

GR 1800  
SECRET  
DESKBY BOTH 270900Z  
FM PEKING 270755Z JUN 83  
TO IMMEDIATE FCO  
TELNO 593 OF 27 JUNE  
RPTD INFO IMMEDIATE HONG KONG.

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Who will prepare the paper?  
OK with in 10-16?  
Dead in file.  
Answered on other pages.

50B

FUTURE OF HONG KONG: OPENING STRATEGY

A.S.C. 1/2

h.a.

1. NOW THAT THE FIRST SUBSTANTIVE MEETING IS IN SIGHT, I HAVE BEEN GIVING FURTHER THOUGHT TO OUR STRATEGY FOR THE NEXT FEW WEEKS. HAVING OVERCOME (AT LEAST FOR THE TIME BEING) FIRST THE PROBLEMS ATTENDANT ON THE CHINESE "PREMISE" AND THEN THOSE ARISING FROM THEIR DEMAND FOR A GENERAL AGENDA FOR SUBSTANTIVE TALKS, WE AT LAST HAVE THEM IN A POSITIVE MOOD TO GET DOWN TO WORK. WE SHOULD SEEK IN OUR FIRST PLENARY MEETING TO MAKE THE MOST OF THIS OPPORTUNITY AND ENSURE THAT THE MOMENTUM IS SUSTAINED BEYOND THAT MEETING AND THAT WORK BEGINS AS SOON AS POSSIBLE ON THE FIRST AGENDA ITEM.

2. OUR STRATEGY PAPER ENVISAGES THAT OUR OPENING STATEMENT (INCLUDING THE GOVERNOR'S PRESENTATION) SHOULD CONCLUDE WITH ME SUGGESTING TO THE CHINESE THAT THE TWO SIDES SHOULD NEXT DISCUSS MATTERS OF DETAIL, SUCH AS THE FINANCIAL, FISCAL AND LEGAL SYSTEMS IN HONG KONG AND THE NETWORK OF TRADE AGREEMENTS, 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. AS YOU KNOW, I HAVE TO SOME EXTENT FLOATED THIS PROPOSAL ALREADY WITH ZHOU NAN, BY TELLING HIM THAT IN OUR VIEW THE LOGICAL WAY TO START WORK ON THE FIRST ITEM OF OUR AGREED AGENDA, IE. "ARRANGEMENTS FOR THE MAINTENANCE OF THE STABILITY AND PROSPERITY OF HONG KONG AFTER 1997", IS TO CONDUCT A JOINT ASSESSMENT OF THE ARRANGEMENTS THAT CURRENTLY MAINTAIN THAT STABILITY AND PROSPERITY, AND THAT WE SHOULD PROCEED AFTER THAT TO DISCUSS HOW CONTINUITY MIGHT BE ENSURED AFTER 1997. ZHOU NAN HAS TAKEN THIS POINT, SUBJECT TO THE CAVEAT THAT OUR DISCUSSION OF THE PRESENT ARRANGEMENTS SHOULD NOT BECOME "PHILOSOPHICAL OR ACADEMIC". THE CHINESE WILL THUS BE PREPARED FOR OUR SUGGESTION ON THE NEXT STEP AND, JUDGING FROM ZHOU NAN'S RESPONSES TO DATE, MAY WELL AGREE. WE SHOULD THEREFORE BE READY TO PUT TO THEM SPECIFIC SUGGESTIONS ON HOW THAT DETAILED WORK SHOULD BE CONDUCTED.

3. AS I SEE IT, DETAILED WORK MUST BE DELEGATED TO SUB-COMMITTEES, COMPOSED OF EXPERTS FROM OUR SIDE SPEAKING TO THEIR COUNTERPARTS FROM THE CHINESE SIDE. I COULD NOT PRETEND TO EXPOUND TO YAO GUANG THE INTRICACIES OF, SAY, THE FOREIGN EXCHANGE FUND IN HONG KONG: NOR WOULD THERE BE ANY POINT IN YAO AND MYSELF SITTING MUTE IN A PLENARY SESSION WHILE MEMBERS OF OUR TEAMS DISCUSSED SUCH SUBJECTS. MOREOVER, THERE IS A VAST AMOUNT OF EDUCATIVE WORK TO BE DONE ON THE LEGAL, FINANCIAL, FISCAL ETC. ASPECTS OF HONG KONG. IF THE TALKS ARE NOT TO BE INDEFINATELY EXTENDED THE PROCESS

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WILL HAVE TO MOVE FORWARD ON SEVERAL FRONTS AT THE SAME TIME. THE ESTABLISHMENT OF SUB-COMMITTEES IS THEREFORE ESSENTIAL. AS YOU KNOW, THE CHINESE ARE ALSO THINKING ALONG THESE LINES, AND ZHOU NAN HAS RAISED THE QUESTION WITH ME SEVERAL TIMES.

4. I NOTE THAT THE GOVERNOR (HONG KONG TELNO B22) HAS SOME MISGIVINGS ABOUT SETTING UP SUB-COMMITTEES IN THE EARLY STAGES. I TAKE A DIFFERENT VIEW. IT HAS BEEN OUR CONSISTENT AIM, SINCE LONG BEFORE THE PRIME MINISTER'S VISIT LAST SEPTEMBER, TO EDUCATE THE CHINESE IN THE COMPLEXITIES OF THE HONG KONG FABRIC, IN ORDER FIRST TO DISCOURAGE THEM FROM FORMULATING DANGEROUS AND INTRACTABLE POLICIES FOR THE FUTURE, BASED ON IGNORANCE AND OVER-SIMPLIFICATION OF THE REAL PROBLEMS SEMICOLON TO SHOW THAT THE REMOVAL OF ONE THREAD COULD UNRAVEL THE WHOLE FABRIC SEMICOLON AND ULTIMATELY TO INDUCE THEM TO DRAW FOR THEMSELVES THE INFERENCE THAT BRITISH ADMINISTRATION IS THE KEY TO THE MAINTENANCE OF STABILITY AND PROSPERITY. UNFORTUNATELY IT PROVED IMPOSSIBLE TO BEGIN THAT EDUCATIVE PROCESS BEFORE THE PRIME MINISTER'S VISIT, AND THIS CONTRIBUTED TO THE DIFFICULTIES WHICH FACED THE PRIME MINISTER IN HER TALKS HERE. IN OUR DISCUSSIONS IN HONG KONG DURING THE PRIME MINISTER'S VISIT, WHICH SET OUR BROAD STRATEGY, AND SUBSEQUENTLY, WE AGREED THAT OUR AIM IN THE INITIAL STAGES OF TALKS WITH THE CHINESE SHOULD BE TO GET AWAY FROM QUESTIONS OF PRINCIPLE, ON WHICH BOTH SIDES TOOK OPPOSING VIEWS, AND ON TO MATTERS OF DETAIL - GROUND ON WHICH WE WERE STRONG AND THE CHINESE WEAK. TALKS TO DATE HAVE BEEN CONFINED TO RATHER BARREN QUESTIONS OF PRINCIPLE. MEANWHILE TIME HAS PASSED, DURING WHICH THE CHINESE HAVE THROUGH VARIOUS CHANNELS, REPEATEDLY REVEALED UNSATISFACTORY PLANS FOR THE FUTURE, AND, APART FROM A FEW SPORADIC VISITS, OUR EDUCATIVE PROCESS HAS NEVER GOT UNDERWAY.

5. WE NOW AT LAST HAVE AN OPPORTUNITY TO BEGIN THE EDUCATIVE PROCESS THAT IS FUNDAMENTAL TO OUR STRATEGY.

IF WE DO NOT TAKE IT WE MAY LOSE THE PRESENT FAVOURABLE WIND. WE SHALL RISK VALIDATING THE LIKELY CHINESE COMPLAINT THAT WE ARE INTERESTED ONLY IN PHILOSOPHICAL AND ACADEMIC POINTS AND WE SHALL CONDEMN OURSELVES TO A PROLONGED WRANGLE OVER PRINCIPLES. I THEREFORE RECOMMEND STRONGLY THAT AT THE FIRST SUBSTANTIVE MEETING WE SHOULD SEEK TO SET UP SUB-COMMITTEES TO CONDUCT DETAILED WORK AND PROPOSE THAT THEY SHOULD BEGIN THEIR WORK AS SOON AS POSSIBLE, IDEALLY WITHIN A FEW DAYS OF THE END OF THE FIRST MEETING.

6. THERE ARE OF COURSE POINTS WE MUST WATCH IN THE SETTING UP OF SUB-COMMITTEES, SOME OF WHICH THE GOVERNOR HAS NOTED IN HIS TELNO B22. THE FIRST IS THAT, DESPITE THEIR APPARENT WILLINGNESS TO COMPLY WITH OUR PROPOSAL THAT THE SUB-COMMITTEES SHOULD FIRST CONDUCT JOINT ASSESSMENTS OF PRESENT ARRANGEMENTS, THE CHINESE WILL INTEND IN DUE COURSE TO USE THEM FOR THEIR OWN PURPOSES, MAINLY TO PRESS FOR CHANGES. BUT THIS IS NOT A SUFFICIENT ARGUMENT AGAINST HAVING SUB-COMMITTEES. IT MAY BE SAID OF THE ENTIRE NEGOTIATION THAT THE OBJECTIVES OF THE TWO SIDES ARE NOT THE SAME: IT WOULD BE A UNIQUE NEGOTIATION IF THEY WERE. THE ESSENTIAL THING IS TO KEEP IN MIND THE CHINESE PURPOSE WHILE MAKING THE BEST USE WE CAN OF THE TALKS TO SUIT OUR OWN. AS I HAVE ARGUED ABOVE, THE SUB-COMMITTEES ARE CRUCIAL TO OUR PURPOSE.

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7. TERMS OF REFERENCE WILL BE A KEY POINT. I AGREE WITH THE GOVERNOR HERE, BUT AT THE SAME TIME I AM ANXIOUS TO AVOID ANOTHER EXTENDED WRANGLE WITH THE CHINESE ON A FORM OF WORDS. THIS IS LIKELY TO OCCUR IF WE SEEK TO AGREE TERMS OF REFERENCE WHICH BEAR ON THE PRINCIPLED POSITIONS OF BOTH SIDES. INSTEAD I BELIEVE WE SHOULD SEEK SIMPLY TO AGREE THAT THE SUB-COMMITTEES:-

- (A) SHOULD BE SUBORDINATE TO THE PLENARY SESSIONS,
- (B) SHOULD HAVE NO POWER OF DECISION,
- (C) SHOULD DISCUSS MATTERS REFERRED TO THEM BY THE PLENARY SESSION, AND REFER THE RESULTS OF THEIR DISCUSSIONS BACK TO THE PLENARY,
- (D) MAY BE USED TO EXCHANGE INFORMATION.

8. WE SHOULD NEED TO KEEP A CAREFUL EYE ON THE ACTIVITIES OF THE SUB-COMMITTEES TO ENSURE THAT THESE TERMS WERE NOT EXCEEDED. I ENVISAGE THAT MEMBERS OF THIS EMBASSY, AND/OR THE POLITICAL ADVISER'S OFFICE, SHOULD ATTEND SUB-COMMITTEE MEETINGS FOR THIS PURPOSE.

9. WE NEED TO CONSIDER URGENTLY HOW MANY SUB-COMMITTEES WE WOULD REQUIRE AND WHAT FIELDS THEY SHOULD COVER. ZHOU NAN SUGGESTED THREE TO ME ON 23 JUNE (MY TELNO 580) - LEGAL/ADMINISTRATIVE, FINANCIAL/COMMERCIAL AND ONE COVERING INTERNATIONAL RELATIONS. YOU AND HONG KONG ARE BETTER PLACED THAN I TO CONSIDER THIS QUESTION. MY OWN THOUGHTS ARE SIMPLY THAT THERE SHOULD NOT BE TOO MANY SUB-COMMITTEES - THREE SEEMS ABOUT RIGHT - AND THEIR CATEGORISATION SHOULD BE OF A RELATIVELY GENERAL NATURE, AS ZHOU HAS SUGGESTED. WE SHOULD AVOID SETTING UP SUB-COMMITTEES ON SPECIALISED SUBJECTS, ESPECIALLY THOSE SUBJECTS (EG. MARITIME, AVIATION ETC.) THAT ARE CLOSELY BOUND UP WITH SOVEREIGNTY.

10. IF SUB-COMMITTEE SESSIONS ARE TO BE USED TO BEST EFFECT IT WILL BE ESSENTIAL TO HAND OVER PAPERS SETTING OUT THE DETAILS OF THE LEGAL, FINANCIAL, FISCAL SYSTEMS ETC. SO THAT SOME OF THESE AT LEAST CAN BE PASSED UP ON THE CHINESE SIDE TO THE DECISION-MAKERS. WORK ON THESE PAPERS SHOULD BEGIN AT ONCE, SO THAT THEY MAY BE PRESENTED AT THE START OF WORKING SESSIONS IN JULY AS A BASIS FOR DISCUSSIONS. THEY WILL HAVE TO BE GOOD PAPERS, FOR IT IS ONE OF THE MOST IMPORTANT CARDS IN OUR HAND THAT WE UNDERSTAND HOW HONG KONG WORKS, WHILE THE CHINESE DO NOT. OUR FIRST OBJECT SHOULD BE TO DEMONSTRATE OUR MASTERY OF THE SUBJECTS AND THE DEFICIENCY OF THEIR UNDERSTANDING.

11. IN THIS CONTEXT, I MIGHT ADD THAT THE AMERICAN CHARGE HAS TOLD ME THAT A GROUP OF AMERICAN LAWYERS HAD RECENTLY HAD A VERY USEFUL VISIT TO PEKING TO EXPLAIN THE SOVEREIGN IMMUNITIES ACT TO THE CHINESE (IN CONNECTION WITH THE HU GUANG RAILWAY BONDS DISPUTE). THE AMERICANS HAD DONE THOROUGH PREPARATIONS, HANDED OVER DETAILED PAPERS AT A SERIES OF MEETINGS AND EXPLAINED IN OBJECTIVE TERMS THE FACTS OF AMERICAN LAW. IN SPITE OF THE TENSIONS OF SINO-US RELATIONS, THE CHINESE HAD BEEN RECEPTIVE AND COULD WELL MOVE SOME WAY TO MEET THE AMERICANS AS A RESULT. THESE TALKS BETWEEN EXPERTS, AVOIDING ANY OBVIOUS POLITICAL POINTS, ARE PRECISELY THE SORT OF THING I SHOULD LIKE TO SEE HAPPEN IN OUR SUB-COMMITTEES.

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12. I MUST STRESS THE IMPORTANCE OF MOVING FAST IF WE ARE TO EXPLOIT THE PRESENT OPPORTUNITY. MY HOPE IS THAT WE CAN ESTABLISH OUR SUB-COMMITTEES AT THE FIRST MEETING AND SET THEM TO WORK IN JULY, WITH A BRIEF FROM THE PLENARY MEETING TO EXAMINE THE PRESENT ARRANGEMENTS IN THEIR VARIOUS FIELDS. IDEALLY, AT THE END OF JULY OR THE VERY BEGINNING OF AUGUST, WE MIGHT HAVE A SECOND PLENARY SESSION, TO HEAR INITIAL REPORTS OF THE SUB-COMMITTEES AND TO SET THEIR WORK FOR THE FOLLOWING WEEKS. THUS WHEN THE GOVERNOR AND I GO ON LEAVE IN AUGUST THE PROCESS WILL BE WELL UNDER WAY.

13 I SHALL TELEGRAPH SEPARATELY SOME THOUGHTS ON THE MODALITIES OF SUB-COMMITTEES.

CRADOCK

## FUTURE OF HONG KONG

LIMITED  
HD/HKD  
HD/FED  
HD/PLANNING STAFF  
HD/PUSD  
PS  
PS/LADY YOUNG  
PS/MR LUCE  
PS/PUS  
SIR J BULLARD  
MR GIFFARD  
MR DONALD  
MR WRIGHT

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