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SECRET

FM PEKING 301045Z APR 84
 TO IMMEDIATE FCO
 TELGRAM NUMBER 831 OF 30 APRIL
 INFO IMMEDIATE HONG KONG

ADVANCE COPY

FUTURE OF HONG KONG: THE WAY AHEAD

1. YOU MAY FIND IT HELPFUL TO HAVE A GENERAL ASSESSMENT OF WHERE WE STAND AFTER A BUSY AND IMPORTANT MONTH.
2. THE ACHIEVEMENT DURING YOUR VISIT OF AGREEMENT ON A TIMETABLE HAS GIVEN US A BIT OF BREATHING SPACE. YOU ALSO EXTRACTED FROM THE CHINESE A CLEAR COMMITMENT TO THE IDEA THAT THE OBLIGATIONS UNDERTAKEN BY THE CHINESE SIDE IN THE AGREEMENT SHOULD BE BINDING IN NATURE, EVEN THOUGH THEY OBJECT TO THE CONCEPT OF EQUIVALENCE. THERE IS A DEGREE OF COMMITMENT ON CONTENT ALTHOUGH I DO NOT THINK IT YET EXTENDS TO AGREEMENT THAT ALL POINTS AGREED BETWEEN US IN THE NEGOTIATIONS SHOULD BE INCLUDED.
3. THE SUBSTANTIVE ISSUES OUTSTANDING UNDER ITEM 1 REMAIN BLOCKED. ITEM 2, PARTICULARLY THE CHINESE PROPOSAL FOR A JOINT GROUP, LOOKS MORE DIFFICULT THAN ANTHING ELSE. INDEED, ZHOU NAN SAID EXPLICITLY TO ME AT DINNER ON 28 APRIL THAT HE REGARDED THIS ISSUE AS THE MOST DIFFICULT OF THOSE OUTSTANDING. THE CHINESE ARE LIKELY STILL TO RETAIN SOME NEGOTIATING FLEXIBILITY. BUT I JUDGE THAT THEY ARE LIKELY TO KEEP THIS UP THEIR SLEEVES UNTIL A FAIRLY LATE STAGE IN THE NEGOTIATION.
4. I NOTE YOUR WISH (TOKYO TELNO 321) TO MAINTAIN THE MOMENTUM OF THE DISCUSSIONS FOLLOWING YOUR VISIT. I STRONGLY SHARE THIS WISH. HOWEVER, AT PRESENT WE HAVE NO LATITUDE TO MOVE FROM OUR POSITIONS ON ANY OF THE OUTSTANDING ISSUES. REVIEW OF ALL THE OUTSTANDING ISSUES WILL BE NEEDED IF MOMENTUM IS NOT TO BE LOST AND THE TALKS TO DEGENERATE INTO STERILE EXCHANGES OF EACH SIDE'S POSITIONS. NEVERTHELESS, I DO NOT THINK THAT WE SHOULD OFFER TOO MUCH MOVEMENT TOO QUICKLY. IF WE DO, THE CHINESE WILL POCKET IT WITHOUT SHOWING CORRESPONDING FLEXIBILITY (THEY HAVE ALREADY IMPLIED THAT WE OWE THEM SOMETHING IN

OF EACH SIDE'S POSITIONS. NEVERTHELESS, I DO NOT THINK THAT WE SHOULD OFFER TOO MUCH MOVEMENT TOO QUICKLY. IF WE DO, THE CHINESE WILL POCKET IT WITHOUT SHOWING CORRESPONDING FLEXIBILITY (THEY HAVE ALREADY IMPLIED THAT WE OWE THEM SOMETHING IN RETURN FOR THEIR AGREEMENT TO OUR TIMETABLE.

5. I OFFER THE FOLLOWING PRELIMINARY IDEAS.

(A) OUTSTANDING ITEM 1 ISSUES

WE NEED TO DRAW UP A BALANCE SHEET OF THE IMPORTANT ISSUES OUTSTANDING FROM ITEM 1 DISCUSSIONS AND TO ESTABLISH IN OUR OWN MINDS THOSE WHICH ARE ESSENTIAL AND THOSE ON WHICH FALL-BACK POSITIONS COULD BE PREPARED. WE NEED NOT BE IN ANY RUSH TO DEPLOY ANY SUCH POSITIONS. IF WE WANT MOVEMENT, HOWEVER, WE SHALL BEFORE LONG HAVE TO START HINTING THAT THERE MIGHT BE AREAS WHERE AGREEMENT COULD BE REACHED IF BOTH (REPEAT BOTH) SIDES SHOWED SOME FLEXIBILITY.

THERE IS ONE AREA WHICH CAUSES ME PARTICULAR CONCERN; THAT OF CONSTITUTIONAL ARRANGEMENTS AND GOVERNMENT STRUCTURE. ON THIS OUR POSITION IS THAT HONG KONG'S GOVERNMENT STRUCTURE AFTER 1997 SHOULD BE VIRTUALLY UNCHANGED, IE THAT THERE SHOULD BE A CHIEF EXECUTIVE, AN EXECUTIVE COUNCIL, A LEGISLATIVE COUNCIL, REGIONAL COUNCILS AND DISTRICT BOARDS. THE ONLY SUBSTANTIVE CHANGE OF WHICH WE HAVE TOLD THE CHINESE IS OUR INTENTION TO MOVE TO A SYSTEM OF INDIRECT ELECTIONS. THEY COULD SAY WITH SOME JUSTIFICATION THAT IT IS NOT APPROPRIATE TO KEEP RIGIDLY TO THE FORMS OF AN ESSENTIALLY COLONIAL ARRANGEMENT, AND THAT IT MAKES NO ALLOWANCE FOR CHANGES IN ORGANISATION WHICH MIGHT BE NECESSARY TO PROVIDE DIFFERENT FUNCTIONS FOR ELECTED MEMBERS. IN FACT, SO FAR AS I KNOW, WE ARE OURSELVES UNDECIDED ON THIS. AT PRESENT WE ARE ASKING THE CHINESE TO SIGN A BLANK CHEQUE IN THE TALKS. FOR THESE REASONS, I BELIEVE THAT WE SHOULD ATTEMPT TO WORK OUT A FORMULATION WHICH WOULD DESCRIBE PRINCIPLES FOR THE COMPOSITION AND FUNCTIONS OF THE PRINCIPAL ORGANS OF HONG KONG'S GOVERNMENT, AND WHICH WOULD INCLUDE IN MORE DETAIL THAN HITHERTO THE PRINCIPLES TO GOVERN CONSTITUTIONAL DEVELOPMENT BEFORE 1997, BUT WHICH WOULD NOT ATTEMPT TO SPECIFY HOW THESE ORGANS SHOULD BE STYLED.

(B) ITEM 2: WE SHALL NEED TO REPLY FORMALLY AT THE NEXT ROUND TO ZHOU NAN'S STATEMENTS IN ROUNDS 12 AND 13 ON THIS SUBJECT. THE CHINESE ATTACH IMPORTANCE TO ITEM 2 (AND THEIR PROPOSAL FOR A JOINT GROUP IN PARTICULAR), AND THAT YOU HAVE TOLD THEM THAT YOU WILL LOOK CONSTRUCTIVELY AT DENG'S PROPOSAL. I LOOK FORWARD TO SEEING THE GOVERNOR'S PAPER. WHILE I FULLY UNDERSTAND THE DIFFICULTIES IN HONG KONG, I THINK THAT THERE ARE REASONS FOR AGREEING TO THE ESTABLISHMENT OF A JOINT GROUP:

(I) I REMAIN OF THE VIEW THAT A JOINT GROUP COULD BE EXPLOITED TO OUR ADVANTAGE. THROUGH DISCUSSION OF WAYS TO IMPLEMENT THE AGREEMENT, PARTICULARLY ON GOVERNMENT STRUCTURE AFTER 1997, IT WILL GIVE US OUR ONLY WAY TO INFLUENCE CHINESE THINKING ON THE DETAILED DRAFTING OF THE BASIC LAW SEMICOLON

(II) GETTING CHINESE OFFICIALS TO HONG KONG WITHIN THE SUB-GROUPS ON SPECIFIC ISSUES, WHERE THEY WILL BE FORCED TO LOOK SENSIBLY AT THE REALITIES, WILL MAKE IN THE END FOR A MORE HELPFUL AND REALISTIC DISCUSSION ON ISSUES SUCH AS LAND AND INTERNAL SECURITY WHERE WE HAVE OUR OWN OBJECTIVES SEMICOLON

(III) IT IS IN OUR OWN INTEREST TO ADOPT A LIBERAL ATTITUDE TOWARDS THE PROVISION OF A GOOD DEAL OF INFORMATION ABOUT HONG

(III) IT IS IN OUR OWN INTEREST TO ADOPT A LIBERAL ATTITUDE TOWARDS THE PROVISION OF A GOOD DEAL OF INFORMATION ABOUT HONG KONG TO SUCH A JOINT GROUP. TO DO SO WOULD INCREASE OUR CHANCES OF ACHIEVING THE HIGH DEGREE OF CONTINUITY OF HONG KONG SYSTEMS FOR WHICH WE ARE STRIVING.

(IV) I REMAIN OF THE VIEW THAT, AS 1997 APPROACHES, PERHAPS AFTER PROMULGATION OF THE BASIC LAW IN 1993, WE SHALL IN PRACTICE NEED TO ENSURE THAT THOSE SENIOR OFFICIALS WHO WILL SERVE BEYOND 1997 ARE NOT OBJECTIONABLE TO CHINA. IT WOULD CLEARLY BE POINTLESS TO APPOINT PEOPLE TO SENIOR OFFICE IN THE LAST STAGES BEFORE 1997 UNLESS WE WERE SURE THAT THE CHINESE WOULD PERMIT THEM TO CONTINUE IN OFFICE AFTER 1997. THIS IS A DELICATE QUESTION, BUT ONE CRUCIAL TO CONTINUITY.

I HAVE IN MIND A JOINT GROUP WHOSE BASE OF OPERATIONS WOULD NOT BE NAMED AND WHICH WOULD MEET IN PEKING, HONG KONG AND LONDON. WE SHOULD PROBABLY NEED TO AGREE THAT SOME OF ITS SUB-GROUPS SHOULD WORK REGULARLY IN HONG KONG ON SPECIFIC ISSUES. INDEED, THERE IS SOMETHING IN THE CHINESE VIEW THAT DISCUSSION SOLELY IN PEKING WOULD NOT BE PRACTICABLE. WE SHOULD NEED TO FIGHT VERY HARD TO ENSURE THE JOINT GROUP'S FUNCTIONS WERE LIMITED TO THE COLLECTION OF INFORMATION AND DISCUSSION AFFECTING POST -1997 ARRANGEMENTS AND DID NOT IMPINGE ON THE ADMINISTRATION OF HONG KONG BEFORE 1997. FURTHERMORE, IT WOULD BE NECESSARY TO ENSURE THAT THE PERSONS WITH THE NECESSARY EXPERTISE (IE OFFICIALS OF THE HONG KONG GOVERNMENT, WHETHER BRITISH OR CHINESE) WERE ABLE TO PARTICIPATE FULLY IN DISCUSSIONS.

(C) FORM OF AN AGREEMENT

AS ARGUED IN MY TELNO 807, WE NEED TO LOOK URGENTLY AT THE FORM OF AGREEMENT TO SEE HOW, WHILE MEETING OUR OWN ESSENTIAL REQUIREMENTS ON SUBSTANCE, WE CAN MEET THE CHINESE REQUIREMENT THAT WE SHOULD NOT BE SEEN TO BE ENDORSING OR PRESCRIBING POST-1997 ARRANGEMENTS FOR HONG KONG. I DO NOT THINK WE SHOULD VOLUNTEER ANY FURTHER SUGGESTIONS ON THIS POINT BEFORE WE HAVE SEEN THE FULL DRAFT CHINESE NOTES AND PROTOCOL. HOWEVER, I BELIEVE THAT WE COULD INITIATE DISCUSSION ON THE ARTICLE RELATING TO THE TRANSFER OF SOVEREIGNTY AT ONCE. WE ALREADY KNOW WHAT THE CHINESE DRAFT SAYS ON THIS SUBJECT.

5. MY JUDGEMENT IS THAT AS A RESULT OF YOUR VISIT THE CHINESE PROPENSITY TO WORK FOR A BILATERAL AGREEMENT RATHER THAN TO MAKE A UNILATERAL ANNOUNCEMENT OF THEIR OWN HAS BEEN INCREASED, PRIMARILY BECAUSE YOU SUCCEEDED IN CONVINCING THE CHINESE LEADERS THAT WE REALLY WERE PREPARED TO WORK FOR AN AGREEMENT TRANSFERRING SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION IN 1997. I BELIEVE THERE WERE LINGERING CHINESE SUSPICIONS ABOUT THIS. THE CHINESE WILL ALSO HAVE SEEN A ADVANTAGE FOR THEMSELVES IN OBTAINING UNDERTAKINGS FROM US AFFECTING OUR CONDUCT IN THE PERIOD BEFORE 1997.

6. IN THE END, I WOULD EXPECT THE CHINESE TO MAKE SOME CONCESSIONS IN ORDER TO FINALISE AN AGREEMENT. BUT I STILL COUNSEL AGAINST OVER-ESTIMATING WHAT CAN BE OBTAINED FROM THEM. THEIR REQUIREMENTS, WHICH IN MANY RESPECTS CONCERN FACE (IE FORM) MORE THAN CONTENT, ARE EXTREMELY IMPORTANT TO THE LEADERS IN TERMS OF SELF-REGARD AND INTERNAL POLITICAL DEBATE (THEY HAVE THEIR HAWKS AND CHAUVINISTS TO CONTEND WITH).