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FROM PEKING 021010Z AUG 83

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TO IMMEDIATE FCO

TELEGRAM NUMBER 751 OF 2/8/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: THIRD PLENARY ROUND, FIRST MEETING

1. I SPOKE FIRST AT TODAY'S MEETING. USING THE TEXT IN HONG KONG TEL NO 413, THE GOVERNOR AND I INTRODUCED THE FOUR PAPERS AND HANDED THEM OVER.
2. AFTER A BREAK YAO GUANG DELIVERED A STATEMENT REVIEWING THE SECOND PHASE OF TALKS TO DATE. HE BEGAN BY THANKING US FOR THE PAPERS AND REMARKING THAT WE WOULD HAVE OPPORTUNITIES TO DISCUSS THE QUESTIONS COVERED IN THEM IN DAYS TO COME.
3. YAO THEN SAID THAT FRANKLY OUR TALKS SO FAR HAD FAILED TO MAKE DUE PROGRESS. THERE WERE GRAVE DIFFERENCES BETWEEN US ON MATTERS OF PRINCIPLE. HONG KONG WAS CHINESE TERRITORY WHICH BRITAIN SHOULD RETURN TO CHINA UNCONDITIONALLY. THIS POINT COULD NOT BE DENIED OR EVADED.
4. YAO SAID THE SOVEREIGNTY PREMISE HAD BEEN MADE CLEAR TO THE PRIME MINISTER DURING HER VISIT TO CHINA. THE BRITISH RELUCTANCE TO RECOGNISE THE PREMISE HAD CAUSED THE START OF SUBSTANTIVE TALKS TO BE DELAYED AND SIX MONTHS HAD BEEN WASTED. AFTER THE EXCHANGE OF LETTERS AND THE BRITISH GOVERNMENT'S ASSURANCE THAT SOVEREIGNTY WOULD EVENTUALLY REVERT TO CHINA, THE CHINESE HAD DECIDED TO ACCOMMODATE THE BRITISH SIDE. THEY HAD ALSO ACCOMMODATED US ON THE QUESTION OF THE AGENDA. CHINA HAD EXPLAINED ITS PRINCIPLES AND THE POLICIES IT WAS PREPARED TO ADOPT IN HONG KONG AFTER 1997 AND HAD EXPRESSED READINESS TO HEAR BRITISH VIEWS AND SUGGESTIONS AND TO TALK ABOUT MATTERS DIRECTLY AFFECTING BRITISH INTERESTS AND SINO-BRITISH COOPERATION. FROM THE FIRST THREE ROUNDS OF TALKS, HOWEVER, THE CHINESE HAD CONCLUDED WITH GREAT DISAPPOINTMENT THAT OUR ONLY PURPOSE IN CONTINUING TO TALK SOLELY ABOUT THE PRESENT SYSTEMS IN HONG KONG WAS TO ARGUE FOR THE CONTINUATION OF BRITISH ADMINISTRATION, SO THAT CHINA SHOULD HAVE SOVEREIGNTY ONLY IN NAME. DID WE REALLY BELIEVE THAT THE CHINESE GOVERNMENT COULD ACCEPT THIS?
5. YAO SAID THAT HONG KONG HAD BEEN FORCIBLY SEIZED. CHINA HAD THE RIGHT TO RECOVER IT AND TO RESUME THE EXERCISE OF SOVEREIGNTY BY ANY MEANS AND AT ANY TIME. HOWEVER THE CHINESE WISHED TO SETTLE THE QUESTION THROUGH NEGOTIATION. SOVEREIGNTY AND ADMINISTRATION WERE INSEPARABLE. CONTINUATION OF BRITISH COLONIAL RULE WAS ABSOLUTELY UNACCEPTABLE TO THE CHINESE PEOPLE. YAO SUGGESTED WE SHOULD DROP THIS FANTASY SINCE IT WOULD NEVER MATERIALISE.

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6. YAO SAID THAT THE SPECIAL POLICIES OUTLINED BY THE CHINESE SIDE PROVIDED NOT ONLY AN ADEQUATE GUARANTEE FOR THE MAINTENANCE OF PROSPERITY BUT ALSO A SOLID BASIS FOR SINO-BRITISH COOPERATION. THE CHINESE GOVERNMENT HAD FORMULATED THEM ON THE BASIS OF A FULL INVESTIGATION OF THE ACTUAL CONDITIONS IN HONG KONG AND HAD CANVASSED THE OPINIONS OF HONG KONG PEOPLE. IT HAD TAKEN INTO ACCOUNT THE INTERESTS OF ALL CONCERNED, ESPECIALLY THOSE OF THE BRITISH SIDE. ALTHOUGH THESE POLICIES WERE CHINA'S INTERNAL AFFAIR, THE CHINESE HAD CHOSEN TO INFORM US AND WELCOMED OUR VIEWS. THEY WOULD LIKE US TO JOIN WITH THEM IN AN IN-DEPTH STUDY OF VARIOUS QUESTIONS. HOWEVER WE HAD STUCK TO OUR POSITION AND HAD THEREBY CREATED A SERIOUS OBSTACLE TO SUB-COMMITTEE DISCUSSIONS.

7. YAO SAID THE KEY TO RESOLVING THE DIFFICULTIES FACING THE NEGOTIATIONS WAS IN BRITAIN'S HANDS. IF BRITAIN INSISTED ON CONTINUED ADMINISTRATION THE TALKS WERE BOUND TO ENTER A BLIND ALLEY.

IF, ON THE OTHER HAND, BRITAIN DROPPED THIS IDEA AND DECIDED TO RETURN SOVEREIGNTY AND ADMINISTRATION TO CHINA IN 1997, TALKS ON THE MANY OTHER SUBJECTS WOULD BE RELATIVELY EASY.

CHINA WOULD DEFINITELY RECOVER THE WHOLE OF HONG KONG IN 1997 AND WOULD DEFINITELY ANNOUNCE ITS POLICIES TOWARDS HONG KONG WITHIN ONE OR TWO YEARS. TIME WAS THEREFORE VERY PRESSING. HE URGED THE BRITISH SIDE TO CONSIDER THE TRADITIONAL FRIENDSHIP

BETWEEN THE CHINESE AND THE BRITISH PEOPLES AND, PROCEEDING FROM 'LARGER INTERESTS', TO DECIDE QUICKLY TO RETURN HONG KONG TO CHINA, THEREBY HEALING THE HISTORICAL TRAUMA AND OPENING A NEW PAGE ON FRIENDLY RELATIONS AND COOPERATION BETWEEN THE TWO COUNTRIES. HE HOPED THE BRITISH DELEGATION WOULD RETURN TO THE NEGOTIATING TABLE IN SEPTEMBER WITH SUCH A DECISION.

8. I SAID I WOULD LIKE TO RESPOND AND GIVE OUR SUMMARY ON 3 AUGUST.

THE GOVERNOR THEN COMMENTED ON THE STATEMENT MADE BY LI JUSHENG ON 26 JULY. HE USED A MODIFIED VERSION OF THE TEXT IN HONG KONG TEL NO 416 INCLUDING THE ADDITIONAL POINTS THAT

(A) THE FACTORS LISTED BY LI AS IMPORTANT TO HONG KONG'S PROSPERITY WERE CORRECT AS FAR AS THEY WENT BUT DID NOT PROVIDE A COMPLETE PICTURE. ALSO IMPORTANT WERE THE SYSTEMS, FREEDOMS AND ENVIRONMENT PROVIDED BY BRITISH ADMINISTRATION:

(B) IT WAS HARDLY POSSIBLE TO ARGUE, AS LI HAD ATTEMPTED, THAT BECAUSE PEOPLE COMPLAINED ABOUT ELECTRICITY PRICE INCREASES THEY WERE THEREFORE DISSATISFIED WITH THE WAY OF LIFE IN HONG KONG:

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(C) IN HIS ANALYSIS LI HAD MISSED THE CENTRAL QUESTION OF CONFIDENCE, OF WHICH FULL ACCOUNT HAD TO BE TAKEN IF THE TRUE NATURE OF THE PROBLEM WAS TO BE UNDERSTOOD.

9. YAO THEN MADE SOME BRIEF COMMENTS. HE SAID THAT THE CHINESE SIDE ATTACHED GREAT IMPORTANCE TO THE MAINTENANCE OF STABILITY AND PROSPERITY AND HAD TAKEN ACCOUNT OF THIS IN FORMULATING THEIR POLICIES. THE BRITISH SIDE HOWEVER WAS EVADING THE QUESTION OF FUNDAMENTAL PRINCIPLE. THIS HAD AGAIN BEEN EVIDENT IN THE GOVERNOR'S COMMENTS ON LI JUSHENG'S STATEMENT. YAO HOPED THAT IN MY STATEMENT TOMORROW I WOULD FACE UP TO THE QUESTION OF FUNDAMENTAL PRINCIPLE.

10. I RESPONDED BRIEFLY, SAYING THAT I COULD NOT ACCEPT THAT THE GOVERNOR HAD EVADED ANY POINT IN HIS COMMENTS. THE STATEMENT MADE BY LI JUSHENG ON 26 JULY HAD CONTAINED FACTS AND CONCLUSIONS WHICH WOULD NOT STAND UP TO SCRUTINY. WE HAD POINTED OUT HIS ERRORS IN THE INTERESTS OF OUR COMMON CAUSE OF STUDYING HONG KONG AND REACHING A COMMON UNDERSTANDING OF HOW THE PLACE WORKED. THIS WAS NOT EVASION BUT SIMPLE CORRECTION.

12. SEE MIFT FOR COMMENT.

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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MR WALKER, RESEARCH DEPT  
MR ROBERTS NEWS D (GOGGS)



SECRET

FROM PEKING 021035Z AUG 83

TO IMMEDIATE FCO

*Seen by Mr.*

TELEGRAM NUMBER 752 OF 2/6/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG: THIRD PLENARY ROUND,  
FIRST MEETING

1. YAO GUANG'S RECEPTION OF THE PAPERS WE HANDED OVER WAS MODERATELY ENCOURAGING. I HAD THE IMPRESSION THAT THE CHINESE WERE GENUINELY GLAD TO HAVE THIS MATERIAL.
2. YAO'S STATEMENT WHICH WAS NOT UNEXPECTED, WAS THE FIRREST YET ON THE 'PRINCIPLE' THAT SOVEREIGNTY AND ADMINISTRATION ARE INSEPARABLE AND SHOULD BOTH PASS TO CHINA IN 1997. INDEED HE CONCENTRATED SOLELY ON THIS POINT.
3. YAO STOPPED SHORT OF AN EXPLICIT THREAT TO BREAK OFF THE TALKS IF WE DID NOT ACCEPT THIS PRINCIPLE AND HE REFERRED TO OUR MEETING AAIN IN SEPTEMBER (TO WHICH BOTH SIDES ARE ALREADY PUBLICLY COMMITTED BY THE PRESS ANNOUNCEMENT ON 26 JULY). BUT HE DID STATE MORE PLAINLY THAN BEFORE THAT IF WE DID NOT ACCEPT THE PRINCIPLE OUR TALKS WOULD LEAD NOWHERE. CHINA HAD IN ANY CASE DECIDED ON THE POLICIES IT WAS PREPARED TO ADOPT AND WOULD DEFINITELY ANNOUNCE THESE WITHIN ONE OR TWO YEARS.
4. AS YOU WILL HAVE NOTICED (O-PARA 4 OF MIPT) YAO AGAIN DISTORTED THE ASSURANCE IN MRS THATCHER'S LETTER TO ZHAO ZIYANG. I SHALL ONCE AGAIN PUT HIM RIGHT ON THIS TOMORROW.

CRADOCK

## FUTURE OF HONG KONG

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