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| HKK C404   |        | 578 |
| RECEIVED IN THE OFFICE OF THE SECRETARY OF STATE |        |     |
| 18 APR 1984                                      |        |     |
| TOP SECRET                                       | SECRET |     |
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DESKBY 180700Z

FM PEKING 171700Z APRIL 84  
 TO IMMEDIATE FCO TELNO 765 OF 17 APRIL  
 AND TO IMMEDIATE LISBON  
 AND TO IMMEDIATE HONG KONG

FOLLOWING FROM PRIVATE SECRETARY.

FUTURE OF HONG KONG: SECRETARY OF STATE'S MEETING WITH ZHAO  
 ZIYANG: 17 APRIL

see (379)

## SUMMARY

1. THE SECRETARY OF STATE HAD 70 MINUTES WITH ZHAO THIS AFTERNOON

ZHAO SAID THAT PROGRESS ACHIEVED MADE AN EARLY AGREEMENT POSSIBLE. CHINESE PROPOSALS ON ITEM 2 WERE REASONABLE. CHINA HAD NO INTENTION OF ESTABLISHING CONDOMINIUM IN HONG KONG BEFORE 1997. BRITISH ANXIETIES ABOUT THE JOINT GROUP TO BE LOCATED IN HONG KONG WERE GROUNDLESS. THE SECRETARY OF STATE EXPLAINED BRITISH CONCERNS ON THE JOINT GROUP AND ARGUED THAT CONSULTATIONS, WHICH WOULD BE NECESSARY, SHOULD BE IN PEKING. HE IDENTIFIED THE DEFICIENCIES OF THE CHINESE DRAFT AGREEMENT AND ARGUED THE NEED FOR A DETAILED AGREEMENT WHICH SET OUT POST-1997 ARRANGEMENTS. ZHAO CONFIRMED THAT THE AGREEMENT AND ANNEXES WOULD BE BINDING AND EQUALLY VALID AND THAT THE POINTS AGREED IN THE TALKS WOULD BE INCLUDED. HE UNDERLINED THE SEPTEMBER DEADLINE.

## DETAIL

2. ZHAO REFERRED TO THE SECRETARY OF STATE'S THOROUGH EXCHANGE OF VIEWS WITH WU XUEQIAN. HE REFERRED TO THE SIGNING OF THE CONSULAR AGREEMENT AND NOTED THAT BILATERAL RELATIONS WERE CURRENTLY VERY GOOD. HE HOPED AND BELIEVED THAT THE SECRETARY OF STATE'S VISIT WOULD PROMOTE AN EARLY SETTLEMENT OF THE HONG KONG QUESTION.

3. THE SECRETARY OF STATE AGREED THAT BILATERAL RELATIONS WERE EXTREMELY GOOD. HE CONVEYED THE PRIME MINISTER'S GOOD WISHES TO ZHAO. BOTH HE AND THE PRIME MINISTER ATTACHED GREAT IMPORTANCE TO REACHING A SATISFACTORY AGREEMENT.

4. ZHAO SAID THAT THE HONG KONG QUESTION WAS ONE LEFT OVER FROM HISTORY. IT SHOULD BE SOLVED BY THEIR GENERATION. HE RECALLED THE PRIME MINISTER'S EXCHANGE OF VIEWS WITH DENG AND HIMSELF.

SINCE THEN, JOINT EFFORTS HAVE PRODUCED GREAT PROGRESS. AGREEMENT HAD BEEN REACHED ON A NUMBER OF IMPORTANT ISSUES AND DISCUSSION OF ITEMS 2 AND 3, (IE ARRANGEMENTS FOR THE TRANSITIONAL PERIOD AND THE FORM AND CONTENT OF AN AGREEMENT) HAVE BEGUN AT ROUND 12. ALTHOUGH A NUMBER OF QUESTIONS REMAINED UNRESOLVED HE DID NOT BELIEVE THESE WOULD BE DIFFICULT TO SOLVE, GIVEN SINCERITY AND MUTUAL TRUST. HE WOULD NOT REPEAT WU'S DETAILED EXPOSITION OF CHINESE VIEWS ON THE TRANSITIONAL PERIOD. BUT HE BELIEVED THE CHINESE PROPOSITION TO BE REASONABLE. IT SHOULD NOT CAUSE THE BRITISH SIDE DIFFICULTIES. HE HOPED THEY WOULD CONSIDER IT SERIOUSLY.

5. ON ITEM 2, THE SECRETARY OF STATE SAID THAT HE HAD EXPLAINED TO WUS THAT THE BRITISH STILL HAD ANXIETIES ABOUT THE CHINESE PLAN FOR THE PRE 1997 PERIOD. HOWEVER, THERE WERE SEVERAL THINGS ON WHICH THE TWO SIDES AGREED:

- (A) CONSULTATION WOULD BE NECESSARY ON A NUMBER OF MATTERS :
- (B) A SMOOTH HANDOVER WAS IN BOTH SIDES' INTEREST SEMICLN
- (C) BRITAIN WOULD HAVE FULL RESPONSIBILITY FOR THE ADMINISTRATION OF HONG KONG.

THE SECRETARY OF STATE RECALLED THAT UNDER THE CHINESE PLAN THE SAR WOULD HAVE A HIGH DEGREE OF AUTONOMY. HE WAS CONCERNED THAT THE ESTABLISHMENT IN HONG KONG OF A JOINT GROUP, EVEN IF IT WERE NOT AN ORGAN OF ADMINISTRATIVE POWER, WOULD CAUSE ANXIETY AMONGST HONG KONG PEOPLE. THE BRITISH SIDE AGREED THAT AFTER 1997 HONG KONG'S HIGH DEGREE OF AUTONOMY SHOULD CONTINUE. THE CHINESE SIDE HAD GIVEN IMPORTANT ASSURANCES THAT AFTER 1997 OFFICIALS WOULD NOT BE SENT TO HONG KONG FROM THE MAINLAND. BUT A JOINT GROUP IN HONG KONG COULD LEAD PEOPLE TO FEAR THAT MAINLAND OFFICIALS WERE GOING TO ADMINISTER HONG KONG. THE JOINT GROUP COULD ALSO IMPLY THAT BIG CHANGES WERE IMMINENT. THIS WOULD NOT ACCORD WITH THE JOINT WISH TO EMPHASISE THE HIGH DEGREE OF CONTINUITY AND AUTONOMY FOR HONG KONG AFTER 1997. THE BRITISH SIDE DID NOT INTEND TO OBSTRUCT THE PROCESS OF CHANGE TO TAKE PLACE WHEN HANDOVER OCCURED IN 1997, BUT THEY WISHED THE HAND OVER TO TAKE PLACE WITH MAXIMUM CONTINUITY AND LEAST DISTURBANCE. HE KNEW THAT THE CHINESE SIDE ATTACHED IMPORTANCE TO THIS POINT AND HE AGREED THAT THERE SHOULD BE CONTINUING CONSULTATION BTWEEN NOW AND 1997. BUT HE CONSIDERED THIS WOULD BE BEST CONDUCTED AND WOULD HAVE THE BEST EFFECT IF IT TOOK PLACE IN PEKING NOT HONG KONG.

6. ZHAO SAID THAT THE BRITISH SIDE COULD REST ASSURED THAT THE CHINESE SIDE HAD NO INTENTION OF CONCOCTING ANY SORT OF CONDOMINIUM. THEY PROCEEDED FROM CONSIDERATIONS OF MAINTAINING HONG KONG'S PROSPERITY AND STABILITY AND ENSURING A SMOOTH TRANSFER OF GOVERNMENT IN 1997 WITHOUT UNNECESSARY DISTURBANCES OR BIG CHANGES.

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9. THE SECRETARY OF STATE SAID THAT HE AND ZHAO HAD NOT SUCCEEDED IN PERSUADING EACH OTHER. HE UNDERSTOOD ZHAO'S POINT ABOUT OTHER CHINESE AGENCIES IN HONG KONG. HOWEVER, THESE WERE FAMILIAR AGENCIES WITH FAMILIAR SEPARATE FUNCTIONS. BUT A JOINT GROUP DEALING MORE WIDELY WITH FUTURE ARRANGMENTS WOULD LEAD TO CONCERN. HOWEVER, EACH HAD STATED HIS POINT OF VIEW.

10. TURNING TO THE AGREEMENT, THE SECRETARY OF STATE SAID THAT ONE THING WHICH HAD BEEN AGREED WAS THAT ON THE PRESENT BASIS FOR THE NEGOTIATIONS, THE SUBSTANCE OF THE CHINESE CASE ON SOVEREIGNTY MUST BE MET. THE BRITISH DRAFT AGREEMENT PROVIDED SQUARELY FOR THE CHINESE REQUIREMENT THAT SOVEREIGNTY AND ADMINISTRATION OVER THE WHOLE OF HONG KONG BE TRANSFERRED TO CHINA IN 1997. THIS PROVISION WAS CERTAINLY THE BRITISH SIDE'S INTENTION. HOWEVER, IF PARLIAMENTARY APPROVAL FOR THAT AGREEMENT WERE TO BE SECURED, IT WOULD BE NECESSARY FOR CHINA TO UNDERTAKE MATCHING OBLIGATIONS WITH RESPECT TO POST-1997 ARRANGMENTS IN HONG KONG. A CLEAR AND PRECISE INDICATION IN THE AGREEMENT OF THESE POLICIES WOULD BE ESSENTIAL TO ACHIEVING THE JOINT OBJECTIVE OF MAINTAINING STABILITY AND PROSPERITY AND MAINTAINING THE CONFIDENCE OF INVESTORS, THE INTERNATIONAL TRADING COMMUNITY AND HONG KONG PEOPLE. IT WAS PARTICULARLY IMPORTANT THAT THESE POLICIES BE INCLUDED AS THE BASIC LAW MIGHT NOT BE PROMULGATED BEFORE 1993: A DETAILED AGREEMENT WAS NECESSARY TO SPAN THE PERIOD BETWEEN 1984 AND THE BASIC LAW'S PUBLICATION.

11. HE WELCOMED JI'S ASSURANCE THAT THE CONTENT OF BOTH THE AGREEMENT AND OF THE ANNEXES WOULD BE BINDING AND REFLECTED IN THE BASIC LAW. HE SAID THAT ALL INTERNATIONAL AGREEMENTS INVOLVED A POSITIVE EXERCISE OF SOVEREIGNTY. IN THE AGREEMENT THE BRITISH SIDE HAD IN MIND, THEY WERE PREPARED TO TRANSFER SOVEREIGNTY OVER HONG KONG TO CHINA IN 1997 AND ASKED THAT CHINA SHOULD MAKE A MATCHING OBLIGATION BY AGREEING TO PRECISE AND DETAILED ARRANGEMENTS FOR THE POST 1997 PERIOD.

12. ON THE CHINESE DRAFT AGREEMENT THE SECRETARY OF STATE IDENTIFIED TWO SHORTCOMINGS:

- (A) IT DID NOT APPEAR TO VISUALISE BINDING OBLIGATIONS ON BOTH SIDES SIMILAR
- (B) IT WAS NOT CLEAR THAT IT WOULD CONTAIN THE IMPORTANT ISSUES AGREED IN THE TALKS ON THE BASIS OF THE WORKING PAPERS.

HE RECALLED ZHAO'S REFERENCE TO THE SEVERAL POINTS OF SUBSTANCE REMAINING TO BE AGREED. HE SAID THAT ALL POINTS AGREED BETWEEN THE TWO SIDES SHOULD BE INCLUDED IN THE AGREEMENT TO ACHIEVE THE JOINT AIM OF SUSTAINING CONFIDENCE. THEY WERE THE MINIMUM NECESSARY TO DESCRIBE HONG KONG'S COMPLEX SYSTEMS IN A WAY TO GIVE ASSURANCE OF THE CONTINUITY OF THOSE SYSTEMS. HE REPEATED

4  
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HE CONSIDERED THAT THE BRITISH CONCERNS COULD BE SOLVED THROUGH DISCUSSION. THE NAME OF THE BODY TO BE ESTABLISHED COULD BE FURTHER DISCUSSED AND ITS FUNCTION EXPLICITLY DEFINED. IF THE BRITISH SIDE HAD NO ANXIETIES, HONG KONG PEOPLE WOULD HAVE NO FEARS. IT WOULD HAVE A STABILISING EFFECT IF HONG KONG PEOPLE SAW THAT AFTER CONCLUSION OF THE AGREEMENT THE TWO SIDES CONTINUED THEIR WORK IN A SPIRIT OF FRIENDSHIP AND MUTUAL COOPERATION. A JOINT GROUP WOULD BE BEST LOCATED IN HONG KONG BECAUSE IT WOULD BE DEALING WITH HONG KONG QUESTIONS. IF LOCATED IN PEKING, IT WOULD BE DIFFICULT FOR IT TO BE WELL INFORMED ABOUT THE HONG KONG QUESTION. FURTHERMORE, ITS WORK COULD NOT BE SEEN BY HONG KONG PEOPLE. THIS COULD LEAD TO SPECULATION ABOUT ITS FUNCTION. HOWEVER, FURTHER DISCUSSION WOULD ALLEVIATE BRITISH CONCERNS.

7. THE SECRETARY OF STATE SAID THAT HIS ANXIETY CENTRED ON THE LOCATION FOR SUCH MEETINGS. THEY COULD STILL TAKE PLACE IN PEKING AND BE WELL INFORMED, AS WAS THE CASE WITH THE TALKS. MEETINGS IN HONG KONG COULD LEAD TO ANXIETIES THERE. THEY COULD SUGGEST THAT CONTINUITY WOULD NOT BE MAINTAINED AND HONG KONG'S HIGH DEGREE OF AUTONOMY NOT ACHIEVED.

8. ON THE PSYCHOLOGICAL EFFECT OF A JOINT GROUP AND CONFIDENCE IN THE MAINTENANCE OF STABILITY AND PROSPERITY, ZHAO CONSIDERED THE KEY TO LIE IN THE FINAL AGREEMENT. THE LOCATION OF THE JOINT GROUP SHOULD NOT BE SEPARATED FROM THE AGREEMENT TO BE CONCLUDED: THE AGREEMENT WOULD HELP STABILISE THE HONG KONG SITUATION AND THE JOINT GROUP'S PURPOSE WAS TO HELP CO-ORDINATE IMPLEMENTATION OF THE AGREEMENT. IF THE JOINT GROUP'S FUNCTIONS WERE AS DESCRIBED, IT SHOULD NOT ADVERSELY AFFECT CONFIDENCE. THERE SHOULD BE EXPLICIT PROVISION IN THE AGREEMENT THAT:

- (A) HONG KONG WOULD BE ADMINISTERED BY HONG KONG PEOPLE SEMICLON
- (B) OFFICIALS WOULD NOT BE SENT FROM THE MAINLAND SEMICLON
- (C) UNNECESSARY CHANGES, EXCEPT THOSE INVOLVING CHINA'S SOVEREIGNTY, WOULD NOT BE MADE. THE JOINT GROUP'S FUNCTION WOULD BE TO HELP CO-ORDINATE IMPLEMENTATION OF THE AGREEMENT. ITS ESTABLISHMENT WOULD NOT MEAN THAT MAINLAND OFFICIALS WOULD BE SENT TO HONG KONG TO ADMINISTER HONG KONG OR TAKE OVER HONG KONG FROM THE UK. IT WOULD ALSO NOT GIVE THE IMPRESSION OF MAJOR CHANGES IN THE TRANSITIONAL PERIOD. BRITISH ANXIETIES WERE UNNECESSARY. THE NPCA AND OTHER CHINESE ORGANISATIONS IN HONG KONG DID NOT GENERATE SUSPICION THAT PEOPLE WERE BEING SENT FROM THE MAINLAND TO ADMINISTER HONG KONG. THESE ORGANISATIONS TASKS WERE KNOWN. HE HOPED THAT THE BRITISH SIDE WOULD INFORM THE CHINESE SIDE OF ALL ITS CONCERNS. HE QUESTIONED THE BRITISH SIDE'S BELIEF THAT ESTABLISHMENT OF A JOINT GROUP WOULD GIVE THE IMPRESSION OF CONDOMINIUM. HE BELIEVED WAYS COULD BE FOUND OF SETTLING THIS QUESTION.

THAT THE COMMON OBJECTIVE WAS TO REACH AN AGREEMENT WHICH WOULD FULFIL THEIR JOINT PURPOSE. IT WAS IMPORTANT TO GET THIS RIGHT.

13. ZHAO SAID THAT GREAT PROGRESS HAD BEEN MADE. THE MAIN REASONS WERE:

- (A) THE BRITISH SIDE HAD RECOGNISED IN EXPLICIT TERMS THE FACT THAT CHINA WOULD RESUME THE EXERCISE OF SOVEREIGNTY OVER HONG KONG IN 1997 AND THAT CHINESE SOVEREIGNTY WAS NOT SEPARABLE FROM ITS RIGHT OF ADMINISTRATION OF HONG KONG.
- (B) TO THE EXTENT PERMITTED BY THE PRINCIPLE OF CHINESE SOVEREIGNTY, THE CHINESE SIDE HAD SHOWN THE GREATEST POSSIBLE FLEXIBILITY. THEY HAD GIVEN FULL CONSIDERATION TO THE QUESTIONS OF CONCERN TO THE BRITISH SIDE AND HAD FULLY ACCOMMODATED BRITISH WISHES.

THEIR PROPOSED AGREEMENT AND EXCHANGE OF NOTES SHOULD GIVE EXPRESSION TO THIS SPIRIT. CHINA MEANT WHAT IT SAID. IT KEPT PROMISES AND NEVER ACTED IN A PETTY WAY OR SET TRAPS. HOWEVER, IT MUST BE MADE CLEAR THAT BOTH THE AGREEMENT AND ANNEXES SHOULD SHOW FULL RESPECT FOR CHINESE SOVEREIGNTY. CHINESE POLICIES FOR POST-1997 HONG KONG SHOULD IN NO WAY BE TAKEN AS SUBJECT TO APPROVAL OR ENDORSEMENT BY THE BRITISH SIDE OR SEEN AS THE RESULT OF THE AGREEMENT. CHINESE POLICIES WERE FORMULATED BY THE CHINESE SIDE AND CHINA'S AFFAIR. THE AGREEMENT AND ANNEXES WOULD FORM A WHOLE SET. BOTH THE MAIN BODY OF THE AGREEMENT AND THE ANNEXES WOULD HAVE BINDING FORCE AND BE EQUALLY VALID. THE BRITISH SIDE HAD SO FAR RECEIVED INFORMALLY THE CHINESE IDEAS FOR AN ANNEX BUT WITHOUT CONTENT. THE ANNEXES SHOULD CERTAINLY CONTAIN THE POINTS AGREED IN THE TALKS. THESE MAJOR ISSUES SHOULD BE REFLECTED IN THE EXCHANGE OF NOTES.

14. THE SECRETARY OF STATE SAID THAT THE TWO SIDES WERE CLOSE TO UNDERSTANDING EACH OTHER. HE AGREED THAT GREAT PROGRESS HAD BEEN MADE ON BOTH SIDES. THE BRITISH SIDE HAD EXPRESSED RECOGNITION OF THE TRANSFER OF SOVEREIGNTY AND RIGHT OF ADMINISTRATION. THE CHINESE SIDE HAD EXPLAINED THEIR POLICIES. FOR POST 1997 HONG KONG THEY HAD THUS EXERCISED IN ADVANCE THEIR SOVEREIGNTY OVER HONG KONG. THE BRITISH SIDE ATTACHED IMPORTANCE TO THE SPIRIT OF THIS WORK BEING FULLY REFLECTED IN THE AGREEMENT: THIS SHOULD TAKE THE FORM OF MUTUALLY BINDING OBLIGATIONS. THE BRITISH SIDE FULLY ACCEPTED THAT THERE WAS GOOD FAITH BETWEEN THE TWO SIDES. HOWEVER, IT WAS IMPORTANT THAT THE RESULTS OF THAT JOINT GOOD FAITH SHOULD BE CONTAINED IN THE AGREEMENT AND PRESENTED TO THE WORLD AS AN EXAMPLE OF THE WAY TO SOLVE A PROBLEM LEFT OVER FROM HISTORY.

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15. ZHAO REPEATED HIS HOPE FOR AN EARLY AGREEMENT; THIS WOULD BENEFIT HONG KONG AND BE VERY IMPORTANT FOR STABILITY. THE BRITISH SIDE WERE WELL AWARE OF THE TIME LIMIT FOR SIGNATURE OF AN AGREEMENT. HE HOPED HMG WOULD DEMONSTRATE ITS REPUTATION FOR EFFICIENCY AND TIMING.

16. ZHAO CONCLUDED BY ASKING THE SECRETARY OF STATE TO CONVEY HIS REGARDS TO THE PRIME MINISTER.

EVANS

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ED/FED  
ED/PLANNING STAFF  
ED/PUSD  
D/ED/PUSD  
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LEGAL ADVISER (MR FREELAND)  
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