SECRET

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DD 112330Z PEKING

DD 112330Z HONG KONG

GRS 332

SECRET

DESKBY 112330Z

FM FCO 111815Z APR 84

TO IMMEDIATE PEKING

TELEGRAM NUMBER 374 OF 11 APRIL

INFO IMMEDIATE HONG KONG DESKBY 112330Z

YOUR TELNOS 702, 703 AND 704: FUTURE OF HONG KONG: TRANSITION

PERIOD

- 1. I AGREE THAT ZHOU NAN'S STATEMENT DIVERGES VERY SHARPLY
 FROM OUR OWN IDEAS AND SHOULD BE COUNTERED FULLY. I SHOULD
 MYSELF PREFER TO TAKE THE MATTER UP DURING MY VISIT. THE
 SUBJECT IS AS IMPORTANT AS THOSE OF THE CONTENT OF THE AGREEMENT
 AND THE TIMETABLE. IF THE MATTER IS NOT RAISED DURING THE
 VISIT, WE COULD GIVE THE CHINESE THE IMPRESSION THAT THEIR
 PROPOSALS DID NOT GIVE US TOO MUCH DIFFICULTY. THERE MIGHT ALSO
 BE CRITICISM BY EXCO THAT 1 WAS NOT MYSELF PREPARED TO ARGUE HONG
 KONG'S CASE ON A KEY ISSUE.
- 2. MEANWHILE I AGREE THAT YOU SHOULD TAKE AN OPPORTUNITY ON 12 APRIL, IN THE TALKS OR INFORMALLY, TO SPEAK ON THE GENERAL LINES SUGGESTED IN PARS 2 AND 3 OF THIRD TUR.
- 3. I SHOULD HOWEVER LIKE TO STRENGTHEN YOUR POINTS (B) AND (C) ON THE FOLLOWING LINES:
- (B) WHILE CLOSE CONTACT BETWEEN HMG AND THE CHINESE GOVERNMENT WILL CLEARLY BE NECESSARY AS 1997 APPROACHES, THIS WILL HAVE TO BE VERY CAREFULLY PRESENTED IN ORDER TO AVOID DAMAGE TO CONFIDENCE IN HONG KONG. MOREOVER TO ANNOUNCE THAT THE 'TRANSITION PERIOD' WOULD START AS SOON AS AGREEMENT WAS REACHED WOULD HIT CONFIDENCE BADLY. OPINION WILL NEED TIME TO GET USED TO THE CONCEPT OF CHANGE. IT WOULD PROBABLY BE BEST TO AVOID FORMALLY DESIGNATING THE PERIOD PRE-1997 AS A TRANSITIONAL PERIOD.
- (C) OUR DISCUSSIONS HAVE SO FAR FOCUSSED ON TWO CONCEPTS:

THAT OF CONTINUITY AND THAT OF AUTONOMOUS ADMINISTRATION BY THE PEOPLE OF HONG KONG. WE SHOULD NOT ESTABLISH ANY MACHINERY BEFORE 1997 WHICH COULD GIVE THE IMPRESSION THAT THE CENTRAL PEOPLE'S GOVERNMENT WERE PREPARING TO ADMINISTER HONG KONG RATHER THAN TO LEAVE ADMINISTRATION TO THE PEOPLE OF THE TERRITORY. NOR WOULD IT BE NECESSARY TO UNDERTAKE SUBSTANTIAL CHANGES IN THE LAWS, ADMINISTRATIVE ARRANGEMENTS OR OTHER FIELDS, SINCE THIS WOULD NEGATE THE CONCEPT OF CONTINUITY.

HOWE

- FUTURE OF HONG KONG LIMITED . . ED/EX ED/FED ED/FLANNING STAFF ED/FUSD D/ED/PUSD RES.B. (MR WALKER) LEGAL ADVISER (MR FREELAND) PS/LADY YOUNG PS/AR LUCE PS/FUS SIR J BULLARD SIR W HARDING E WIET SIR C THOKELL

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MR MARTIN ASSESSMENT STAFF CABINET OFFICE MR GOODALL CABINET OFFICE MR BRENNAN CABINET OFFICE PS/S OF S FOR DEFENCE D PS/ATTORNEY GENERAL SIR P CRADOCK BY KISS
SIR P CRADOCK NO 10 DOWNING STREET
CEORET

SECRET 3. ZHOU DID STATE THAT THE UNITED KINGDOM WE RESPONSIBLE FOR THE MAINTENANCE OF SOCIAL ASTABILITY IN HONG KONG UP TO 1997, THAT THE ACITVELY COOPERATE WITH US TO SECURE THIS EMACHINERY WHICH THEY PROPOSED WOULD BE FOR

3. ZHOU DID STATE THAT THE UNITED KINGDOM WOULD BE FULLY RESPONSIBLE FOR THE MAINTENANCE OF SOCIAL AND ECONOMIC STABILITY IN HONG KONG UP TO 1997, THAT THE CHINESE WOULD ACTIVELY COOPERATE WITH US TO SECURE THIS END AND THAT THE MACHINERY WHICH THEY PROPOSED WOULD BE FOR LIAISON PURPOSES AND NOT AN ORGAN OF POWER. BUT HE ALSO ASSERTED THAT WHAT COULD NOT BE AGREED IN THE LIAISON GROUP SHOULD BE REFERRED UPWARDS FOR NEGOTATION. THIS CONFLICTS WITH THE STATEMENT THAT WE SHALL BE FULLY RESPONSIBLE FOR HONG KONG UNTIL 1997.

4. CAREFUL THOUGHT NEEDS TO BE GIVEN ON HOW TO REPLY TO THESE PROPOSALS. SEE MIFT

EVANS

- FUTURE OF HONG KONG LIMITED ED/ES ED/FED ED/FLANNING STAFF ED/FUSD D/ED/PUSD RES.B. (MR WALKER) LEGAL ADVISER (MR FREELAND). PS/LADY YOUNG PS/ME LUCE PS/FUS SIR J BULLARD ME WILSON ER TRICET SIR C THOMBLE

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DESKBY 111100Z

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FROM PEKING 110915Z APR 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 702 OF 11/4/84 OF 11/4/84

INFOR IMMEDIATE HONG KONG

FUTURE OF HONG KONG: 12TH ROUND OF TALKS: FIRST DAY

SUMMARY

1. ZHOU OPENED DISCUSSION ON ITEMS TWO AND THREE. HE PROPOSED THE ESTABLISHMENT IN HONG KONG OF CONSULTATIVE MACHINERY. HE SET FORWARD CHINESE DEAS ON MEASURES TO BE TAKEN IN ADVANCE OF THE TRANSFER OF GOVERNMENT. I SOUGHT CLARIFICATION OF EARLIER CHINESE STATEMENTS ON CIVIL AVIATION AND SHIPPING AND SPOKE BRIEFLY ON NATIONALITY.

DETAIL

2. ZHOU RECALLED THAT DURING THE ELEVEN ROUNDS SPENT DISCUSSING AGENDA ITEM 1 THE TWO SIDES HAD REACHED A COMMON UNDERSTANDING ON THE CHINESE PRINCIPLE OF SOVEREIGNTY AND THE CHINESE SIDE HAD SET FORTH THEIR TWELVE GUIDELINES AND HAD ANSWERED VARIOUS QUESTIONS RAISED IN OUR WORKING PAPERS. THE CHINESE SIDE BELIEVED THAT PROGRESS HAD BEEN MADE ON MAJOR ISSUES, PROVIDING A GOOD FOUNDATION FOR FUTURE DISCUSSIONS. HE RECALLED THE UNDERSTANDING BETWEEN THE TWO SIDES THAT WE WOULD BEGIN TODAY DISCUSSION OF AGENDA ITEM 2, AND THAT THE CHINESE SIDE HAD SUGGESTED THAT ITEMS 2 AND 3 SHOULD BE TAKEN IN CONJUNCTION. THE BRITISH HAD RAISED NO OBJECTION TO THIS. OF COURSE, THIS DID NOT PRECLUDE THE POSSIBILITY THAT CERTAIN QUESTIONS REMAINING FROM ITEM 1 COULD STILL BE DISCUSSED AT SUITABLE LENGTH. THE CHINESE SIDE WOULD CONTINUE TO CO-OPERATE WITH THE BRITISH IN THE COURSE OF DISCUSSING ITEMS 2 AND 3 IN AN EFFORT TO OBTAIN POSITIVE RESULTS. IF THE TWO SIDES PUR-SUED THEIR TALKS IN THE SAME SPIRIT IT WAS ENTIRELY POSSIBLE TO REACH A SATISFACTORY AGREEMENT AT AN EARLY DATE.

3. ZHOU THEN OFFERED SOME BASIC CHINESE IDEAS ABOUT ARRANGEMENTS FOR THE TRANSITION PERIOD AND FOR THE TRANSFER OF GOVERNMENT. THE FIRST OF THE 12 CH MESE GUIDELINES STATED THAT CHINA WOULD RESUME THE EXERCISE OF SOVEREIGNTY OVER HONG KONG FROM 1 JULY 1997 AND THAT THE TIME UP UNTIL 1997 WAS THE TRANSITION PERIOD FOR THE SETTLEMENT OF THE HONG KONG QUESTION. THE TRANSITION PERIOD WOULD BEGIN AT THE DATE AN AGREEMENT IN PRINCIPLE WAS REACHED BETWEEN CHINA AND BRITAIN AND WOULD END OF 30 JUNE 1997. THE GENERAL PRINCIPLE THAT SHOULD BE FOLLOWED IN MAKING ARRANGEMENTS FOR THE TRANSITION PERIOD WAS THAT BRITAIN WOULD THROUGHOUT HAVE FULL RESPONSIBILITY FOR MAINTAINING ECONOMIC AND SOCIAL STABILITY IN HONG KONG, THAT CHINA WOULD ACTIVELY COOPERATE TO SECURE THIS END, AND THAT CHINA AND BRITAIN SHOULD CO-OPERATE TO ENSURE A SMOOTH TRANSFER OF GOVERNMENT SO AS TO MAINTAIN STABILITY AND PROSPERITY IN HONG KONG. DURING THE TRANSITION PERIOD BOTH CHINA AND BRITAIN SHOULD REFRRAIN FROM DOING ANYTHING HARMFUL TO STABILITY AND PROSPERITY AND SHOULD WORK ENTHUSIASTICALLY FOR FURTHER ECONOMIC GROWTH IN HONG KONG.

4. IN THE ECONOMIC FIELD THE CHINESE SIDE CONSIDERED IT NECESSARY
TO SECURE A GOOD SETTLEMENT OF THE FOLLOWING QUESTIONS DURING THE TRANSITION PERIOD:

(1) CHINA AND BRITAIN SHOULD COOPERATE TO ENSURE THAT HONG KONG REMAINED A SEPARATE TARIFF AREA AND MAINTAINED ITS EXISTING ECONOMIC RELATIONS. CONSULTATIONS SHOULD BE CONDUCTED WITH THE COUNTRIES AND INTERNATIONAL ORGANISATIONS CONCERENED TO ENABLE HONG KONG AFTER 1997 TO CONTINUE TO ENJOY PREFERENTIAL TREATMENT, SEPARATE QUOTAS AND TO REMAIN A MEMBER OF ASSOCIATE MEMBER OF RELEVANT INTERNATIONAL ORGANISATIONS.

(11) AS THE HONG KONG DOLLAR WOULD CONTINUE TO CIRCULATE AFTER 1997, BRITAIN SHOULD KEEP CHINA INFOREMD OF THE ISSUE OF CURRENCY, OF THE MANAGEMENT AND USE OF THE EXCHANGE FUND, AND OF THE CIRCUMSTANCES OF NOTE ISSUING BANKS. THE HONG KONG BRANCH OF THE BANK OF CHINA SHOULD BECOME A MEMBER OF THE ADVISORY COMMISSION ON THE EXCHANGE FUND AND ONE OF THE PRESIDENTS OF THE HONG KONG ASSOCIATION OF BANKS.

(III) TO MAINTAIN ECONOMIC STABILITY THE HONG KONG AUTHORITIES HAD AN OBLIGATION TO SOLVE PROPERLY THE DEFICIT ACCUMULATED IN RECENT YEARS. BRITAIN SHOULD KEEP CHINA INFORMED IN GOOD TIME OF THE STATE OF AFFAIRS AND RELEVANT MEASURES TAKEN.

(IV) CHINA AND BRITAIN SHOULD COOPERATE SO THAT OTHER MATTERS CONDUCIVE TO THE ECONOMIC PROPSPERITY OF HONG KONG COULD BE WELL HANDLED.

5. THE CHINESE SIDE SUGGESTED THAT IT WOULD BE NECESSARY TO SET UP A PERMANENT SINO-BRITISH JOINT GROUP OR COMMITTEE IN HONG KONG DURING THE TRANSITION PERIOD. THIS SHOULD BE A LIAISON BODY AND NOT AN ORGAN OF POWER. ITS TASKS WOULD BE TO COORDINATE IMPLEMENTATION OF THE SINO-BRITISH AGREEMENT AND TO DISCUSS CONCRETE MEASURES FOR THE SMOOTH TRANSFER OF GOVERNMENT. ISSUES THAT THE JOINT GROUP WAS UNABLE TO SETTLE SHOULD BE SUBMITTED TO A HIGHER LEVEL FOR A NEGOTIATED SETTLEMENT. THE JOINT GROUP SHOULD CONSIST OF REPRESENTATIVES APPOINTED BY THE GOVERNMENT OF EACH SIDE, HEADED BY AN OFFICIAL OF AMBASSADORIAL RANK. IN VIEW OF THE EXTRAORDINARY COMPLEXITY AND IMPORTANCE OF FINANCIAL, ECONOMIC AND MONETARY MATTERS IN HONG KONG, THE JOINT GROUP COULD SET UP A FINANCIAL AND ECONOMIC SUB-GROUP, PLUS POSSIBLY A FOREIGN ECONOMIC RELATIONS SUB-GROUP, TO STUDY THESE MATTERS AND OFFER ADVICE TO THE JOINT GROUP. IN ADDITION, SUB-GROUPS FOR SECURITY, PERSONNEL, LAND AND ENTRY AND EXIT COULD BE FORMED IF NECESSARY. TO ENSURE THE SMOOTH OPERATION OF THE JOINT GROUP, THE HONG KONG AUTHORITIES SHOULD PROVIDE FACILITIES TO THE GROUP AND ITS SUB-GROUPS, INCLUDING UP TO DATED INFORMATION, RELATED DATA, POLICY PAPERS AND SO ON . THESE REPRESENTED GENERAL CHINESE IDEAS FOR SETTING UP JOINT GROUPS.

- 6. AS FOR THE TRANSFER OF GOVERNMENT, THE CHINESE SIDE BELIEVED THAT CHINA AND BRITAIN SHOULD TAKE APPROPRIATE MEASURES DURING THE TRANSITION PERIOD TO ENSURE A SMOOTH TRANSFER AND AVOID DISLOCATION WHICH WOULD ADVERSELY AFFECT STABILITY AND PROSPERITY IN HONG KONG. THE TRANSITION PERIOD WOULD BE ROUGHLY DIVIDED INTO TWO STAGES:
- (I) FROM NOW UNTIL ABOUT 1993, IN OTHER WORDS BEFORE THE PROMULGATION OF THE BASIC LAW. DURING THIS PERIOD BRITAIN SHOULD CREATE THE CONDITIONS FOR AN ORDERLY TRANSFER OF GOVERNMENT AND PROVIDE CHINA WITH DETAILED INFORMATION ABOUT THE WORK OF VARIOUS HONG KONG GOVERNMENT DEPARTMENTS. CHINA WOULD FORMULATE THE BASIC LAW DURING THIS PERIOD.
- (II) FROM ABOUT 1994 UNTIL THE END OF JUNE 1997. IN THIS PERIOD THE BASIC LAW WOULD PROBABLY HAVE BEEN PROMULGATED AND 1997 WOULD BE DRAWING CLOSE, SO THE TACKS THAT SHOULD BE ACCOMPLLISHED WERE AS FOLLOWS:
- (A) AFTER THE PROMULGATION OF THE BASIC LAW CHINA AND BRITAIN SHOULD, THROUGH CONSULTATION, REFORM STEP BY STEP THE LEGISLATIVE. ADMINISTRATIVE AND JUDICIAL ARRANGEMENTS IN HONG KONG TO BRING THEM INTO LINE WITH THE REUIREMENTS OF THE BASIC LAW. THIS WORK SHOULD BE COMPLETED BEFORE 1 JULY 1997.
- (B) THE CHIEF EXECUTIVE AND OTHER PRINCIPAL OFFICIALS OF THE FIRST GOVERNMENT OF THE SAR WOULD BE CHOSEN BY VARIOUS

SECRET CIRCLES IN HONG KONG THROUGH CONSULTATIONS AND REPORTED TO THE CENTRAL PEOPLES GOVERNMENT FOR APPROVAL. FOLLOWING ANNOUNCEMENT OF THEIR APPOINTMENT THEY WOULD ASSUME OFFICE ON 1 JULY 1997. (C) THE PATTERN AND DESIGN OF THE SAR'S FLAG, EMBLEM, BANK NOTES AND STAMPS WOULD BE DRAWN UP AND FINALISED. (D) THE REVISION OF HONG KONG LAWS IN CONSEQUENCE OF THE PROMULGATION OF THE BASIC LAW SHOULD BEGIN, THOUGH IT WOULD NOT BE NECESSARY TO COMPLETE THIS WORK BEFORE 1 JULY 1997. (E) OTHER NECESSARY REFORMS 7. ZHOU CONCLUDED BY SAYING THAT THESE CHINESE IDEAS HAD BEEN CAREFULLY CONSIDERED. IN THE CHINESE VIEW, THEY ACCORDED WITH THE REALITIES OF HONG KONG, WERE CONDUCIVE TO THE MAINTENANCE OF STABILITY AND PROSPERITY, AND SHOULD NOT BE INCONVENIENT FOR THE BRITISH SIDE. HE HOPED FOR A POSITIVE RESPONSE. 8. I SAID ZHOU HAD MADE A VERY IMPORTANT STATEMENT. WE WOULD STUDY IT WTITH THE GREAT CARE AND ATTENTION IT DESERVED. I THEN SPOKE ON CIVIL AVIATION AND SHIPPING, USING RESPECTIVELY THE TEXTS IN YOUR TEL NO 652 TO HONG KONG AND HONG KONG TEL NO 952 TO YOU, AMENDED BY YOUR TEL NO 347. FINALLY I SPOKE ON NATIONALITY, ALONG THE LINES OF YOUR TEL NO 340, ADDING THAT, FOLLOWING YOUR VISIT, THE TWO SIDES COULD NO DOUBT RESUME DISC-USSION OF THIS SUBJECT AT THE NEXT ROUND.

9. ZHOU THANKED ME FOR MY STATEMENTS. HE NOTED MY REMARK THAT WE WOULD STUDY CAREFULLY CHINESE IDEAS ON THE TRANSITION PERIOD AND THE TRANSFER OF GOVERNMENT. HE EXPRESSED THE HOPE THAT WE MIGHT RESPOND TOMORROW. AS FOR CIVIL AVIATION AND SHIPPING, THE CHINESE SIDE WOULD LOOK CAREFULLY AT WHAT I HAD SAID. IT WAS POSSIBLE THEY WOULD RESPOND ON THESE MATTERS TOMORROW. HE INTENDED TOMORROW TO FOCUS ON TWO MATTERS:

SECRET

(1) A FURTHER EXPLANATION AND ELABORATION OF CHIMESE POLICIES RELATING TO MATTERS COVERED IN THE WORKING PAPER ON LAND.

(II) THE QUESTION OF DIPLOMATIC REPRESENTATION IN HONG KONG AFTER 1997.

ZHOU PRESSED ME AS TO WHAT I WOULD BE SAYING TOMORROW. I SAID I WAS NOT IN A POSITION TO GIVE ANY UNDERTAKINGS. I NOTED HIS HOPE THAT WE WOULD RESPOND TOMORROW ON THE TRANSITION PERIOD BUT SAID THAT ALL I COULD GUARANTEE WAS THAT WE WOULD STUDY EXTREMELY CAREFULLY WHAT ZHOU HAD SAID

EVANS

FUTURE OF HONG KONG
LILITED

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