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GRS 700
SECRET
DESKBY 020900Z FCO
DESKBY 020900Z PEKING
FM HONG KONG 020740Z APR 84
TO IMMEDIATE F C O
TELEGRAM NUMBER 885 OF 2 APRIL
INFO IMMEDIATE PEKING

ADVANCE COPY
DBY 020900Z
IMMEDIATE

MY TELNO 864: FUTURE OF HONG KONG

1. AS A CONTRIBUTION TO THE PREPARATIONS FOR THE VISIT BY EXCO UNOFFICIALS AND THE SECRETARY OF STATE'S VISIT TO PEKING, MINISTERS MAY WISH TO HAVE MY APPRAISAL OF THE SITUATION AS FAR AS HONG KONG IS CONCERNED. IN MY VIEW THE HONG KONG DIMENSION IS NOT BEING GIVEN SUFFICIENT WEIGHT IN THE CONSIDERATION OF OUR STRATEGY.

2. OUR EXCHANGES WITH THE CHINESE HAVE BEEN USEFUL IN ROUNDING OUT THE CHINESE PLAN. THERE ARE NEVERTHELESS SOME LARGE ISSUES STILL TO BE RESOLVED, IN PARTICULAR CONSTITUTIONAL ARRANGEMENTS AFTER 1997, NATIONALITY AND INTERNAL SECURITY; AND SOME LESSER POINTS WHICH WILL BE IMPORTANT TO MAINTAINING MORALE AND RETAINING THE SERVICE OF OFFICERS IN; THE PUBLIC SERVICE, THE POLICE, AND THE JUDICIARY - SUCH AS SECURITY OF TENURE, THE POSITION OF OVERSEAS (AND OTHER NON-CHINESE) OFFICERS, PROCEDURES FOR THE APPOINTMENT AND DISMISSAL OF JUDGES, AND THE ARRANGEMENTS FOR ADMINISTERING THE PUBLIC SERVICE GENERALLY. WE SHOULD NOT LET THE CHINESE BELIEVE THAT WHAT THEY HAVE SO FAR SAID ON THESE POINTS WILL BE A SATISFACTORY BASIS FOR FUTURE ARRANGEMENTS. WE SHALL NEED TO CONTINUE TO PRESS THEM (AND AT THE SAME TIME TO MAKE OUR OWN DISPOSITIONS EG ON SUCH MATTERS AS PENSIONS). WE MUST ALSO KEEP OUR HANDS AS FREE AS WE CAN AS REGARDS THE ADMINISTRATION OF THIS TERRITORY UP TO 1997, WHILE TAKING DUE ACCOUNT OF THE NEED TO MATCH PRE-1997 ARRANGEMENTS WITH THOSE POST-1997.

3. ASSUMING THAT THE OUTSTANDING ISSUES CAN BE RESOLVED SATISFACTORILY, THE CRUCIAL QUESTION WILL BE THE WILLINGNESS OF THE CHINESE TO COMMIT THEMSELVES TO DETAILED POST-1997 ARRANGEMENTS IN A FORM WHICH WILL CARRY CONVICTION IN HONG KONG. TO CARRY SUCH CONVICTION THERE WILL NEED TO BE CLEAR AND EXPLICIT UNDERTAKINGS. A CLEVERLY FUDGED DIPLOMATIC DOCUMENT INCLUDING, FOR THE CHINESE PART, NO MORE THAN A GENERALLY WORDED STATEMENT OF INTERNAL POLICY, WILL NOT BE ENOUGH. IF PEOPLE HERE ARE TO OVERCOME THEIR SCEPTICISM BASED ON EVENTS IN CHINA SINCE 1949 AND TO BROUGHT TO BELIEVE THAT THE FUTURE SAR WILL BE GENUINELY AUTONOMOUS; THAT THE LEGAL SYSTEM WILL SURVIVE; AND THAT THE CAPITALIST ECONOMY WILL BE PRESERVED THE CHINESE WILL NEED TO GIVE UNDERTAKINGS IN A FORM RECOGNISABLE TO THE INTERNATIONAL COMMUNITY AND TO THOSE WHO MATTER IN HONG KONG (THE INVESTORS AND PROFESSIONALS) AS BINDING COMMITMENTS. WE SHOULD NOT LET THE CHINESE (OR OURSELVES) HARBOUR THE ILLUSION THAT LESS WILL DO.

4. AS I SEE IT, THEREFORE, THE DRAFT AGREEMENT SHOULD NOT BE PRESENTED TO THE CHINESE IN A WAY WHICH GIVES THEM THE IMPRESSION THAT IT IS NO MORE THAN A STARTING POINT FOR NEGOTIATION. IT SHOULD BE PRESENTED, BOTH AS REGARDS FORM AND CONTENT, AS THE KIND OF AGREEMENT WHICH IN OUR CONSIDERED JUDGEMENT WILL BE ESSENTIAL IF THE RESULTS OF OUR DISCUSSIONS ARE TO HAVE ANY HOPE OF CREDIBILITY IN HONG KONG AND INTERNATIONALLY.

5. WE CAN USE WITH THEM THE FOLLOWING ARGUMENTS:

- (A) THE DRAFT MEETS THEIR ESSENTIAL REQUIREMENTS. IT ACCEPTS THAT SOVEREIGNTY WILL BE TRANSFERRED, AND BRITISH ADMINISTRATION WILL WILL END IN 1997, AND IT INCORPORATES THE MAIN POINTS OF THE CHINESE PLAN. SUBJECT TO THE RESOLUTION OF THE QUESTIONS STILL UNDER DISCUSSION, THE POINTS INCLUDED IN THE DRAFT HAVE BEEN COVERED IN THE TALKS. THERE IS THEREFORE NOTHING IN THE SUBSTANCE OF THE ARRANGEMENTS WHICH THE DRAFT DESCRIBES TO WHICH THEY SHOULD OBJECT.
- (B) THE DRAFT POSTULATES A PROFOUND CHANGE IN HONG KONG. WHATEVER THE CHINESE VIEW OF THE WISHES OF HONG KONG'S CHINESE INHABITANTS. IT WILL REQUIRE WILLING COOPERATION BETWEEN THE UK AND CHINA IF HONG KONG IS TO SURVIVE THAT CHANGE. WE ARE WILLING TO EXTEND THAT COOPERATION. BUT SUCCESS WILL DEPEND ON THE CREDIBILITY OF THE ARRANGEMENTS IN HONG KONG AND INTERNATIONALLY. NEITHER GOVERNMENT CAN DECREE THAT CREDIBILITY. IT IS NOT IN OUR GIFT; IT WILL HAVE TO BE WON.
- (C) THE FORM AND CONTENT OF THE AGREEMENT MUST THEREFORE:
- (1) SATISFY THOSE WHOSE CONTINUED PRESENCE IS ESSENTIAL TO HONG KONG'S PROSPERITY (THE INVESTORS AND PROFESSIONALS) THAT THERE IS A BINDING COMMITMENT TO MAINTAIN THE HONG KONG SYSTEMS UNCHANGED. THEY WILL NOT RISK THEIR ASSETS OR THEIR OWN FUTURES WITHOUT SUCH COMMITMENTS.
 - (II) SATISFY PARLIAMENT THAT THE AGREED ARRANGEMENTS WILL BE SUFFICIENT TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG, AND THAT IT WOULD BE RIGHT FOR THEM TO AUTHORIZE THE TRANSFER OF SOVEREIGNTY IN 1997.
 - (III) PROVIDE A CLEARLY ESTABLISHED BASIS FOR THE COOPERATION WHICH THE PRIME MINISTER SAID IN HER MESSAGE WE WOULD OFFER, PROVIDING SHE WAS SATISFIED ON THE ARRANGEMENTS TO BE MADE

~~TRANSFER OF SOVEREIGNTY IN 1997.~~

~~NNN PROVIDE A CLEARLY ESTABLISHED BASIS FOR THE COOPERATION WHICH THE PRIME MINISTER SAID IN HER MESSAGE WE WOULD OFFER, PROVIDING SHE WAS SATISFIED ON THE ARRANGEMENTS TO REPLACE BRITISH ADMINISTRATION.~~

6. IF WE PRESENT ~~THE~~ DRAFT AGREEMENT IN THIS WAY THE CHINESE WILL NO DOUBT PROTEST STRONGLY AND THREATEN THE UNILATERAL ANNOUNCEMENT OF THEIR PLAN. IN CONSEQUENCE WE MAY WELL FACE A FEW ROUGH MONTHS AND SOME DIFFICULT MEETINGS IN PEKING. BUT IT IS ESSENTIAL THAT WE SHOULD NOT PRETEND TO THEM (OR TO OURSELVES) THAT WE CAN GET ACCEPTANCE OF THE NEW ARRANGEMENTS ON THE BASIS OF SWEET WORDS FROM THE CHINESE ALONE OR THAT HONG KONG WILL QUIETLY ACCEPT WHATEVER PEKING AND LONDON DECIDE. MOREOVER A UNILATERAL ANNOUNCEMENT CARRIES HEAVY RISKS FOR THE CHINESE AS WELL AS FOR US SINCE THEY MUST KNOW THAT IT WOULD CARRY NO CONVICTION IN HONG KONG ON ITS OWN. THERE IS NO GUARANTEE THAT ANY AGREEMENT WILL DO THE TRICK. BUT WITH THE KIND OF AGREEMENT SUCH AS WE ARE NOW PLANNING TO PRESENT WE HAVE A CHANCE AND WE SHOULD URGE THE CHINESE STRONGLY TO TAKE IT. I TRUST THAT THE SECRETARY OF STATE WILL BE READY TO BRING THIS HOME TO THEM IN CLEAR TERMS.

7. I DO NOT UNDERESTIMATE THE RISKS. EVIDENCE OF DIFFICULT MEETINGS IN PEKING WILL WORRY THE MARKETS HERE. IF BY THE LATE SUMMER THERE IS THE PROSPECT OF NO AGREEMENT WITH THE CHINESE WE SHALL BE FACED WITH THE GRAVE DECISIONS. BUT THERE WILL BE EQUALLY SERIOUS RISKS IN COMMITTING OURSELVES TO THE CHINESE ON AN AGREEMENT WHICH IN FORM AND CONTENT WILL NOT CARRY CONVICTION IN HONG KONG. WE SHOULD STILL BE RESPONSIBLE FOR THE ADMINISTRATION OF THE TERRITORY BUT IN CONDITIONS OF RAPIDLY DECLINING CONFIDENCE, AND POSSIBLY OF COLLAPSE. THE CHINESE WOULD LAY THE BLAME ON HMG. IN SHORT WE SHOULD HAVE THE WORST OF BOTH WORLDS.

8. WITH A POSITION SUCH AS I HAVE OUTLINED IN PARAS 4 AND 5 ABOVE THERE IS A PROSPECT OF HOLDING EXCO. ANY SUGGESTION THAT THE SECRETARY OF STATE WILL GO TO PEKING IN THE EXPECTATION OF BEING BARGAINED DOWN WILL RUN A STRONG RISK OF LOSING THEIR SUPPORT. THAT LOSS WILL BE A POOR START WHEN WE COME TO TEST THE ACCEPTABILITY OF ANY ARRANGEMENT IN HONG KONG.

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