

PRIME MINISTER

HONG KONG

You agreed to hold a meeting on 15 June. We have reached the point where the Chinese are keen to begin substantive talks. We need to take a view on the basis for and the conduct of these talks. Specifically, decisions are needed on the following points:

- (a) What formula should we now put to the Chinese for an agenda?
- (b) Is it agreed that at the first session of substantive talks the Ambassador and the Governor should make a presentation setting out how Hong Kong works now?
- (c) What should be said publicly about the new stage of talks?
- (d) Should we arrange a visit by EXCO Unofficials to London very soon, i.e. before the substantive talks? Would you wish to give them lunch again?

These matters are all covered in the attached FCO letter (Flag A).

You will need to bear in mind the recent decline in confidence in Hong Kong which is described in Sir Edward Youde's telegram at Flag B.

I also attach:

- (a) A text on which the Governor would propose to draw to describe the basis of the present system in Kong Kong.
- (b) An FCO paper describing our strategy for the talks.

A.J.C.

14 June 1983

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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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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."

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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ANNEX B

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FM HONG KONG 050620Z MAY 83

TO PRIORITY FCO

TELEGRAM NUMBER 624 OF 5 MAY 1983

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MPT: FUTURE OF HONG KONG: STRATEGY FOR SUBSTANTIVE TALKS.

1. FOLLOWING IS TEXT OF OUR REVISED DRAFT PRESENTATION.

INTRODUCTION

IN THREE DECADES HONG KONG HAS DEVELOPED FROM AN ENTREPOT AND COMMERCIAL CENTRE, TO A MAJOR LIGHT MANUFACTURING CENTRE (DOMESTIC EXPORTS ACCOUNTING FOR 65 PER CENT OF TOTAL EXPORTS), AND THEN TO A DIVERSIFIED ECONOMY WITH AN INTERNATIONAL DIMENSION (THE FINANCIAL AND ALLIED SERVICES SECTOR ACCOUNTING FOR ABOUT A QUARTER OF THE GDP, I.E. AS MUCH AS THE MANUFACTURING SECTOR). THE HONG KONG ECONOMY HAS BECOME INCREASINGLY EXTERNALLY ORIENTED: AND WITH THE GROWTH OF THE MONEY AND FOREIGN EXCHANGE MARKETS IT HAS BECOME EVEN MORE SENSITIVE THAN HITHERTO TO INTERNATIONAL AS WELL AS DOMESTIC INFLUENCES.

INHERENT ADVANTAGES

2. UNDERLYING THIS DEVELOPMENT HAVE BEEN CERTAIN ADVANTAGES -

(A) HONG KONG'S GEOGRAPHICAL POSITION:

(B) THE BIGGEST (AND ONLY DEEPWATER) PORT IN SOUTH CHINA, WITH SHIPPING, CARGO AND CONTAINER HANDLING SERVICES TO MATCH, COMPLEMENTED BY AN INTERNATIONAL AIRPORT WITH MAJOR AIRCRAFT ENGINEERING FACILITIES AND A DEVELOPED INTERNATIONAL TELECOMMUNICATIONS NETWORK:

(C) THE PROXIMITY OF DEPENDABLE SOURCES OF BASIC FOODSTUFFS, RAW MATERIALS AND CONSUMER GOODS FOR LOCAL CONSUMPTION, AND THE AVAILABILITY OF A SUPPLEMENTARY WATER SUPPLY FROM CHINA AND A RELIABLE SUPPLY OF SEMI-FINISHED INPUTS FROM JAPAN:

(D) A FLEXIBLE, MOBILE, WELL TRAINED, HIGHLY MOTIVATED AND HIGHLY PRODUCTIVE LABOUR FORCE:

(E) RESOURCEFUL ENTREPRENEURS, WHO AMORTISE THEIR CAPITAL INVESTMENTS OVER THE ECONOMIC LIFE OF THE ASSETS CONCERNED, WHO SEEK TO UTILISE CAPITAL INVESTED AS EFFICIENTLY AS POSSIBLE, AND WHO HAVE THE COURAGE TO ADOPT NEW PROCESSES AND EQUIPMENT:

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(F)

(F) A LARGE AND SKILLED PROFESSIONAL AND MANAGERIAL CLASS, WITH A HIGH LEVEL OF EDUCATION AND LINGUISTIC ABILITY. MANY MEMBERS OF THIS CLASS HAVE BEEN EDUCATED ABROAD AND HAVE MAINTAINED THEIR LINKS WITH THE COUNTRIES IN WHICH THEY WERE TRAINED:

(G) EXCELLENT WORLD-WIDE MARKETING ARRANGEMENT ON WHICH HONG KONG'S EXPORT-ORIENTED MANUFACTURING SECTOR DEPENDS.

FAVOURABLE FACTORS

3. THE NATURAL AND HUMAN ADVANTAGES WHICH THE TERRITORY ENJOYS ARE NOT SUFFICIENT IN THEMSELVES TO ACCOUNT FOR ITS DEVELOPMENT, WHICH COULD NOT HAVE BEEN ACHIEVED WITHOUT:-

(A) A COOPERATIVE RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA, BASED ON MUTUAL BENEFIT:

(B) MOST-FAVOURABLE-NATION (MFN) RIGHTS OF ACCESS TO MAJOR FOREIGN MARKETS AND RESTRAINT AGREEMENTS NEGOTIATED UNDER THE MULTI-FIBRE ARRANGEMENT (MFA):

(C) A FISCAL AND SOCIAL ENVIRONMENT ENCOURAGING ENTERPRISE, HUMAN ENDEAVOUR, AND THE SPREAD OF PROSPERITY:

(D) FREEDOM OF MOVEMENT, FREEDOM OF EXPRESSION, FREE CHOICE OF CAREER AND OCCUPATION, AND A FAMILIAR LIFE STYLE:

(E) INTERNAL POLITICAL STABILITY:

(F) CONTINUITY OF POLICY, IMPLEMENTED BY AN IMPARTIAL CIVIL SERVICE.

4. BUT THE MAINTENANCE OF (C), (D), (E) AND (F) ABOVE REQUIRES -

(I) CONSISTENT AND PREDICTABLE ADMINISTRATION:

(II) A KNOWN AND WELL DEVELOPED SYSTEM OF LAW WHOSE PRACTICE IS INTERNATIONALLY ACCEPTED AND UNDERSTOOD, BACKED UP BY

(III) THE IMPARTIAL ADMINISTRATION OF THE LAW THROUGH AN INDEPENDENT JUDICIARY:

(IV) BUDGETARY POLICIES AND A TAX REGIME WHICH ENCOURAGE BUSINESS ENTERPRISE AND FOSTER DOMESTIC AND INTERNATIONAL INVESTMENT:

(V) A CAREFULLY MANAGED MONETARY SYSTEM AND A CURRENCY WHICH IS FULLY BACKED WITH FOREIGN EXCHANGE ASSETS, FREELY CONVERTIBLE AND INTERNATIONALLY ACCEPTED AND TRADED:

(VI) AN EDUCATION SYSTEM GEARED TO PROVIDING THE MANAGERIAL, PROFESSIONAL AND TECHNICAL SKILLS REQUIRED AT ALL LEVELS.

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HONG KONG WOULD RETAIN ITS NATURAL GEOGRAPHICAL ADVANTAGES WHATEVER ITS CONSTITUTIONAL STATUS OR FORM OF GOVERNMENT. BUT HONG KONG COULD NOT PRESERVE ITS PRESENT LEVEL OF PROSPERITY AND STABILITY IF THERE WERE A WITHDRAWAL OF INVESTMENT AND SKILLS, A LOSS OF HONG KONG'S RIGHTS OF ACCESS TO OVERSEAS MARKETS OR DOUBTS ABOUT THE CONVERTIBILITY AND VALUE OF THE HONG KONG DOLLAR, OR THE CONTINUITY OF THE LEGAL SYSTEM.

6. THE HUMAN AND CAPITAL RESOURCES WHICH ARE ESSENTIAL TO HONG KONG'S SUCCESS ARE HIGHLY MOBILE. HONG KONG PLACES NO RESTRICTIONS UPON THE MOVEMENT OF CAPITAL. DOMESTIC AND INTERNATIONAL INVESTORS COULD AND WOULD SEEK TO LIQUIDATE THEIR ASSETS AND TRANSFER THE PROCEEDS AND CAPITAL EQUIPMENT OVERSEAS IF THERE WAS SERIOUS DOUBT ABOUT THE MAINTENANCE OF THE PRESENT BUSINESS ENVIRONMENT. PROFESSIONALLY QUALIFIED PEOPLE, WHETHER OF OVERSEAS OR HONG KONG ORIGIN POSSESS SKILLS WHICH ARE EASILY MARKETABLE ELSEWHERE. MANY OF THEM WILL REMAIN IN HONG KONG ONLY SO LONG AS THEY SEE NO THREAT TO THE PRESENT SOCIAL, LEGAL AND BUSINESS ENVIRONMENT, AND HENCE TO THE OPPORTUNITIES AVAILABLE TO THEM AND THE LIFESTYLE WHICH THEY NOW ENJOY.

7. BOTH DOMESTIC AND INTERNATIONAL INVESTORS AND THOSE WHOSE SKILLS ARE ESSENTIAL TO HONG KONG THEREFORE REQUIRE SOME GUARANTEE THAT THERE WILL BE NO FUNDAMENTAL CHANGE IN THE SYSTEMS IN FORCE OR IN THE POLICIES PURSUED. OTHERWISE, THERE WILL BE NO CONFIDENCE AND THEY WILL LEAVE.

8. IT HAS BEEN SUGGESTED THAT SUFFICIENT GUARANTEE WILL BE PROVIDED BY APPROPRIATE PROVISIONS IN THE CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA. THE DIFFICULTY FOR HONG KONG PEOPLE IS THAT IT IS NOT EASY TO SEE HOW A LIBERAL, CAPITALIST SYSTEM CAN SUCCESSFULLY EXIST WITHIN A COUNTRY OPERATING A SOCIALIST SYSTEM. THEY WOULD NEED TO SEE A LONG PERIOD OF STABILITY AND SUSTAINED ECONOMIC PROGRESS IN CHINA BEFORE THEY MIGHT OVERCOME THE GRAVE RESERVATIONS WHICH THEY HAVE TODAY ABOUT A FUTURE UNDER 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.

9. SO IF HONG KONG IS TO RETAIN INVESTMENTS AND THE SKILLED PROFESSIONALS ESSENTIAL TO ITS ECONOMY, SOME MEANS MUST BE FOUND TO SHOW THAT THE TERRITORY WILL CONTINUE TO BE INSULATED FROM THE EFFECTS OF POLITICAL CHANGES ELSEWHERE. AT PRESENT THIS INSULATION IS PROVIDED BY THE LINK WITH THE UK WHERE SIMILAR SYSTEMS AND POLICIES ARE IN FORCE, AND BY LONG EXPERIENCE OF RESPECT FOR HONG KONG'S INTERNAL AUTONOMY. OTHER FORMS OF INSULATION HAVE BEEN SUGGESTED, FOR EXAMPLE INDEPENDENCE OR UN TRUSTEESHIP, BUT IT IS CLEAR THAT THESE WOULD NOT BE ACCEPTABLE TO CHINA. THE OBVIOUS SOLUTION IS THEREFORE TO MAINTAIN THE EXISTING MEANS OF INSULATION WHICH HAS PROVED EFFECTIVE AND IS KNOWN AND ACCEPTED BY THE PEOPLE OF HONG KONG.

10. THUS THE LINK WITH THE UK ACTS AS A GUARANTEE AGAINST FUNDAMENTAL CHANGE, AND AS A MEANS OF PRESERVING CONFIDENCE. IT IS ALSO THE SOURCE OF COMMERCIAL AND OTHER RIGHTS, ESSENTIAL TO HONG KONG'S ECONOMY WHICH WOULD BE LOST IF THE LINK WERE BROKEN. THIS CAN BE ILLUSTRATED BY A NUMBER OF EXAMPLES -

(A) CURRENCY AND CONVERTIBILITY

AN INDEPENDENT AND CONVERTIBLE HONG KONG DOLLAR IS ESSENTIAL TO THE MAINTENANCE OF THE EXTERNALLY ORIENTED ECONOMY OF HONG KONG. THE OWNERSHIP AND CONTROL OF HONG KONG'S FOREIGN EXCHANGE ASSETS LIES IN HONG KONG NOT IN THE UK. BUT THE INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR ARE TAKEN FOR GRANTED, PARTLY BECAUSE IT IS MANAGED BY A GOVERNMENT IN HONG KONG DEDICATED TO FREE MARKET PRINCIPLES AND TO THE FREEDOM OF FINANCIAL FLOWS WITHIN THE INTERNATIONAL SYSTEM: AND PARTLY BECAUSE THE FINAL AUTHORITY IN THESE (AND ALL OTHER) MATTERS IN HONG KONG LIES WITH THE UK WHICH IS ITSELF FULLY INTEGRATED INTO THE INTERNATIONAL OPEN TRADING AND FINANCIAL SYSTEMS. THERE WOULD BE NO CONFIDENCE IN THE CONTINUED INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR IF THE ULTIMATE AUTHORITY RESTED WITH A GOVERNMENT DEDICATED TO A FULLY MANAGED ECONOMY AND WITH NO EXPERIENCE OF A CONVERTIBLE CURRENCY:

(B) INTERNATIONAL TRADE

HONG KONG DERIVES ITS OPEN ACCESS TO ITS MAIN MARKETS, IN PARTICULAR THE UNITED STATES AND EUROPE, FROM THE UK'S MEMBERSHIP OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE ULTIMATE GUARANTEE TO OTHER GATT MEMBERS THAT GATT RULES WILL APPLY IN HONG KONG IS THE ACCEPTANCE OF THESE RULES BY THE UK. THIS GUARANTEE WOULD BE REMOVED IF RESPONSIBILITY FOR HONG KONG LAY WITH CHINA, WHICH OPERATES A STATE MANAGED ECONOMY (AND WHICH IS NOT A MEMBER OF THE GATT). AGREEMENTS WITH HONG KONG'S MAIN TRADING PARTNERS WHICH ARE CLOSELY LINKED TO THE GATT AND WHICH APPLY TO A LARGE PROPORTION OF HONG KONG'S EXPORTS WOULD HAVE TO BE RENEGOTIATED IF THE LINK WITH THE UK WERE SEVERED. IT IS DIFFICULT TO SEE HOW HONG KONG'S TRADING PARTNERS WOULD AGREE TO HONG KONG RETAINING QUOTAS SEPARATE FROM AND ADDITIONAL TO THOSE OF CHINA IF THIS LINK WERE BROKEN:

(C) THE LEGAL SYSTEM

THE LAWS OF HONG KONG ARE BASED ON BRITISH COMMON AND STATUTE LAW, AND THE PROGRESSIVE INTERPRETATION OF THAT LAW BY COURTS IN THE UK IS ONE OF THE MAIN BASES ON WHICH THE LAW IN HONG KONG IS ADMINISTERED. THIS IS A SITUATION WELL UNDERSTOOD AND RELIED UPON BY THE INTERNATIONAL COMMUNITY TRADING IN AND INVESTING IN HONG KONG. THE JUDICIARY IS INDEPENDENT OF THE EXECUTIVE. THE GUARANTEE OF THE CONTINUED OPERATION OF THIS LEGAL SYSTEM IS THE LINK WITH THE UK WHERE THE SEPARATION OF THE JUDICIARY AND THE EXECUTIVE AND THE SAME

SYSTEM OF LAW HAVE BEEN IN FORCE FOR MANY CENTURIES. THE POLICE FORCE ARE TRAINED TO OPERATE WITHIN THE FRAMEWORK OF THE BRITISH LEGAL SYSTEM. THE CONFIDENCE WHICH THIS GIVES THAT THE BRITISH CONCEPT OF LAW WILL PREVAIL WOULD NOT BE MAINTAINED IF THE LINK WITH CHINA WHICH HAS A COMPLETELY DIFFERENT CONCEPT AND SYSTEM OF LAW, AND ONE WHICH, IN MANY AREAS IMPORTANT FOR HONG KONG, IS STILL BEING DEVELOPED:

(D) THE JURISDICTIONAL LINK

SINCE IN THE CASE OF HONG KONG THE GUARANTEE CANNOT BE FOUNDED ON THE POLICIES OF AN INDEPENDENT GOVERNMENT (AS IN THE CASE OF SINGAPORE) IT MUST BE PROVIDED IN ANOTHER WAY. THE ULTIMATE GUARANTEE THAT THE POLITICAL, ECONOMIC AND SOCIAL SYSTEMS IN HONG KONG WILL NOT DIVERGE FROM THEIR PRESENT FORM IN ANY SUBSTANTIAL WAY HAS BEEN THAT FINAL AUTHORITY LIES, THROUGH THE GOVERNOR, WITH HER MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM WHERE SIMILAR SYSTEMS EXIST.

CONCLUSION

11. 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, AT PRESENT PROVIDE A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. WE PROPOSE IN SUBSEQUENT MEETINGS TO ENLARGE ON THESE ASPECTS OF THE ADMINISTRATIVE STATUS QUO IN HONG KONG, AND IN PARTICULAR ON THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE FABRIC OF AGREEMENT ON WHICH HONG KONG'S ROLE AS A FINANCIAL AND COMMERCIAL CENTRE DEPENDS. OUR OBJECTIVE WILL BE TO ILLUSTRATE OUR VIEW OF HOW THE AGREED COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG CAN BE ACHIEVED.

Yours

FUTURE OF HONG KONG

LIMITED

ED/REGD

ED/FED

ED/PLANNING STAFF

ED/PUSD

PS

PS/MR HUED

PS/LORD HELSTEAD

PS/PUS

SIR J BULLARD

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MR BURROWS- LEGAL ADVISERS

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MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

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?



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10 DOWNING STREET

Prime Minister

Your papers to the Hong

Kong meeting on Wednesday are

in the hot box.

A.S.C. ¹⁴/₆.

mt.