

SECRET

GR 590
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FM PEKING 120746Z APR 83
TO PRIORITY FCO
TELNO 326 OF 12 APRIL
RPTD INFO PRIORITY HONG KONG.

ARC 13/4
h.a.

FUTURE OF HONG KONG: DRAFT PRESENTATION

1. MCLAREN'S LETTER OF 25 MARCH TO CLIFT ENCLOSED A COPY OF THE DRAFT PRESENTATION 'WHY IS CONTINUING BRITISH ADMINISTRATION NECESSARY', PUT TO EXCO ON 23 MARCH. WE HAD CORRESPONDENCE ABOUT THIS LAST YEAR, RESTING WITH FCO TELNO 914 OF 29 OCTOBER, WHICH SET OUT YOUR THINKING ON THE BEST FORM FOR SUCH A PRESENTATION. I HAVE SEEN NO FURTHER CORRESPONDENCE ON THE MATTER TILL NOW AND I AM CONCERNED TO FIND THAT THE PAPER HAS GONE THIS FAR IN A FORM ABOUT WHICH I HAVE VERY SERIOUS RESERVATIONS.

2. I AM CONVINCED THAT, IF WE WERE TO SPEAK ON THESE LINES IN THE OPENING ROUND OF TALKS, THERE IS A SERIOUS RISK THE CHINESE WOULD BREAK OFF THE NEGOTIATIONS. I REFER IN PARTICULAR TO THE ARGUMENT IN PARAGRAPHS 6 AND 7 ABOUT THE 'VITAL IMPORTANCE' OF THE CONSTITUTIONAL LINK WITH BRITAIN. AS EXPRESSED IN THE PAPER THIS IS OR WILL APPEAR NOT AN ADMINISTRATIVE POINT BUT ONE OF SOVEREIGNTY. MOREOVER, TAKEN TOGETHER WITH THE FIRST SENTENCE OF PARAGRAPH 8 ('FOR THE FORESEEABLE FUTURE ... CONFIDENCE IS DEPENDENT ON THE PRESERVATION OF THE PRESENT ARRANGEMENTS ...') IT WOULD GIVE THE CHINESE GROUNDS TO SAY THAT WE WERE GOING BACK ON MRS THATCHER'S MESSAGE TO ZHAO ZIYANG, IN WHICH SHE STATED IN PLAIN TERMS THAT SHE WOULD BE PREPARED TO RECOMMEND CHANGE ON THIS VERY POINT, PROVIDED OTHER ARRANGEMENTS WERE RIGHT. IF, REPEAT, IF, WE GET OUR TALKS IN THE NEAR FUTURE IT WILL BE BECAUSE OF THAT MESSAGE, AND ONLY AFTER MUCH SUCKING OF TEETH ON THE PART OF THE CHINESE, ON WHOSE SIDE THERE WILL CERTAINLY REMAIN A GOOD DEAL OF SUSPICION ABOUT BRITISH INTENTIONS AND PERHAPS DOUBT ABOUT THE WISDOM OF TALKING TO US AT ALL: IN SUCH CIRCUMSTANCES IT WOULD BE DISASTROUS TO TAKE A LINE, PARTICULARLY IN THE OPENING ROUND, WHICH MIGHT BE SEEN TO CAST DOUBT ABOUT THE SINCERITY OF THE PRIME MINISTER'S MESSAGE.

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3. I SEE MERIT IN A PRESENTATION BUT ITS PURPOSE SHOULD BE, AS I SAID IN MY TELNO 699 OF 27 OCTOBER, TO STEER THE TALKS AWAY FROM CONFRONTATION ON MATTERS OF PRINCIPLE AND ON TO A CONSTRUCTIVE PLANE, IE. EXAMINATION OF THE FACTS. IT SHOULD THUS TAKE THE FORM OF A BROADBRUSH DESCRIPTION OF HOW HONG KONG WORKS AND THE ROLE OF THE BRITISH LINK AND, MOST IMPORTANT, IT SHOULD SEEK TO SHOW THAT MUCH DETAILED DISCUSSION OF THE ADMINISTRATIVE FACTS OF LIFE WAS NEEDED BEFORE THE MAIN LINES OF A SETTLEMENT COULD BE LAID DOWN. THESE GENERAL VIEWS WERE ENDORSED IN FCO TELNO 914. HOWEVER THE PAPER AS IT NOW STANDS, DESPITE SOME DRAFTING IMPROVEMENTS, STILL LIMITS ITSELF TO STRESSING THE BELIEF THAT MAJOR CHANGE AWAY FROM THE STATUS QUO WOULD DESTROY HONG KONG AND DOES LITTLE TO INDICATE HOW WE ENVISAGE OUR TALKS WITH THE CHINESE PROCEEDING. AS SUCH IT COULD NOT ACHIEVE ITS BASIC OBJECTIVE WHICH MUST BE TO PROPEL THE TALKS FORWARD.

4. IT IS TIME TO CONSIDER CAREFULLY HOW WE INTEND TO PLAY OUR HAND AT THE OPENING ROUND OF TALKS, AND HOW WE ENVISAGE THE PRESENTATION FITTING INTO THAT ROUND. I OFFER SOME VIEWS ON THIS IN MIFT, AND IN MY SECOND MIFT I PROPOSE AMENDMENTS TO THE PRESENTATION ITSELF.

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FUTURE OF HONG KONG

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A.J.C. 13/4
h.a.

MIPT: FUTURE OF HONG KONG: DRAFT PRESENTATION

1. THE FOLLOWING IS PREDICATED ON THE HYPOTHESIS THAT THE CHINESE BOTH RESPOND POSITIVELY TO THE PRIME MINISTER'S MESSAGE TO ZHAO AND AGREE TO THE MODALITIES WE PUT TO THEM LAST OCTOBER (THAT THE TALKS SHOULD BE CONDUCTED HERE, INITIALLY BY SMALL TEAMS AT AMBASSADOR-VICE MINISTER LEVEL, AND THE THE GOVERNOR MIGHT ATTEND AS REQUIRED). I AM NOT CONFIDENT THAT THEY WILL.
2. AS I SEE IT OUR AIM IN THE FIRST ROUND OF THE TALKS, WHICH THE GOVERNOR SHOULD ATTEND AND WHICH WOULD PERHAPS LAST ONE OR TWO DAYS, SHOULD BE TO STEER AWAY FROM MATTERS OF PRINCIPLE, ON WHICH THE EXCHANGE WOULD AT BEST BE STERILE AND AT WORST DOWNRIGHT CONFRONTATIONAL, AND TO POINT THE WAY TOWARDS AREAS WHERE DETAILED WORK SHOULD BE CONDUCTED IN SUBSEQUENT MEETINGS. AS YOU PUT IT IN FCO TELNO 914, WE SHOULD AIM IN THESE FIRST TALKS TO "CONCENTRATE ON RELATIVELY UNCONTENTIOUS POINTS".
3. THE FIRST ROUND WOULD ALMOST CERTAINLY BEGIN WITH A LENGTHY REHEARSAL BY THE CHINESE OF THEIR FORMAL POSITION ON SOVEREIGNTY. THIS WOULD PROBABLY FOLLOW FAMILIAR LINES, INCLUDING THE POINT THAT SOVEREIGNTY AND ADMINISTRATION WERE INDIVISIBLE AND THAT CHINA COULD NOT ALLOW OTHERS TO ADMINISTER HONG KONG ON ITS BEHALF. THE CHINESE MIGHT GO ON TO LAY DOWN SOME OF THEIR GENERAL PRINCIPLES FOR A FUTURE SETTLEMENT, IE. THAT HONG KONG PEOPLE SHOULD GOVERN HONG KONG, THAT A SPECIAL ADMINISTRATIVE REGION SHOULD BE ESTABLISHED AND THAT CERTAIN SYSTEMS WOULD REMAIN UNCHANGED. I DOUBT THAT THIS OPENING STATEMENT WOULD CONTAIN MAJOR NOVELTIES.
4. I SHOULD THEN RESPOND TO THIS STATEMENT, ALSO IN GENERAL TERMS, WITH A THREEFOLD OBJECTIVE:
 - (A) TO INDICATE A FULL GRASP OF THE CHINESE POSITION;
 - (B) TO MAKE CLEAR THE BRITISH POSITION IE. THAT WE CAN BE FLEXIBLE ON SOVEREIGNTY PROVIDED THE REST OF THE PACKAGE WAS SATISFACTORY;
 - (C) TO MAKE PROPOSALS ON HOW THE TALKS SHOULD PROCEED.
5. IN ESSENCE, (A) AND (B) ABOVE WOULD BE A REAFFIRMATION OF THE MESSAGE IN THE PRIME MINISTER'S LETTER TO ZHAO. A PASSAGE TO THE EFFECT THAT WE WERE NOT LOOKING TO THE PAST (IE. THE TREATIES) BUT TO THE FUTURE WOULD ALSO BE USEFUL AT THIS STAGE, TO UNDERLINE THAT WE WERE ENTERING INTO TALKS WITH A SINCERE AND CONSTRUCTIVE ATTITUDE.

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6. IT WOULD BE AT STAGE (C) OF THE STATEMENT THAT I WOULD PROPOSE TO INVITE THE GOVERNOR TO DELIVER HIS PRESENTATION. IN DOING SO I MIGHT USE SOMETHING ALONG THE LINES OF THE FOLLOWING FORMULA: BEGINS: WE HAVE LISTENED WITH INTEREST TO WHAT THE CHINESE SIDE HAS SAID ABOUT THE FUTURE ADMINISTRATION OF HONG KONG AND WE SHOULD LIKE IN DUE COURSE TO DISCUSS THE QUESTION OF ADMINISTRATIVE CHANGES IN MORE DETAIL. TO TAKE ONE ELEMENT OF WHAT YOU HAVE SAID, "HONG KONG PEOPLE SHOULD RUN HONG KONG", THAT IS A PROPOSITION TO WHICH WE HAVE NO OBJECTION IN PRINCIPLE. INDEED, IF HISTORICAL AND POLITICAL CIRCUMSTANCES WERE DIFFERENT, HONG KONG WOULD LONG AGO HAVE BECOME INDEPENDENT, JUST AS 45(?) FORMER BRITISH DEPENDENCIES HAVE ALREADY DONE. BUT HONG KONG IS A SPECIAL CASE AND ITS UNIQUE STATUS IS SOMETHING THAT BOTH SIDES SHOULD EXAMINE TOGETHER IN THE COURSE OF THESE TALKS. AS A FIRST STEP, I SHOULD LIKE TO ASK THE GOVERNOR OF HONG KONG TO DELIVER A SHORT PRESENTATION ON HOW HONG KONG WORKS. ENDS.

7. THE GOVERNOR COULD THEN SPEAK (SEE MIFT FOR MY DETAILED COMMENTS ON THE PRESENT DRAFT), AFTER WHICH I MIGHT CONCLUDE WITH A PASSAGE ON THE FOLLOWING LINES: BEGINS. BOTH SIDES AGREE THAT A SOLUTION TO THE PROBLEM OF THE FUTURE OF HONG KONG SHOULD BE SUCH AS TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG. SINCE THE CHINESE SIDE HAS STATED THAT IN ITS PROPOSALS THE "SYSTEMS" OF HONG KONG WOULD REMAIN UNCHANGED, WE ASSUME THAT THE CHINESE SIDE RECOGNISE THAT THIS IS ESSENTIAL IN ORDER TO OBTAIN THIS OBJECT. (B) A SIMPLE TRANSFER OF CONTROL OVER HONG KONG TO PEKING WOULD NOT ENABLE CONFIDENCE TO BE MAINTAINED IN THE HONG KONG ECONOMY, AND THIS WOULD NOT ENABLE PROSPERITY AND STABILITY TO BE MAINTAINED. THERE ARE TOO MANY DOUBTS ABOUT THE CONTINUITY OF CHINESE POLICY WHICH ARE FOUNDED IN RECENT CHINESE HISTORY AND IN PARTICULAR THE EXPERIENCE OF THE CULTURAL REVOLUTION. THERE ARE ALSO DOUBTS WHETHER A COUNTRY WITH A SOCIALIST SYSTEM COULD CO-EXIST WITH A REGION WITH A LIBERAL CAPITALIST SYSTEM. IT IS NOT SUGGESTED THAT THIS CONSIDERATION WILL APPLY FOR EVER: BUT IT CERTAINLY DOES APPLY AT PRESENT.

(C) THE QUESTION THEREFORE IS HOW TO GUARANTEE THE CONTINUITY OF THE SYSTEMS AFTER 1997. THE BRITISH SIDE CANNOT SEE HOW A SUFFICIENT GUARANTEE CAN BE GIVEN UNLESS AN ARRANGEMENT IS REACHED WHICH ALLOWS THE UK A CONTINUING ADMINISTRATIVE ROLE IN HONG KONG SUFFICIENT TO INSPIRE CONFIDENCE THAT THE SYSTEMS WILL NOT BE

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CHANGED. THAT WAS WHY MRS THATCHER PROPOSED A CONTINUATION OF BRITISH ADMINISTRATION, THOUGH IT IS RECOGNISED THAT TO MAKE THIS ACCEPTABLE TO THE CHINESE GOVERNMENT IT WOULD HAVE TO BE COUPLED TO AN ACCEPTANCE BY BRITAIN OF CHINESE SOVEREIGNTY OVER THE WHOLE OF HONG KONG. OUR VIEW REMAINS THAT THIS IS THE ONLY WAY TO GUARANTEE CONTINUITY.

(D) IT IS CLEAR TO US THAT THIS VIEW CAUSES DIFFICULTY TO THE CHINESE GOVERNMENT. THE CHINESE SIDE HAS SUGGESTED THAT SOVEREIGNTY AND ADMINISTRATION ARE INDIVISIBLE. WE DO NOT THINK THAT THIS IS NECESSARILY SO (? QUOTE EXAMPLES) BUT WE WISH TO DISCUSS WITH THE CHINESE SIDE TWO THINGS:

(I) WHAT PRACTICAL CHANGES THEY FEEL ARE NECESSARY IN HONG KONG IN SPECIFIC AREAS EG. CURRENCY, LAWS, TRADE, SOCIAL SYSTEM AND WAY OF LIFE ETC.:

(II) HOW GUARANTEES COULD BE GIVEN FOR THE FUTURE CONTINUITY OF THOSE SYSTEMS IN HONG KONG.

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FROM PEKING 120845Z APR 83

TO PRIORITY FCO

TELEGRAM NUMBER 328 OF 12/4/83

APL 13/4
h.a.

REPEATED FOR INFO TO PRIORITY HONG KONG

MY TWO IPTS: FUTURE OF HONG KONG: DRAFT PRESENTATION

1. FOLLOWING ARE MY DETAILED COMMENTS:

(A) PARAGRAPHS 1-5 . NO OBJECTIONS.

(B) PARAGRAPH 6, THIRD SENTENCE. THE USE OF THE PHRASE 'CONSTITUTIONAL LINK' IS DANGEROUS, FOR THE REASONS GIVEN IN PARAGRAPH 2 OF MY FIRST IPT. I SUGGEST THAT THE WORD 'CONSTITUTIONAL' SHOULD BE DROPPED.

(C) PARAGRAPH 6, FIFTH AND SIXTH SENTENCES. THIS READS VERY STARKLY. I SUGGEST A REDRAFT TO READ 'MOREOVER IT IS NOT EASY TO SEE HOW A LIBERAL, CAPITALIST SYSTEM CAN SUCCESSFULLY EXIST WITHIN A COUNTRY OPERATING A SOCIALIST SYSTEM. THE PEOPLE OF HONG KONG WOULD NEED TO SEE A LONG PERIOD OF STABILITY AND SUSTAINED ECONOMIC FLEXIBILITY IN CHINA BEFORE THEY MIGHT OVERCOME THE GRAVE RESERVATIONS WHICH THEY HAVE TODAY ABOUT A FUTURE UNDEFINED THE ULTIMATE AUTHORITY OF A SOCIALIST ADMINISTRATION. THESE DOUBTS ARE REINFORCED BY RECENT CHINESE HISTORY AND IN PARTICULAR THE MEMORIES OF SOME HONG KONG INDUSTRIALISTS OF EVENTS IN SHANGHAI AND THE EXPERIENCE OF THE CULTURAL REVOLUTION.

(D) PARAGRAPH 7. WE CANNOT TALK ABOUT THE 'VITAL IMPORTANCE' OF THE UK LINK, WHEN WE INCLUDE THE CONSTITUTIONAL LINK AS PART OF THAT, WITHOUT APPEARING TO GO AGAINST THE ASSURANCE IN MRS THATCHER'S MESSAGE. I PROPOSE THAT PARAGRAPH 7 SHOULD BEGIN 'THE UK LINK HAS HITHERTO PLAYED A VITAL ROLE AS A GUARANTEE AGAINST CHANGE, AND THEREFORE IN PRESERVING CONFIDENCE AS CAN BE ILLUSTRATED BY A NUMBER OF EXAMPLES.....'. THE ORDER OF EXAMPLES SHOULD BE CHANGED TO (C), (D), (B) AND FINALLY (A). IN (A) I SUGGEST SUBSTITUTION OF 'HAS BEEN' FOR 'IS' IN LINE 10.

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(E) PARAGRAPH 8. I SHOULD PREFER A CONCLUSION ALONG THE FOLLOWING LINES (TAKEN IN PART FROM FCO TEL NO 914): 'THE FOREGOING REPRESENTS ONLY A VERY BRIEF AND GENERAL PICTURE OF THE WAY IN WHICH THE LINK BETWEEN HONG KONG AND THE UK PRESENTLY OPERATES. THIS LINK, AND THE BRITISH ROLE IN THE ADMINISTRATION OF THE TERRITORY, AS PRESENT PROVIDE A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. IN OUR VIEW, WE SHOULD IN SUCCEEDING MEETINGS EXAMINE IN DETAIL THE MORE IMPORTANT ASPECTS OF THE ADMINISTRATIVE STATUS QUO IN HONG KONG, SUCH AS THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE FABRIC OF TREATIES AND AGREEMENTS ON WHICH HONG KONG'S ROLE AS A FINANCIAL AND COMMERCIAL CENTRE DEPENDS. THESE DISCUSSIONS SHOULD BE CARRIED OUT BY EXPERTS FROM BOTH SIDES. OUR OBJECTIVE SHOULD BE TO DETERMINE WHAT DEGREE OF CHANGE TO THE STATUS QUO COULD BE MADE WITHOUT IRREVERSIBLE DAMAGE BEING DONE TO CONFIDENCE AND THEREFORE TO THE STABILITY AND PROSPERITY OF THE TERRITORY'.

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