



PM/84/80

PRIME MINISTER

Future of Hong Kong: Agenda Item Two

- / 1. I attach a paper on our handling of Agenda item two (arrangements up to 1997) in talks with the Chinese about the future of Hong Kong.
2. The Chinese originally put forward their proposals for the handling of the transition period at the twelfth round of talks. The pressed the question of the establishment of a joint group very forcefully during my meetings with Chinese leaders in April, and Deng Xiaoping put forward a compromise proposal of a rotating joint group meeting in London, Peking and Hong Kong. I undertook to study this proposal constructively. We have told the Chinese that we hope to respond to their proposals at the fifteenth round on 30/31 May.
3. I believe that there are arguments for agreeing to a peripatetic group, as long as it is not established in Hong Kong. We must avoid any Chinese attempts to undermine the authority of the Hong Kong Government in the period up to 1997, but it is clear that the Chinese will try to meddle whether or not we agree to the establishment of a joint group. Such a group may well provide a means of controlling Chinese interference as long as its terms of reference are carefully drawn up. We shall need too to use any group to enhance the concept of local autonomy by including Hong Kong officials in work as much as possible. We need to discuss this tricky question with EXCO before putting our thoughts to the Chinese. Discussion so far has shown that they still believe that we should continue to argue for ad hoc diplomatic contacts in Peking up to 1993 rather than agreeing to the establishment of a joint group. I understand their concerns but, for the reasons set out in the attached paper I believe we should agree to a carefully circumscribed joint committee.

SECRET



4. I am copying this minute to OD(K) colleagues, and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office

18 May, 1984

SECRET

FUTURE OF HONG KONG: CONSULTATION WITH THE CHINESE GOVERNMENT IN THE PERIOD UP TO 1997

INTRODUCTION

1. This paper considers the options for consultation with the Chinese Government during the period up to 1997.

CHINESE PROPOSALS

2. The Chinese proposals were originally put during the twelfth round of talks and expanded at the thirteenth round. At the fourteenth round the Chinese tabled a draft protocol associated to the agreement setting out their main proposals for the period up to 1997. The main features of the Chinese plan are:

- (a) The transitional period should last from the date on which the agreement in principle was reached until 1 July 1997. In that period the UK would have responsibility for maintaining stability and prosperity in the territory.
- (b) HMG would hand over Hong Kong intact to the Chinese Government including all land, facilities and official documents that belonged to the Hong Kong British authorities, which the Chinese Government would in turn hand over to the Hong Kong SAR Government.
- (c) A Sino-British Joint Group would be set-up and located in Hong Kong. The chief representative of each side would be of ambassadorial rank. The group's tasks would include:
  - (i) co-ordinating the implementation of the Joint Declaration.
  - (ii) Discussing matters relatively to the smooth transfer of Government.
  - (iii) Other matters which the two sides deem necessary to discuss.
- (d) The joint group would not be an organ of power nor would it interfere in the day to day work of the Hong Kong authorities. The joint group would be able to set up a number of special sub groups, as required.
- (e) An oral agreement would be reached that the joint group should rotate between Hong Kong, Peking and London.
- (f) The issues which the joint group was unable to settle would be submitted to a higher level for negotiated settlement.
- (g) The Hong Kong British Authorities should provide facilities for

the joint group and sub groups, including information and policy papers. The Hong Kong government would not participate in the group.

- (h) The British and Chinese sides would work together in conducting talks with other countries and other international organisations so that the Hong Kong SAR would continue to enjoy preferential treatment and separate quotas after 1997.
- (i) HMG would provide the Chinese government with information about the issuance of Hong Kong currency and Hong Kong's financial system and economy. The Hong Kong branch of the Bank of China would become a member of the Advisory Committee on the Exchange Fund.
- (j) The British side might grant land leases running beyond 1997 with the approval of the Chinese side. Revenue obtained from these leases should be paid into a Hong Kong development fund which the British side might draw on with China's approval. The number of land leases to be granted each year must be decided through discussions between the two sides.
- (k) HMG might with Chinese approval conclude civil aviation agreements or arrangements which over-run 1997.
- (l) Local Chinese should take part gradually in Hong Kong administration during the transitional period. The joint group would need to cover joint selection of personnel. The people selected to participate in the administration must support the resumption of sovereignty by China.
- (m) After the promulgation of the basic rules the two sides would cooperate to establish executive, legislative and judicial set ups in line with the Basic Law.

#### INITIAL BRITISH RESPONSE

3. At the 12th and 13th rounds, as well as during the Secretary of State's visit, the British side said that ad hoc consultation along existing channels was likely to be sufficient, and that Chinese proposals would create the impression of a condominium. Before he left Peking, the Foreign Secretary expressed his willingness to examine constructively the proposal that there might be a joint group which might meet in Hong Kong, London and Peking.

4. At the 14th round of talks the Ambassador made a statement explaining the extent to which Hong Kong was already autonomous and to which Hong Kong Chinese already took part in administration. He said that we hoped to present a reply to Deng's proposal by the 15th round (30/31 May).

#### CHINESE OBJECTIVES

5. The Chinese proposal reflects mistrust of British motives and intentions. They suspect that the British have the power to siphon everything of value out of Hong Kong in the transition period so as to leave China with worthless shell in 1997, and that there are others bent on disturbing Hong Kong economically and politically. Their comments indicate a wish to have a say in a number of other aspects of the administration of Hong Kong, despite their professed intention not to interfere (eg over the exchange fund and the selection of personnel). The Chinese also wish to have a say in constitutional development in Hong Kong before 1997. (cf their demand that legislative, administrative and judicial arrangements in Hong Kong should be revised before 1 July 1997, to bring them into line with the requirements of the Basic Law).

6. The probable Chinese objectives are:

- (i) to arrange a smooth transfer of government in 1997:
- (ii) to maintain Hong Kong's stability and prosperity in the meantime, so that they take over Hong Kong as a going concern:
- (iii) to ensure that the "right" Hong Kong people are ready to take over the administration of the territory on that date and that the pattern, style and composition of the SAR Government in 1997 are in accordance with Chinese ideas and the Basic Law:
- (iv) to secure British co-operation as far as possible on (i) to (iii), and to monitor British performance:

- (v) to obtain as much information as possible about how Hong Kong works:
- (vi) to exclude HMG and the Hong Kong Government from any involvement in the formulation of the Basic Law, and the process of consultation with Hong Kong about the Basic Law.

#### BRITISH OBJECTIVES

7. British objectives for the period up to 1997 are of course different although they do to some extent coincide with those of the Chinese in paragraph 6 (i) and (ii) above. We share the Chinese wish to maintain the stability and prosperity of Hong Kong up to 1997, and, to ensure a smooth transition at that time, we shall wish to consult with the Chinese on a number of points to this end. But we also aim to maintain the authority of Hong Kong Government in the period up to 1997 and to prevent Chinese interference in order to maintain confidence. We lay stress on the principles of autonomy and continuity. We do not accept the notion of a Chinese take over of government but aim at a handover by the Hong Kong Government to that of the SAR.

#### Factors Affecting HMG's Position

8. In deciding on our attitude to a joint group, we have to take account of the following points:
- (a) When an arrangement for an SAR under Chinese sovereignty is announced, public opinion will be highly sensitive to any evidence that HMG's responsibility for the territory is likely to be whittled away in the period up to 1997 and that the Chinese are in fact endeavouring to encroach on autonomy before that date.
  - (b) There will be subjects on which we must consult the Chinese. The principal ones are:
    - (i) procuring Hong Kong's future position within the GATT, MFA etc.
    - (ii) Continued application of international treaty obligations affecting Hong Kong.
    - (iii) Land leases.
    - (iv) Possibly other matters unresolved during negotiation of

the agreement, eg civil aviation.

- (c) There will also be subjects on which it would help us to keep the Chinese informed, as part of the process of education.

Examples are:

- (i) Plans for the development of a more representative structure of government within Hong Kong.
  - (ii) Major issues of domestic policy after decisions have been taken. There are however sensitive subjects (eg the detailed management of the Exchange Fund, Civil Service, security questions etc) on which we could not provide information without impairing Hong Kong's administration prior to 1997. In particular we must resist Chinese attempts to interfere directly in the management of the Exchange Fund or to control appointments to the public service before 1997.
- (d) We shall face the dilemma that, for the sake of confidence, we shall wish to demonstrate that HMG's links with Hong Kong remain but that the principles of autonomy and continuity will demand that progressively greater authority is devolved to the Hong Kong Government before 1997 in order to add credibility to the proposition that that Government will hand over to or rather become the SAR Government at that date.
- (e) The need for consultation with the Chinese will will increase progressively as 1997 approaches. In the last few years close cooperation will be essential
- (f) The Secretary of State has undertaken to examine constructively Deng Xiaoping's proposal for a peripatetic joint group.

### The Options

9. These are:

- (a) Some form of permanent machinery based in Hong Kong but with rotation in practice between Hong Kong, London and Peking, as proposed by the Chinese.
- (b) A peripatetic group without a base, meeting as necessary in London, Hong Kong and Peking.
- (c) The continuation of existing diplomatic contacts through the Embassy in Peking with the Chinese Ministry of Foreign Affairs.

10. These options could be further varied on a time basis. The Chinese have divided the transitional period into two parts: from now until about 1993 and from then until 1997. This division has some logic. The Basic Law may not be issued until 1993. Although we should still press the Chinese to expedite this, we may not persuade them. After 1993 there will be only four years to go before the termination of British administration and HMG will need to cooperate closely with China to ensure a smooth transition. We could therefore consider another option: (d) the use of existing diplomatic contacts up to 1993 and the establishment of more formal machinery after that.

#### Argument

11. The establishment of a joint group with a base in Hong Kong would certainly be seen by public opinion in the territory as a move towards Chinese control before 1997. We should therefore strongly resist that option, even if the group were in practice to meet in London and Peking as well as Hong Kong. The choice therefore lies between the continued use of diplomatic contacts in Peking, a group without a base meeting in the three places or a combination of these arrangements, possibly with a change from one to the other in 1993.

12. It would not be realistic to argue that the system of diplomatic contacts should be used up to 1997. This would not be a basis for satisfactory negotiation with the Chinese, given the Secretary of State's agreement to examine their proposal constructively. Nor would it necessarily suit us. The increasing need for information and cooperation will require more frequent and specialist contacts than could be met through discussions between the Embassy and the Chinese MFA. We shall need to discuss an extensive programme of diplomatic approaches to encourage the governments to support the concept of an autonomous Hong Kong. Work on GATT will only be one aspect of this. Civil aviation questions may well require detailed discussion (which could be delegated to a sub-group. Moreover the use of a joint group would give us a better chance of involving Hong Kong officials in the 'educational' side of the work. (See 14 and 15(h) below).



13. Even a joint group without a base could be seen as increasing China's ability to interfere in Hong Kong during the transitional period. The Chinese will however have the means of doing this whether or not we agree to the establishment of a joint group. There is evidence that they are preparing for such activity through their own channels in the territory. We should not be able to prevent such interference by refusing to agree to the establishment of a joint group: indeed there would be advantages in agreeing to such a group in order to have a means of monitoring and controlling the Chinese disposition to interfere.

14. There might also be advantages for us in the establishment of a joint group:

- (a) The Chinese officials involved might be brought to look more sensibly at the realities in Hong Kong.
- (b) We would have an opportunity to demonstrate in practice the degree of real autonomy existing in Hong Kong. In a number of areas, eg staffing of the public service, this autonomy will significantly increase between now and 1997.
- (c) We might be able to obtain information from the Chinese on the drafting of the Basic Law in return for providing information on the functioning of the Hong Kong Government. This would not be easy. The Chinese have said that constitutional developments in Hong Kong should be adjusted in line with the Basic Law. This would clearly impair the principle of local autonomy. We have to take account of Chinese views and we should argue strongly as possible that HMG and the Hong Kong Government should logically play a major part in contributing to the preparation of the Basic Law.

15. We could not however agree to the establishment of a joint group unless certain requirements were met:

- (a) There should be no standing machinery in Hong Kong. .
- (b) The group should have no executive or policy role. .
- (c) The concept of the development of Hong Kong autonomy should be accepted. We should argue strongly the proposition that, apart from the transfer of sovereignty, there should be no change of government in 1997.

- (d) A major function of a joint group should therefore be the provision of information on how Hong Kong operates autonomously, without interference by the sovereign power. This would be useful in the case for instance of the Exchange Fund. There would be no objection to briefing the Chinese fully on how the Exchange Fund Advisory Commission operates in practice but we should make clear that knowledge of the detailed movement of funds between different accounts is and must be the confidential preserve of a very small group of people in Hong Kong. HMG is not involved in it.
- (e) We should strongly resist any other Chinese moves to oversee actions which are the preserve of the Hong Kong Government. On land leases for instance, the idea of agreement between the British and Chinese Governments on individual future grants would be rejected. But it would be reasonable to agree to safeguards which would reassure the Chinese that grants would not be made indiscriminately or that funds from them would be frittered away before 1997.
- (f) To this end, there should be no permanent machinery of sub-groups. They should be set up to deal only with specific matters arising from the agreement and should be wound up once their tasks were completed.
- (g) The terms of reference of the joint group and any sub-groups should be tightly drawn to emphasise their limited liaison role.
16. In order to boost the position of the Hong Kong Government we should aim for the maximum participation by Hong Kong officials in the joint group and sub-groups. One problem about this is that the argument if pressed too far, logically points to the siting of the joint group in Hong Kong. But it is essential that we should not collaborate with the Chinese in a system which edged the Hong Kong Government out of the picture. It is most unlikely that the Chinese would accept that the Hong Kong Government should be formally represented on the group. We should have to accept the concept of a bilateral group but we must argue on the grounds of practical efficiency, and in accordance with the principle of autonomy and continuity, that the people who are directly involved in Hong Kong should take part.
17. If we were to accept the idea of a joint group with the above

conditions, it might be argued that it should not come into operation until the later phase of the run-up to 1997, eg after 1993. This would have the initial advantage of reassuring Hong Kong opinion about early Chinese interference. On the other hand the need for consultation is not likely to increase with a sudden jump in 1993 but rather to rise steadily over the period. The need to educate the Chinese at a policy making level about the concept of autonomy and the realities of Hong Kong's administration will not be one that can be ignored for 9 years. We are more likely to get our points over effectively if we accept the Chinese idea of a joint group right away. Moreover it would be known in advance in Hong Kong that there would be a sharp change of system in 1993 and that date would become in its turn another focus of lessening confidence. It would in balance be better <sup>for Hong Kong to</sup> be involved in the early setting up of a joint group with limited functions from the start and keep as much control of it as possible.

#### Presentation to the Chinese

18. If we were to agree to a joint group on the above terms we should still be rejecting many of the Chinese proposals. We should need to present our position as positively as possible. We should make clear that we would agree to the establishment of a joint group only as part of a satisfactory agreement with the Chinese. We should make a comprehensive statement in the talks which would develop our ideas on how Hong Kong should evolve towards further autonomy. In particular we should explain our ideas on future management of the civil service through an independent public service commission and describe the general principles on which we believe that constitutional arrangements before and after 1997 should be based. We should also set out the terms of reference by which we believe the joint group should be guided.

#### Terms of Reference

19.

- (a) The group would meet as required in Peking, London or Hong Kong. The British Ambassador in Peking and the relevant Assistant Foreign Minister in the Ministry of Foreign Affairs



would act as alternate Chairman and maintain contact on matters relating to the group between meetings.

- (b) The purpose of the group would be to discuss matters arising from the agreement between the British and Chinese governments on the future of Hong Kong, to exchange information in the period up to 1997 and to provide cooperation for a smooth transfer after that date. The role of the joint group would be confined to liaison and consultation; it would have no standing machinery or executive functions.
- (c) The precise matters for discussion would be for agreement between the two governments. They would include the action to be taken by the British and Chinese governments in consultation with Hong Kong to ensure the maintenance of Hong Kong's participation in GATT and the MFA etc and the continued application of international treaty obligations affecting Hong Kong.
- (d) Where necessary specialist sub-groups could be established to deal with particular subjects requiring expert assistance. Such groups could meet as necessary in Peking, London or Hong Kong.
- (e) Personnel of the Hong Kong Government would participate as necessary in the joint group or its sub-groups. The Hong Kong Government would furnish information to the joint groups or sub-groups at the request of both governments.

#### Conclusions

20.

- (a) We should agree to the establishment of a joint group. We should not accept that it should be based in Hong Kong but could agree to meetings as necessary in Peking, London or Hong Kong.
- (b) The group should be for liaison and consultation with no executive powers. Its terms of reference would be as above.
- (c) We should not accept the Chinese proposition that the assets of the Hong Kong Government should be taken over by the Central Government of the PRC in 1997 and in

turn passed on to the SAR. We should insist on a direct handover between the Government of Hong Kong and the Government of the future Hong Kong SAR.

- (d) We should use the joint group to promote the idea of a handover between the two local governments. We should provide information in order to educate the Chinese on the concept of autonomy.
- (e) We should require that Hong Kong personnel would take part in the joint group and sub-groups.
- (f) We should make clear to the Chinese that we would see the work of the joint group increasing as 1997 approached, but we would not propose any change in institutionalised arrangements by any particular date. We could agree to review the position with the Chinese in the early 1990's:
- (g) We should ensure that references to the joint group in any agreement or associated protocol or exchange of notes made clear that the joint group had no executive functions and was not an organ of power.
- (h) HMG and the Hong Kong Government should cooperate to speed up as much as possible the process of reducing the areas of HMG's involvement in Hong Kong administration in order to establish a fully autonomy administration well before 1997.

HONG KONG : Future  
PE 14



1984

12 11 10 9 8 7 6  
5 4 3 2 1