of Exco and Legco and certain other individuals (estimated 13,500);

c. As necessary, for those others in the public service or community who may become vulnerable (rough estimate 20,000).

3. The Home Secretary considers these proposals too generous and following discussions today with the Foreign Secretary it is now proposed that the paper be withdrawn so

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that officials can try again to work out an agreed Foreign Office/Home Office line, or at least refine differences.

The Home Secretary I believe sees category (a) as tolerable, category (b) as difficult but perhaps at the end of the day manageable, category (c) as extremely difficult.

4. My own view, and here the Governor agrees, is that in this unique case we must try to be generous and that we can offer no less than (a). (b). and (c). The reasons are considerations of honour (our moral obligation) and expediency (without these undertakings acceptance of an agreement by Hong Kong would be much more doubtful and the administration after an agreement could begin to unravel). The numbers involved in the proposal would be in all 40,000 but phased over a period from now until well into the middle of the next century. We might reckon on an entry of about 3,000 per year. This would compare with 53,000 immigrants accepted for settlement here in 1983.

5. As regards further official discussion, clearly a common Foreign Office/Home Office line would be ideal, but not if it severely mutilated the proposals above or if the discussions took up too much time. We have effectively a week before the Foreign Secretary's departure for Peking and before the summer break and decisions will be needed at the very latest before the agreement is unveiled. It would be useful if a deadline could be set for this further Foreign Office/Home Office round, perhaps 2 August.


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Nationality

6. This is a technical issue but a highly sensitive one in Hong Kong. What is before the Committee is a draft annex to be put to the Chinese. It has been fully agreed at our end with one exception, the question of transmissibility. The annex has been cast in an unusual fashion because of the differing Chinese and British positions: the first two paragraphs take the form of unilateral statements by the two sides on nationality. The Chinese declare that they consider Chinese born in Hong Kong to have Chinese nationality. The British state that Hong Kong British Dependent Territory Citizens will continue to hold a form of British nationality after 1997. We hope this reflects the fact that, although the Chinese could not formally recognise dual nationality, they might allow it to operate in practice by permitting Hong Kong residents to travel on British passports.

7. Then there is the question of how long British nationality could be transmitted after 1997. Although the Chinese have said they cannot accept transmissibility, it is just possible that they may turn a blind eye to it as part of a unilateral British declaration. There are five possible periods; the Foreign Secretary favours the second (transmissibility for one generation). I agree we should try for this: we need to be seen to be fighting for Hong Kong on this sensitive issue.


PERCY CRADOCK

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PRIME MINISTER

c Sir Robert Armstrong

OD(K): Undertakings by HMG to Hong Kong People

FLAG A

The brief for tomorrow's OD(K) on the above subject was necessarily drafted before the outcome of a meeting held this afternoon between the Foreign and Commonwealth Secretary and the Home Secretary, about the handling of the paper, was known. I understand that Sir Geoffrey Howe and Mr Brittan will report to you at the meeting that they consider there should be no substantive discussion of the paper pending further work by officials. As indicated in paragraph 3 of the brief, this would imply an early completion of the further work so that Ministers can address this subject and take the necessary decisions soon.

B G Cartledge

16 July 1984

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B.06803

~~PRIME MINISTER~~

c Sir Robert Armstrong

OD(K): Future of Hong Kong: Nationality

BACKGROUND


FLAGC

In his minute to you of 13 July, the Foreign and Commonwealth Secretary seeks the Sub-Committee's agreement to putting an Annex on Nationality to the Chinese. The draft Annex, which is attached to his minute, attempts to meet United Kingdom requirements while taking account of Chinese sensitivities. Subject to one caveat, it has been agreed by all concerned on the British side (i.e. officials from the Foreign and Commonwealth Office, Home Office, Hong Kong Government and HM Embassy in Peking). It was approved, subject to the same caveat, by the Hong Kong Executive Council on 9 July.

2. The sole unresolved question concerns the opening bid with the Chinese on the transmissibility of British nationality after 1997. Five alternatives are put forward (in square brackets in paragraph 2 of the Annex). The Foreign and Commonwealth Secretary favours option (b) (i.e. transmissibility limited to one generation), with option (c) as a fall-back (i.e. the retention of transmissibility for 50 years after 1997). EXCO want option (a) (i.e. transmissibility without a time limit).

HANDLING

3. You should invite the Foreign and Commonwealth Secretary to introduce the discussion. The main points to establish are -


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a. Would it be better tactics to make option (a) the opening bid, even though there is no prospect of the Chinese accepting it? Apart from presentational advantages, vis-a-vis EXCO, would this improve the chances of securing option (b)? The Foreign and Commonwealth Secretary should be invited to comment: and the Home Secretary should be asked to comment on any possible immigration implications.

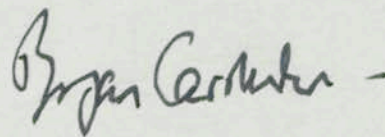
b. On the assumption that the Sub-Committee agree that an Annex on Nationality should be put to the Chinese, when should this be done? Should a text be handed over in advance of the Foreign and Commonwealth Secretary's visit to Peking from 27 to 31 July?

CONCLUSION

4. Subject to the points made in discussion, you might guide the Sub-Committee to the following conclusions:

(i) agree that the draft Annex on Nationality should be put to the Chinese in advance of the Foreign and Commonwealth Secretary's visit to Peking;

(ii) invite the Foreign and Commonwealth Secretary to incorporate in the Annex whichever formula on transmissibility the Sub-Committee has agreed to be preferable as an opening bid.



B G Cartledge

16 July 1984

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ODP 1717

B.06802

PRIME MINISTER

c Sir Robert Armstrong

OD(K): Undertakings by HMG to Hong Kong People

BACKGROUND

At their meeting on 3 May, the Sub-Committee had a preliminary discussion of the possible exercise of the discretionary power under Section 4(5) of the British Nationality Act 1981 whereby civil servants and others employed in government in Dependent Territories can be admitted to the United Kingdom following independence (OD(K)(84) 5th Meeting). It was agreed that further work needed to be done and the Foreign and Commonwealth Secretary was invited to bring a paper to the Sub-Committee on the matter. This he has done, under cover of his minute of 13 July to you.

FLAG-B

FLAG-C

2. Unfortunately, although the paper has been prepared in consultation with the Governor of Hong Kong, the Foreign and Commonwealth Secretary has not been able to discuss it with the Home Secretary, let alone clear it with him in advance. But in view of the time pressure, Sir Geoffrey Howe has still thought it right to circulate the paper to OD(K) "on a second reading basis". The Home Secretary is unhappy about this procedure and is opposed to the Sub-Committee considering the paper before he and Sir Geoffrey Howe and their officials have been able to discuss it further.

3. If it is agreed that the Sub-Committee should defer its discussion of undertakings to Hong Kong people, it is pertinent to ask when it should do so. The Foreign and Commonwealth Secretary takes the view that public servants in Hong Kong will want to know what their position will be

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in 1997 when the agreement with the Chinese is published in September and that failure to tell them could create uncertainty and start an exodus. If this view prevails, Ministers will need to address this subject, and take the necessary decisions, soon.

HANDLING

4. You should invite the Foreign and Commonwealth Secretary to introduce the discussion and the Home Secretary to reply. It would be logical to handle the ensuing discussion under the following main headings -

a. Principle of undertakings by HMG

It is unclear whether the Home Secretary (or indeed other members of the Sub-Committee) accept the need for undertakings of some kind to certain categories of Hong Kong people. It would be as well to establish at the outset whether there are objections of principle to such undertakings.

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b. Extent of undertakings

If the principle of giving undertakings is accepted, at least to this minimal extent, the Sub-Committee could go on to consider whether this should be spread more widely. The paper identifies (paragraphs 26-32), in addition to the intelligence community, two further categories of Hong Kong people who might be "specially at risk". The Foreign and Commonwealth Secretary



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should be asked to clarify the proposals concerning them: for example -

(i) so far as administrators and police officers are concerned, is it realistic to expect them to serve on after 1997 until they reach retirement age if they are admitted to be vulnerable to retribution? Would they not press for the grant of British citizenship before then and, if so, could we refuse to grant it if it has been accorded to their seniors who retire pre-1997?

(ii) The third category of public servants, etc. who may become vulnerable is enormous - about 800,000: on what basis is it assessed that only 20,000 will qualify for an offer of citizenship? Could not this figure become very much higher if the situation in Hong Kong were suddenly to deteriorate pre-1997? (The Home Secretary might be invited to comment.)

(iii) The Secretary of State for Defence will need to express a view on possible undertakings to locally employed staff working in Hong Kong for HM Forces, in particular members of the Hong Kong Military Service Corps. No indication is given in the paper of the numbers involved falling into this category.

c. Other modalities

A variety of other questions will need to be considered if and when it is decided that undertakings should be given to specific groups of Hong Kong people. When should the individuals concerned be informed? Will not knowledge spread that undertakings are being given,

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triggering a stampede to prove "vulnerability"?
How can a phased exodus be assured? Should the
Chinese be informed? (Although in paragraph 7 of
his minute the Foreign and Commonwealth Secretary
argues that the Chinese should be informed, this
would surely be difficult in the case of those who
are given undertakings because of their activities
in the intelligence field.) More generally, what is
the right political balance to strike between our
moral obligations and the constraints of our nationality
and immigration policies?

CONCLUSION

5. You may be able to guide the Sub-Committee to the
following conclusions:

(i)

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(ii) invite the Foreign and Commonwealth Secretary, in
consultation with the Home Secretary, to consider the
case for undertakings to other groups of public servants
in Hong Kong who might be at risk after the handover of
power to China and to report;

(iii) agree that, pending further discussion, nothing
should be said about possible undertakings either to
Hong Kong people to whom they may be offered (including
those engaged in intelligence operations) or to the
Chinese Government.

Bryan Cartledge

B G Cartledge

16 July 1984

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B.06801

~~PRIME MINISTER~~

c Sir Robert Armstrong

OD(K): Hong Kong: State of Negotiations and
Future Strategy

BACKGROUND

At their meeting on 28 June, the Sub-Committee agreed that the Foreign and Commonwealth Secretary should plan to visit Peking at the end of July with the aim of reaching an acceptable accommodation with the Chinese on Agenda Item 2 (arrangements before 1997) and other outstanding issues, such as the draft of the agreement and the future role of the Governor; and that further consideration should be given to the tactics to be adopted with the Chinese at forthcoming talks between the Foreign and Commonwealth Secretary, the Governor and Sir Richard Evans (OD(K)(84) 7th Meeting, Item 3). At the meeting which you held on 6 July with the Foreign and Commonwealth Secretary, the Governor and others, it was agreed that you should send a message to Prime Minister Zhao Ziyang suggesting that the location of the Joint Group should be put aside for the present, while discussion continues on its composition, functions and powers and while negotiation continues on the form and content of an agreement on arrangements for Hong Kong after 1997. The British side would wish to look at the resulting package and at that stage consider its position on the Joint Group in all its aspects. This message was sent on 12 July. (FCO telegram No. 1270 to ^{Hong Kong} Peking.)

Meanwhile, it was further agreed that the Minister of State at the Foreign and Commonwealth Office (Mr Luce) would pay an early visit to Hong Kong for discussion with EXCO to reassure Hong Kong opinion. He did so from 12 to 14 July.



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2. It was announced on 13 July that the Foreign and Commonwealth Secretary will visit Peking from 27 to 31 July, travelling via Hong Kong both on his way out (25-26 July) and back (1-2 August). At this meeting of OD(K) he will wish to give an oral report covering -

- a. progress during the 18th round of plenary negotiations with the Chinese and on related meetings of experts;
- b. discussions with the Governor and Sir Richard Evans, including your meeting with them on 6 July;
- c. the reasons for his forthcoming visit to Peking and Hong Kong; and
- d. Mr Luce's recent visit to Hong Kong.

HANDLING

3. You should invite the Foreign and Commonwealth Secretary to report. The main points to establish in subsequent discussion are -

- a. Does the timetable for concluding and announcing an agreement with China by the end of September still make sense? Or is it already unrealistic?
- b. What are the chances that the Chinese will decide to bring matters to a head (notably over the Joint Group) during Sir Geoffrey Howe's visit to Peking from 27 to 31 July? If they do, will he still return via Hong Kong despite the difficulty of formulating a public statement there which will not damage confidence?
- c. Should special arrangements be made for Ministers to meet during August in the event of a crisis developing during or in the immediate aftermath of Sir Geoffrey Howe's visit?



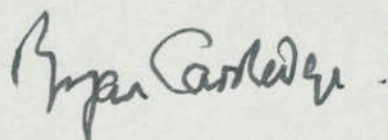
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CONCLUSION

4. Subject to the points made in discussion, you could guide the Sub-Committee to -

(i) endorse the approach which the Foreign and Commonwealth Secretary proposes to take during his visits to Peking and Hong Kong;

(ii) agree that it cannot be excluded that Ministers may need to meet during August to take stock of the position after the Foreign and Commonwealth Secretary's return and to take decisions.



B G Cartledge

16 July 1984

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PS(6)
PS/PUS
PS/MR LUCE
~~MR WILSON~~
/HD/FED
HD/FED
PS | LADY YOUNG
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TO IMMEDIATE F C O
TELEGRAM NUMBER 1950 OF 14 JULY
INFO IMMEDIATE PEKING

IMMEDIATE

ADVANCE COPY

FOLLOWING FROM MR LUCE
FUTURE OF HONG KONG TEST OF ACCEPTABILITY

1. THIS HAS BEEN A MAJOR ISSUE DURING MY VISIT HERE. I THINK WE NEED TO GET ON NOW WITH AN ANNOUNCEMENT AS SOON AS POSSIBLE. I HOPE THAT A SECTION ON THIS SUBJECT CAN BE INCLUDED IN THE PARLE-
MENTARY STATEMENT NEXT WEDNESDAY, WE WILL HOWEVER NEED TO CONSIDER CAREFULLY HOW TO DEAL WITH A REFERENDUM, FOR WHICH THERE IS GROWING SUPPORT HERE.
2. IN THE EXECUTIVE COUNCIL, OPINIONS ARE DIVIDED. GOVERNOR ARGUED POWERFULLY AGAINST A REFERENDUM, SIR S Y CHUNG HAS COME OUT STRONGLY IN FAVOUR OF A REFERENDUM, AND CERTAIN OTHER MEMBERS AT LEAST FAVOUR LEAVING OPTIONS OPEN AT THIS STAGE. OTHERS SUCH AS T S LO ARE VERY MUCH AWARE OF THE DANGERS OF A REFERENDUM. IN THE UMELCO MEETING A NUMBER OF SPEAKERS POINTED TO INDICATIONS THAT CERTAIN OF THE DISTRICT BOARDS WOULD COME OUT PUBLICLY IN FAVOUR OF A REFERENDUM.
3. IN MY VIEW THE ARGUMENTS AGAINST A REFERENDUM REMAIN AS STRONG AS EVER. BUT SOME OF THEM (NOTABLY THE CERTAIN STRONG CHINESE OPPOSITION) ARE DIFFICULT TO EXPALIN IN PUBLIC. WE MUST, HOWEVER, DEPLOY THE CASE FOR OUR PROPOSED CONSULTATION EXERCISE AND AGAINST A REFERENDUM AS BEST WE CAN. WE MIGHT REFER IN GENERAL TERMS TO THE SPECIAL AND DELICATE POLITICAL CIRCUMSTANCES OF HONG KONG, AND TO THE NEED TO AVOID POLARISATION OR UPHEAVAL WHICH MIGHT HINDER THE CALM EXPRESSION AND ASSESSMENT OF POPULAR VIEWS. PARLIAMENT WILL UNDER-
STAND THE ADVANTAGES OF THE COURSE WE ARE PROPOSING, AND THE DIFFICULTIES OF A REFERENDUM. IN PARTICULAR THEY MAY FEEL THAT:
(A) LOW RATES OF REGISTRATION AND TURNOUT IN OTHER ELECTIONS SUGGEST THAT THE RESULT COULD WELL NOT BE REPRESENTATIVE OF THE GENERAL STATE OF PUBLIC OPINION:

(B) A REFERENDUM COULD NOT ADEQUATELY REFLECT BACK TO PARLIAMENT THE RANGE AND QUALITY OF PUBLIC VIEWS ON A MATTER OF GREAT

THE RANGE AND QUALITY OF PUBLIC VIEWS ON A MATTER OF GREAT COMPLEXITY. A MORE INTENSIVE PROCESS OF CONSULTATION THROUGH ESTABLISHED CHANNELS COULD PROVIDE PARLIAMENT WITH A BETTER AND FULLER PICTURE OF HONG KONG'S VIEWS.

4. IT IS IMPORTANT THAT WE SHOULD GET THE TIMING OF ANY ANNOUNCEMENT ON THE TEST OF ACCEPTABILITY RIGHT. PARLIAMENT SHOULD BE TOLD WHAT WE HAVE IN MIND BEFORE THE SUMMER RECESS. AN EARLY ANNOUNCEMENT WOULD ALSO FACILITATE THE PRACTICAL ARRANGEMENTS THAT WOULD NEED TO BE MADE. IF THE CHINESE WERE TO REACT NEGATIVELY TO OUR INTENTIONS, IT WOULD PROBABLY BE BEST TO GET THAT OVER WITH BEFORE THE SECRETARY OF STATE'S NEXT VISIT TO PEKING AND BEFORE WE REACH THE FINAL RUN-UP TO THE INITIALLING OF AN AGREEMENT.

5. THIS POINTS TO INCLUDING A PASSAGE ON THE TEST OF ACCEPTABILITY (ON THE LINES SUGGESTED ABOVE) IN THE PARLEMENTARY STATEMENT ON 18 JULY. (THE STATEMENT WOULD THUS COVER THREE TOPICS: 5THE GREEN PAPER, ACCEPTABILITY AND THE SECRETARY OF STATE'S FORTHCOMING VISIT TO HONG KONG AND PEKING.) THE FALL BACK POSITION OF WAITING UNTIL THE SECRETARY OF STATE IS IN HONG KONG BEFORE HE MAKES THE STATEMENT, AND CONFIRMING IT IN PARLIAMENT BY MEANS OF A REPLY TO AN INSPIRED WRITTEN P.Q. IS VERY MUCH A SECOND BEST.

6. I DISCUSSED THESE MATTERS AGAIN TODAY WITH THE EXCO UNOFFICIALS. THERE WAS A MAJORITY VIEW IN FAVOUR OF AN ANNOUNCEMENT OF OUR ORIGINAL PROPOSALS FOR THE TEST OF ACCEPTABILITY ON 18 JULY. HOWEVER SIR S Y CHUNG ARGUED STRONGLY THAT THESE SHOULD AT LEAST BE QUALIFIED BY A SENTENCE TO THE EFFECT THAT WE WOULD NOT OPPOSE A REFERENDUM IF THERE WAS DOUBT ABOUT THE OUTCOME OF A TEST OF ACCEPTABILITY ON THE LINES THAT WE HAD PROPOSED. HE SAID THAT IN PRACTICE THAT NEED WOULD NOT ARISE. IF WE WERE NOT ABLE TO ACCOMMODATE HIS VIEWS TO THAT EXTENT HE WOULD FEEL BOUND TO CAMPAIGN FOR THE HOLDONG OF A REFERENDUM. THERE ARE INDICATIONS THAT CERTAIN OTHER MEMBERS WOULD SUPPORT HIM.

7. WORDING ON THE LINES SUGGESTED BY SIR S Y CHUNG WOULD GIVE US GREAT DIFFICULTY WITH THE CHINESE, BOTH ON THE PRINCIPLE OF A REFERENDUM AND BECAUSE IT COULD IMPLY A CONSIDERABLE DELAY IN COMPLETION OF THE TEST OF ACCEPTABILITY. I DO NOT THINK WE CAN ACCOMMODATE HIM TO THIS EXTENT. BUT WE NEED TO CONSIDER URGENTLY WHETHER THERE IS ANYTHING WE CAN DO, IN THE CONTEXT OF THE STATEMENT, TO LESSEN THE DANGER THAT HE WILL COME OUT IN OUTRIGHT SUPPORT OF A REFERENDUM.

8. THE GOVERNOR WILL BE DISCUSSING ACCEPTABILITY WITH EXCO AGAIN ON 17 JULY. HE WILL AGAIN SET OUT THE ARGUMENTS AGAINST A REFERENDUM. HE FEELS IT WOUL BE BEST IF AT THAT MEETING HE COULD GIVE EXCO AN INDICATION OF THE LINES ALONG WHICH MINISTERS FEEL IT IS NECESSARY TO PRESENT THE ISSUE TO PARLIAMENT (I.E. THE LINE DESCRIBED IN PARA 3 ABOVE) BUT DID NOT SEEK ANY SPECIFIC ENDORSEMENT OF THAT LINE. IF EXCO DID NOT FORMALLY OBJECT TO SUCH AN APPROACH THE WAY WOULD BE CLEAR FOR A PASSAGE ON ACCEPTABILITY TO BE INCLUDED IN THE STATEMENT ON 18 JULY.

YOUDE

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 PS/PUS
 PS/MR LUCE
~~MR WILSON~~
 ED/EDD
 ED/FED
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FM HONG KONG 1205Z JUL 84
 TO IMMEDIATE F C O
 TELEGRAM NUMBER 1949 OF 14 JULY
 INFO IMMEDIATE PEKING

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FOLLOWING FROM MR LUCE

IMMEDIATE

FUTURE OF HONG KONG : JOINT GROUP.

1. IN ALL MY DISCUSSIONS IN HONG KONG I WAS STRUCK BY THE STRENGTH AND NEAR-UNANIMITY OF CONCERN ABOUT THE ESTABLISHMENT OF A JOINT GROUP, AND IN PARTICULAR ITS BASING IN HONG KONG. THIS EMERGED WITH EQUAL FORCE FROM MY TALKS WITH UMEICO MEMBERS, WITH COMMUNITY REPRESENTATIVES AND WITH REPRESENTATIVES OF BUSINESS INTERESTS. WHILE IT WAS RECOGNISED THAT THERE WOULD BE A NEED FOR CONSULTATION BETWEEN BRITAIN AND CHINA IN THE PERIOD LEADING UP TO 1997, THERE WAS ALSO A STRONG FEELING THAT THERE WERE DANGERS IN ANY INSTITUTIONALISATION AT ALL AND IN PARTICULAR THAT ANY STANDING MACHINERY LOCATED IN HONG KONG WOULD UNDERMINE THE AUTHORITY OF THE HONG KONG GOVERNMENT. THE CHINESE WOULD HAVE AN OPPORTUNITY TO BEGIN INTERFERING IN THE ADMINISTRATION OF HONG KONG FROM NEXT YEAR.

2. MY DISCUSSION WITH EXCO WAS ON A SOMEWHAT DIFFERENT BASIS. MEMBERS NOTED THAT HMG HAD AGREED IN PRINCIPLE TO THE ESTABLISHMENT OF A JOINT GROUP AND SAID THAT THEY CONTINUED TO DISASSOCIATE THEMSELVES FROM THAT DECISION. ON LOCATION THEY WERE NOT INCLINED TO ADVOCATE ANY IMMEDIATE BREAK OR CONFRONTATION IN THE NEGOTIATIONS. BUT THEY FELT THAT A DECISION TO CONCEDE LOCATION IN HONG KONG SHOULD IF AT ALL POSSIBLE BE AVOIDED AT THE END OF THE DAY. IF THERE COULD BE ANY MITIGATION OF THE CONCEPT OF THE ESTABLISHMENT OF A HONG KONG-BASED JOINT GROUP, EXCO MEMBERS SUGGESTED THAT IT MIGHT BE FOUND IN THE FOLLOWING AREAS:

(A) THE TIMING OF ITS ESTABLISHMENT IN HONG KONG (THEY SUGGESTED THAT IT NEED NOT BEGIN OPERATING BEFORE 1993):

(B) A VERY TIGHT DEFINITION OF ITS FUNCTIONS:

(C) A "MIRROR" EFFECT, WITH THE JOINT GROUP CONTINUING IN BEING FOR A PERIOD AFTER 1997.

3. I WAS CLOSELY QUESTIONED ABOUT THE COURSE OF ACTION WE WOULD ADOPT IF THE PROPOSAL IN THE PM'S LETTER WAS TURNED DOWN. I TOOK THE LINE THAT WE WOULD THEN BE IN A NEW SITUATION, WHICH WE SHOULD ALL HAVE TO CONSIDER TOGETHER IN THE LIGHT OF THE EXACT CHINESE RESPONSE DURING THE S OF S' DISCUSSIONS IN PEKING.

4. I HOPE THAT ALL THE AREAS OF POSSIBLE MITIGATION OUTLINED IN (A) TO (C) ABOVE CAN BE THOROUGHLY INVESTIGATED IN PREPARATION FOR THE S OF S' VISIT. WE SHALL ALSO NEED TO GIVE FURTHER THOUGHT TO HOW WE WOULD DEAL WITH A CHINESE REJECTION OF THE PROPOSAL IN THE PM'S LETTER.

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FM HONG KONG 140300Z JUL 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 1942 OF 14 JULY
INFO IMMEDIATE PEKING

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FUTURE OF HONG KONG: MR LUCE'S DISCUSSIONS WITH EXCO.

1. MR LUCE HAD ALMOST THREE HOURS DISCUSSION WITH THE EXECUTIVE COUNCIL THIS MORNING. HE OUTLINED THE BACKGROUND TO THE MESSAGE FROM THE PRIME MINISTER WHICH IT WAS PROPOSED SHOULD BE TAKEN TO PEKING BY THE SECRETARY OF STATE DURING HIS VISIT AT THE END OF THE MONTH. MR LUCE LAID PARTICULAR EMPHASIS ON THE FOLLOWING POINTS:

- (A) IN VIEW OF DENG'S PERSONAL COMMITMENT TO THE LOCATION OF THE WORKING GROUP IN HONG KONG, IT DID NOT SEEM AT ALL LIKELY THAT THERE WOULD BE MUCH FLEXIBILITY ON THIS POINT.
- (B) EVERYONE INVOLVED IN LONDON WAS AWARE OF THE DAMAGE TO THE AUTHORITY OF THE HONG KONG GOVERNMENT WHICH A JOINT GROUP OF THE KIND ENVISAGED BY THE CHINESE WOULD CAUSE.
- (C) THERE WAS STRONG EVIDENCE THAT THE CHINESE MIGHT BE PREPARED TO DO WITHOUT AN AGREEMENT, AND IF NECESSARY MAKE GOOD THEIR THREAT TO IMPOSE THEIR SOLUTION FORCIBLY, IN SPITE OF THE DAMAGE THAT THIS WOULD DO THEIR OWN ECONOMIC AND OTHER INTERESTS.

2. IT WAS THEREFORE NECESSARY TO CONSIDER WHAT CARDS WE HAD TO PLAY AND HOW TO PLAY THEM. THERE WERE ONLY TWO: THE CHINESE DESIRE TO HAVE AN AGREEMENT IF AT ALL POSSIBLE, AND THEIR DESIRE TO SECURE OUR AGREEMENT TO BASING A JOINT GROUP IN HONG KONG. MR LUCE SAID THAT HE RECOGNISED THAT THERE WAS A REAL POSSIBILITY THAT THE WHOLE PACKAGE WHICH RESULTED FROM THE NEGOTIATIONS MIGHT HAVE TO BE REJECTED. BUT WE HAD TO CONSIDER WHETHER THERE WERE ANY CIRCUMSTANCES IN WHICH WE COULD AGREE TO BASING THE JOINT GROUP IN HONG KONG. MINISTERS IN LONDON HAD DECIDED THAT EVERY EFFORT SHOULD BE MADE TO AVOID HAVING TO CONCEDE THIS POINT. THIS SHOULD NOT HOWEVER BE ALTOGETHER EXCLUDED, IF THE AGREEMENT WAS SATISFACTORY IN OTHER RESPECTS, AND IF TOLERABLE TERMS OF REFERENCE COULD BE ACHIEVED. WE HAD ALSO TO CONSIDER THE EFFECTS OF REJECTION. THE CONSULTATIONS WITH HMA PEKING AND THE GOVERNOR HAD BEEN DESIGNED TO CONSIDER THE OPTIONS. OUTHRIGHT REJECTION AT THIS STAGE OF THE CHINESE PROPOSAL WOULD PROBABLY RESULT IN THE TALKS BEING STALLED AND, IN THE VERY LIMITED TIME STILL AVAILABLE, OPPORTUNITIES TO SECURE IMPROVEMENTS TO THE REST OF THE PACKAGE WOULD BE LOST.

3. THE DEVICE INCORPORATED IN THE PRIME MINISTER'S MESSAGE GAVE NOTHING AWAY. THE PACKAGE HAD TO BE ACCEPTABLE AS A WHOLE, AND THE MESSAGE WAS THEREFORE CONSISTENT WITH THE PRIME MINISTER'S MESSAGE OF LAST OCTOBER WHICH WAS THE BASIS OF THE PRESENT BRITISH NEGOTIATING POSITION. IN ADDITION TO DELIVERING THE MESSAGE, THE

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SECRETARY OF STATE WOULD MAKE CLEAR THAT THE BRITISH COULD NOT SIGN ANY PIECE OF PAPER. THE CHINESE DRAFTS WERE UNACCEPTABLE, AND WITHOUT REAL NEGOTIATION ON TEXTS, THERE WOULD BE NO POSSIBILITY OF AGREEMENT. WE MIGHT GET A HOSTILE RESPONSE, AND THE CONSEQUENCE OF THAT WOULD HAVE TO BE CONSIDERED WHEN THE TIME CAME, WITH THE ADVICE OF THE EXECUTIVE COUNCIL.

4. IN THE SUBSEQUENT DISCUSSION, THE MAIN POINTS OF INTEREST WERE AS FOLLOWS:

- (A) SIR S.Y. CHUNG, WITH SUPPORT FROM A NUMBER OF OTHER MEMBERS, SAID THAT THE MESSAGE SHOULD INCLUDE A REFERENCE TO THE TIMING OF THE SETTING UP OF ANY JOINT GROUP. AS EXPECTED, HE ADVOCATED STRONGLY SEEKING CONTINUATION OF THE JOINT GROUP AFTER 1997: IT MIGHT START WORK FOR 5 YEARS BEFORE 1997 AND CONTINUE FOR 5 YEARS AFTERWARDS. HE SUGGESTED THAT CHINESE ASSERTIONS ABOUT THE GROUP NOT CONSTITUTING CONDOMINIUM COULD BE USED IN SUPPORT OF THIS PROPOSAL. SIR S.Y. ALSO REFERRED TO THE BRIEF WAVE OF OPTIMISM WHICH HAD BEEN ENGENDERED IN BUSINESS CIRCLES BY A RUMOUR TO THE EFFECT THAT THERE WOULD BE A RESIDUAL BRITISH PRESENCE AFTER 1997 THROUGH THE JOINT GROUP. SIR S.Y. ALSO REPORTED A RUMOUR TO THE EFFECT THAT MR XU JIATUN (DIRECTOR OF NCNA HONG KONG) HAD PROPOSED CONTINUATION OF THE JOINT GROUP POST-1997 TO THE EDITOR OF THE MING PAO.
- (B) SIR S.Y. AND A NUMBER OF OTHER MEMBERS ASKED WHAT THE BRITISH GOVERNMENT'S POSITION WOULD BE IF THE CHINESE SIMPLY DECLINED TO ACCEPT THE PROPOSAL TO SHELVE DISCUSSION OF LOCATION. ON THE OTHER HAND, MR SANDBERG THOUGHT THAT THE PRESSURES OF TIMING AND THE NEED FOR AN AGREEMENT OPERATED ON THE CHINESE AS WELL AS ON THE BRITISH. HE STRESSED THAT CHINESE IDEAS FRIGHTENED THE BUSINESS COMMUNITY VERY MUCH BECAUSE THEY TENDED TO DASH HOPES OF AT LEAST A FEW YEARS OF GOOD GOVERNMENT FREE FROM INTERFERENCE FROM PEKING.
- (C) MISS MARIA TAM SUGGESTED THAT THE REFERENCE TO DISCUSSION OF THE FUNCTIONS OF THE GROUP WAS INADEQUATE AND SHOULD BE EXPANDED TO INCLUDE A SPECIFIC REFERENCE TO SUBJECT MATTER. EVEN IF WE WERE OBLIGED TO ACCEPT THE GROUP IN HONG KONG, WE SHOULD BE ABLE TO RETAIN CONTROL OF THE SUBJECTS DISCUSSED, IF NECESSARY BY SIMPLY REFUSING TO BE PRESENT IF THE CHINESE SOUGHT TO DISCUSS SUBJECTS WHICH WERE UNACCEPTABLE.
- (D) MR T.S. LO WONDERED WHETHER DENG'S ATTACHMENT TO THE JOINT GROUP AND ITS LOCATION IN HONG KONG WAS NOT THE OUTWARD SIGN OF A STRUGGLE ON DENG'S PART TO FIGHT OFF OPPOSING FACTIONS. HE THOUGHT IT UNWISE TO GO TO THE WALL ON THIS SUBJECT.

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(E) MR F.W. LI, SUPPORTED BY THE ACTING FINANCIAL SECRETARY AND OTHERS, SAID THAT IT WAS UNWISE TO SPEAK OF THE GROUP HAVING "POWERS" (PARA 5 OF THE PRIME MINISTER'S MESSAGE) SINCE IT WAS OUR CONTENTION THAT IT SHOULD NOT IN FACT HAVE ANY POWERS AT ALL.

(F) THE ACTING FINANCIAL SECRETARY SUGGESTED A POSSIBLE COMPROMISE: COULD WE NOT HAVE THE JOINT GROUP MEETING IN LONDON, PEKING AND HONG KONG FOR THE FIRST FEW YEARS OF ITS LIFE AND CONSIDER HAVING ITS PERMANENT LOCATION SHIFTED TO HONG KONG MUCH NEARER 1997.

5. THE MINISTER UNDERTOOK TO REPORT THE DISCUSSION AND THE VARIOUS SUGGESTIONS WHICH HAD BEEN MADE. I SUMMARISED THE DISCUSSION BY SAYING THAT THE COUNCIL DID NOT MUCH LIKE THE JOINT GROUP AT ALL; WE SHOULD CERTAINLY AVOID HAVING IT LOCATED IN HONG KONG IF AT ALL POSSIBLE; IF THIS PROVED UNAVOIDABLE, EVERY EFFORT SHOULD BE MADE TO MITIGATE THE DAMAGING EFFECT THROUGH TIGHT TERMS OF REFERENCE AND TIGHT CONTROL OF THE SUBJECTS DISCUSSED.

6. FOR DISCUSSION ON TEST OF ACCEPTABILITY SEE MIFT.

YOUDE

FUTURE OF HONG KONG
LIMITED

HD/HKD
HD/FED
HD/PLANNING STAFF
HD/PUSD
DEP HD/PUSD
RESEARCH D (MR WALKER)
LEGAL ADVISERS(SIR J FREELAND)
PS
PS/LADY YOUNG
PS/MR LUCE
PS/PUS
SIR W HARDING
SIR C TICKELL
MR GOODALL

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16... 19

PS (6)

PS/PUS

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Ps | LADY YOUNG

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FM HONG KONG 140110Z JUL 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 1936 OF 14 JULY

INFO IMMEDIATE PEKING

FUTURE OF HONG KONG : VISIT OF MR LUCE : MEETING WITH UMELCO.

1. MR LUCE'S DISCUSSION WITH UMELCO THIS AFTERNOON LASTED TWO HOURS. HE BRIEFED THEM IN GENERAL TERMS ON THE PROGRESS OF THE NEGOTIATIONS. HE REFERRED TO PUBLIC SPECULATION ON CHINESE PROPOSALS FOR A JOINT GROUP AND REAFFIRMED THE DETERMINATION OF HMG AND THE HONG KONG GOVERNMENT THAT UP TO 1997 THEIR AUTHORITY SHOULD REMAIN CLEAR. HE INFORMED THEM IN CONFIDENCE OF THE SECRETARY OF STATE'S FORTHCOMING VISIT TO HONG KONG AND PEKING.

2. DEBATE CENTRED ON THE JOINT GROUP, THE TEST OF ACCEPTABILITY AND THE CONFIDENTIALITY OF THE NEGOTIATIONS.

JOINT GROUP

3. THERE WAS GENERAL ACCEPTANCE OF THE NEED FOR CONSULTATION BETWEEN THE BRITISH AND CHINESE GOVERNMENTS (COVERING SUCH MATTERS AS GATT AND LAND LEASES IN THE PERIOD UP TO 1997) BUT MEMBERS EXPRESSED DEEP MISTRUST ABOUT THE CONCEPT OF A JOINT GROUP, ESPECIALLY ONE BASED IN HONG KONG. THEY SAID THAT A JOINT GROUP IN HONG KONG WOULD BE SEEN AS A MEANS OF CHINESE INTERFERENCE, THAT PRESSURE WOULD BE PUT ON THE HONG KONG GOVERNMENT THROUGH THE GROUP AND THAT PETITIONERS WOULD TURN TO THE GROUP AS AN ALTERNATIVE SOURCE OF AUTHORITY. THEY QUESTIONED WHETHER THE CHINESE PROPOSAL WAS CONSISTENT WITH CHINESE PROMISES THAT HONG KONG WOULD HAVE A HIGH DEGREE OF AUTONOMY. IT WAS SUGGESTED THAT IF THERE HAD TO BE A JOINT GROUP IT WOULD NEED TO HAVE VERY CLEAR TERMS OF REFERENCE, AND ITS FUNCTION WOULD NEED TO BE CLEARLY EXPLAINED. PERHAPS ITS TERM MIGHT RUN BEYOND 1997.

4. MR LUCE NOTED THE VIEWS EXPRESSED AND REITERATED HMG'S COMMITMENT TO MAINTAINING THE AUTHORITY OF THE HONG KONG GOVERNMENT.

TEST OF ACCEPTABILITY

5. SOME MEMBERS, WHILE RECONGISING THAT THERE COULD BE CERTAIN

TEST OF ACCEPTABILITY

5. SOME MEMBERS, WHILE RECOGNISING THAT THERE COULD BE CERTAIN POLITICAL OR TECHNICAL PROBLEMS, ARGUED THAT A REFERENDUM SHOULD BE CONSIDERED; AT THIS STAGE HMG SHOULD KEEP ITS OPTIONS OPEN. NO SPEAKER ARGUED CLEARLY AGAINST A REFERENDUM, ALTHOUGH MR LUCE AND I BOTH ENCOURAGED THE MEETING TO CONSIDER THE VARIOUS DRAWBACKS. ONE SPEAKER SUGGESTED, WITH SUPPORT FROM SIR S Y CHUNG, THAT THE QUESTION OF THE METHOD OF TESTING ACCEPTABILITY SHOULD ITSELF BE PUT TO THE HONG KONG PEOPLE. THERE WAS GENERAL AGREEMENT ON THE CRITERIA TO BE APPLIED TO ANY PROPOSED TEST: IT SHOULD BE PUBLIC, IMPARTIAL AND REPRESENTATIVE.

6. MR LUCE NOTED THAT IF POSSIBLE THE PROPOSALS RELATING TO THE TEST OF ACCEPTABILITY SHOULD BE COMMUNICATED TO PARLIAMENT BEFORE THE SUMMER RECESS.

CONFIDENTIALITY

7. SOME MEMBERS OF LEGCO EXPRESSED STRONG FRUSTRATION THAT OBSERVANCE OF CONFIDENTIALITY, WHEN THERE WERE EXTENSIVE LEAKS FROM THE CHINESE SIDE MEANT THAT THEY WERE EXCLUDED FROM RECEIVING INFORMATION WHICH, THEY ARGUED, WAS RELEASED IN BACKGROUND BRIEFING TO THE PRESS IN LONDON (MR LUCE CORRECTED THIS IMPRESSION). MR LUCE EXPRESSED SYMPATHY BUT EXPLAINED WHY WE CONTINUED TO FEEL THAT BY OBSERVING CONFIDENTIALITY WE WERE GIVING OURSELVES THE BEST CHANCE OF REACHING A SATISFACTORY AGREEMENT. HE SAID THAT THE SECRETARY OF STATE WOULD BE MEETING UMELCO SOON, AND WOULD ALSO NO DOUBT BE CONSIDERING WHAT FURTHER UNVEILING MIGHT BE DONE.

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PM/84/122

PRIME MINISTERFuture of Hong Kong: Nationality

1. I minuted to you on 9 March seeking your agreement that a working paper on nationality, citizenship, right of abode, freedom of travel, emigration and immigration should be put to the Chinese. John Coles' letter of 12 March confirmed that you were content for this to be done.

2. The Chinese responded to the working paper in the talks on 27 March. At the dinner given for the two delegations that evening, members of the Chinese delegation enlarged on these comments. They made it clear that while the Chinese could not formally recognise dual nationality or a separate citizenship they would in fact permit dual nationality to operate in practice (eg by permitting Hong Kong residents to travel on passports issued by other states).

3. I raised the question of nationality with Chinese Foreign Minister Wu Xueqian during my visit to Peking in April, and reiterated the reasons why we considered dual nationality and a separate Hong Kong citizenship to be necessary. Wu restated the formal Chinese position. He also seemed concerned that we proposed to provide consular protection for former BDTCs against the SAR Government and other Chinese authorities after 1997.

4. This discussion was followed up at the 13th round of talks on 28 April. Sir R Evans explained that we did not intend to seek consular protection for former BDTCs in Hong Kong or other parts of China after 1997. Zhou Nan noted /this,

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Prime Minister

For OJ(k) on

17 July

CDP 13/7



this, but added that four of our proposals conflicted with the basic spirit of Chinese nationality law and the principle of sovereignty and were therefore not feasible. These were:

- (a) a separate category of citizenship within Chinese nationality;
- (b) transmission of British nationality even for one generation;
- (c) explicit Chinese recognition of dual nationality after 1997; and
- (d) a statement of right of abode in Hong Kong being included in British passports held by Hong Kong people.

Zhou said that the Chinese side understood our difficulties but that we would have to find a solution that did not conflict with Chinese principles. He hoped we could continue our exploration of this issue and wished us success.

5. At the fourteenth round on 9 May, the Chinese tabled a draft agreement, exchange of notes and protocol. Paragraph 14 of the Chinese draft note covered the issue of identity cards by the SAR government, the right of abode in the SAR and the issue of travel documents. It made no reference to national status.

6. In the past two months, FCO officials have been working, in close contact with Home Office officials, Hong Kong and Peking, to draft an annex on nationality that met our requirements while taking account of Chinese sensitivities.

/ I attach a draft which (subject to one area of square bracketing - see below) has been agreed by all concerned on our side. With the same caveat it was also approved by the Hong Kong Executive Council on 9 July.

/7.



7. The first two paragraphs of the draft take the form of unilateral statements by the two sides on nationality. This enables us to state within the agreement our intention that Hong Kong BDTCs should continue to hold British nationality after 1997 without the Chinese having formally to agree to this or to the concept of dual nationality. The Chinese declaration makes it clear that they consider these people to be Chinese nationals, an important point for us in the event that any of them should attempt to claim right of abode in the UK on the grounds of their British nationality. The rest of the annex sets out points to be agreed by the two sides, covering right of abode in Hong Kong, the issue and use of travel documents, consular protection, visa abolition agreements and entry into the SAR.

8. Paragraph 2(b) of the annex deals with transmissibility of British nationality after 1997. Although the Chinese have said that they cannot accept this, it is just possible that they may do so if it is part of a unilateral British statement. The paragraph at present contains 5 alternative versions of the second sentence, which relates to the transmissibility of the new form of nationality. The Executive Council has expressed unanimous support for the first version, which involves the preservation of the existing situation. As you know, they attach great importance to the concept. I doubt, however, if the Chinese can possibly be brought to accept this apparently unlimited statement. I therefore suggest that we put to them the second alternative, which limits transmissibility to one generation. This is in effect only a marginal change as there are only a few cases in which BDTC status can under existing law be transmitted to the second generation. I also suggest that in the event that the Chinese refuse to accept this, we should fall back to the third alternative, which proposes the retention of transmissibility for 50 years after 1997 and is consistent
/with



with our general approach that there should be no change to systems in force in Hong Kong during that period.

9. I believe it is of great importance for our relations with Hong Kong that we should be seen to fight for these relatively generous definitions of transmissibility. It was implicit in the text of the working paper which we tabled with the Chinese, after full consideration between the Ministers concerned and full discussion with EXCO, that we were prepared to go for something very like the existing position of BDTCs. It will already be a disappointment to EXCO that we should seek to reduce these to transmissibility for one generation only. Any further scaling-down of our objective at this stage would be seen by them as reneging on the commitment earlier made. Given the strength of Chinese opposition to the whole concept of transmissibility it is very likely that we shall have to lower our sights further. But it is necessary for our relations with EXCO, which are already fragile, that we should be seen to do this on tactical grounds related to the strength of Chinese opposition rather than because of second thoughts over policy. Given the care with which the annex is worded to ensure that those who maintain a form of British nationality after 1997 will have both Chinese nationality and right of abode in Hong Kong (and we would separately make it quite clear when the agreement is published that they had no right of abode in the UK), I do not think we need allow any anxieties on immigration grounds to deter us from giving the maximum psychological support to the Hong Kong people in this area of such importance to them.

10. One other point to note is in paragraph 6. As stated above, the Chinese seem to have ruled out any arrangements for entering in their British passports the fact that former BDTCs have the right of abode in Hong Kong (China). There is a danger that without such a statement these people might be

/returned



returned to the UK rather than to the SAR. It is therefore proposed, as an alternative, that any state who permitted a Hong Kong (China) person to travel on passports issued by them could insert in them that the person was the holder of a Hong Kong (China) identity card that was evidence of his right of abode in the SAR.

11. I should be grateful to know if you are content for the annex to be put to the Chinese, with the second alternative version of the second sentence in paragraph 2(b).

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
13 July 1984

FUTURE OF HONG KONG: DRAFT ANNEX ON NATIONALITY

1. The Government of the People's Republic of China declare that all persons born in Hong Kong or Hong Kong (China) having a parent who is a Chinese national, and all persons born outside Hong Kong or Hong Kong (China) having such a parent who was born in Hong Kong or Hong Kong (China) will after 30 June 1997 continue to have Chinese nationality subject to certain limited exceptions provided by law.

2. The United Kingdom Government declare that:

(a) All persons who, on 30 June 1997, are British Dependent Territories Citizens (BDTCs) under United Kingdom law by virtue of a connection with Hong Kong will cease to be BDTCs on 1 July 1997, but will retain an appropriate form of British nationality.

(b) No person will acquire BDTC status on or after 1 July 1997 by virtue of a connection with Hong Kong or Hong Kong (China).

[No person born on or after 1 July 1997 will acquire the form of nationality referred to as being appropriate in sub-paragraph (a) of this paragraph except by descent from a person who held that form of nationality at the time of the birth.]

[No person born on or after 1 July 1997 will acquire the form of nationality referred to as being appropriate in sub-paragraph (a) of this paragraph unless born of a father or mother who held that form of nationality on 1 July 1997 and at the time of the birth.]

[No person born on or after 1 July 1997 shall acquire the form of nationality referred to as being appropriate in sub-paragraph (a) of this paragraph unless born before 1 July 2047 of a father or mother who had that form of nationality on 1 July 1997 and at the time of the birth.]

[No person born on or after 1 July 2007 will acquire the form of nationality referred to as being appropriate in sub-paragraph (a) of this paragraph by virtue of descent from a person referred to in that paragraph.]

[No person born on or after 1 July 1997 may acquire British nationality by virtue of descent from a person referred to in sub-paragraph (a) of this paragraph.]

3. The following persons shall have the right of abode in Hong Kong

(China) and shall become entitled on that date to obtain permanent identity cards issued by the Government of Hong Kong (China):-

(a) All persons who, on 30 June 1997, had the status of "Hong Kong Belonger" under Hong Kong law:(1)

(b) All Chinese nationals born in Hong Kong or in Hong Kong (China):

(c) All Chinese nationals who have been ordinarily resident in Hong Kong or in Hong Kong (China) for a continuous period of not less than seven years; and

(d) All other persons who have taken Hong Kong or Hong Kong (China) as their place of permanent residence and who:

(i) were born in Hong Kong or in Hong Kong (China): or

(ii) have been ordinarily resident in Hong Kong or in Hong Kong (China) for a continuous period of not less than seven years.

The qualifications and procedures for the acquisition of permanent identity cards shall continue to be defined by law.

4. The Government of Hong Kong (China) may issue and renew:

(a) Hong Kong (China) passports, which guarantee the holder's right of return to Hong Kong (China), to persons who are eligible to hold permanent identity cards issued by the Government of Hong Kong (China); and

(b) Other Hong Kong (China) travel documents, which enable the holder to return to Hong Kong (China) subject to the prior approval of the immigration authorities of Hong Kong (China), to persons who are not eligible to hold permanent identity cards issued by the Government of Hong Kong (China) but who are lawfully resident in Hong Kong (China).

Hong Kong (China) passports and other travel documents shall be valid for all countries and territories. The Government of Hong Kong (China) may withhold or withdraw travel documents only in specific circumstances defined by the law of Hong Kong (China).

5. Consular officers of the United Kingdom Government may issue and renew British passports and other travel documents in Hong Kong (China) to British nationals.

6. All persons may use travel documents issued by the Government of Hong Kong (China), or by other competent authorities of the People's

Republic of China, or by the competent authorities of any other state, for the purpose of travelling to and from Hong Kong (China). All travel documents issued to persons who have the right of abode in Hong Kong (China) shall either state this right or state that the holder has a permanent identity card which is evidence of the holder's right of abode in Hong Kong (China).

7. Persons who have the right of abode in Hong Kong (China) shall be entitled when in third countries to the consular services and the consular protection consistent with their nationality status.

8. The Government of Hong Kong (China) may negotiate visa abolition agreements for holders of Hong Kong (China) travel documents if the Government of the other country concerned agrees. Otherwise, visa abolition agreements shall be negotiated for Hong Kong (China) by the Central People's Government. The Government of Hong Kong (China) shall determine what rights of entry to Hong Kong (China) shall be enjoyed by nationals from states not party to such visa abolition agreements.

9. Subject to exceptions which are both allowed by law and consistent with the International Covenant on Civil and Political Rights, all persons holding valid travel documents shall be free to leave Hong Kong (China) in order to emigrate or for any other purpose and without the need for any exit visa or any other form of special authorisation.

10. No person who has the right of abode in Hong Kong (China) may be deported or removed from Hong Kong (China).

11. The arrangements existing immediately prior to 1 July 1997 for persons with no right of abode in Hong Kong to visit, reside in or leave the area shall continue, unless and until changed by the Government of Hong Kong (China).

12. Persons who enter or stay in Hong Kong (China) in breach of its laws may be removed in accordance with those laws.

13. There shall continue to be controls on entry into Hong Kong



(China) from other parts of the People's Republic of China. Changes in these controls may be made by agreement between the Government of Hong Kong (China) and the Central People's Government.

NOTE

1. The term `Hong Kong believer` covers all persons who have the right of abode in Hong Kong now and includes all BDTCS who derive their status from a connection with Hong Kong, whether or not they are residents of Hong Kong.



PM/84/121

PRIME MINISTER

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17 - 10 - PC
RTM
Prime Minister
For OD(K) on 17 July, but
you will wish to see
over the week-end. The
covering minute and the
summary are essential reading
the detailed paper less so.

CDP 13/7.

Undertakings by HMG to Hong Kong People

1. At the OD(K) meeting on 3 May, I was invited to prepare a paper on nationality and other related matters for the sub-committee.
2. As the process of 'unveiling' continues, people in Hong Kong are increasingly asking what special arrangements HMG will make to cater for those who either might be in danger in Hong Kong after 1997 or will not wish to remain there under Communist rule. Public servants in particular will want to know what their position will be in 1997 when our agreement with the Chinese is published in September. As you know, this point was specifically mentioned in the statement issued by Unofficial Members of the Executive and Legislative Councils before their visit to London in May. It was also raised by some of those who spoke in the Parliamentary debates on Hong Kong, particularly that in the House of Lords.
3. I attach a paper prepared in consultation with the Governor of Hong Kong. It proposes that we should give assurances to certain specified groups of public servants and Unofficials that applications by them for entry into the UK would be sympathetically considered, normally when they reach pensionable age, but earlier than that if they were for any reason considered to be particularly vulnerable,



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These assurances would need to be given not later than the time of the publication of an agreement with the Chinese. I should note that one category not included in the paper, but which may need to be considered in the same way, is the locally employed staff working in Hong Kong for HM Forces, in particular the members of the Hong Kong Military Service Corps. The Secretary of State for Defence will no doubt have views on how we should cater for these.

4. This is a most sensitive subject in domestic political terms, and I am aware of the considerable interest that there will be in any move of this kind. I am also conscious that in presenting proposals on this subject, I am encroaching into areas for which the Home Secretary has responsibility and I should make it clear that the proposals in the paper are mine alone. I am aware that the Home Secretary has considerable reservations about the need for and the effect of these proposals. But I believe that this issue is of fundamental importance in our consideration of the future of Hong Kong.

5. In my view the proposals in this paper represent the minimum that will be required to maintain morale in the senior ranks of the public service in Hong Kong and to persuade those who are essential to the continued operation of the government to remain in Hong Kong up to and after 1997. They are carefully devised to keep the numbers involved within reasonable bounds and in particular to ensure that people would come to the UK in groups phased over a period, not in one batch. Seen in that light the numbers do not look excessive when put against the average annual figures for settlement in the UK. Certainly there is the strongest possible case for HMG giving priority to these limited groups of Hong Kong people who have served us well at some risk to themselves. It is a matter of our moral obligation.

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S E C R E T



6. I should also make clear that I see no inconsistency between our aim of reaching an agreement with the Chinese and the idea of limited assurances of this sort. They are in fact essential complements. It is entirely logical that, if we are to make an agreement stick, the people whom we ask to operate it should be given this kind of safety net. They can justly say that, while they too intend to make the future SAR a success, it is they, not we, who will be asked to back their confidence with their careers. Thus the giving of guarantees to a small number of people in sensitive positions will contribute to future stability and therefore reduce the risk of our having to accept large numbers of Hong Kong residents deserting the territory as a result of a breakdown of confidence.

7. This brings me to the question of publicity. Given Parliamentary interest, some general statement on the policy to be pursued will probably have to be made, but apart from this, public comments should be kept to a minimum. We would also need to tell the Chinese what we were doing, to avoid a situation whereby they might receive distorted accounts that we would find difficult to correct. Given a careful presentation that emphasised the way in which our proposed arrangements would help maintain continuity in the senior ranks of the Civil Service, we feel that the Chinese would not make too much of a fuss. They may indeed be expecting us to take action of this kind.

8. I have not been able to discuss /the paper with the Home Secretary. Ideally it would have been more convenient if the paper could have been cleared with him in advance. However, in view of the time pressure it seems best to circulate the paper as it stands on a second reading basis.

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S E C R E T



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

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office

13 July 1984

S E C R E T

UNDERTAKINGS BY HMG TO HONG KONG PEOPLE

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SUMMARY

1. We must consider carefully the case for providing assurances to the people of Hong Kong who may feel at risk in 1997 or wish to leave for other reasons.
2. Large scale immigration into the UK would be politically unpopular. There will also be difficulties in setting criteria for those at risk and a danger of any undertakings having divisive effect in the public service. They may be seen as undermining confidence in the agreement.
3. HMG has a moral obligation towards Crown Servants and Unofficials. Assurances will also be necessary to ensure stable administration up to 1997. Without them those we need to provide continuity will leave. People are more likely to stay if they know they can get out if necessary.
4. The Chinese will react strongly to any reassertion of HMG's moral responsibility to the people of Hong Kong and might see any general assurances as undermining the agreement. But they may not object to us offering citizenship under existing legislation for specific groups.
5. British citizenship or entry to the UK should be offered:-
 - (a)
 - (b) at normal retirement age to administrative officers, policemen of the rank of inspector or above, Unofficial members of EXCO and LEGCO and certain other individuals (estimated 13,500);
 - (c) as necessary for those others in the public service or the community who may become vulnerable (rough estimate 20,000).
6. These assurances should be made to categories (a) and (b) above in confidence not later than publication of the agreement and with minimum public comment.

FUTURE OF HONG KONG

UNDERTAKINGS BY HMG TO HONG KONG PEOPLE

1. There have been a number of suggestions that HMG has an obligation to provide some kind of assurance to, or to make contingency plans for people in Hong Kong who, in the light of prospects for the territory's future, might wish to leave. It has also been proposed that an international effort should be mounted to organise resettlement.
2. The issue is an important one in the context of the future governability of the territory. How difficult it will be to continue governing Hong Kong will depend on the reaction of the community to the terms of the agreement and on the subsequent behaviour of China. It will also depend on our being able to retain the loyalty of essential groups within the community generally and the civil service in particular - and those whose role is essentially political could find that their loyalty to the community places them in a difficult and exposed position when China resumes sovereignty. If we are to maintain the loyalty of these groups, who are either already vulnerable or may become so, they will need to be given assurances that they will be looked after.
3. EXCO Unofficials raised this question in general terms during their visits to London in January and April 1984. They suggested that at the very least HMG had an obligation to give BDTCS the right of abode in Britain. The statement issued on 9 May by Unofficial Members of the Executive and Legislative Councils asked whether the rights and status of BDTCS in Hong Kong would be preserved after 1997 and if they and other Hong Kong belongers who could not accept the idea of living under communist rule would have a right to settlement in the UK, or if HMG would negotiate settlement places elsewhere for them.
4. During the Commons debate on 16 May, there was widespread support for the Secretary of State's statement that HMG's prime objective was to provide a secure future for Hong Kong people in the territory rather than stimulating emigration from Hong Kong to the UK or elsewhere. Only Sir Ian Percival and Sir Philip Goodhart

proposed that the government should make arrangements for those who wanted to leave Hong Kong, although even they agreed that it would be raising expectations falsely to give the impression that the UK could take any large number of people from Hong Kong.

CATEGORIES AFFECTED

5. It is possible to distinguish three main groups towards which HMG could be said to have some kind of obligation. They are:

- (a) Those specially at risk from a Chinese resumption of sovereignty, and/or essential for continued effective Government up to 1997 and beyond;
- (b) Past and present members of the public service and members of public bodies appointed by or on behalf of the Crown;
- (c) British Dependent Territories citizens.

6. A. Those especially at risk from a Chinese resumption of sovereignty and/or essential for continued effective Government.

This group can be classified into three categories:-

(i)

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- (ii) Those already vulnerable as a consequence of their service to the British administration (eg UMEICO, police officers of the rank of inspector and above, administrative officers, certain staff in other Government Departments such as the Immigration and Labour Departments having direct dealings with the Chinese Communists). In terms of those currently serving, they number around 7,500 again including immediate families; this total might increase by 6,000 between now and 1997.

(iii) Past or present members of the public service, the judiciary, public bodies or the general public who may become vulnerable during the coming years because of their service to the Hong Kong Government and the community. Membership of this category will depend on the attitude of the Chinese Government to such people between now and 1997 and the circumstances at the time of transition and beyond. It will also be affected by the extent to which HMG has to take action unpopular with the communists. It could include members of certain public bodies, particularly those dealing with immigration, deportation, or labour matters; members of the public service, for example certain units of the police force who may have to take firm action in case of social disorder or action unpopular with communist sympathisers in order to maintain law and order; members of the public, for example journalists, those standing for election and other public figures who may be singled out as targets for resisting communist influence; and civil servants and members of the community who were actively engaged against the communists in 1967. Because membership will depend on future developments, it is impossible to define this category accurately in terms of numbers. At a guess it could be 20,000 including immediate families: less if the community is satisfied generally with the terms of the agreement and China behaves in a way that boosts confidence; more if events turn out badly.

7. B. Other past and present members of the public service and members of public bodies appointed by or on behalf of the Crown. This category includes people who are or have been Crown servants or have served the Crown in an unofficial capacity, and who may claim HMG has in consequence an obligation to them. There is provision under section 4(5) of the British Nationality Act 1981 for the Home Secretary to register such people as British citizens at his discretion if they are already some other form of British national. The vulnerable members of this category will already have been taken care of under (a). In numbers it could amount to around 800,000 including immediate families.

8. C. British Dependent Territories Citizens (BDTCs).

These are British nationals. For them HMG's obligation is of a different kind to those in groups (a) and (b). It is to protect their existing rights, which include right of abode in Hong Kong, eligibility to hold British passports and the right to British consular protection when travelling abroad. At present there are about 3 million BDTCs, likely to rise to at least 4 million by 1997. In addition, there are approximately 1.5 million other residents of Hong Kong who are eligible to apply for naturalisation as BDTCs by virtue of length of residence in the territory.

NATURE OF DEMANDS

9. Already various requests for undertakings have been made in respect of all these groups. Some of these requests relate to the period before 1997, others to an indefinite period after that date. In the first case the undertakings are sought in respect of those who may not wish to live in a Hong Kong under a Government subordinate to the Central People's government, or who would be in danger in such a situation. In the second case they are sought for groups who must continue to serve the community beyond 1997 but who may be vulnerable as a result of a change of sovereignty, and for individuals who may be willing to live under the successor regime but who fall foul of it.

10. It should be noted that not everyone covered by an undertaking from HMG would actually wish to settle in the UK, if given a choice in the matter. Hong Kong people contemplating emigration tend to look towards traditional migrant destinations (Canada, Australia and the US) rather than Britain. (This no doubt reflects the extreme difficulty of settling in Britain under existing immigration legislation, but also the perception that greater economic and personal opportunities exist in these other countries). Many people, particularly among the professional classes, have already made contingency plans that permit them legally to take up residence in one or other of those preferred destinations. By no means everyone, therefore, would make use of any undertakings that HMG may give. The symbolic nature of these undertakings will nevertheless

be of considerable significance.

ARGUMENTS AGAINST GIVING UNDERTAKINGS

11. The contrary arguments are both political and practical. Any large-scale immigration from Hong Kong would run counter to HMG's policies in this field, and would be politically unpopular. The precedents of the inflow of East African Asians, which prompted the Commonwealth Immigration Act (1968) and of the later exodus from Uganda in 1972, are not happy ones in domestic political terms. Even where relevant provision exists in legislation (in particular under section 4(5) of the British Nationality Act: see paragraph 7 above) the Home Secretary has taken the line that it should be applied sparingly. Moreover it would be difficult for HMG to act in anticipation of what might happen many years hence. These considerations suggest that the scope of any undertakings should be both limited and carefully defined.

12. The main practical difficulty, however, is precisely to devise a formula which would effectively limit the number of people who would be eligible for assistance. There will always be grey areas where the degree of risk depends on subjective judgement. It would be difficult to distinguish fairly between those who were genuinely at risk, those who more vaguely feared the prospect of "living under communism" and those who might make that prospect an excuse for assistance in leaving Hong Kong for other personal or economic reasons. It would also be necessary to set criteria for the dependants that may accompany those admitted under any category.

13. Moreover, any undertaking, particularly one that was tightly drawn, could have a divisive effect in Hong Kong which would damage rather than raise morale. Those who fell outside the category to which an undertaking applied might turn against their more fortunate colleagues or be encouraged to emigrate. It is also possible that the giving of assurances by HMG would itself be interpreted in Hong Kong as demonstrating a lack of confidence in the agreement concluded with the Chinese. Some may argue that a settlement which provides a secure future for people in Hong Kong ought to make the giving of guarantees unnecessary.

ARGUMENTS IN FAVOUR OF GIVING UNDERTAKINGS

14. Set against this, however, is the fact that HMG will remain responsible for Hong Kong until 1997. There will in any case be great difficulties in ensuring stable administration during the run up to that date. Continuity will depend on maintaining the loyalty of the public service, the police and members of the public willing to serve a "British" administration before 1997 and to take the risk of continuing in the service of the SAR thereafter. If they are not given assurances they will leave Hong Kong well before 1997. On the other hand, assurances that people with the most to fear from China's resumption of sovereignty would if necessary be looked after could remove an important cause of potential unrest, especially inside the public service. This would be particularly the case for those who are vulnerable as a result of their present anti-communist or political work or who are likely to find themselves vulnerable if they continue to speak up for the interests of the community once sovereignty changes hands. There is a genuine concern that China will be noting who is loyal to the Hong Kong Government and that such people will be vulnerable to pressure before 1997 and to retribution afterwards. People are more likely to stay in Hong Kong if they know that in the last resort they would be able to leave; conversely, the more they feel abandoned to their fate, the greater is the likelihood that they will leave if they can, and if not, criticise the agreement and claim that HMG has betrayed its obligations to them.

15. The Prime Minister alluded to Britain's "moral responsibility" when she visited Hong Kong in September 1982. This moral argument takes as its basis HMG's position as colonial power and as employer for the past 140 years: it is therefore held to be particularly relevant to Crown servants and Unofficial members of EXCO and LEGCO and to a lesser extent to BDTCs. Many people in Hong Kong, not only the Unofficial members of EXCO, believe strongly that HMG has an obligation in this area and see it as a yardstick by which to measure HMG's commitment to Hong Kong.

16. In both practical and political terms, we could not expect any other countries to give assistance to Hong Kong people unless we were prepared to give a clear lead. The international perception is that Hong Kong is primarily HMG's responsibility. It is unrealistic to expect that other governments would contemplate special arrangements for the resettlement of Hong Kong residents, unless HMG had first given a lead.

LIKELY CHINESE REACTION

17. The Chinese would doubtless react strongly to any renewed public expression of HMG's "moral responsibility" for the people of Hong Kong. If HMG made any general offer of assistance to people who wished to leave Hong Kong the Chinese would be likely to claim publicly that this amounted to sabotaging the arrangements agreed for the territory's future. They might also resent any offers of "protection" after 1997 to those whom they consider to be Chinese nationals. On the other hand, they might not object to HMG taking action under existing legislation to offer entry or citizenship to specific groups which had been particularly closely connected to the British administration, especially if this was done in such a way as to encourage continuity.

POSSIBLE COURSE OF ACTION

IMMIGRATION

18. If HMG is to meet its obligations to those at risk, and if effective Government is to be maintained in the interests of the Hong Kong community, then some assurances are essential. They need to be so framed as to provide for continuity beyond 1997. Possible action for each group, in descending order of magnitude, is considered in this context, under the alternative hypothesis of an agreement with China or no agreement.

ALL BDTCS

19. The size of the group would make any undertaking on immigration to the UK politically impossible. If an agreement with China had been reached, and if British nationality for BDTCS was to continue

in some form after 1997, the best line would be that the purpose of the arrangement was to ensure a permanent future for all Hong Kong people in Hong Kong and to guarantee the maintenance of their existing rights. If pressed on what action would be taken if the agreement proved ineffective or was violated by the Chinese (either before or after 1997) it would be necessary to decline to speculate on a hypothetical situation.

20. If no agreement with the Chinese had been reached it would still be politically impossible to give general undertakings to BDTCs. There would nevertheless be strong pressure for this. The most that HMG should say would be that:

- (a) It was still our intention to negotiate a settlement which would provide a future for all Hong Kong people in the territory;
- (b) There could be no question of granting right of abode in the UK to BDTCs as a group. The existing arrangements for entry and registration would be applied with careful consideration of individual circumstances. This would only commit HMG to administer with consideration the provisions of section 4.5 of the BNA (which only applies to some of this group) and of section 38 of the Immigration Rules 1983 (under which permanent entry to the UK may be granted to those with disposable assets of at least £150,000 or an income of at least £15,000 per annum).

ALL PUBLIC SERVANTS (PLUS PAST AND PRESENT MEMBERS OF STATUTORY BODIES).

21. There will be very strong pressure from civil servants for more specific undertakings whether or not agreement is reached with the Chinese, although it will be even more intensive if no agreement is reached or the agreement does not command widespread support in Hong Kong. We will have to take careful account of the need to maintain morale in the public service over the period up to 1997. This would rule out any explicit refusal to give undertakings. On the other hand, the numbers involved make any general undertakings politically

difficult. The best line, if it could be maintained, would be to try to limit assurances to certain groups within the public service and to concentrate on undertakings in respect of pensions, continuity of service and the assurance against political intervention against individuals which will be given by the establishment of an executive Public Service Commission.

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OF THE PUBLIC RECORDS ACT

26. The second category consists of those who are vulnerable to retribution as a consequence of their service to the British administration in Hong Kong, but whose services it will be essential to retain both in the run up to 1997 and after the change to a SAR, if effective government, continuity and confidence are to be preserved. It includes 38 Unofficial members of the Executive and Legislative Councils, 214 administrative officers, some 1,450 police gazetted officers and inspectors and perhaps about 230 other individuals dealing with the communists. These groups are vulnerable because of the "political" nature of their work, which causes them to be the most visible representatives of the "British" administration. There is already evidence of the Chinese trying to cultivate them, creating precisely the sort of unease that these proposals are designed to help to alleviate.

27. Here the aim is to provide reassurance that such people will be looked after provided they serve their normal time until retirement, unless they become vulnerable before then, in which case provision would have to be made for them to be granted entry into the UK at an earlier date. It is proposed that civil servants in this group and their immediate families should be granted British citizenship when they reach normal pensionable age (at present 50 for police and 55 for administrative officers) unless their position becomes vulnerable before then. (Arrangements to cater for this eventuality are discussed below). This would mean that the numbers would be spread out over a period of years. Not all would wish to come to the UK, but even if all did the effect would be much less than that of a large scale influx. It could be set against the existing ceiling of annual admissions to the UK.

28. About 75 serving officers in these categories have already passed normal retirement age. Unless there are unfortunate developments, about 50 a year of the remainder still serving will reach retirement up to 1997, with a steady rise to around 150 in 2006 followed by a sharp decline to 2017. Recruitment between now

and 1997 would, for the most part have the effect of extending this period rather than adding to the numbers in earlier years. To these figures would have to be added families.

29. There are approximately 38 Unofficial members of the Executive and Legislative Councils who are probably not already British citizens. They and their successors would become eligible after they had left the Councils or when they became vulnerable.

30. The contrast in treatment between the "intelligence group" and the other vulnerable categories does, of course, carry the disadvantage that at least some persons in the latter position might argue that they were sufficiently at risk to justify special consideration in the shape of early entry to the UK. It would be important to identify those genuinely at extreme risk early on. But the distinction is a real one in another sense. It will almost certainly be politically and practically inappropriate to retain Hong Kong Chinese in Special Branch for intelligence operations against the communist Chinese up to 1997. They will need to retire before then. On the other hand it is essential to retain the services of administrators and ordinary police officers not merely up to but beyond 1997. We need a system which recognises the distinction and we must be prepared to defend it on humanitarian and practical grounds.

31. The third category consists of those who may become vulnerable whether in the public service or in the community generally because of their service to HKG and to the community. It might be necessary to indicate to such people, or at least to those who enquired, that if at any time they were judged to be at risk they would speedily be granted British citizenship. This would not however amount to providing unconditional assurances to individuals. Procedures already exist for giving advice to the Home Secretary on applications for British citizenship or entry into the UK. If it was considered helpful however, special machinery could be established to advise on people who might eventually fall into this group and on those in category 2 who might become vulnerable before pensionable age. One possibility would be to establish a small commission including representatives who have experience of

Hong Kong. The use of such an advisory body would be understood in Hong Kong and would go a long way to give the community generally, and particularly those who feel they deserve British citizenship immediately, confidence in the more general assurances.

32. For the arrangements proposed above to be effective, those in the first two categories should be informed of them not later than the time of publication of an agreement with China. It is proposed that they should then be told individually and in confidence that they would if they applied be granted at the appropriate time entry into the UK or British Citizenship as appropriate. Apart from this, official comments on the arrangements would be kept to a minimum. It would however be unrealistic to expect that this would not leak. There would inevitably be Parliamentary interest. Some general statement on the policy to be pursued should probably therefore be considered although this would have to be very carefully worded to avoid a strong Chinese reaction.

COMMENT

33. These proposals, if accepted, would go further than any assurances so far given to people in Hong Kong. Whether they would be sufficient to maintain confidence and to prevent an exodus is difficult to predict and will depend to a large extent on the acceptability of the agreement reached with the Chinese. But it is unlikely that a tighter line could be held for long in practice. Political pressure in the UK for more sympathetic discharge of our moral obligation and disaffection among the Hong Kong public service would be strong. It would be better to show some limited flexibility, still within the existing law, in order to stave off even wider demands.

34. If we were unable to reach agreement with the Chinese, or if the agreement did not hold up for any reason either before or after 1997, there would be a possibility of a Chinese take-over. In such circumstances, there would be an obligation on HMG to take at once all those to whom it had made a commitment. But the political pressures on HMG to help these people would in any case be intense.

Moreover, the assurances that are proposed above are designed to minimise the risk of a break down in Hong Kong, by helping to maintain confidence in the territory and thus making it more useful to China as an autonomous unit.

FINANCIAL ASSISTANCE

35. There would be no possibility of HMG giving a general undertaking to provide financial assistance towards resettlement. Such an undertaking could not be defined and would commit a future administration too far. In any case, the majority will be civil servants with their pensions and those from the private sector are also likely to be self-sufficient. For the few who are from the less well-off groups, the Hong Kong Government would probably be willing to assist.

REPRESENTATIONS TO OTHER GOVERNMENTS

36. There would be no case for asking other governments to make provision for Hong Kong people at this stage. Only if the situation appeared likely to lead to a major exodus should this be considered. Even then we should probably not make much headway unless we were ready to take at least a token number of Hong Kong people ourselves. Moreover, any such approaches would be taken, in Hong Kong and elsewhere, as a sign of lack of confidence in our agreement with the Chinese and would therefore undermine any prospects of maintaining confidence in Hong Kong.

SUMMARY

37. The proposals outlined in paragraphs 22-32 above would mean that some 40,000 people from Hong Kong might be offered entry to the UK over a period from now until well into the next century. Given the difficulty of estimating the size of the third category discussed in paragraphs 6 (iii) and 31 above, it is not possible to give a precise breakdown of when this immigration commitment might fall. Between 7,500 and 30,000 might require entry before 1997, but even these could be spread over a period of years. If the figure was 30,000, this would represent under 3,000 a year on average in

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this period. This does not seem unreasonable when compared to the 53,460 immigrants accepted for settlement in 1983.

38. If Ministers agree with the general approach outlined above, more detailed proposals will be prepared for consideration.

Hong Kong Department
July 1984

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GRS 295

Secret

SECRET

FROM PEKING 130255Z JUL 84

TO FLASH HONG KONG

TELEGRAM NUMBER 140 90F 13/7/84

mt

INFO IMMEDIATE FCO

FOR PS MR LUCE

YOUR TEL NO 647 TO PEKING: FUTURE OF HONG KONG:

JOINT GROUP: SECRETARY OF STATE'S VISIT:

1. I SAW ZHOU NAN AN HOUR AGO. HE ACCEPTED THE DATES PROPOSED BY THE SECRETARY OF STATE FOR HIS VISIT TO PEKING (IE FROM THE EVENING OF 27 JULY TO THE AFTERNOON OF 31 JULY)

MY REPORTING TELEGRAM, WHICH WILL ISSUE WITHIN THE HOUR, WILL COVER THE DETAILED POINTS HE BROUGHT UP (EG THE TIMING AND CONTENT OF AN ANNOUNCEMENT). I TOLD ZHOU THAT THE SECRETARY OF STATE WOULD BE VISITING HONG KONG BOTH ON HIS WAY TO AND ON HIS RETURN FROM PEKING. HE TOOK WHAT I SAID WITH EQUINIMITY.

2. AT LAST NIGHT'S DINNER FOR THE DELEGATIONS, ZHOU NAN TOLD ME THAT THE CONTINUED EXISTENCE OF A JOINT GROUP AFTER 1997 WAS OUT OF THE QUESTION. HE SAID THAT WE COULD DISMISS THE NOTION FROM OUR MINDS.

3. ON THE OTHER HAND, LU PING TOLD MCLAREN THAT IT WAS INDEED A POSSIBILITY THAT THE JOINT GROUP MIGHT CONTINUE TO EXIST FOR A FEW YEARS AFTER 1997. THE NEED FOR BRITAIN AND CHINA TO COOPERATE WOULD CONTINUE AFTER THAT DATE. HE REPEATED THIS

Secret

1 POINT

Secret

POINT TO MCLAREN LATER ON, WHEN HE (LU PING) WAS SUGGESTING THAT ONE WAY OUT OF THE IMPASSE ABOUT THE JOINT GROUP MIGHT BE TO BUILD ON THE CONCEPT OF DIVIDING THE TRANSITIONAL PERIOD INTO A PERIOD FROM THE CONCLUSION OF AN AGREEMENT TO 1993 AND A PERIOD FROM 1993 TO 1997.

4. THE SIGNALS ON THIS SUBJECT ARE THEREFORE CONFLICTING. I AM PERSONALLY INCLINED TO ATTACH SIGNIFICANCE TO WHAT LU PING SAID.

EVANS

FUTURE OF HONG KONG
LIMITED

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HD/FED
HD/PLANNING STAFF
HD/PUSD
DEP HD/PUSD
RESEARCH D (MR WALKER)
LEGAL ADVISERS(SIR J FREELAND)
PS
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²
Secret

Hong Kong.. Future P. S.

With COP 13/7/84

504



10 DOWNING STREET

From the Private Secretary

13 July, 1984

Hong Kong: Letter from Sir S. Y. Chung

BF | I enclose a copy of a letter addressed to my predecessor from Sir S. Y. Chung. I should be grateful for advice and a draft reply.

C. D. POWELL

R. B. Bone, Esq.,
Foreign and Commonwealth Office

ECL

Duty Officer
No 10 P. A.

SECRET

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DD 120930Z HONG KONG
GRS 1004
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DESKBY 120930Z
FM FCO 120820Z JULY 84
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 1270 OF 12 JULY
AND TO IMMEDIATE PEKING

FUTURE OF HONG KONG: MESSAGE FROM THE PRIME MINISTER TO
PREMIER ZHAO ZIYANG
THE PRIME MINISTER HAS NOW APPROVED THE TEXT OF A MESSAGE TO
PREMIER ZHAO ZIYANG, AS FOLLOWS.
BEGINS:

1. IN MY MESSAGE TO YOU OF 14 OCTOBER 1983 ABOUT THE
NEGOTIATIONS ON THE FUTURE OF HONG KONG I PROPOSED THAT IN
PURSUANCE OF MY EARLIER LETTER TO YOU OF 10 MARCH 1983, AND
WITHOUT PREJUDICE TO ANY FINAL AGREEMENT, THE NEGOTIATORS ON THE
TWO SIDES SHOULD DISCUSS WHAT EFFECTIVE MEASURES OTHER THAN
CONTINUED BRITISH ADMINISTRATION MIGHT BE DEvised TO MAINTAIN THE
STABILITY AND PROSPERITY OF HONG KONG AND SHOULD EXPLORE FURTHER
THE CHINESE IDEAS WHICH HAD AT THAT STAGE BEEN EXPLAINED TO US.
I PROPOSED THAT THEIR PURPOSE SHOULD BE TO SEE WHETHER BRITAIN
AND CHINA COULD TOGETHER CONSTRUCT ON THE BASIS OF THE PROPOSALS
PUT FORWARD BY CHINA, ARRANGEMENTS WHICH WOULD ENSURE LASTING
STABILITY AND PROSPERITY FOR HONG KONG. I ADDED
THAT, IF ON THIS BASIS ARRANGEMENTS COULD BE AGREED THAT WOULD
ENSURE THE MAINTENANCE OF STABILITY AND PROSPERITY OF HONG KONG,
THE BRITISH GOVERNMENT WOULD BE PREPARED TO RECOMMEND TO
PARLIAMENT A BILATERAL AGREEMENT ENSHRINING THEM AND TO DO ITS
UTMOST TO HELP WITH THE INTRODUCTION AND IMPLEMENTATION OF SUCH
ARRANGEMENTS.
2. I HAVE BEEN FOLLOWING WITH CLOSE INTEREST THE PROGRESS OF THE
NEGOTIATIONS SINCE THAT DATE, AND HAVE BEEN PLEASED TO NOTE THAT
SOME PROGRESS HAS BEEN MADE BOTH IN FURTHERING THE UNDERSTANDING
BETWEEN THE TWO SIDES AND IN DRAFTING AN AGREEMENT WHICH WOULD BE

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ACCEPTABLE TO CHINA AND BRITAIN, AS WELL AS TO THE PEOPLE OF HONG KONG. I WAS PARTICULARLY GLAD TO NOTE THE PROGRESS MADE DURING SIR GEOFFREY HOWE'S VISIT TO PEKING IN APRIL.

3. HOWEVER, WE ARE NOW APPROACHING THE END OF THE LIMITED TIME AVAILABLE FOR THE WORK OF DRAFTING AN AGREEMENT. I THINK THAT I SHOULD IN ALL SINCERITY LET YOU KNOW THAT I HAVE BECOME CONCERNED IN RECENT WEEKS THAT PROGRESS IN THE NEGOTIATIONS HAS SLOWED DOWN, AND CERTAIN POINTS OF SERIOUS DIFFICULTY HAVE BEEN IDENTIFIED. THE BRITISH GOVERNMENT AND I PERSONALLY REMAIN STRONGLY COMMITTED TO SEEKING AN ACCEPTABLE AGREEMENT ON THE FUTURE OF HONG KONG, AND IF SUCH AN AGREEMENT IS REACHED, WILL CO-OPERATE TO THE UTMOST WITH THE CHINESE GOVERNMENT IN ENSURING THAT IT IS PUT INTO OPERATION SUCCESSFULLY. HOWEVER, I MUST URGE YOU TO BEAR IN MIND THAT THE BRITISH GOVERNMENT CANNOT UNDERTAKE SUCH AN AGREEMENT UNLESS IT IS ACCEPTED BY THE BRITISH PARLIAMENT, AND PARLIAMENT WILL ATTACH GREAT IMPORTANCE TO THE EXTENT TO WHICH THE AGREEMENT COMMANDS CONFIDENCE IN HONG KONG. PARLIAMENT WILL CERTAINLY INSIST THAT ANY AGREEMENT ENTERED INTO BY BRITAIN SHOULD BE BALANCED AND BINDING, AND SHOULD CONTAIN SUFFICIENT DETAIL ABOUT WHAT IS TO HAPPEN IN HONG KONG AFTER 1997 TO CONVINCE PEOPLE BOTH IN HONG KONG AND ELSEWHERE THAT THE ARRANGEMENTS SET OUT IN IT WILL WORK IN PRACTICE, AND WILL PROVIDE THE BASIS FOR CONTINUED STABILITY AND PROSPERITY. A DRAFT AGREEMENT WHICH DID NOT FULFIL THESE REQUIREMENTS WOULD UNDOUBTEDLY BE REJECTED BY PARLIAMENT, AND I AM SURE THAT YOU WILL UNDERSTAND THAT I SHOULD NOT RECOMMEND AN AGREEMENT TO PARLIAMENT UNLESS I WAS CONFIDENT THAT IT WOULD BE ACCEPTED. WE ON OUR SIDE UNDERSTAND THAT THERE ARE POLITICAL CONSTRAINTS ON THE CHINESE GOVERNMENT, BUT I ASK YOU TO UNDERSTAND IN TURN THAT THERE ARE ALSO POLITICAL CONSTRAINTS ON THE BRITISH GOVERNMENT. ONLY AN AGREEMENT WHICH MEETS THE POLITICAL NEEDS OF BOTH SIDES CAN BE SUCCESSFUL.

4. I HAVE BEEN PARTICULARLY DISTURBED AT THE DISAGREEMENT WHICH HAS ARISEN IN THE NEGOTIATIONS ON THE LOCATION OF A JOINT GROUP. THE CHINESE SIDE HAVE EXPLAINED THE IMPORTANCE WHICH THEY ATTACH TO ESTABLISHING SUCH A GROUP IN HONG KONG AFTER THE ENTRY INTO

2

SECRET

FORCE OF THE AGREEMENT. WE ON OUR SIDE HAVE EXPLAINED OUR FIRM CONVICTION THAT THE ESTABLISHMENT OF A JOINT GROUP WITH STANDING MACHINERY IN HONG KONG WOULD NOT ONLY CREATE THE IMPRESSION OF CONDOMINIUM BUT WOULD SO UNDERMINE THE AUTHORITY OF THE HONG KONG GOVERNMENT AS TO RENDER IT EXTREMELY DIFFICULT TO CONTINUE THE EFFECTIVE ADMINISTRATION OF HONG KONG DURING THE PERIOD BETWEEN NOW AND 1997. THE UNCERTAINTIES WHICH THE ESTABLISHMENT OF SUCH A GROUP WOULD CAUSE WOULD CERTAINLY NOT BE DISSIPATED BY MERE ASSURANCES THAT THE GROUP WAS NOT TO BE AN ORGAN OF POWER. THAT THE UK SHOULD REMAIN FULLY RESPONSIBLE FOR THE ADMINISTRATION OF HONG KONG UNTIL 1997 HAS OF COURSE ALREADY BEEN AGREED BETWEEN OUR TWO SIDES. IF BRITAIN'S ADMINISTRATION OF THE TERRITORY WAS SEEN OR THOUGHT TO BE PREJUDICED IN THIS PERIOD, THE PROSPERITY OF HONG KONG WOULD INEVITABLY BE DAMAGED TO THE DETRIMENT OF THE INTERESTS OF BOTH BRITAIN AND CHINA.

5. I WISH TO EMPHASISE TO YOU THAT THE DIFFICULTIES WHICH WE SEE IN THE CHINESE PROPOSAL ARE GENUINE AND PRACTICAL AND THAT OUR BELIEF IS SINCERELY HELD. INDEED NEWS OF THIS PROPOSAL HAS ALREADY CAUSED GREAT UNEASE IN HONG KONG. I ASK YOU TO REFLECT VERY CAREFULLY ON WHAT WE HAVE SAID. HOWEVER, I AM ALSO CONCERNED THAT OUR DISAGREEMENT ON THIS POINT SHOULD NOT SO IMPEDE PROGRESS ON THE DRAFTING OF AN AGREEMENT AS TO MAKE IT DIFFICULT TO CONCLUDE IT IN THE LIMITED TIME AVAILABLE. I THEREFORE SUGGEST THAT WE SHOULD FOR THE PRESENT PUT ASIDE THE QUESTION OF THE LOCATION OF THE GROUP, AND DISCUSS INSTEAD ITS COMPOSITION, FUNCTIONS AND POWERS, TO SEE WHETHER WE CAN REACH AGREEMENT ON THESE POINTS. AT THE SAME TIME WE SHOULD CONTINUE OUR ACTIVE NEGOTIATION ON THE FORM AND CONTENT OF AN AGREEMENT ON ARRANGEMENTS FOR HONG KONG AFTER 1997. WE SHOULD WISH TO LOOK AT THE PACKAGE WHICH EVENTUALLY RESULTED FROM OUR NEGOTIATIONS AND AT THAT STAGE CONSIDER OUR POSITION ON THE JOINT GROUP IN ALL ITS ASPECTS.

6. FINALLY, I SHOULD LIKE TO CONVEY TO YOU AND YOUR COLLEAGUES MY OWN DETERMINATION AND THAT OF THE BRITISH GOVERNMENT TO SEEK SOLUTIONS TO OUR REMAINING DIFFICULTIES. ONLY IN THIS WAY CAN WE EXERCISE OUR JOINT HISTORICAL RESPONSIBILITY TO SEEK IN

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CO-OPERATION A SOLUTION TO THIS DIFFICULT QUESTION. ENDS
HONG KONG PLEASE PASS TO MR LUCE'S PARTY.
HOWE

FUTURE OF HONG KONG
LIMITED

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HD/FED
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pte sll

14

10 DOWNING STREET

From the Private Secretary

11 July 1984

Future of Hong Kong
Visit to Hong Kong and Peking by the FCS

Thank you for your letter of 10 July enclosing a draft message from the Prime Minister to Zhao Ziyang.

The Prime Minister is content with the message subject to three amendments. Since the matter is urgent I have made these in manuscript on the attached copy. I have also informed Mr Luce of them.

C D Powell

Len Appleyard Esq
Foreign and Commonwealth Office

SECRET

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10 DOWNING STREET

From the Private Secretary

11 July, 1984

cc OD(K) Ld Pres Home Sec Ch/Ex S/Defence LPS S/TI A. Gen Mr Luce (FCO) RM. 13

FUTURE OF HONG KONG: CONSTITUTIONAL DEVELOPMENT UP TO AND

AFTER 1997

Thank you for your letter of 10 July about the role of the Governor of Hong Kong in the 1990s.

The Prime Minister agrees with the conclusion that we should leave our options open on the role of the Governor, not raise the question with the Chinese now, but not take any action that would rule out the possibility of an elected governorship before 1997.

I am sending a copy of this letter to the other Private Secretaries of OD(K).

(C.D. Powell)

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office

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file RM.



bc PC.

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10 DOWNING STREET

From the Private Secretary

11 July, 1984

FUTURE OF HONG KONG: BRIEFING THE JAPANESE

Thank you for your letter of 10 July enclosing a draft telegram of instructions to HM Ambassador in Tokyo authorising him to brief Mr. Nakasone in confidence about the progress of talks with the Chinese on Hong Kong and to ask Mr. Nakasone to support some of the main UK points with the Chinese.

The Prime Minister agrees with the substance of the draft telegram. She has commented, however, that she does not think the visit to Japan of Li Peng, mentioned in paragraph 8 of the draft, is an appropriate sort of occasion for the Japanese to use their influence. She would prefer the briefing to be provided for Mr. Nakasone to use as he judges fit.

(C.D. Powell)

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office

SECRET

NR

cc/c



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

10 July, 1984

The proposal is not to put the idea of an elected Governor to the Chinese now, but leave the option open for later i.e. during the late '80s.

Dear Charles,

Agree?

Yes

C.D.P.

10/7.

Future of Hong Kong: Constitutional Development up to and After 1997

On 25 June the Secretary of State minuted to the Prime Minister about constitutional development in Hong Kong before 1997. With this minute was enclosed a paper on the role of the Governor in the 1990s. This examined alternatives for possible changes to the role and method of appointment of the Governor. The paper sets out four main alternative approaches:

- (a) retention of a British Governor appointed from London up to 1997;
- (b) a locally elected Governor taking over the full administrative powers of the present office;
- (c) retention of a British Governor appointed from London but with an elected local Chief Minister;
- (d) a locally elected Governor, but with powers reserved to HMG for foreign affairs and defence.

This paper was considered by OD(K) on 28 June. The Sub-Committee invited the Secretary of State to discuss the future role and method of appointment of the Governor with Sir Edward Youde and Sir Richard Evans.

The Governor and the Ambassador have now discussed the governorship with FCO Ministers. I attach a copy of the paper considered by them. It was agreed that we should leave our options open on the role of the Governor, and in particular that we should not take any action that would rule out the possibility of an elected Governorship before 1997 as our eventual aim. It was also agreed that we should not approach the Chinese on the question at this stage.

I should be grateful to know if the Prime Minister can agree to the proposed course of action.

I am copying this letter to other Private Secretaries of OD(K).

Yours ever, L. V. Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

FUTURE OF HONG KONG
CONSTITUTIONAL DEVELOPMENT UP TO AND AFTER 1997

1. An important British requirement is to clarify the way in which constitutional arrangements in Hong Kong should develop in the period before 1997, particularly where the position of the governorship is concerned. This is linked to the need to achieve continuity beyond the period of transition, and hence to be able to state in the agreement with the Chinese as precisely as possible what constitutional arrangements would apply after 1997.
2. Whether dealing with the Executive and Legislative Councils, or with the governorship, our main objective is to establish as firm a basis as possible for continuity after 1997. The Chinese so far refuse to include a precise description of the constitutional machinery in the agreement or annexes, maintaining that this must await the appearance of, and be in line with, the Basic Law. They go further and say that arrangements up to 1997 should also be adjusted when the Basic Law is promulgated. Their general declarations of support for "democracy" in Hong Kong are qualified by suspicion of our intentions with regard to representative government; by their view (in their draft exchange of notes) that the future Chief Executive of the SAR should be appointed after "election or consultation"; and their indications to us that they would expect to discuss with us the appointment of senior officials in the period shortly before 1997.
3. There is a reasonable prospect that the Chinese may refrain from any direct criticisms of the proposals in the draft Green Paper as they affect EXCO and LEGCO, although they are likely to reserve the right to regard them as experimental and to reverse them after 1997. They would however be much more suspicious of any move towards an elected local Governor before 1997 since they would expect HMG to keep control up to that date in order to hand the territory over in good order, and they would rightly deduce that we were trying to tie them down on the method of selecting the Chief Executive after 1997.
4. From our point of view the arguments in favour of establishing

an elected governorship before 1997 are based on the advantage of promoting full local autonomy, which would carry on thereafter. There could be problems for HMG however if the need arose, before 1997, to exercise British authority (eg to put down local disturbances). An elected Governor might find that his position as a Hong Kong "representative" conflicted with that as the Queen's appointee. There could be difficulties over division of responsibility for internal security and the answerability respectively of the police and the Commander British Forces. Short of unrest, political differences could also arise between London and Hong Kong. One possibility might be to retain a British appointed Governor but to add an elected Chief Minister (with powers for defence, foreign affairs, and in an emergency, internal security reserved to the former). The problems here would be two-fold. In the first place differences between London and Hong Kong would surface on the ground. The Chief Minister might still feel obliged to advise against a course of action favoured by London and the Governor. The resulting political crisis would be little less than one in which London overruled (and possibly dismissed) a locally elected Governor. Moreover, such an arrangement would only be a half-way house to the full local autonomy which we would aim to see continued after 1997. While we should seek a transition in which the Governorship disappeared in 1997 and the Chief Minister became Chief Executive of the SAR, the Chinese might seek to use the arrangement to allow a Peking representative to exercise the reserved powers after 1997. Even if they held to their undertaking not to send anyone to rule Hong Kong, public opinion now would see as extremely risky the establishment of an outside British representative to exercise the same powers as would be reserved to China after 1997 under an agreement.

5. In practice, if we could obtain Chinese acquiescence, a move to an elected local governor would be the most advantageous option for Hong Kong. The problem of the exercise of British power in the 1990's should not be seen in terms of a normal colonial relationship or even as analogous to the situation shortly before independence in other countries. Order would be maintained on the one hand by the confidence inspired by the original agreement and by indications of Chinese readiness to honour it, and on the other by the imminence of

Chinese, rather than British power. Nevertheless, it would possible to reserve powers to HMG, to be exercised through the elected Governor in the first instance or directly if that relationship broke down. (See Annex)

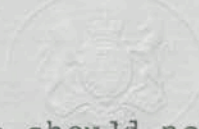
6. Chinese acquiescence in the appointment of an elected Governor would be necessary before we could with confidence take action to implement such an arrangement. Without it there might be a political clash which would overshadow the period up to 1997 and endanger the credibility of an overall agreement. The timing and method of the sounding of Chinese views on this question needs careful consideration. There is a case for approaching them soon, while negotiations are still in progress testing their reaction to the idea of an elected Governor. We shall in any case need to inform them of the contents of the Green Paper on Constitutional Development and a discussion on the Governorship might form a logical sequel to that.

7. However it is doubtful whether this sort of approach would be helpful. The indications are that the Chinese are not prepared to commit themselves on this question at such long range and that if asked they would at best give an imprecise answer and at worst turn the idea down. It would therefore be better to approach the problem from the other end and to concentrate on trying to get wording in the annex to the agreement on constitutional arrangements which left open the possibility of an elected Chief Executive of the SAR after 1997. The idea then would be to observe Chinese reactions to the implementation of the various stages in the Green Paper and to decide whether an approach should be made to them about the Governorship later on. This would have the advantage of keeping our own options open on the question so that we could see what problems arose during the late eighties over the Government of Hong Kong which might affect our view on the Governorship.

CONCLUSION

8. It is agreed that we should inform the Chinese of the contents of the Green Paper shortly before publication. We should make it our eventual aim to achieve the establishment of an elected

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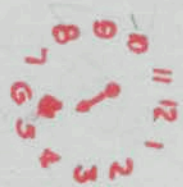


Governorship before 1997. We should not approach the Chinese on this question at this stage. In the negotiations, however, we should work for wording in the annex which left open the possibility of an elected Chief Executive after 1997.

Hong Kong Department



Hong Kong Future
PT 15



10 JUL 1984

SECRET

11A
CC/B
CC/BI



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister
The message has to strike
a careful balance. The
Governor is satisfied.

10 July, 1984

Agree draft message?

Dear Charles

CJP 10/7

Future of Hong Kong: Visit to Hong Kong and Peking by the
Secretary of State for Foreign and Commonwealth Affairs

At the Prime Minister's meeting on 6 July with the Foreign and Commonwealth Secretary, the Ambassador from Peking and the Governor of Hong Kong, it was decided that the Secretary of State would visit Hong Kong and Peking towards the end of July (your letter of 6 July). The dates provisionally suggested are for Sir Geoffrey Howe to depart on 25 July and return on 2 August, travelling via Hong Kong on each journey and spending 28-31 July in Peking. It was also agreed that Sir Geoffrey Howe would take with him a message from the Prime Minister to Premier Zhao Ziyang. I now attach a draft which takes account of suggestions by the Ambassador in Peking and the Governor, and by the Executive Council in Hong Kong.

The letter seeks to balance the need to demonstrate a firm front to the Chinese and to give ourselves the maximum opportunity to explore the flexibility in the Chinese position. It expresses our concern at the lack of progress in the talks; points out that our signature of an agreement cannot be assumed; sets out our requirements, including a binding agreement spelling out in some detail how post-1997 arrangements would operate; states that the final decisions on the location of a joint group should be left until the overall package has been considered, and that only at that stage, if we were satisfied with the content and form of the agreement and the terms of reference of the joint group, would we be prepared to consider this issue in all its aspects.

I should be grateful if you could obtain the Prime Minister's early agreement to the draft letter so that Mr Luce will be able to discuss the draft with the Executive Council when he visits Hong Kong this week. He leaves on 11 July.

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

SECRET

DRAFT MESSAGE FROM THE PRIME MINISTER TO PREMIER ZHAO ZIYANG

1. In my message to you of 14 October 1983 about the negotiations on the future of Hong Kong I proposed that in pursuance of my earlier letter to you of 10 March 1983, and without prejudice to any final agreement, the negotiators on the two sides should discuss what effective measures other than continued British administration might be devised to maintain the stability and prosperity of Hong Kong and should explore further the Chinese ideas which had at that stage been explained to us. I proposed that their purpose should be to see whether Britain and China could together construct on the basis of the proposals put forward by China, arrangements of lasting value to the people of Hong Kong. I added that, if on this basis arrangements could be agreed that would ensure the maintenance of stability and prosperity of Hong Kong, the British Government would be prepared to recommend to Parliament a bilateral agreement enshrining them and to do its utmost to help with the introduction and implementation of such arrangements.

2. I have been following with close interest the progress of the negotiations since that date, and have been pleased to note that some progress has been made both in furthering the understanding between the two sides and in drafting an agreement which would be acceptable to China and Britain, as well as to the people of Hong Kong. I was particularly glad to note the progress made during Sir Geoffrey Howe's visit to Peking in April.

3. However, we are now approaching the end of the limited time available for the work of drafting an agreement. I think that I should in all sincerity let you know that I have become concerned in recent weeks that progress in the negotiations has slowed down, and certain points of serious difficulty have been identified. The British Government and I personally remain strongly committed to seeking an acceptable agreement on the future of Hong Kong, and if such an agreement is reached, will co-operate to the utmost with the Chinese Government in ensuring that it is put into operation successfully. However, I must urge you to bear in mind that the British Government cannot undertake such an agreement unless it is accepted by the British Parliament, and Parliament will attach great

importance to the extent to which the agreement commands confidence in Hong Kong. Parliament will certainly insist that any agreement entered into by Britain should be balanced and binding, and should contain sufficient detail about what is to happen in Hong Kong after 1997 to convince people both in Hong Kong and elsewhere that the arrangements set out in it will work in practice, and will provide the basis for continued stability and prosperity. A draft agreement which did not fulfil these requirements would undoubtedly be rejected by Parliament, and I am sure that you will understand that I should not recommend an agreement to Parliament unless I was confident that it would be accepted. We on our side understand that there are political constraints on the Chinese Government, but I ask you to understand in turn that there are also political constraints on the British Government. Only an agreement which meets the political needs of both sides can be successful.

4. I have been particularly disturbed at the disagreement which has arisen in the negotiations on the location of a joint group. The Chinese side have explained the importance which they attach to establishing such a group in Hong Kong after the entry into force of the agreement. We on our side have explained our firm conviction that the establishment of a joint group with standing machinery in Hong Kong would not only create the impression of condominium but would so undermine the authority of the Hong Kong Government as to render it extremely difficult to continue the effective administration of Hong Kong during the period between now and 1997. The uncertainties which the establishment of such a group would cause would certainly not be dissipated by mere assurances that the group was not to be an organ of power. That the UK should remain fully responsible for the administration of Hong Kong until 1997 has of course already been agreed between our two sides. If Britain's administration of the territory was ^{seen as likely to be} prejudiced in this period, the prosperity of Hong Kong would inevitably be damaged to the detriment of the interests of both Britain and China.

5. I wish to emphasise to you that the difficulties which we see in the Chinese proposal are genuine and practical and that our belief is sincerely held. I ask you to reflect very carefully on what we have said. However, I am also concerned that our disagreement on

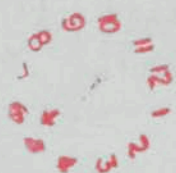
this point should not so impede progress on the drafting of an agreement as to make it difficult to conclude it in the limited time available. I therefore suggest that we should for the present put aside the question of the location of the group, and discuss instead its composition, functions and powers, to see whether we can reach agreement on these points. At the same time we should continue our active negotiation on the form and content of an agreement on arrangements for Hong Kong after 1997. We should wish to look at the package which eventually resulted from our negotiations and at that stage consider our position on the joint group in all its aspects.

6. Finally, I should like to convey to you and your colleagues my own determination and that of the British Government to seek solutions to our remaining difficulties. Only in this way can we exercise our joint historical responsibility to seek in co-operation a solution to this difficult question.

I see there is no
reference to the unclear which
the proposals on the Joint Group
has already caused in Hong Kong

mt

Hong Kong future ATIS



10 JUL 1984

1

CCPC ① ||



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister
Agree Telegram
of instructions?

10 July 1984

CJP 1077.

I think the
occasion is wrong.

Dear Charles,

Future of Hong Kong: Briefing the Japanese

You will recall that when Mr Nakasone saw the Prime Minister on 11 June he raised the subject of the future of Hong Kong and said he would be willing to offer Japanese assistance if it could be of use. He repeated this offer to Mr Luce, who saw him off at the airport.

I agree the meeting would be good for J. Du. N. to use as

As you know, the Japanese, and in particular Mr Nakasone, have close relations with the Chinese. As large investors in Hong Kong, they have an important stake in the territory's continued stability and prosperity. We have therefore kept them briefed in general terms about the progress of the talks and they have in turn taken a helpful line with Chinese leaders, most recently during Ji Pengfei's visit to Japan after which they gave us a full briefing. We cannot, however, expect the Japanese to do anything which would put their own considerable interests in China at risk. We believe they will continue to put these interests first and would be unlikely to pass on any unpalatable messages to the Chinese. We should therefore only ask them to do what coincides with their own interests.

judges
fd-
mt

The Foreign Secretary believes there would now be advantage in our taking up Mr Nakasone's offer. We want to keep the Japanese on our side to secure their later cooperation (e.g. in facilitating Hong Kong's continued participation in GATT). We also need to use every possible opportunity to get over to the Chinese leadership the need for a detailed and legally binding agreement on the future of Hong Kong. We would however make it clear to Nakasone that we were not asking him to act as an intermediary. He would speak to the Chinese on the basis of Japanese interest in the continued stability and prosperity of Hong Kong.

/Our

S E C R E T



/ Our proposed approach is set out in more detail in the attached draft telegram to the Ambassador in Tokyo. We should be grateful for the Prime Minister's agreement that instructions may be sent on those lines.

Yours ever,


L V Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

S E C R E T

OUT TELEGRAM


	Classification and Caveats		Precedence/Deskby
	SECRET	DEDIP	PRIORITY

ZCZC 1 ZCZC
 GRS 2 GRS
 CLASS 3 SECRET
 CAVEATS 4 DEDIP
 DESKBY 5
 FM FCO 6 FM FCO 061415Z JULY 84
 PRE/ADD 7 TO PRIORITY TOKYO (PERSONAL FOR AMBASSADOR)
 TEL NO 8 TELEGRAM NUMBER

9 REPEATED INFO PRIORITY HONG KONG, PEKING
 10 PERSONAL FOR AMBASSADOR
 11 FUTURE OF HONG KONG: OFFER BY MR NAKASONE TO SPEAK TO THE
 12 CHINESE
 13 1. When Mr Nakasone saw the Prime Minister on 11 June, he
 14 raised the subject of the future of Hong Kong. He pointed out
 15 that Japan had much investment there and was therefore concerned
 16 about its future. He referred to his close relations with the
 17 CCP Secretary General, Hu Yaobang, and with Deng Xiaoping and
 18 said he would be willing to offer Japan's assistance if it could
 19 be of any use. Mr Nakasone repeated the offer to Mr Luce, who
 20 saw him off at the airport. On this latter occasion, he stressed
 21 that Hu Yaobang had almost become a personal friend and made it
 22 clear that if there were any areas of difficulty over which the
 23 Japanese could help by intervening with the Chinese, he was at
 24 our disposal. We had only to ask.
 25 2. We cannot of course expect the Japanese to do anything which

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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		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

	Classification and Caveats		Page
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2 would put their own considerable interest in China at risk. We

3 believe they will continue to put these interests first and

4 would be unlikely to pass on any unpalatable messages to the

5 Chinese. We consider, therefore, that we should only ask them to

6 do what coincides with their own interests.

7 3. Bearing the above in mind and unless you foresee any

8 problems we should like to take Nakasone up on this offer.

9 Grateful therefore if you could seek an early opportunity to

10 speak to Nakasone's office and offer a confidential briefing on

11 Hong Kong talks in the light of conversation with the Prime

12 Minister.

13 4. In the briefing you should make the following points:

14 (a) The talks are progressing reasonably well. There have been

15 17 rounds so far. One aim throughout has been to educate the

16 Chinese about Hong Kong and how it functions. We have given the

17 Chinese a series of working papers setting out our ideas for

18 arrangements in many areas of Hong Kong's life after 1997, as a

19 highly autonomous region under Chinese sovereignty.

20 (b) Both sides now have tabled their drafts of an agreement.

21 Ours includes detailed annexes on arrangements for key aspects of

22 Hong Kong's future. We believe that in order to maintain

23 confidence an agreement must set out post-1997 arrangements

24 clearly and in detail and must be binding in nature. The

25 corresponding Chinese drafts are in our view insufficiently

26 detailed and do not have the same balance of binding obligations.

27 A working group has been set up in Peking to study both sets of

28 documents: much work on detail and substance still lies ahead.

29 The Chinese appear reluctant to move from their first position and

30 are showing little willingness to negotiate.

31 (c) We have now started discussion on arrangements for the

32 transitional period up to 1997. The Chinese have proposed that a

33 joint liaison group should be set up with a permanent base in

34 Hong Kong. Although we are prepared to agree to the setting up

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	Classification and Caveats		Page
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2 of a joint group rotating between London, Peking and Hong Kong,

3 we have great difficulty with the proposal that it should be

4 based in Hong Kong. This could undermine the authority of the

5 Hong Kong Government during the transitional period, and thus

6 affect confidence and stability in the territory. If an

7 agreement is published in September with a reference to such a

8 joint group we fear it may suggest condominium in the period

9 up to 1997 and undermine confidence in the territory. The

10 Chinese are suspicious that we might seek to empty Hong Kong's

11 coffers before 1997: in reality Chinese interference before

12 1997 would be the surest way of precipitating economic decline.

13 5. You should say that we would be grateful if Nakasone could

14 make the following points to Chinese leaders during any contact

15 he may have with them.

16 (a) any agreement must be detailed and legally binding. This

17 is the only sort of agreement which would reassure investors

18 and the people of Hong Kong and thus maintain Hong Kong's

19 stability and prosperity. Those who invest in Hong Kong or

20 trade with the territory will be looking for clarity and

21 certainty over future arrangements. A key question will be

22 provision for continuity before and after 1997.

23 (b) it would be highly detrimental to confidence and stability

24 in Hong Kong, if it was not absolutely clear to the Hong Kong

25 people and overseas investors that the British and Hong Kong

26 Governments had responsibility for Hong Kong up to 1997.

27 6. You should ^{suggest (that)} ~~ask~~ Nakasone ^{might} ~~to~~ make all these points on the

28 basis of Japanese interests. He ^{could} ~~should~~ stress the importance

29 for Japan of Hong Kong's continued stability and prosperity.

30 He could emphasise the need for regional stability and the

31 dangers inherent in a failure to find a satisfactory solution


32 to the Hong Kong question. He could point to Japan's economic

33 interests in Hong Kong and the need to know that these will be

34 secure, if Japan is to continue investing in Hong Kong.

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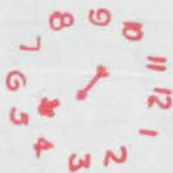
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 2 7. You should stress the confidentiality of the briefing and
 3 the delicacy of what we ask. We do not/not want Nakasone to
 4 get the idea that we are asking him to act as intermediary. Above
 5 all, Nakasone should not give any indication to the Chinese that he
 6 has been briefed by us.
 7 8. We understand that Li Peng, Chinese Vice-Premier for energy
 8 matters, will visit Japan from 30 August to 11 September. As a
 9 technician he would not be ideal as recipient for such a message,
 10 but use could be made of him. You may know of a better and
 11 sooner occasion.
 12 9. We should be grateful for your advice as to whether you
 13 think the MFA should also be briefed along the same lines. For
 14 reasons of confidentiality, we have a strong preference that
 15 the briefing should be confined to Nakasone's office. However,
 16 we appreciate that this could be detrimental to your relations
 17 with the MFA.

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 19 HOWE
 20 NNNN

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10 JUL 1984

UMELCO

Office of Unofficial Members of Executive and Legislative Councils
行政立法兩局非官守議員辦事處

9th July 1984

Mr. A.J. Coles,
Prime Minister's Office,
10 Downing Street,
London SW1,
England.

Dear Mr Coles,

You may be aware of my recent visit to Peking with my UMELCO colleagues Miss Lydia DUNN and Mr. Q.W. LEE when we met Chairman DENG Xiaoping and Mr. JI Pengfei; a translation of our Speaking Note for the meeting is attached.

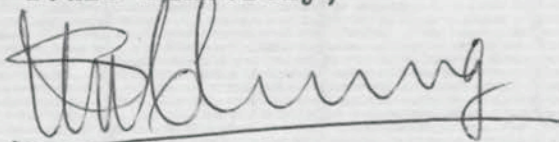
In the course of the visit we made three major proposals which we believe would enhance the confidence of the people of Hong Kong in their future. They are recorded at page 3 onwards in the Speaking Note and a copy of the Note was passed to Chairman DENG and Mr. JI. The Chinese leaders appeared to accept the first proposal and showed a willingness to consider the other two.

The South China Morning Post of 6th July 1984 published the results of a further opinion survey conducted by an independent firm SRH (Survey Research Hong Kong Limited). According to the SCMP, the opinion poll this time consulted by telephone a random sample of 1,010 local people from a wide cross-section of ages (19 & above), income-levels and backgrounds. The survey shows 74% expressed agreement with proposal (1) and 78% and 61% with proposals (2) and (3) respectively. A photo copy of the SCMP report on the survey is also attached.

I believe the Prime Minister will be interested in this result and I should be grateful if you would kindly submit the report for her information.

With personal regards,

Yours sincerely,



S.Y. Chung
Senior Unofficial Member

Enclosures

UMELCO

Office of Unofficial Members of Executive and Legislative Councils
行政立法兩局非官守議員辦事處

Translation of the Full Text of a Chinese Speaking Note
made by Sir S Y CHUNG, Miss Lydia DUNN & Mr Q W LEE
During their Meetings with Chairman Deng Xiaoping and
Mr Ji Pengfei in Beijing on 23rd June 1984

We are honoured to have the opportunity during our visit to Beijing to meet with Chairman Deng Xiaoping and other Chinese leaders to have an exchange of views about the future of Hong Kong.

Being Chinese, we support the recovery of the sovereignty of Hong Kong and China's reunification plan, especially since China has formally announced that after 1997, Hong Kong will become a Special Administrative Region having a high degree of autonomy and administered by local people; and that the existing systems will remain unchanged for fifty years.

The British Foreign Secretary, Sir Geoffrey Howe announced on 20th April 1984 that Britain will return the sovereignty of Hong Kong to China in 1997. This has helped to clarify the future of Hong Kong. However, it has not helped to boost the confidence of the people of Hong Kong. People remain anxious and worried and they are filled with uncertainties. This anxiety is not limited to those with money. They affect workers and ordinary citizens alike. This is a fact and we feel it our duty to reflect this situation honestly.

The current worries of the people of Hong Kong concern the periods before 1997 and that after 1997.

As regards the period before 1997, most people believe that only if prosperity and stability are maintained in the next thirteen years can there be any hope that prosperity and stability would continue for fifty years after 1997. People are worried that in order to reach an early accord, the Governments of China and Britain may come to an Agreement which will be lacking in detail and meaningless. This would lead to a loss of confidence, an exodus of professional and talented people, an outflow of capital, a lack of investment; resulting in economic recession in Hong Kong. Furthermore, people are worried that the jostling for power in the next 13 years may threaten the stability and prosperity of Hong Kong, forcing China to interfere or take over Hong Kong before 1997.

As regards the period after 1997, most people similarly believe that if there is no confidence in the arrangements after 1997, it would not be possible to maintain prosperity and stability in the 13 years before 1997. In particular, there are three main worries about post-1997 arrangements:

First, people are worried that instead of genuinely being administered by the people of Hong Kong, the future Government of Hong Kong would actually be administered from Beijing. Although China may not send any cadres to Hong Kong, the people administering Hong Kong in the future Government of Hong Kong may in fact be controlled by Beijing.

Second, people fear that the middle and lower level cadres who are responsible for the implementation of China's policy over Hong Kong may not be able to accept the capitalist systems and lifestyle of Hong Kong. They may not implement the policy of the central Government of China and they may interfere in the local administration.

Third, whilst people have faith in Chairman Deng and the present leadership, people are concerned that the future policy of China may change and that future leaders may revert to "extreme left" policies. They may not recognise the "one-country-two-systems" policy and renege on the promise that the existing systems in Hong Kong will remain unchanged for fifty years.

As we are Unofficial Members of the Hong Kong Executive and Legislative councils, the people of Hong Kong have high expectations about our meetings with Chairman Deng and other Chinese leaders in Beijing. We are conscious of our responsibility. We are concerned with the overall interest of Hong Kong so that it would continue to remain prosperous and stable. We will not, therefore, raise for discussion on this occasion, individual sectional issues such as land ownership and dual nationality, vital though they are. Our proposals are also not made for our own personal interests. We have carefully studied the views expressed by all classes of Hong Kong society in the last 10 months. We have thought through what would be necessary to maintain the prosperity and stability of Hong Kong before and after 1997, under the principle of the sovereignty of Hong Kong being returned to China in 1997. We will express our views frankly and honestly. We have three main recommendations:-

- (1) To maintain prosperity, confidence must be maintained. In order to maintain confidence, the Agreement between the two Governments of China and Britain must be found acceptable by the people of Hong Kong (especially by investors and professionals). The reaction to, and the success or failure of, the

Agreement really depends on its acceptability to the people of Hong Kong. For the people to accept the Agreement, the Agreement:

- must be very detailed; it must provide clear and precise definitions of all aspects of Hong Kong's existing systems.
- must be mutually binding as between the two signing countries of China and Britain.
- must contain a provision stipulating that the Basic Law of the Special Administrative Region of Hong Kong will be based on the terms in the Agreement. This would prevent unnecessary arguments among the people of Hong Kong in future when the Basic Law is drafted. In addition, such a provision in the Agreement would help to give confidence throughout the period when the Basic Law is being drafted.

It is said that such a provision would be an interference into the internal affairs of China. We do not think that this argument has any validity. China has already made clear publicly its policies for Hong

Kong after 1997. Such policies will also be stated in the Agreement. A provision stating that the Basic Law would reflect the terms of the Agreement is merely an extension of these stated policies.

- (2) In order to enhance confidence, we believe that the Basic Law should be drafted in Hong Kong. It should be included in the Constitution of China after the approval by the Standing Committee of the Chinese National People's Congress (NPC). It is appreciated that normally the drafting and approval of Basic Law of Special Administrative Regions should be the responsibility of the Standing Committee of NPC because Special Administrative Regions are established, where necessary, under Article 31 of the Constitution of China. However, in view of the special circumstances of Hong Kong, the drafting of the Basic Law in Hong Kong would help to enhance confidence, and at the same time the expertise and talents of the Hong Kong people can be made use of. We believe, therefore, that the Basic Law should be drafted in Hong Kong by the people of Hong Kong together with representatives from Beijing for the approval of the Standing Committee of NPC. The Standing Committee can, of course, make amendments to the draft. The authority

of the NPC would not, therefore, be violated by this proposal. In addition, to give confidence even further that there would be no changes in the 50 years after 1997, it should be stipulated in the Basic Law that, following the precedent of Macau's Basic Law under Portugal, any future amendments to the Basic Law can only be initiated by Hong Kong.

- (3) Perhaps, we can best illustrate the worry of the Hong Kong people by an analogy. A small town is about to be resettled in a place where flooding has occurred about once every ten years in the last thirty years. In order to give confidence to the people being resettled there that their livelihood would not be threatened by flooding in the new place of residence the residents ask that a flood-protection dam should be built. If the Chinese leaders understand the anxiety of the people of Hong Kong and would agree to the establishment of an insulating mechanism, like a dam, between Hong Kong and China, confidence in Hong Kong would be greatly increased. We, therefore, propose the establishment of a Committee consisting of Chinese people of international standing and reputation. This Committee will be appointed by the Government of China. Their responsibility would be to monitor or advise the drafting, and implementation of, and subsequent amendments, if any, to the Basic Law.

The above recommendations, if accepted and adopted by the Government of China, will, in our opinion, greatly help to give confidence to the people of Hong Kong, upon which the prosperity and stability of Hong Kong depend. We hope that they would be seriously considered by Chairman Deng Xiaoping and other Chinese leaders.



The chart shows respondents' views on the Umelco trio's visit to Peking.

According to the opinion poll, conducted by SRH (Survey Research Hongkong Ltd), an independent research firm, 49 per cent of the 1,010 people surveyed said the mission had not changed their level of confidence in Hongkong's future.

Only 29 per cent became more confident and 22 per cent said they were even less confident about the future.

The high degree of public support for the Umelco trio's recent trip to Peking was con-

sistent with the findings of an earlier SCM Post survey.

The first opinion survey, which focused on the controversial Umelco manifesto issued before the Unofficials went to London, showed that they had won the approval of a large body of opinion.

Support in that survey came from 82 per cent of the 605 people interviewed, with half that number giving it their full support and the rest their partial support.

In this second survey, the respondents were asked seven main questions, including whether they agreed or dis-

agreed with the Umelco trio's visit to Peking.

The results showed that 79 per cent agreed with the visit, 15 per cent had no opinion and only six per cent disagreed.

On the specific recommendations and worries raised by Umelco with China's

top leader, Mr Deng Xiaoping, the director of the Hongkong and Macau Affairs Office, Mr Ji Pengfei, and other Chinese leaders, support ranged from a high of 78 per cent on one point to a low of 46 per cent on another.

Respondents were told

that the three Unofficials had made a statement in Peking in which they supported China recovering sovereignty over Hongkong in 1997.

They were then asked if they agreed or disagreed with the three recommendations made by the Unofficials.

The findings showed that the recommendation which drew the greatest support was Umelco's call for the basic law to be drafted in Hongkong by local representatives and representatives from Peking.

This drew a positive response from 78 per cent of the respondents, while eight per cent said they disagreed with the proposal, 14 per cent had no opinion and only one per cent indicated they did not understand the proposal.

In order of support, the second most highly rated recommendation was the suggestion that the Sino-British agreement must be detailed and binding and contain a provision that the basic law will be based on the terms of the agreement.

Of those questioned, 74 per cent said they agreed, four per cent disagreed and 21 per cent had no opinion.

The third recommendation was that a committee of Chinese people of international standing and reputation should be appointed by China to monitor, draft and implement any subsequent changes to the basic law.

A total of 61 per cent of the respondents agreed with the idea, 19 per cent were against it, and 20 per cent had no opinion.

The Umelco three, who had repeatedly said they went to Peking to reflect the views and anxieties of the people of Hongkong, highlighted three major worries during their talks with Chinese leaders.

The respondents' views on these three areas of worry were more sharply divided.

First, they were asked they were worried that future Chinese leaders might revert to extreme left policies.

More than half (53 per cent) of them agreed that they were worried, while 47 per cent were not worried by that at all.

A second area of concern expressed by the Unofficials was the fear that middle and lower level cadres might not implement the policy of the central Government of China and that they might interfere in the local administration.

Again more than half (59 per cent) of those questioned said they were worried and the rest (48 per cent) were not.

On the concern that Hongkong people administering Hongkong will actually become administration from Peking, 46 per cent said they agreed that this worried them but 54 per cent said the opposite.

There was a wide range of views on whether the idea of "one-country-two-systems" would work in post-1997 Hongkong.

The outright optimists were in the minority as only 18 per cent said it was "most likely" that it would work, 2 per cent said it might "possibly" work, 33 per cent thought it "unlikely" to work and 24 per cent said they did not know.

Asked if they thought there was a problem of confidence in Hongkong, 67 per cent thought there was, 19 per cent said there was not, and the remaining 14 per cent said they did not know.



Mr Deng



Sir Sze-yuen



Miss Dunn



Mr Lee

Eight in 10 back Umelco

By HALIMA GUTERRES

The Umelco three carried massive support on their recent mission to Peking, according to a special SCM Post survey.

As many as eight in 10 of those questioned gave their backing to the Unofficials' visit.

And two out of three agreed with the three Executive Councillors, Sir Sze-yuen Chung, Miss Lydia Dunn and Mr Q.W. Lee, that Hongkong is experiencing a confidence problem.

But half of those polled felt that the Umelco visit to Peking had made no difference.

Still, 71 per cent of the respondents believed Umelco members should go back to Peking later this year to meet Chinese leaders again.

Umelco's three recommendations with the extent of agreement from respondents are as follows:	
The basic law should be drafted in Hongkong by local representatives and representatives from Peking.	78%
The Sino-British agreement must be detailed and binding and contain a provision that the basic law will be based on the terms of the agreement.	74%
A committee of Chinese people of international standing and reputation should be appointed by China to monitor, draft and implement any subsequent changes to the basic law.	61%
Views on the three main worries mentioned in the Umelco statement:	
Future Chinese leaders may revert to extreme left policies.	53%
Middle and lower level cadres may not implement the policy of the central Government of China and interfere in the local administration.	52%
Hongkong people administering Hongkong will actually become administration from Peking.	46%

FUTURE OF HONG KONG

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FUTURE OF HONG KONG: THE WAY AHEAD

1. I REPORTED THIS MORNING TO THE EXECUTIVE COUNCIL ON THE DISCUSSIONS IN LONDON LAST WEEK ON FUTURE STRATEGY.
2. MEMBERS NOTED THE STRATEGY WHICH IT WAS NOW PROPOSED TO ADOPT. THEY CONTINUED TO EXPRESS STRONG CONCERN ABOUT THE JOINT GROUP AND IN PARTICULAR ABOUT LOCATING IT IN HONG KONG, IN THE LIGHT OF THE PURPOSES WHICH THE CHINESE INTENDED IT TO SERVE. THEY NOTED THE TACTICAL DEVICE OF POSTPONING DISCUSSION OF THE LOCATION OF THE GROUP AND LEAVING THE BRITISH POSITION ON ALL ASPECTS OF THE GROUP TO BE DETERMINED IN THE LIGHT OF THE OVERALL PACKAGE WHICH EMERGED FROM THE NEGOTIATIONS.
3. SIR S Y CHUNG, WITH SUPPORT FROM OTHER UNOFFICIALS EXPRESSED THE HOPE THAT THE COUNCIL WOULD HAVE A FURTHER OPPORTUNITY TO DISCUSS THIS ISSUE (AMONG OTHERS) FURTHER WITH MR LUCE DURING HIS FORTHCOMING VISIT.

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PP CANBERRA

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FM FCO 061140Z JUL 84
TO PRIORITY CANBERRA (PERSONAL FOR AMBASSADOR)
TELEGRAM NUMBER 539 OF 6 JULY
AND TO PRIORITY OTTAWA, (PERSONAL FOR HIGH COMMISSIONER)
WELLINGTON (PERSONAL FOR HIGH COMMISSIONER)
INFO PRIORITY HONG KONG AND PEKING

FUTURE OF HONG KONG: BRIEFING OUR ALLIES.

1. YOU MAY USE THE FOLLOWING TO BRING YOUR SENIOR OFFICIAL CONTACTS UP-TO-DATE.
2. THE 17TH ROUND OF TALKS TOOK PLACE ON 27/28 JUNE. IT WAS AGAIN DESCRIBED BY BOTH SIDES AS USEFUL AND CONSTRUCTIVE. THE NEXT ROUND WILL BE ON 11 AND 12 JULY.
3. BOTH SIDES ONCE AGAIN WENT OVER FAMILIAR GROUND ON ITEM II AND THE SETTING UP OF A JOINT LIAISON GROUP. THE CHINESE ARGUED YET AGAIN FOR THE ESTABLISHMENT OF A JOINT GROUP IN HONG KONG WITH STANDING MACHINERY. THEY DISMISSED OUR OBJECTIONS TO THIS PROPOSAL OR ARGUED THAT THEY WERE GROUNDLESS. THEY AGREED THAT THE GROUP SHOULD FORMALLY BE CALLED THE JOINT LIAISON GROUP.
4. WE SPOKE ABOUT THE REVISED DRAFT AGREEMENT WHICH WE HAD TABLED DURING THE WORKING GROUP SESSION ON 25 JUNE. OUR REVISED DRAFT REPRESENTS A MOVE TOWARDS THE CHINESE POSITION AND TAKES INTO ACCOUNT SOME OF THEIR CRITICISM OF OUR ORIGINAL DRAFT. IN PRODUCING IT, WE HAVE TRIED TO BUILD ON THE EXISTING COMMON GROUND. THE ANNEXES TO THIS REVISED AGREEMENT STILL CONTAIN THE AMOUNT OF DETAIL WE CONSIDER NECESSARY TO MAINTAIN DOMESTIC AND INTERNATIONAL CONFIDENCE IN HONG KONG.
5. DURING THIS ROUND WE STRESSED THAT:-
 - (A) THE REVISED DRAFT AGREEMENT AND ANNEXES FORMED A SINGLE PACKAGE. MINISTERS WOULD BE PREPARED TO COMMEND AN AGREEMENT

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ON THE LINES OF OUR REVISED DRAFT ONLY IF THE ANNEXES WERE SUFFICIENTLY DETAILED.

(B) THE WORDING COULD BE DISCUSSED, BUT ITS GENERAL CONTENT REPRESENTED THE MINIMUM REQUIRED TO SUSTAIN CONFIDENCE IN HONG KONG.

6. IN RESPONSE TO THIS REVISED DRAFT AGREEMENT, THE CHINESE SAID THAT IT DID NOT REPRESENT A MAJOR MOVE BY US TOWARDS THEIR POSITION. THEY ASSERTED THAT THERE WAS NO POSSIBILITY OF REACHING AGREEMENT ON THE BASIS OF OUR DOCUMENTS.

7. NO FURTHER PROGRESS WAS MADE DURING THIS ROUND. THE CHINESE ARE STICKING FIRMLY TO THEIR POSITION ON THE JOINT LIAISON GROUP. THEIR RESPONSE TO OUR REVISED DRAFT AGREEMENT WAS NEGATIVE.

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FUTURE OF HONG KONG
LIMITED

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HD/PLANNING STAFF
HD/PUSD
DEP HD/PUSD
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LEGAL ADVISERS(SIR J FREELAND)
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 TELEGRAM NUMBER 1854 OF 6 JULY
 INFO IMMEDIATE PEKING

FUTURE OF HONG KONG

1. A SPATE OF RUMOURS HAS TRIGGERED A SHARP FALL IN THE VALUE OF THE HONG KONG DOLLAR. THE DOLLAR BROKE THROUGH THE PEG LIMITS AND WAS QUOTED AT DOLLARS 7.94 TO THE U.S. DOLLAR. THE ASSOCIATION OF BANKS HAVE JUST ANNOUNCE THAT THEIR BEST LENDING RATE WILL RISE BY 3.25 PERCENT TO 17 PERCENT WITH IMMEDIATE EFFECT AND DEPOSIT RATES BY 3 PERCENT. THE RUMOURS BEGAN TO CIRCULATE AFTER THE STOCK EXCHANGE HAD CLOSED. THE HANG SENG INDEX CLOSED AT 822.82 (DOWN ONLY 6.11 POINTS).
2. A WIDE VARIETY OF RUMOURS IS CIRCULATING. THE BEST PICTURE WE CAN PUT TOGETHER OF THE REASONS FOR THE SLIDE IS THAT PEOPLE WERE ALREADY NERVOUS BECAUSE OF EVERBRIGHT'S WITHDRAWAL FROM PROPERTY DEALS; THE CHINESE LEAKS ABOUT THE JOINT GROUP MADE PEOPLE AFRAID THAT THERE WOULD NOT EVEN BE 13 YEARS OF SOUND GOVERNMENT WITHOUT INTERFERENCE FROM PEKING; REPORTS IN THE U.K. PRESS, REPLAYED HERE, THAT THE PRIME MINISTER WAS IN 'FALKLANDS MOOD' STARTED RUMOURS THAT THE BRITISH SIDE WOULD BREAK OFF THE TALKS. FOR NO APPARENT REASON, IT WAS RUMOURED THAT THE GOVERNOR WOULD BE MAKING AN IMPORTANT ANNOUNCEMENT AT A PRESS CONFERENCE BEFORE HIS DEPARTURE AND PEOPLE SEEM TO HAVE LEAPT TO THE CONCLUSION THAT HE WOULD ANNOUNCE THE SUSPENSION OF THE TALKS. IT WAS ALSO SUGGESTED THAT THE HONG KONG GOVERNMENT WOULD NOT INTERVENE TO SUPPORT THE DOLLAR IN PURSUIT OF THE SUPPOSED CHANGE IN NEGOTIATING TACTICS. ANOTHER SUGGESTION WAS THAT THE HK GOVERNMENT WAS ABOUT TO CHANGE THE RATE AT WHICH THE DOLLAR IS LINKED TO THE U.S. DOLLAR.
3. WE ARE TAKING THE LINE THAT RUMOURS OF DRAMATIC DEVELOPMENTS IN THE TALKS ARE WITHOUT FOUNDATION. WE ASSUME YOU WILL RESPOND SIMILARLY TO ANY ENQUIRIES.

BRAY

SUBJECT

cc Masey

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10 DOWNING STREET

From the Private Secretary

6 July 1984

Dear Sir,

Hong Kong

The Prime Minister met the Foreign and Commonwealth Secretary today to discuss the progress of the Hong Kong negotiations. The Governor of Hong Kong, Mr. Luce, Sir Antony Acland, Sir Percy Cradock and Sir Richard Evans were also present.

The discussion centred on the Chinese demand for a Joint Group to be based in Hong Kong in the period up to 1997; and on the timing of a further visit by the Foreign and Commonwealth Secretary to Peking.

It was agreed that locating the Group in Hong Kong was open to most serious objections. It would be seen in Hong Kong as the instrument of joint supervision of the Government of Hong Kong and a fundamental change in the way Hong Kong was administered. It was highly questionable whether opinion in Hong Kong could be brought to accept it. On the other hand it was clear that the Chinese attached great importance to securing this point in the negotiations, although some reports suggested that they might consider deferring introduction of the Group for a period.

The Foreign and Commonwealth Secretary said that the question had to be faced whether the point was of such fundamental importance that we would be prepared to see the negotiations founder upon it if necessary. A disagreeable choice had to be made and it was a question of which would be the least damaging outcome for the people of Hong Kong. There could be little doubt that failure to reach agreement would be catastrophic for them. The Governor agreed.

In response it was argued, on the one hand, that there was scope to explore Chinese thinking further to see whether there was some flexibility in their position both on the functions and location of the Joint Group. Another possibility would be to see whether the Chinese would agree to postpone introduction of the Group for a long period, say ten years. Only then would we be able to

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determine the possible shape of an overall agreement. Against this it was argued that the consequences of locating the Joint Group in Hong Kong were so serious that it would be a mistake to suggest to the Chinese at this stage that we were in any way ready to consider it. A decision should be postponed until we were better able to judge the nature of a total package.

On tactics it was argued on the one hand that the Foreign and Commonwealth Secretary ought to visit Peking in July. It was necessary to be seen to be making every effort to make progress. Otherwise the Government might subsequently be criticised for having frittered away opportunities. Postponing the visit until September would be a high risk policy and could put us under severe time pressure in the final stages of negotiations.

On the other hand it was suggested that if the Foreign and Commonwealth Secretary were to go in July he would inevitably be drawn into discussion of location of the Joint Group. The Chinese would get the impression that they would in due course obtain satisfaction on the point and would certainly leak the fact that we were negotiating on it. There would then be a serious risk of losing the confidence of EXCO. In reply it was suggested that the risks might be reduced if the Foreign and Commonwealth Secretary were to take with him a message from the Prime Minister to Deng. This might say that, given the grave difficulties which location of the Joint Group in Hong Kong would cause, the issue should be put aside until September. Meanwhile negotiations should continue on other issues. The Governor commented that it would be important to avoid giving any impression that we would necessarily, at the end of the day, accept location of the Group in Hong Kong.

Concluding, the Prime Minister said that the mounting evidence of Chinese intentions to obtain through the negotiations an ever greater influence over Hong Kong's affairs before 1997 was worrying and was evidently affecting confidence in Hong Kong. It was important to do everything possible to provide reassurance. Mr. Luce should pay an early visit to Hong Kong for discussions with EXCO for this purpose. Thereafter the Foreign and Commonwealth Secretary should aim to visit Peking at the end of July, calling in on Hong Kong on the way there and back. A message should be drafted from her to Deng which the Foreign and Commonwealth Secretary could take. This should make clear the very great difficulties for us in discussing location of the Joint Group in Hong Kong. It should repeat that we required an agreement that was binding, balanced and had adequate detail. It could hold out the prospect of reintroducing the question of location of the Joint Group into the discussions in September in the light of progress on the other issues

but should avoid giving the Chinese grounds for believing that we should necessarily agree to it then. It would be a difficult message to draft.

The Governor said that in the light of concern in Hong Kong about today's meeting and the fall which had occurred in the value of the Hong Kong Dollar he intended to issue a brief statement to the effect that liaison arrangements had been discussed but no decisions had been reached, that negotiations with the Chinese would continue and that British administration would remain until 1997.

I am sending copies of this letter to Hayden Warren-Gash (Mr. Luce's Office, FCO), Michael Jay (Sir Antony Acland's Office, FCO) and to Richard Hatfield (Cabinet Office).

*yours sincerely,
Charles Powell*

Charles Powell

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

5 July, 1984

PM has seen *CD 6/7*

Dear Charles,

Hong Kong: Prime Minister's Meeting with Governor of Hong Kong
and HM Ambassador Peking, 6 July 1984

In preparation for the Prime Minister's meeting with the Governor and the Ambassador, the Foreign and Commonwealth Secretary has discussed with them the main issues affecting our current strategy in the talks with the Chinese.

The key points for decision are:

- (a) HMG's attitude towards the Chinese demand for a joint group to be based in Hong Kong in the period up to 1997;
- (b) the tactics which we should adopt over the next 2½ months, in particular the timing of a possible visit or visits by the Foreign and Commonwealth Secretary to China.

I enclose a paper which discusses these closely related questions. As you will see, there are differing views between the Governor on the one hand and the Ambassador and FCO officials on the other on both points. It may be helpful if I summarise the issues below.

Following the Foreign and Commonwealth Secretary's visit to Peking in April, the Chinese strategy appears to be based upon the assumption that by holding to a tough line, they can manoeuvre us into a position in which, at the conclusion of the negotiations in September, we will be prepared to sign more or less whatever is then on offer. They have at the same time placed particular emphasis on their wish for a joint group in the period up to 1997, to be based in Hong Kong and they have given hints that their attitude on other matters is dependent upon our accepting this proposition.

Our aim remains to obtain a full and binding agreement on arrangements in Hong Kong after 1997 in terms which will stand the best chance of acceptance in the territory, including the endorsement of EXCO, and to avoid accepting arrangements in the pre-1997 period which would detract from the authority of the Hong Kong Government in a period which will in any case become politically more and more sensitive.

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Although we cannot be absolutely sure, it seems likely that the Chinese will maintain their view that a joint group based in Hong Kong is an absolute requirement for them and that they would make this a sticking point in deciding on whether or not to sign an agreement. The key strategic question therefore is whether at some stage we might contemplate signing an agreement which included this but which was satisfactory in other respects. The Governor starts from the position that a concession on the location of the joint group would be a major policy change which would detract from the authority of the Hong Kong Government and would in effect start a process of creeping condominium. He sees the idea as presentationally and substantially different from the proposition which we have already accepted, that a joint group with strict terms of reference should be established without a fixed base, meeting on a peripatetic basis in Hong Kong, London and Peking. He considers that it would provide an alternative focus for people in Hong Kong which would progressively make the exercise of British authority in the territory more difficult. He does not rule out the possibility that eventually Ministers might have to decide to accept a joint group based in Hong Kong as preferable to no agreement at all. But he regards it as not proven that the Chinese will adhere to this requirement and he would not accept that any move should be made on this point until the end of August.

The view broadly shared by the Ambassador and FCO officials is that a joint group of any sort would clearly detract from the Hong Kong Government's authority and that one based in Hong Kong would have greater disadvantages. But they argue that, having already accepted the concept of a joint group we should explore whether it would be possible to limit its terms of reference, in particular as regards its tasks and composition by exploring how much movement we could get from the Chinese in return for acceptance of their proposition on location. They point out that if the Chinese are inclined to interfere and apply pressure they could do so readily enough whether or not the Joint Group is based in Hong Kong. They also point out that there will already be other centres of Chinese communist activity in Hong Kong and that, provided that the powers of a joint group were sufficiently strictly defined, such a group need not be in practice more of a threat to the Hong Kong Government's authority.

This leads to the question of our negotiating tactics for the remainder of the period to the end of September. As mentioned above, the Governor believes that we should hold our position, with no movement on the question of a joint group until late August or early September. He believes that we should make the most of the Chinese need for an agreement with us and that to hold on for another 6 or 7 weeks would give us a better chance of assessing the real extent of Chinese obduracy on the joint group so that we could then assess whether or not some kind of concession on that point might be necessary. In his view this would allow time for our negotiators to complete work on the text of an agreement with a better



understanding of what could be achieved in practice and for Ministers and EXCO to take a decision on a package by the end of September.

The tactics favoured by the Ambassador and FCO officials are for HMG to put over to the Chinese a two-fold message at the end of July. They see dangers in allowing the Chinese to continue any longer under the illusion that we are a pushover and that we will be prepared to sign any sort of agreement. At the same time they argue that progress in the working group and in plenary is likely to continue at a very slow pace unless we are prepared to explore with the Chinese, without commitment, how much we might be able to obtain if we were prepared to accept a joint group based in Hong Kong. They believe that if we hold on until the end of August without a move on this point, the atmosphere of the talks, already deteriorating, is likely to become increasingly bad and that the chances of negotiating improvements on the content of the agreement and annexes will be greatly diminished. They accept that we do not know how much we might achieve on the basis of a bargain involving acceptance of a joint group in Hong Kong, but they point out that unless we float the idea, conditionally, we shall have no way of finding out. They also maintain that we should by this means be in a much better position to negotiate with the Chinese for a Hong Kong based joint group with strictly defined terms of reference.

They go on to propose that the Foreign and Commonwealth Secretary should visit Peking towards the end of July and that he should take the following line with the Chinese leaders. We are concerned at the lack of progress in the talks since April. We have made a number of proposals to which the Chinese have not significantly responded. We intend to negotiate sincerely for a satisfactory agreement but we have to point out that, consistent with the line taken in the Prime Minister's messages to Premier Zhao, it cannot be assumed that we shall be ready to sign any agreement. We have certain requirements which include a binding agreement which spells out in some detail how post-1997 arrangements will operate. We have of course been carefully considering the Chinese proposition that there should be a joint group in the period up to 1997 based in Hong Kong. We see great difficulties in this. We believe that a final decision on the location of such a group should be left until the overall package is considered. Only at that stage, if we were satisfied that the content and form of the agreement were satisfactory and that the terms of reference of the joint group were consistent with the effective exercise of British responsibility for Hong Kong up to 1997, would we be prepared to consider its location in Hong Kong.

The Prime Minister will wish to consider these alternative tactics. There are of course possible variations on them. One would be for the Foreign Secretary not to visit Peking in July but for a message to be sent directly by the Prime Minister to



Premier Zhao, although that might not allow an adequate opportunity to explore Chinese flexibility on the ground and of course there would be no chance to see Deng Xiaoping. A variation of a different sort would be to propose that there should be no joint group in Hong Kong for a number of years and to insist that it should not be established there until the early 90's, for instance after the publication of the Basic Law.

Whatever decisions are taken they will need to be discussed with EXCO. The Governor has pointed out the risk that any suggestion of a move on location of a joint group in Hong Kong at this stage could result in our losing them, although he believes that they might come to accept the idea at a later point, albeit with great reluctance. We also need to take into account the likely attitude of Parliament as to whether HMG had taken every available opportunity in order to explore the degree of flexibility in the Chinese position. For this purpose it might be necessary to contemplate two visits by the Foreign and Commonwealth Secretary to Peking.

In the time available it has not been possible to clear this letter with the Foreign Secretary.

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

FUTURE OF HONG KONG
STRATEGIC DISCUSSION PAPER - JULY 1984
CHINESE POSITION IN THE NEGOTIATIONS

1. Both in plenary and in discussion of the main agreement in the working group, the Chinese are adopting a rigid position. They are only a little more positive over the annexes. They evidently calculate that, having obtained an acknowledgement from us that continuing British administration after 1997 is unrealistic, their best tactics are to make no concession but force us back against a September deadline for announcement of an agreement, in the expectation that we will be ready to accept then more or less what is on offer.
2. While there are a number of unagreed points to which we shall have to revert, the Chinese place particular emphasis on two key issues. On the agreement they take the line that the main document should not show that their plans for arrangements after 1997 have emerged from negotiation between the British and Chinese Governments and that detail should be covered only in the annex. They say that the agreement and annex would be equally "binding" but they do not explain how this would be made clear in a legal sense. Thus they are likely to continue to question paragraph 6 of our revised main agreement, which would provide such a binding provision. Nor do they state how much detail would be included in the annex. Their flexibility on this has yet to be fully tested.
3. The second main issue is Item 2, in particular the Chinese proposal for a joint group based in Hong Kong. They have made clear that this is an extremely important issue for them: it has been described by Zhou Nan as a requirement of his leaders. It appears probable that they would not sign an overall agreement without this provision. They have said that our failure to agree on Item 2 (and by implication to the basing of a group in Hong Kong) would make conclusion of an overall agreement out of the question. They have also indicated that, provided that we accepted the idea of basing the group in Hong Kong, they would be flexible on its composition and terms of reference. But they have not been specific about this.

BRITISH REQUIREMENTS

4. Our first aim remains a detailed and binding agreement, which ties the Chinese to respect the continuity of specific features of Hong Kong laws, systems and freedoms after 1997 and which commands the confidence of the people of Hong Kong both at the time of announcement and in the period up to 1997. A second aim is to maintain the maximum degree of authority to administer the territory up to 1997. Thus we must oppose any increase in Chinese interference in Hong Kong since this would diminish British authority and damage confidence. However, we have to accept that increasing consultation with the Chinese Government will be necessary as 1997 approaches and that in practice it would be very difficult to persist in policies in which they did not acquiesce.

THE SCOPE FOR BARGAINING

5. In seeking to secure concessions from the Chinese there are two main levers we can employ. The first is their general wish to achieve an agreement (although we do not believe that they would pay absolutely any price to secure this). The second is their strong desire to secure satisfaction on certain key points, notably agenda item 2 (ie the basing of a joint group in Hong Kong).

6. We still do not know how much flexibility there is in the Chinese position. Official-level contacts may not reveal this. The Chinese may be unwilling to budge to any significant extent, in which case the sooner we know it the better. It is more likely, however, that they retain a measure of movement on the content and form of an agreement, some on the timing and detail of consultation in the pre-1997 period and none at all on the basic point about the basing of a joint group in Hong Kong. (In the Governor's view the last judgment represents an untested assumption, although he agrees it would indeed be extremely difficult to move the Chinese on that point). On other questions: we can expect no flexibility on the stationing of troops in Hong Kong; the Chinese may be ready to make some practical concessions on nationality, provided that their principles are not infringed in the form of an agreement; there may be some scope for discussion on the timing of ratification but

little on the way in which the basic law is produced.

7. Unless we are to decide now that any one of the above issues is in itself a sticking point for us, a decision on our part on the acceptability or otherwise of a package is likely to depend on whether we can obtain a sufficiently full and convincingly binding agreement on post-1997 arrangements to offset the uncertainties which will remain in the minds of people in Hong Kong because of the delay in producing the Basic Law and of the threat of Chinese interference before 1997. But in order to find that out, we need to decide whether in return for such an agreement we should be prepared to do a deal involving a concession on the point on which the Chinese are least likely to shift, ie a joint group based in Hong Kong.

THE JOINT GROUP

8. There is no doubt that the Chinese have the intention to interfere in Hong Kong before 1997 and would like to use a joint group to further this aim. They wish to find out more about Hong Kong and fear that HMG and the Hong Kong Government might run the territory down in the run-up to 1997. Despite Chinese assurances that the group would have no executive functions, some of the proposals which they have made, for instance on the joint selection of personnel and on the management of the exchange fund, show clearly that they would seek an appreciably greater role in Hong Kong up to 1997 than the assurances imply. Deng Xiaoping himself has indicated as much referring without clarification to the concept of Chinese participation in Hong Kong before 1997 and he clearly sets much store by the idea. This would risk prejudicing the concept of autonomy and would weaken confidence in Hong Kong that there would be genuine continuity of self administration for Hong Kong after 1997. But above all it is the Chinese demand that the group should be based in Hong Kong which would have the most serious effect on confidence. Combined with the Chinese insistence on administrative powers being returned by HMG to the Central People's Government and only then delegated to the SAR, this would be seen by many as formalising a condominium, in order to limit weak autonomy and to prepare Peking to exercise effective control thereafter.

9. It is the view of the Governor that a joint group located in Hong Kong would have, and would be seen to have, a role in the administration of the territory. He is confident that this view will be shared by all members of EXCO. It would be regularly visible to the public service and to the police. He believes that in effect HMG would be agreeing to "creeping condominium" from the beginning of next year: this would work in the directly contrary direction to our concept of increasing autonomy for Hong Kong. The Governor points out that the formal Chinese proposal would confine the joint group to representatives of HMG and China. The Hong Kong Government would be placed in a subordinate and unrecognised position. A group would provide an alternative focus of authority in Hong Kong. The Hong Kong Government would have no control over its staff. The fact that the Chinese delegate would be an official sent from Peking would confirm the impression of direct Peking intervention in Hong Kong affairs. He would have a quite different status from the present senior Chinese representative in Hong Kong, the Director of the New China News Agency. Whatever restrictions we tried to put on the terms of reference, once the group was in Hong Kong the Chinese would interpret them in their own way.

10. The Governor's conclusion is that the key is the local perception of a joint group based in Hong Kong. A joint liaison group based outside Hong Kong would erode the authority of the Hong Kong Government, but to a degree that could be tolerated. A joint group based in Hong Kong would in practice erode the authority of the Hong Kong Government to an intolerable degree, however tightly its terms of reference were circumscribed.

11. Officials in London and the Ambassador in Peking point out on the other hand that we have already accepted that there should be a joint group of some sort. We acknowledge that there will be an increasing need for consultation with the Chinese and have concluded that there would be some advantage for us in having an agreed forum in which we could continue to educate them and to some extent control their efforts to interfere in Hong Kong. The question therefore is whether we could in certain circumstances tolerate a joint group based in Hong Kong, given that without this there could

well be no agreement at all. That must depend on whether we could obtain an agreement on post-1997 arrangements which would inspire confidence that those arrangements would indeed be implemented and that a joint group would do as much to safeguard them as to whittle them down. With an inadequate understanding on post-1997 arrangements, a joint group in Hong Kong could be taken as evidence of a sell-out. With a good agreement however it need not be such a negative move provided that its terms of reference were tightly drawn. This could be done in such a way as to avoid the effect of "creeping condominium". HMG would retain a veto over the discussion of topics which we did not wish to see raised in the joint group. A Chinese head of delegation participating in meetings held infrequently in the territory need not acquire a perceived status radically different from that long enjoyed by the Director of the NCNA. Although the joint group might have certain rights to call for papers and other information from the Hong Kong Government this could only be done by agreement between HMG and the Chinese side. Chinese representations over developments in Hong Kong would no doubt be made to HMG through other channels, even if no joint group existed at all. As for the suggestion that it would provide an alternative focus of authority, there are already other left-wing organisations in the territory (notably the New China News Agency) to which the disaffected would inevitably be tempted to turn as 1997 approaches.

12. We have a number of authoritative (though informal) indications that the Chinese would be ready to look again at the composition and function of a group in Hong Kong. These indications have been given by the leader of the Chinese delegation to the negotiations, in circumstances where he was clearly acting on instructions. He and his colleagues have suggested that the joint group could be relatively unobtrusive without a permanent joint secretariat in the territory. They have floated, imprecisely, the idea that the "British Ambassador" to the joint group might be a Hong Kong Government official. This might be turned to our advantage if it led to the Chinese acknowledging the legitimacy of the Hong Kong Government as the predecessor of the SAR Government. There has also been a suggestion that the setting up of the group might be delayed for a few years. This needs further

exploration, but might be helpful for confidence. We assume that such hints remain on the table for negotiation, although the Chinese position in the formal talks is much more uncompromising.

13. The proposition that we should use acceptance of a joint group in Hong Kong as a bargaining counter has to be seen against the alternatives. A joint group is not of course inevitable. We can refuse to take part. It is just possible that the Chinese would still be ready to conclude an agreement. But in those circumstances it is most unlikely that it would be much of an improvement on what is at present on offer from the Chinese. We should probably have to reject it. More probably they would not agree to any package without such a joint group. It is the judgment of HM Ambassador in Peking that in spite of the very serious economic and political consequences for China of no agreement, the Chinese (and in particular Deng Xiaoping) might be irrational enough to prefer no agreement to one which did not give them the establishment of a group in Hong Kong. Whether by refusing to agree to a joint group, we ended up with no agreement or an inadequate agreement, we should face confrontation and a decline of confidence in Hong Kong. Moreover there would be a growth of Chinese influence in Hong Kong by other, overt and covert means.

14. If we tell the Chinese that we are prepared to explore the idea of a joint group in Hong Kong on a conditional basis, we may still end up without a package which we can accept. But we shall give ourselves a much better chance of exploring the Chinese position. (The Governor regards this as an untested assumption). Without such manoeuverability on our part we should reach the end of the negotiations uncertain as to whether we could have got a better deal or not. It is doubtful whether Parliament would approve such tactics.

TACTICS AND TIMING

15. We need to see a possible agreement as a whole, including post-1997 arrangements and the period up to that date. We must make clear to the Chinese that we will not necessarily be prepared to agree to whatever package emerges from negotiation. But with that

proviso we must have sufficient manoeuvrability to test fully the extent of flexibility on the Chinese side.

16. It is important that we do not delay in making our position clear to the Chinese. We have three broad options:

- (a) holding to our present bargaining position, without any new initiative or concessions, perhaps until the end of August;
- (b) a fairly early Ministerial visit, perhaps at the end of July;
- (c) a Prime Ministerial message at the same time.

Any of these courses of action would probably call for a (further) Ministerial visit in September.

17. The objective of (a) would be to demonstrate firmness over a period and to counter any Chinese impression that we will make concession after concession. The idea would be to leave the difficult issues for resolution in a major bargaining session at the end. This broad approach is the one advocated by the Governor. In the view of officials in London and the Ambassador in Peking this might be a useful tactic in a negotiation where there was one key problem to resolve. The difficulty in this case is that the issues are complex and interlocking and there is a mass of detail to be covered. If, as seems likely, we make little progress on the agreement and annex on the present basis, we could well find in September that there was insufficient time for a ministerial accord on key questions to lead to a satisfactory agreement. We are not interested simply in getting agreement on a few catch phrases. We need time to engage in detailed discussion of texts in order to establish whether a negotiable package is likely to command confidence in Hong Kong and in Parliament.

18. The advantage of (b) (a ministerial visit, with or without a Prime Ministerial message) would be that our position could be put across strongly at a high level. There would be an opportunity at that level to test Chinese responses and to assess the degree of Chinese flexibility. It might be possible to judge in informal conversation what reaction there might be to a possible trade-off across different areas of the negotiations. It would be clear to Hong Kong opinion that we were doing our best for the territory. The Ambassador favours a visit.

19. The disadvantages of (b) (and in consequence the advantage of (c)) lie in part in the timing. If the ministerial visit was undertaken too early, we may not have formed a sufficiently clear view of the Chinese texts and such alternatives as they might table. We would be less able to produce a critique of the Chinese approach to the negotiation of texts. A tough discussion with Chinese Ministers could lead to public expression of displeasure on their part and consequent presentational difficulties in Hong Kong. On the other hand a message without a visit would have less impact and less easily analysable results.

20. In the view of officials in London and the Ambassador in Peking the balance of argument points to a ministerial visit after work in the working group has clearly shown the Chinese attitude to the negotiation of texts. A suitable period would be the week beginning 29 July. It would be helpful for the Secretary of State to visit Hong Kong before and after Peking, in order to assess views there and to report afterwards. In a ministerial visit our main objective would be to ensure that the Chinese clearly understood that what was on offer at present was not acceptable; and that without genuine negotiation and a more forthcoming approach on the Chinese side HMG might be unable to sign an agreement. At the same time it would be our aim to explore how much room there was for bargaining, perhaps by indicating in a highly conditional way that we might be prepared to look further at our position on the basing of the joint group if we received satisfaction over the form and content of the agreement. (We should have to accept that once we had proposed a visit to the Chinese, they might well hold back on any significant moves in the negotiations until they saw what the Secretary of State had to offer.)

21. The Governor's view, however, is that acceptance of a joint group based in Hong Kong should not be a bargaining counter but a substantive policy decision, to be taken if necessary only at the end of the day and in full knowledge of the serious implications which he sees for the future administration of Hong Kong and the authority of both HMG and the Hong Kong Government. Furthermore, he does not take the view that a concession on Item 2 at the end of July would lead to a much better deal over detail in the agreement.

He would favour holding firm until the end of August before contemplating movement on this point, leaving a month for the concluding phase of negotiations.

CONCLUSIONS

22. It is agreed that our strategy should be based on the assessment that we may not be able to reach an agreement with the Chinese which can be recommended to the people of Hong Kong and Parliament. We need to make the maximum use in bargaining of the Chinese wish to conclude an agreement between us rather than to be forced to issue a unilateral statement.

23. The tactics favoured by the Ambassador and officials in London would be:

(a) To stand on our present position in plenary sessions and in the working group during July.

(b) To propose a visit to Peking by the Secretary of State in the week beginning 29 July, with short visits to Hong Kong before and after.

(c) During the Secretary of State's visit to put across formally the message that we could only recommend to Hong Kong and to Parliament an agreement which met our requirements. We should also explore whether conditional acceptance by us of a joint group based in Hong Kong would open the possibility of a more constructive negotiation on post-1997 arrangements.

(d) We should plan for a further visit by Sir G Howe in September.

24. In the Governor's view we should make no move until late August/early September. At that stage we should assess all the elements, as they then present themselves, in order to determine what package of measures might be achievable, and whether that package would be likely to achieve acceptance in Hong Kong. Depending on that assessment Ministers would decide whether or what concessions would need to be made to avoid breakdown, and what would

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be the minimum price which HMG would require for these concessions. There should be no illusion that to make such a concession in the location of the group in Hong Kong would at the least be seen in Hong Kong as the start of a process of creeping condominium up to 1997. It would be in the light of decisions then made that the Secretary of State would visit Peking to set the scene for the final stage.

Hong Kong Department
July 1984

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Prime Minister 4

MR POWELL

HONG KONG

This summarizes very clearly the issues for your meeting with the Governor & the Ambassador to Peking.
C D P 5/7.

1. Discussions with the Governor and Ambassador this week have shown that there are two main points at issue between the Governor on the one hand and the Ambassador and London officials on the other.

(a) The effect of agreeing to the location of the Joint Group in Hong Kong.

(b) General strategy. The Governor wants us to withhold any movement until September and argues against a visit by the Foreign Secretary to Peking in July. The Ambassador and London officials on the one hand argue for a July visit, probably to be followed by one in September. This would be in line with the preliminary conclusions of OD(K) on 28 June.

2. On (a), the demerits of having the Group located in Hong Kong are undoubted, but I think they may be overstated. There could well be Chinese attempts to interfere in the period up to 1997, eg representations by them about action by the Hong Kong government; but, if they were so minded, these attempts could be made by a Joint Group based outside Hong Kong or even through diplomatic channels if there were

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3. The essential question on the location of the Joint Group is whether this is an issue of such fundamental importance that we would be prepared to see an agreement founder on it. I myself do not put it in that category. To be fair, nor does the Governor: he contemplates a possible concession on this before the end of the day, but considers that if we have to make such a move we should defer it to the 11th hour ie September.

4. The issue therefore boils down to (b), ie timing and strategy, in particular the timing of the Secretary of State's visit or visits to Peking. I can see certain attractions in sitting tight until early September in the hope of staring the Chinese down. But I see over-riding disadvantages.

(a) It would be a policy of very high risk which could well mean that we would be unable to achieve an agreement because of shortage of time. There is an immense amount of work to be done on the main agreement and the Annex quite apart from item 2, and ex hypothesi no progress could be made on these for the next two months under a condition of stand-off. It would be impossible to complete all this work within the three weeks that would be available to us after a visit delayed until early September.

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(b) As set out in the Prime Minister's message last October, we are still engaged in exploring what can be built on the basis of the Chinese proposals. We must complete this exploration before we decide whether the package as a whole is tolerable. It would be difficult to explain our position to Parliament if we were to reach the end of the day uncertain because of a shortage of time what the possibilities were and whether we might have got a better deal.

(c) Presentationally, it is important that HMG should be seen to be making a maximum effort to attain agreement. The proposal that we do not move throughout July and August could be seen as a show of strength, but it could also be seen as inertia and a failure to exploit the short time remaining to us.

4. All this points strongly to a visit by the Foreign Secretary at the end of July with the possibility of another in September. But I suggest he should not go then in order to concede on Item 2. He should go carrying a firm message from the Prime Minister which would make it plain we were not prepared to commend ^{an} any agreement to Parliament and that we required one that was binding and balanced and had adequate detail. The message could go on to say that if we

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obtained that sort of agreement we would be prepared to consider the location of the Joint Group in Hong Kong, always under suitable terms of reference. Our negotiators should explore the possibilities further in August. This would allow us an opportunity to determine whether suitable terms of reference for a Joint Group could be worked out and at the same time explore what improvements could be made over the main agreement and the annex. We should then need time to stand back from the picture and in conjunction with Exco make the big decision whether it was one we could buy.

5. These are not easy decisions but they are critical. The advantage of this plan I think gives us the best change of using our remaining time to advantage and seeing whether a tolerable agreement is obtainable. The alternative course I am afraid would not do this. In particular I consider a deliberate freeze until early September would be a major error putting in jeopardy what we have achieved so far.

6. None of this is going to be palatable to Exco in Hong Kong but if, as the Governor concedes, we shall probably have to accept location of a Joint Group in Hong Kong before the end of the day, the package as far as Exco is concerned is not going to differ very much. We shall have to mount a major campaign to explain to them the reasons for our policy and why we are convinced that it is the only way to achieve the best result for Hong Kong.

5 July 1984


PERCY CRADOCK

SECRET

SECRET



10 DOWNING STREET

From the Private Secretary

5 July 1984

WFO
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Future of Hong Kong: Arrangements for Testing
the Acceptability in Hong Kong of an Agreement
with the Chinese

You wrote to me on 4 July about the form in which the invitation to comment on the acceptability of an agreement with the Chinese should be couched.

The Prime Minister is content with the form of words proposed by Sir Geoffrey Howe.

She notes that he will, in the meantime, consider suitable candidates for nomination as monitors of the test of acceptability.

I am copying this to the Private Secretaries to other OD(K) members and to Bryan Cartledge.

C D Powell

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

SECRET



Prime Minister Foreign and Commonwealth Office

Agree formula for London SW1A 2AH

invitation to comment 4 July 1984

John Clarke

at X →

C.D.P. 4/7

Yes ✓

Future of Hong Kong: Arrangements for Testing the Acceptability in Hong Kong of an Agreement with the Chinese

At the meeting of OD(K) ^{Attached} on 28 June there was general agreement on the arrangements for testing the acceptability in Hong Kong of an agreement with the Chinese, on the lines proposed in the paper submitted by the Foreign and Commonwealth Secretary. Sir Geoffrey Howe was invited to give further consideration to the form in which the invitation to comment on the acceptability of an agreement with the Chinese should be couched, the aim being to draw together the more acceptable features of the forms of invitation set out in paragraph 8(i) and 8(ii)(c) of the paper.

After further reflection, Sir Geoffrey Howe feels that this requirement can best be met by making use of the wording of the question in paragraph 8(ii)(c), while couching it as an invitation to comment. The issue would then be put to the Hong Kong people in the following terms:

X | "You are invited to comment on the overall acceptability of the arrangements negotiated between HMG and the Chinese Government for Hong Kong, in the light of the alternative described, and the general background set out in the White Paper."

Such a formula has the merits of avoiding an answer which would lend itself to statistical analysis while at the same time emphasising the need for the agreement to be considered as a whole, in the light of the alternative to be described in the White Paper (that is, no international agreement with China on future arrangements for Hong Kong).

If the Prime Minister is content, this formula will be put into the paper on the text of acceptability which is to be submitted to the Hong Kong Executive Council. The Foreign Secretary will in the meantime be giving further consideration to suitable candidates for nomination as monitors of the test of acceptability.

I am copying this to the Private Secretaries of other OD(K) members.

(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

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London W.1A 2AA



Handwritten mark



E 4 JUL 1984

cepc.
CMPROGRAMME OF CALLS BY THE GOVERNOR OF HONG KONG FROM 4-6 JULY 1984Wednesday 4 July

05.45 arr Heathrow. Flight BA20
 accompanied by PS, Mr Alistair Asprey

 Met by HKGO.
 Proceed to Sheraton Park Hotel,
 101 Knightsbridge
 Telephone: 235 - 8050

11.00 Sir P Cradock

15.00 Mr Luce

16.30 Mr Beattie, ODA (provisional)

Thursday 5 July

09.30 PUS

15.30 Secretary of State

Friday 6 July

15.15 Prime Minister

20.00 dep Gatwick. Flight BR 382

DISTRIBUTION

Mr Powell, No 10.
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TELEGRAM NUMBER 1804 OF 3 JULY
INFO IMMEDIATE PEKING

MY TELSNOs 1770 AND 1771 : FUTURE OF HONG KONG :

CONSULTATIONS IN LONDON ON FUTURE STRATEGY.

1. THE QUESTION NOT COVERED IN YOUR TELEGRAMS SO FAR IS THE NEED SO TO FRAME OUR TACTICS OVER THE NEXT FEW MONTHS THAT THE PROSPECTS OF THE AGREEMENT BEING ACCEPTABLE IN HONG KONG ARE, TO THE EXTENT POSSIBLE MAXIMISED. THERE ARE TWO ASPECTS TO THIS.
2. THE VIEWS OF THE UNOFFICIAL MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS ON THE ISSUES INVOLVED WILL NOW CARRY VERY CONSIDERABLY MORE WEIGHT IN THE COMMUNITY THAN THEY WOULD HAVE DONE THREE MONTHS AGO. IN SPITE OF CARPING CRITICISM BY A FEW INDIVIDUALS IN THE PRESS THE MEMBERS OF UMELCO ARE NOW, IN PRIVATE, WIDELY ACCEPTED AS SPOKESMEN FOR THE REAL CONCERNS OF PEOPLE IN HONG KONG. NOT EVERYONE AGREES WITH ALL THEIR VIEWS BUT THEY ARE TRUSTED AS FAITHFUL REPORTERS; AND THEY ARE ADMIRER FOR THEIR COURAGE IN BEING PREPARED TO STAND UP AND BE COUNTED. THEIR STATUS IN HONG KONG IS THEREFORE SUBSTANTIALLY HIGHER NOW THAN IT WAS BEFORE.
3. THIS MEANS THAT IF THEY DECLINE TO ACCEPT THAT THE AGREEMENT REACHED BETWEEN HMG AND CHINA ADEQUATELY PROTECTS HONG KONG'S INTERESTS, OR THEY TAKE THE VIEW THAT IT IS NOT THE BEST THAT COULD HAVE BEEN OBTAINED, THAT VIEW WILL BE RESPECTED AND IT COULD BE DIFFICULT TO FIND PEOPLE WHO ARE NOT KNOWN CHINA SUPPORTERS TO SPEAK OUT IN FAVOUR OF THE AGREEMENT.
4. THERE IS THEREFORE A NEED FOR HMG TO MAKE A MAJOR EFFORT TO REACH AN UNDERSTANDING WITH THE EXECUTIVE COUNCIL ON STRATEGY OVER THE NEXT FEW MONTHS, AND ON THE MAJOR ISSUES WHICH WILL ARISE. THE UNOFFICIAL MEMBERS ARE NOT OUT TO WRECK AN AGREEMENT. THEY ARE GENUINELY CONCERNED ABOUT AN AGREEMENT PROVING INADEQUATE TO MAINTAIN CONFIDENCE AND THUS LEADING TO A SWIFT HAEMORRHAGE OF MONEY AND TALENT FROM HONG KONG. IF THEY ARE TO BE ASKED TO SUPPORT AN AGREEMENT THEN THEY WILL HAVE TO BE CONVINCED THAT THEIR VIEWS ARE VALUED AND TAKEN CAREFULLY INTO ACCOUNT BEFORE DECISIONS ARE REACHED. HURRIED LAST MINUTE CONSULTATION WILL NOT ACHIEVE THIS PURPOSE.
5. THE SECOND POINT CONCERNS OFFICIAL PRONOUNCEMENTS. WITH THE PUBLICATION OF THE GREEN PAPER IN TWO WEEKS TIME THE PICTURE OF THE FUTURE LOCALLY WILL BE MORE COMPLETE. BUT ATTENTION WILL THEN

5. THE SECOND POINT CONCERNS OFFICIAL PRONOUNCEMENTS. WITH THE PUBLICATION OF THE GREEN PAPER IN TWO WEEKS TIME THE PICTURE OF THE FUTURE LOCALLY WILL BE MORE COMPLETE. BUT ATTENTION WILL THEN FOCUS ON WHETHER OR NOT THE COMMUNITY CAN REASONABLY EXPECT A DETAILED AGREEMENT WHICH WILL SATISFY EACH SECTION OF THE COMMUNITY THAT ITS LEGITIMATE CONCERNS HAVE BEEN TAKEN INTO ACCOUNT. IN OTHER WORDS WHETHER THE AGREEMENT WILL MATCH THE PICTURE PAINTED IN THE SECRETARY OF STATE'S STATEMENT OF APRIL 20. IT IS MY JUDGEMENT THAT THE TEXT OF AN AGREEMENT BASED ONLY ON THE 'ESSENTIAL' AS THEY HAVE BEEN IDENTIFIED IN LONDON, HAS LITTLE CHANCE OF BEING ACCEPTED AS MEETING THIS REQUIREMENT. THE QUESTION WILL THEREFORE BE TO WHAT EXTENT THE PROSPECT OF SOMETHING CONSIDERABLY MORE THAN THAT COULD HONESTLY BE HELD OUT TO THE COMMUNITY.

6. HONG KONG IS AGAIN BEING SUBJECTED TO A DAILY BARRAGE OF REVELATIONS EMANATING FROM GROUPS WHICH ARE BEING RECEIVED IN PEKING, SOME BY DENG XIAOPING, AND MANY BY STATE COUNCILLOR, JI PENGFEI. SINCE THE CHINESE HAVE MADE ABUNDANTLY CLEAR THAT AS FAR AS THEY ARE CONCERNED THEIR ONLY INTERLOCUTEUR IS HMG IT IS HMG THAT EYES WILL SOON TURN, LOOKING FOR SOME FURTHER STATEMENT.

7. THIS TOO IS RELEVANT TO THE PATTERN OF MINISTERIAL VISITS BOTH TO HONG KONG AND PEKING AND I SUGGEST THE SUBJECT SHOULD BE ADDED TO OUR AGENDA.

YOUDE

NNNN



10 DOWNING STREET

Caroline

I think you've
already made an
appointment

Chris

BF

=

15.15 on

Friday 6 July

Chris

CR

ON

2/7.

PART 14 ends:-

Peking tel 1243 30.6.84

PART 15 begins:-

CR to CP 2.7.84

