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FROM PEKING 250910Z JUL 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 710 OF 25/7/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: SECOND PLENARY SESSION: FIRST MEETING

1. I BEGAN TODAY'S MEETING WITH THE INTRODUCTORY STATEMENT AS AGREED (CORRESPONDENCE ENDING WITH YOUR TEL NO 466). THE GOVERNOR DELIVERED HIS PRESENTATION AS AGREED WITH ONLY ONE SMALL CHANGE OF SUBSTANCE IE. OMITTING THE WORDS 'AND WHICH IS NOT A MEMBER OF THE GATT' FROM PARA 10(B).

2. AFTER A COFFEE BREAK YAO GUANG DELIVERED A FAIRLY LENGTHY AND REPETITIVE STATEMENT OF WHICH THE MAIN POINTS WERE:

(A) CHINA HAD DECIDED TO RESUME THE EXERCISE OF SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA IN 1997:

(B) ADMINISTRATION AND SOVEREIGNTY WERE INSEPARABLE:

(C) CHINA WOULD NEVER ACCEPT AN ARRANGEMENT WHEREBY CHINA HAD SYMBOLIC SOVEREIGNTY AND BRITAIN RETAINED

ADMINISTRATION: WHAT ESSENTIAL DIFFERENCE WOULD THERE BE BETWEEN POST-AND PRE-1997 UNDER SUCH AN ARRANGEMENT?:

(D) THE CHINESE WERE ALWAYS READY TO STUDY INFORMATION AND DATA ABOUT HONG KONG SUPPLIED BY THE BRITISH SIDE AND TO LISTEN TO OUR VIEWS AND SUGGESTIONS, PROVIDED THESE WERE INTENDED TO FACILITATE THE MAINTENANCE OF PROSPERITY AFTER CHINA HAD RECOVERED SOVEREIGNTY AFTER 1997. BUT IT WOULD BE ANOTHER MATTER IF THE PURPOSE OF SUPPLYING SUCH INFORMATION WERE TO ARGUE THAT THE MAINTENANCE OF PROSPERITY WAS DEPENDENT ON BRITISH ADMINISTRATION AND THAT BRITISH ADMINISTRATION SHOULD THEREFORE CONTINUE:

(E) THE BRITISH SIDE SHOULD SIZE UP THE SITUATION AND QUICKLY MAKE UP ITS MIND TO HAND BACK SOVEREIGNTY AND ADMINISTRATION TO CHINA IN 1997:

(F) CHINA HAD DECIDED TO ADOPT SPECIAL POLICIES TOWARDS HONG KONG AFTER THE RECOVERY OF SOVEREIGNTY AS FOLLOWS:

(I) HONG KONG TO BECOME A SPECIAL ADMINISTRATIVE REGION:

(II) GOVERNMENT TO COMPRISE THE LOCAL PEOPLE OF HONG KONG:

(3) SOCIO-ECONOMIC SYSTEMS AND WAY OF LIFE TO REMAIN UNCHANGED:

(IV) PRIVATE OWNERSHIP OF PROPERTY AND FOREIGN INVESTMENTS

TO BE PROTECTED: BY WHOM

(V) FREEDOMS OF SPEECH, PRESS, ASSEMBLY, TRAVEL, CHANGE OF DOMICILE,

CORRESPONDENCE AND RELIGION TO BE PROTECTED: BY WHOM

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/ (VI) HONG KONG

(VI) HONG KONG SPECIAL ADMINISTRATIVE REGION TO ENJOY A HIGH DEGREE OF AUTONOMY INCLUDING LEGISLATIVE POWER AND INDEPENDENT JUDICIARY, INCLUDING THE "POWER OF FINAL JUDGEMENT":

(VII) LAWS TO BE BASICALLY UNCHANGED:

(VIII) HONG KONG TO CONTINUE AS FREE PORT AND INTERNATIONAL FINANCIAL CENTRE. FOREIGN EXCHANGE, GOLD, SECURITIES AND FUTURES MARKETS AND THE FREE FLOW OF CAPITAL TO CONTINUE:

(IX) THE HONG KONG DOLLAR TO CONTINUE TO CIRCULATE FREELY AND REMAIN FULLY CONVERTIBLE:

(X) FINANCIAL INDEPENDENCE:

(XI) HONG KONG TO MAINTAIN ITS EXISTING EXTERNAL RELATIONS IN ECONOMIC AND CULTURAL FIELDS AND COULD ESTABLISH MUTUALLY BENEFICIAL ECONOMIC RELATIONS WITH BRITAIN.

(G) THESE MAGNANIMOUS POLICIES WERE BASED ON THE REALITIES OF HONG KONG AND ONCE PUBLISHED WOULD NOT DAMAGE CONFIDENCE BUT WOULD BE WELCOMED BY THE HONG KONG PEOPLE:

(H) WHAT CHINA DID IN HONG KONG WAS CHINA'S INTERNAL AFFAIR, BUT IN VIEW OF A FRIENDLY SINO-BRITISH RELATIONSHIP AND THE COMMON DESIRE TO MAINTAIN STABILITY AND PROSPERITY, CHINA HAD CHOSEN TO NOTIFY US BEFORE MAKING THEIR DECISIONS PUBLIC:

(I) THERE COULD BE DISCUSSIONS ON MATTERS DIRECTLY AFFECTING BRITISH INTERESTS AND ON SINO-BRITISH COOPERATION.

THE POLICIES IN (F) ABOVE TOOK ACCOUNT OF THE INTERESTS OF THE BRITISH SIDE:

(J) IT WAS TRUE THAT THERE HAD BEEN CHANGES OF POLICY, ESPECIALLY ECONOMIC POLICY, IN CHINA. BUT CHANGES WERE INEVITABLE WHEN THERE WAS GREAT SOCIAL AND ECONOMIC DEVELOPMENT. MOREOVER, POLICY TOWARDS HONG KONG HAD BEEN CONSISTENT. HONG KONG'S FUTURE AS A SAR WOULD BE GUARANTEED BY THE CHINESE CONSTITUTION.

3. THIS TOOK US TO 11.10 AM WHEREUPON YAO GUANG INVITED COMMENT, SAYING THAT THE STATEMENT TO BE MADE BY LI JUSHENG WAS TOO LENGTHY FOR THE REMAINING TIME AVAILABLE. I SAID WE WERE READY TO HEAR LI'S STATEMENT AT ONCE NO MATTER HOW LONG IT TOOK, OR IF THE CHINESE SIDE PREFERRED, TO HEAR PART OF IT NOW AND CONTINUE TOMORROW. THIS WAS TO NO AVAIL. YAO GAVE ME THE CHOICE OF OFFERING IMMEDIATE COMMENTS OF MY OWN OR CLOSING THE MEETING. IN ORDER NOT TO WASTE THE REST OF THE MORNING, I THEREFORE MADE THE FOLLOWING PRELIMINARY COMMENTS ON YAO'S STATEMENT:

(A) YAO'S REMARK AT PARA 2(D) ABOVE WAS SELF-CONTRADICTIONARY. IT WAS HARDLY AN OBJECTIVE APPROACH TO SAY THAT THE CHINESE SIDE WAS PREPARED TO LISTEN BUT ONLY IF WE TOLD THEM WHAT THEY WANTED TO HEAR.

(B) WE WERE NOT ENDEAVOURING TO ASSERT GENERAL PRINCIPLES.

OUR "PRINCIPLE" WAS THAT WE SHOULD STUDY THE FACTS TOGETHER

(C) THE FACTS WERE THAT BRITISH ADMINISTRATION AND THE LINK WITH BRITAIN WERE THE KEY TO HONG KONG'S PRESENT PROSPERITY.

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WE COULD NOT IGNORE THESE FACTS IN OUR CONSIDERATION OF OUR COMMON OBJECTIVE TO MAINTAIN STABILITY AND PROSPERITY:

(D) YAO'S STATEMENTS THAT THE CHINESE PLAN WOULD WORK WERE STATEMENTS OF FAITH NOT FACT. THEY LACKED PRESENT GUARANTEES;

(E) YAO HAD SAID THAT CHINA'S PROPOSED POLICIES PROCEEDED FROM THE REALITIES OF HONG KONG. IT WAS THESE REALITIES THAT WE INVITED THEM TO STUDY WITH US:

(F) YAO'S STATEMENT AT PARA 2(E) ABOVE WAS ASKING US TO DECIDE BEFORE LOOKING AT THE FACTS:

(G) I REFERRED YAO TO WHAT THE GOVERNOR HAD SAID ON 13 JULY ABOUT THE REAL NATURE OF BRITISH INTERESTS IN HONG KONG AND TO THE PIECE OF PAPER RECORDING THOSE POINTS WHICH WE HAD SUBSEQUENTLY HANDED TO THE CHINESE:

(H) YAO HAD ALSO REFERRED BRIEFLY TO NINETEEN CENTURY HISTORY DESCRIBING IT AS A PAINFUL TIME FOR CHINA AND AN INGLORIOUS CHAPTER FOR BRITAIN. I TOLD HIM WE WERE NOT TIED UP WITH HISTORY AND WISHED TO CONCENTRATE ON THE PRESENT AND THE FUTURE:

(I) REFERRING TO THE POINT AT PARA 2 (J) ABOVE I SAID THAT CHINA COULD NOT EXPECT EVERYONE TO SHARE THE FAITH THEY EXPRESSED THAT THEIR POLICIES WOULD REMAIN CONSISTENT FROM NOW ON. IN PARTICULAR THE PEOPLES OF HONG KONG LACKED THIS CERTAINTY. YO HAD SAID THAT THE CHINESE CONSTITUTION WOULD PROVIDE THE GUARANTEE THAT CHINA'S POLICIES WOULD STICK. BUT HOW MANY CONSTITUTIONS HAD CHINA HAD SINCE 1949?

(J) I TOLD YAO THAT HIS STATEMENT SEEMED TO TAKE NO ACCOUNT OF WHAT THE GOVERNOR HAD SAID IN HIS PRESENTATION. YAO HAD ASKED THAT, IF THE CURRENT SYSTEMS WORKED WELL NOW, WHY THEY COULD NOT DO SO AFTER 1997. THE GOVERNOR HAD EXPLAINED THAT MORNING WHY CERTAIN ASPECTS OF THE PRESENT ARRANGEMENTS EG. CURRENCY AND GATT, WERE DEPENDENT ON THE BRITISH ROLE AND WHY THEY WERE UNLIKELY TO SURVIVE THE KIND OF TRANSITION THAT YAO HAD DESCRIBED AT PARA 2(F).

4. YAO MADE SOME FINAL COMMENTS, NONE OF WHICH ADDED ANYTHING TO WHAT HE HAD SAID IN HIS EARLIER STATEMENT. HE REPEATED HOWEVER THAT THE CHINESE WERE READY TO LISTEN TO WHAT WE HAD TO SAY, COUPLING IT WITH THE WARNING THAT CHINA WOULD NEVER ACCEPT THE CONCLUSION THAT BRITISH ADMINISTRATION WAS THE ONLY WAY TO MAINTAIN STABILITY AND PROSPERITY.

5. SEE MIFT FOR COMMENT

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FUTURE OF HONG KONG

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PS/PUS  
SIR J BULLARD  
MR GIFFARD  
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TO IMMEDIATE FCO  
TELEGRAM NUMBER 711 OF 25 JULY  
INFO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG: SECOND PLENARY SESSION:

FIRST MEETING: COMMENT

1. THIS MEETING WENT MUCH AS I HAD EXPECTED. AS BEFORE THERE WAS NO ~~ANXIETY~~ <sup>ANXIOSITY</sup>. YAO GUANG WAS HOWEVER FIRMER, PARTICULARLY ON THE "PRINCIPLE" THAT SOVEREIGNTY INCLUDES ADMINISTRATION. THE ADMONITORY TONE WAS MOST EVIDENT IN HIS STATEMENT THAT "THE BRITISH SIDE SHOULD SIZE UP THE SITUATION AND QUICKLY MAKE UP ITS MIND TO HAND BACK SOVEREIGNTY AND ADMINISTRATION IN 1997". THERE WAS, HOWEVER, NO EXPLICIT THREAT, AND NO EXPLICIT LINKAGE BETWEEN THIS WARNING AND AN EARLY ANNOUNCEMENT OF THE CHINESE PLAN.

2. ON THE PLUS SIDE, WE ACHIEVED OUR MAIN OBJECTIVE OF THIS MEETING IE. TO DELIVER THE PRELIMINARY PRESENTATION ON HOW HONG KONG WORKS. WE SHALL BE HANDING A COPY TO THE CHINESE TODAY. WE HAVE ALSO HAD SEVERAL REPEATED, IF QUALIFIED, ASSERTIONS FROM YAO GUANG THAT THE CHINESE ARE STILL PREPARED TO HEAR OUR VIEWS.

3. FINALLY, THE CHINESE HAVE EXPOSED SOME SURFACE BY OUTLINING THEIR PLAN FOR POT-1997 ARRANGEMENTS. ESSENTIALLY THERE IS NOTHING IN IT THAT WE HAVE NOT SEEN BEFORE, BUT THIS IS THE FIRST TIME IT HAS BEEN PRESENTED IN OFFICIAL BILATERAL DISCUSSIONS. IT IS USEFUL THAT WE HAVE HAD IT AT THIS STAGE, SINCE WE CAN PICK UP SOME OF THE ELEMENTS IN IT (EG. THE ECONOMIC SYSTEM, THE CURRENCY, LEGAL AND FINANCIAL POINTS) IN INVITING THE CHINESE TO MOVE WITH US ONTO THE DETAILED EXAMINATION FOR WHICH OUR PAPERS HAVE BEEN PREPARED.

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