



26 <sup>088</sup>

10 DOWNING STREET

*From the Principal Private Secretary*

6 June 1983

FUTURE OF HONG KONG: AGENDA FOR THE TALKS

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

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

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

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

E. E. R. BUTLER

John Holmes, Esq.,  
Foreign and Commonwealth Office.



26<sup>B</sup>

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

*withholding:*

London SW1A 2AH

*the arrangements after 1997*  
6 June, 1983

*arrangements pre 1997*

Dear Robin,

Future of Hong Kong: Agenda for the Talks

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

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

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

/It



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

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

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



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

*Yours ever*

*John Holmes*

(J E Holmes)  
Private Secretary

Robin Butler Esq  
Private Secretary  
10 Downing Street

OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	SECRET	IMMEDIATE 070015Z

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1 ZCZC  
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6 FROM FCO 6 JUNE 83  
7 TO IMMEDIATE PEKING  
8 TELEGRAM NUMBER  
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10 AND TO IMMEDIATE HONG KONG  
11 PERSONAL FOR AMBASSADOR  
12 YOUR TELNOS 517 AND 518 AND HONG KONG TELNO 760: FUTURE OF  
13 HONG KONG  
14 1. We agree that this is a helpful development but it will  
15 need firm and careful handling to avoid Chinese public  
16 exploitation on misleading lines, which would be particularly  
17 difficult to handle in present circumstances here.  
18 2. Ministers here have not been able to consider the latest  
19 ideas in detail but in the circumstances we agree to action  
20 as follows. Your general aim should be to keep the Chinese in  
21 play on the agenda for the moment, while preventing them from  
22 making any unhelpful public statement.  
23 3. The Governor should touch base with EXCO on 7 June.  
24 4. Once Sir E Youde has confirmed that this has been done you  
25 should arrange a further meeting with Zhou Nan. At this you  
should seek to slow down the pace at which the Chinese appear to

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

OUT TELEGRAM (CONT)

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

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

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

5 emphasised that you are still speaking without clearance by

6 Ministers, you should pursue the line recommended in paras

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

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

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

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

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

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

13 retained without causing a dispute we should prefer this.

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

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

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

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

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

19 of sovereignty as a foregone conclusion. Such suggestions

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

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

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

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

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

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

26 further encouragement to the idea that substantive talks were

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

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

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

30 further progress. (Hong Kong would make a separate

31 announcement about participation by the Governor). We would

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

33 agreed formula on the agenda. We should preserve

34 confidentiality.

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# OUT TELEGRAM (CONT)

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DESKBY BOTH 060900Z

FM PEKING 060615Z JUN 83

TO IMMEDIATE FCO

TELNO 518 OF 6 JUNE

RPTD HONG KONG (PERSONAL FOR GOVERNOR).

MY TELNO 517: FUTURE OF HONG KONG

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

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

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

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

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## COMMENT

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

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

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

CRADOCK

### FUTURE OF HONG KONG

#### LIMITED

ED/HEAD  
ED/FED  
ED/PLANNING STAFF  
ED/PUSD  
PS  
PS/MR HURD  
PS/LORD BELSTEAD  
PS/FUS  
SIR J BULLARD  
MR GIFFARD  
MR DONALD  
MR WRIGHT

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MR FLOWER PUSD  
MR COLES NO 10 DOWNING ST.  
SIR A PARSONS  
NO 10. DOWNING ST

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SECRET

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26

*Mr Coles o/r*

DESKBY 030930Z

FROM PEKING 030650Z JUN 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 517 OF 3/6/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG.

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

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

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

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

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

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

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

#### COMMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

CRADOCK

## FUTURE OF HONG KONG

IMMEDIATE

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HD/FED

HD/PLANNING STAFF

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