



Foreign and Commonwealth Office

London SW1A 2AH

13 June 1983

Dear John,

Future of Hong Kong

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

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

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

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

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

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

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

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

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The proposed formula would therefore read as follows:

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

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

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

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

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

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

I am copying this to Richard Mottram (MOD).

Yours ever

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FUTURE OF HONG KONG

UK CHINA TALKS - FORWARD STRATEGY

INTRODUCTION

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

UK Aim

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

Likely Chinese Aims

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

Membership of British Team

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

Sequence of Events

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

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

(a) First Substantive Session

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

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

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

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

(c) Third Phase : Discussions of Principles

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

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

Agreement

7. The normal procedure would be:

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

Other Methods

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

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ANNEX A

FUTURE OF HONG KONG: SUBSTANTIVE TALKS: UK INITIAL PRESENTATION

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

2. The Ambassador should respond by:

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

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

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

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

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

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

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

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

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FUTURE OF HONG KONG

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

1. Legal System

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

2. Economy

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

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

3. Public Service

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

4. Immigration and Citizenship

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

5. External Relations

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