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DD 100100Z HONG KONG

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DESKBY 100100Z

FM FCO 091445Z SEPT 83

TO IMMEDIATE HONG KONG

TELEGRAM NUMBER 880 OF 9 SEPTEMBER

TO INFO IMMEDIATE PEKING

MIPT: FUTURE OF HONG KONG

FOLLOWING IS TEXT OF PAPER FOR EXCO:

1. 'INTRODUCTION. MINISTERS DISCUSSED THE POSITION IN SEPTEMBER WITH THE AMBASSADOR AND ME.
2. CHINESE POSITION. DURING THE FIRST THREE SESSIONS OF THE TALKS IN JULY AND AUGUST, THE CHINESE TOOK A VERY HARD LINE AGAINST THE CONTINUATION OF BRITISH ADMINISTRATION IN HONG KONG AFTER 1997 IE:
 - (A) SOVEREIGNTY AND ADMINISTRATION ARE INDIVISIBLE AND BOTH ARE NON-NEGOTIABLE:
 - (B) CHINA WOULD NEVER ACCEPT AN ARRANGEMENT WHEREBY CHINA HAD SYMBOLIC SOVEREIGNTY AND BRITAIN RETAINED ADMINISTRATION:
 - (C) HONG KONG PEOPLE SHOULD RUN HONG KONG:
 - (D) SOVEREIGNTY AND ADMINISTRATION SHOULD REVERT TO CHINA IN 1997:
 - (E) THEY INTENDED TO ANNOUNCE THEIR PLANS FOR THE FUTURE OF HONG KONG IN ONE OR TWO YEARS' TIME WHETHER OR NOT A BILATERAL AGREEMENT HAS BEEN REACHED.
3. THE LATEST AND MOST AUTHORITATIVE SUMMARY OF THE CHINESE PROPOSALS FOR THE ADMINISTRATION OF HONG KONG AFTER 1997 WAS GIVEN BY VICE FOREIGN MINISTER YAO GUANG IN THE TALKS ON 25 JULY. THIS INCLUDED THE FOLLOWING POINTS:
 - (A) HONG KONG WOULD BECOME A SPECIAL ADMINISTRATIVE REGION OF CHINA:
 - (B) THE GOVERNMENT WOULD BE DRAWN FROM THE LOCAL PEOPLE OF HONG KONG:
 - (C) THE ECONOMY, WAY OF LIFE AND BASIC FREEDOMS WOULD BE

SECRET

16895 - 1

'PROTECTED' AND THE LAWS WOULD BE 'BASICALLY UNCHANGED'. THERE WOULD CONTINUE TO BE AN INDEPENDENT CONVERTIBLE CURRENCY AND 'EXTERNAL RELATIONS IN THE ECONOMY AND CULTURAL FIELDS' WOULD BE MAINTAINED.

4. THE CHINESE HAVE NOT GONE INTO DETAIL ABOUT THEIR PROPOSALS, WHICH THEY CLAIM WILL NOT DAMAGE CONFIDENCE. HOWEVER, IT IS MORE THAN PROBABLE THAT THEY WILL CONTINUE STRONGLY TO OPPOSE CONTINUATION OF BRITISH ADMINISTRATION, NOT MERELY IN ITS PRESENT FORM, BUT WITH ANY AUTHORITATIVE LINK THROUGH A GOVERNOR BY WHATEVER NAME RESPONSIBLE TO LONDON.

5. THERE ARE STRONG GROUNDS FOR BELIEVING THAT THIS IS MORE THAN A NEGOTIATING POSITION. THE CHINESE HAVE MADE CLEAR THAT THEIR NATIONAL PRIDE IS ENGAGED AND THAT WHILE THEY ARE PREPARED TO TOLERATE THE CONTINUATION OF THE PRESENT ARRANGEMENTS UP TO 1997, ANY CONTINUATION OF THE BRITISH COLONIAL LINK THEREAFTER WOULD BE UNACCEPTABLE. THEY VALUE THE ECONOMIC BENEFITS WHICH THEY OBTAIN FROM HONG KONG BUT HAVE CONSISTENTLY STATED THAT IF PUSHED TO CHOOSE, THEY WOULD SACRIFICE THOSE BENEFITS FOR POLITICAL REASONS. MOST IMPORTANT, THE CHINESE HAVE MADE PUBLIC THEIR POSITION ON BOTH SOVEREIGNTY AND ADMINISTRATION. TO RETREAT FROM THIS WOULD INVOLVE SERIOUS LOSS OF FACE.

6. BRITISH AIM AND CURRENT OBJECTIVES. HMG'S PUBLICLY STATED AIM IS TO SEEK A SOLUTION ON THE FUTURE OF HONG KONG WHICH WILL PRESERVE HONG KONG'S PROSPERITY AND STABILITY AND BE ACCEPTABLE TO THE BRITISH PARLIAMENT, TO THE CHINESE GOVERNMENT AND TO THE PEOPLE OF HONG KONG. THE BRITISH NEGOTIATING OBJECTIVE AGREED WITH EXCO AND UMELCO, BUT NOT PUBLICLY STATED, IS THE CONTINUATION OF BRITISH ADMINISTRATION FOR AS LONG AS POSSIBLE AFTER 1997.

7. FUTURE STRATEGY. MINISTERS HAVE AGREED THAT WHEN THE TALKS WITH THE CHINESE RESUME ON 22/23 SEPTEMBER, THE BRITISH TEAM SHOULD SEEK CHINESE REACTIONS TO THE PAPERS PRESENTED AT THE END OF THE LAST ROUND, AND CONTINUE TO ARGUE THAT THE AGREED COMMON OBJECTIVE OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG CAN ONLY BE ACHIEVED IF ARRANGEMENTS ARE MADE FOR THE CONTINUATION OF BRITISH ADMINISTRATION AFTER 1997.

2

SECRET

SECRET

16895 - 1

8. IF THE CHINESE ARE WILLING TO CONTINUE TO LISTEN TO BRITISH VIEWS WHILE ELABORATING THEIR OWN, THERE WILL BE NO DIFFICULTY ABOUT MAINTAINING THE PRESENT COURSE, AT ANY RATE FOR A FEW MORE MEETINGS. BUT THEY MAY WELL NOT DO SO. IN THAT CASE WE SHALL SOON BE FACED WITH TWO POSSIBILITIES.
9. THE FIRST WOULD BE TO MAINTAIN OUR PRESENT COURSE AIMED AT TH CONTINUATION OF BRITISH ADMINISTRATION. TO DO SO WOULD RUN THE RISK THAT THE TALKS WOULD SOON REACH STALEMATE OR BE BROKEN OFF BY THE CHINESE. THIS WOULD IN TURN ENTAIL A RISK OF PUBLIC CONFRONTATION WITH SERIOUS CONSEQUENCES FOR CONFIDENCE.
10. SECONDLY, WE COULD SEEK TO MAINTAIN THE BRITISH LINK THROUGH A GOVERNOR APPOINTED BY AND RESPONSIBLE TO HMG, BUT OFFER ADMINISTRATIVE CHANGES DESIGNED TO MAKE THE RETENTION OF THE BRITISH LINK MORE PALATABLE TO THE CHINESE. SUCH CHANGES MIGHT INCLUDE:
- (I) THE GOVERNOR TO BE A HONG KONG CHINESE.
 - (II) BRITISH TROOPS TO BE WITHDRAWN FROM HONG KONG (THERE WOULD HAVE TO BE A COMPENSATING INCREASE IN THE STRENGTH OF THE LOCAL SECURITY FORCES).
 - (III) APPEALS TO THE PRIVY COUNCIL TO BE ENDED, LEAVING THE REST OF THE LEGAL SYSTEM UNCHANGED.
 - (IV) A NUMBER OF CHANGES IN NOMENCLATURE AND STYLE.
11. CHINESE LONGER TERM ATTITUDE. THE CHINESE ARE LIKELY TO CONTINUE TO INSIST THAT DISCUSSION SHOULD BE ON THE BASIS OF THEIR PROPOSALS. THEY HAVE INDICATED THAT IF HMG WERE TO AGREE TO THIS THEY WOULD BE READY TO BE FLEXIBLE. THEY HAVE SAID THAT PROVIDED THAT HMG CONCEDED THEIR CONDITIONS ON SOVEREIGNTY AND 'THE POWER OF ADMINISTRATION', 'DISCUSSION ON THE MANY OTHER SUBJECTS WOULD BE RELATIVELY EASY'.
12. LONGER TERM RISKS. THERE ARE CONSIDERABLE RISKS IN STICKING TO OUR PRESENT POSITION, WHICH NEED CAREFUL CONSIDERATION. AS AN ALTERNATIVE WE HAVE THE OPTION OF OFFERING MODIFICATIONS TO THE PRESENT SYSTEM OF BRITISH ADMINISTRATION AS IN PARA 10. HOWEVER, GIVEN THE CHINESE POSITION ON THE INDIVISIBILITY OF SOVEREIGNTY AND ADMINISTRATION, THIS MAY ALSO BE REJECTED SOON. THERE WOULD AGAIN BE A HIGH RISK THAT THE TALKS WOULD REACH

SECRET

16895 - 1

STALEMATE OR BREAK DOWN. THIS WOULD BECOME PUBLIC, WITH A SEVERE
IMPACT ON CONFIDENCE IN HONG KONG.'

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FUTURE OF HONG KONG

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ED/PLANNING STAFF
ED/FUSD
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PS/LADY YOUNG
PS/MR LUCE
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16902 - 1

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DESKBY 100100Z

FM FCO 091548Z SEP 83

TO IMMEDIATE HONG KONG

TELEGRAM NUMBER 879 OF 9 SEPTEMBER

INFO IMMEDIATE PEKING (PERSONAL FOR CHARGE)

FUTURE OF HONG KONG: DISCUSSION WITH EXCO

1. MINISTERS HAVE AGREED THAT YOU SHOULD INITIATE A FULL DISCUSSION WITH EXCO ON THE CURRENT POSITION IN OUR TALKS WITH THE CHINESE. MIFT CONTAINS THE TEXT OF A PAPER WHICH MAY BE CIRCULATED TO EXCO MEMBERS UNDER THE USUAL SECURE CONDITIONS SHORTLY BEFORE THE MEETING.

2. IN INTRODUCING THE SUBJECT, YOU SHOULD SAY THAT YOU AND THE AMBASSADOR HAD A FULL DISCUSSION OF THE PROBLEM WITH THE PRIME MINISTER AND MYSELF. THE PAPER IS BASED ON THAT DISCUSSION. IT PROVIDES AN ASSESSMENT ON THE BASIS OF WHICH MINISTERS HOPE THAT EXCO CAN DISCUSS THE PRESENT POSITION, GIVE THEIR VIEWS ON IT AND IN PARTICULAR OFFER ADVICE ON THE FOLLOWING POINTS:

(A) THE EXTENT TO WHICH CONFIDENCE WOULD BE DAMAGED BY A STALEMATE OR BREAKDOWN IN THE TALKS WITH THE CHINESE. HOW FAR WOULD THIS LEAD TO AN INCREASED OUTFLOW OF MONEY OR SKILLED PERSONNEL FROM HONG KONG? WHAT WOULD BE THE DAMAGE TO THE ECONOMY AND TO PUBLIC MORALE? HOW QUICKLY WOULD ANY DAMAGE OCCUR TO WHAT EXTENT COULD IT BE REVERSED?

(B) EXCO'S VIEWS ON THE ACTION WE SHOULD TAKE IF THE CHINESE WERE TO STICK TO THE INDIVISIBILITY OF SOVEREIGNTY AND ADMINISTRATION IN THE TALKS ON 22/23 SEPTEMBER.

(C) IF EXCO CONSIDER THAT IT WOULD BE RIGHT TO MOVE TO THE COURSE SET OUT IN PARAGRAPH 10 OF THE PAPER, WHAT CHANGES IN THE PRESENT ADMINISTRATIVE ARRANGEMENTS IN HONG KONG COULD WE CONTEMPLATE SHORT OF THE SEVERANCE OF THE ADMINISTRATIVE LINK BETWEEN LONDON AND HONG KONG?

3. YOU SHOULD SAY THAT, AT THE 22/23 SEPTEMBER MEETING, OUR

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SECRET

SECRET

16902 - 1

NEGOTIATORS WILL ADHERE TO OUR PRESENT LINE. THEY WILL MAINTAIN THE NEED FOR CONTINUING BRITISH ADMINISTRATION, RECALL THE ARGUMENTS ALREADY PUT FORWARD FOR THAT AND URGE THE CHINESE TO STUDY FURTHER THE MATERIAL WHICH WE HAVE PROVIDED. AT THE SAME TIME EXCO WILL UNDERSTAND THAT IT WILL BE VERY DESIRABLE TO GET AGREEMENT AT THE END OF THE 22/23 SEPTEMBER SESSION ON A DATE FOR THE NEXT MEETING. FAILURE TO ANNOUNCE THAT THE TALKS WILL CONTINUE AT A STATED TIME COULD HIT CONFIDENCE IN HONG KONG VERY BADLY. THE AMBASSADOR'S INSTRUCTIONS WILL NEED TO CONTAIN SUFFICIENT LATITUDE TO ACHIEVE THIS WITHOUT DEPARTING FROM OUR ESSENTIAL POSITION.

4. YOU SHOULD EXPLAIN TO EXCO THAT THEIR ADVICE WILL OF COURSE BE CAREFULLY CONSIDERED BEFORE MINISTERS REACH ANY DECISION. EXCO WILL MOREOVER HAVE THE OPPORTUNITY OF A FURTHER DISCUSSION AFTER THE 22/23 SEPTEMBER MEETING. THAT EXCO DISCUSSION WILL BE ATTENDED BY MR LUCE AND THE AMBASSADOR, WHO WILL BE VISITING HONG KONG.

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2
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