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cc/c

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Prime Minister

PM/84/56

PRIME MINISTER

FUTURE OF HONG KONG: AGENDA ITEM TWO

I must discuss. We are being pushed rapidly to Chinese subject to news of OD(K) packed to what long colleagues, agree will paragraph 8? before 1997. Under no circumstances said we have until 1997! Under this. A.P.C. 29/3 must help and help in future not

1. The Chinese have told us that they wish to start discussing agenda item two (arrangements prior to 1997) in April. We have said that we will try to meet this deadline. We should decide what line to take on this item.

The Chinese Objectives

2. The Chinese are the demandeurs on agenda item two. They wish to have a say in what happens in Hong Kong up to 1997. They have indicated that they wish to establish some form of institutional machinery in Hong Kong before 1997 to give the impression that they have acquired the right to be consulted on all aspects of Hong Kong's internal affairs. The areas that probably interest them most are:

- (a) constitutional developments between now and 1997:
- (b) internal security and:
- (c) localization of the civil service, police and judiciary.

Our Objectives

3. We will continue to be the administering power for Hong Kong until 1997. We must not allow undue Chinese influence in that period, to avoid reducing confidence in the territory. Some measure of Chinese pressure is inevitable. But we must not allow them a veto over developments in Hong Kong up to 1997.

4. However there are certain matters affecting the pre-1997 period which we should discuss with the Chinese. These include:

(a) Land Tenure. We must make clear to the public that leases for land in the New Territories will be issued on the same terms as those in the ceded areas. It would be helpful to have an understanding on this recorded in the agreement.

(b) Hong Kong's possible future participation in international /treaties



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treaties, at present applying to the Territory. This will require discussion between China and the UK over a long period between now and 1997.

- (c) Future GATT rights for Hong Kong. A mention of this will be needed in the agreement, but continuing discussion will be necessary between the UK and China and with other GATT members in order to ensure a continuing status for Hong Kong. (The same considerations may apply to other international economic bodies).
- (d) Shipping and Air Services. In both cases we shall need to develop arrangements for Hong Kong to control these services autonomously.
- (e) Financial. There may be some scope for discussion with the Chinese on such matters as issue of notes, coins and postage stamps bearing "colonial" emblems. They may wish to discuss the possibility of the Bank of China becoming a note-issuing bank.
- (f) Internal Security Force. If the Chinese continue to decline to react to our proposal for the creation of an internal security force in Hong Kong under Agenda Item One, and insist that this matter should be discussed during the transitional period, we shall have to raise it under Item Two. Without the Chinese side's at least tacit agreement to the force's creation, it will be very difficult to proceed with it. We must resist however any Chinese bid for involvement in the planning of such a force. Its recruitment and formation is a matter for the Hong Kong Government.

5. At the tenth round of talks the Chinese argued that our proposals for constitutional development up to 1997 would have to be discussed with them to ensure that they did not conflict with the provisions of the Basic Law. They said that this should be discussed under Agenda Item Two. This may provide us with an opening to influence the drafting of the Basic Law. We must exploit it without allowing the Chinese an opening for interference.

/Future Arrangements



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Future Arrangements

6. Possible ways of securing our objectives would be:

(a) Continuing talks through diplomatic channels. These will be necessary in any case on some matters. They would have the advantage that they would not provide an institutionalised forum in which the Chinese could interfere in Hong Kong before 1997. But equally they would not offer much scope for our own involvement in the Basic Law.

(b) Some form of institutionalised consultation with the Chinese, such as the establishment of working groups for the discussion of co-operation between September 1984 and July 1997. The terms of reference of such machinery could be made wide enough to allow us to influence the drafting of the Chinese Basic Law, and to resolve the outstanding transitional problems in the fields of international treaties, land tenure aviation and shipping.

7. We would have to be careful to ensure that such a body did not allow the Chinese an undue role before 1997. In particular there is the problem of whether it should be based in Peking or Hong Kong. If the body were in Peking we should be dealing with cadres who know little about Hong Kong, and are unexposed to the realities of life there. But against this if it were established in Hong Kong it would certainly detract from the authority of the Hong Kong Government, and complicate our job as the administering power up to 1997.

Line to Take with the Chinese

8(a) We should agree to discuss agenda item two with the Chinese in April, provided that we maintain the right to refer back to unresolved questions from agenda item one.

(b) On constitutional arrangements up to 1997 we should say to the Chinese that we propose to move to a system of indirect
/elections



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elections. We would not be likely to make a decision on whether to move to direct elections until the 1990's. We should make it clear that we are simply informing them of our intentions, and not consulting them or giving them the right to veto changes. We should however say that we will consult them before moving to direct elections. We should adopt a similar line on localisation of the civil service.

(c) we should keep in touch with the Chinese over the creation of an internal security force, but resist any suggestion that we will consult them on its recruitment or formation.

(d) On other questions covered in paragraph four we should seek Chinese acceptance of guidelines for handling these matters, and the inclusion of statements on them in the agreement.

(e) We should suggest referring remaining questions to some form of consultative machinery. This should be based in Peking and working groups should be established where both sides agree that it is necessary. It should include the participation of Hong Kong representatives.

(f) We should agree terms of reference for this machinery with the Chinese, which are wide enough to allow us to influence the drafting of the Basic Law, but avoid giving the Chinese a veto on developments in Hong Kong prior to 1997.

9. I am copying this to Sir R Armstrong and other members of OD(K).

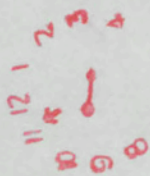
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9. I am copying this to Sir R Armstrong and other members of OD(K). This is possible

HONG KONG Future
A12



29 MAR 1984



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10 DOWNING STREET

From the Private Secretary

30 March 1984

FUTURE OF HONG KONG: AGENDA ITEM 2

The Prime Minister has seen the Foreign and Commonwealth Secretary's undated minute (PM/84/56) suggesting the line we should take with the Chinese when we begin to discuss with them Agenda Item 2 - arrangements in Hong Kong prior to 1997.

The Prime Minister believes that this paper should be discussed in OD(K). She has minuted to the effect that we are being pushed rapidly towards partial Chinese control in Hong Kong long before 1997; whereas the Unofficials, in their discussions with the Prime Minister, have derived some comfort from the thought that the present situation in Hong Kong would continue until at least 1997. Mrs. Thatcher is concerned that, under the arrangements proposed in the minute under reference, the prospect of the present situation continuing would be harmed and that the Chinese are likely to seek to push us further in the direction of a substantial element of Chinese influence in Hong Kong in the period between now and 1997.

bc || You will wish to consider with the Cabinet Office whether it is necessary for OD(K) to meet before the visit of Unofficials to London at the end of next week.

I am copying this letter to the Private Secretaries of other members of OD(K) and to Sir Robert Armstrong.

A J Coles

CT

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

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