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PS
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SIR W HARDING
RESIDENT CLERK

COPIES TO:
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IMMEDIATE

SECRET

DESKBY 311600Z

FROM PEKING 311300ZM MAY 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1015 OF 31/5/84

INFO IMMEDIATE HONG KONG AND WASHINGTON

MIPT: FUTURE OF HONG KONG; 15 TH ROUND; SECOND DAY;

COMMENT

1. ZHOU NAN MADE NO CONCESSIONS TO OUR VIEW OF THE DEFICIENCIES OF THE CHINESE DRAFT NOTE. INDEED, HE CLAIMED THAT THE NOTE HAD QUOTE ACCOMMODATED UNQUOTE BRITISH INTERESTS TO THE MAXIMUM EXTENT THAT ANY SOVEREIGN STATE COULD ACCEPT. HE SAID THAT CHINESE POSITIONS ON THE STATIONING OF CHINESE TROOPS AND ON THE EMPLOYMENT OF FOREIGN NATIONALS IN THE PUBLIC SERVICE WERE FINAL. HE ARGUED THAT OUR JOINT PURPOSE WAS TO NEGOTIATE A BILATERAL AGREEMENT AND NOT TO DRAFT THE BASIC LAW, AND THAT BRITISH DEMANDS FOR DETAIL WERE IN CONFLICT WITH THE NOTION OF AUTONOMY FOR THE SAR.

2. IN REFERRING TO THE MAINTENANCE OF EXISTING SYSTEMS, ZHOU SAID THE CHINESE MEANT THE SYSTEMS IN FORCE AT THE TIME OF THE AGREEMENT, AND NOT THOSE IN FORCE IN 1997. HE EXCLUDED GOVERNMENT STRUCTURES FROM THE SYSTEMS WHICH WOULD BE MAINTAINED. HE ALSO EXCLUDED CHANGES WHICH BRITAIN MIGHT HAVE MADE IN THE PERIOD BEFORE 1997, EXCEPT FOR THOSE MADE

~~IN 1997, HE EXCLUDED GOVERNMENT STRUCTURES FROM THE SYSTEMS WHICH WOULD BE MAINTAINED. HE ALSO EXCLUDED CHANGES WHICH BRIT MIGHT HAVE MADE IN THE PERIOD BEFORE 1997, EXCEPT FOR THOSE MADE WITH CHINESE AGREEMENT. THE FORMULA WHICH HE USED ON THESE POINTS WAS, HOWEVER, INVOLVED AND WILL NEED CAREFUL STUDY WHEN WE RECEIVE THE CHINESE TEXT.~~

3. IN HIS PRELIMINARY REMARKS ON MY STATEMENT ABOUT ITEM 2, ZHOU EMPHASISED THAT FOLLOWING THE SUBSTANTIVE EXCHANGE OF VIEWS ON POST-1997 ARRANGEMENTS THE FOCUS OF THE TALKS SHOULD NOW BE THE TRANSITIONAL PERIOD. AGREEMENT ON HOW WE SHOULD PROCEED IN THIS PERIOD WOULD BE A TEST OF BILATERAL COOPERATION. IN HIS VIEW, WE HAD REJECTED DENG'S PROPOSAL FOR A JOINT GROUP. ZHOU REPEATED THAT CHINESE PROPOSALS FOR THE TRANSITIONAL PERIOD (INCLUDING THE JOINT GROUP) WERE AN INTEGRAL COMPONENT OF AN OVERALL AGREEMENT. HE INSISTED THAT THE GROUP MUST BE BASED IN HONG KONG. HE TOOK THE LINE THAT THE CHINESE WOULD ONLY BE PREPARED TO PERMIT THE PRESENT NOTE-ISSUING BANKS TO CONTINUE IN THIS ROLE AFTER 1997 IF WE AGREED TO MEET CHINESE DEMANDS ON THE EXCHANGE FUND. HE ALSO PROTESTED THAT A HANDOVER OF AUTHORITY DIRECTLY TO THE SAR GOVERNMENT SHOWED THAT WE WERE STILL SEEKING TO CREATE AN INDEPENDENT POLITICAL ENTITY IN HONG KONG. FAILURE TO AGREE ON THIS ITEM WOULD CONSTITUTE A GRAVE OBSTACLE IN THE WAY OF AN OVERALL AGREEMENT. INDEED, CONCLUSION OF AN OVERALL AGREEMENT WOULD BE OUT OF THE QUESTION.

4. HIS BRIEF COMMENTS ON MY STATEMENT ON THE WORKING GROUP PROPOSED FOR MID-JUNE SIMPLY RESTATED HIS EARLIER POSITION

5. THROUGHOUT HIS LONG STATEMENT, ZHOU REPEATEDLY QUOTED FROM OR REFERRED TO, WHAT DENG HAD SAID TO YOU LAST MONTH. IS THIS ANOTHER MANIFESTATION OF A PERSONAL ASSERTION OF AUTHORITY BY DENG? IN RESPONDING TO WHAT I HAD SAID ABOUT ITEM 2, HE DREW EXTENSIVELY ON A PRINTED TEXT, WHICH MUST HAVE BEEN PREPARED BEFORE THE MEETING.

EVANS

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FUTURE OF HONG KONG - ADVANCE COPIES

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SECRET

DESKBY 311600Z FCO AND WASHINGTON

FROM PEKING 1100Z MAY 84

TO IMMEDIATE FCO

TELEGRAM NKMBER 1014 OF 31/5/84

INFO IMMEDIATE HONG KONG AND WASHINGTON (FOR PS)



FUTURE OF HONG KONG: ROUND 15: SECOND DAY

SUMMARY

1. I DELIVERED OUR ITEM TWO STATEMENT. ZHOU NAN MADE PRELIMINARY COMMENTS ON THIS AND ON MY CRITIQUE YESTERDAY OF THE CHINESE NOTE. I RESPONDED TO HIS STATEMENT YESTERDAY ON THE WORKING GROUP.

DETAIL

2. I RESPONDED TO THE CHINESE PROPOSALS ON ITEM TWO ON AGREED LINES (YOUR TEL NO 933 TO HONG KONG AS AMENDED BY YOUR TELS NOS 942 TO HONG KONG AND 549).

3. ZHOU NAN THEN SPOKE ON MY STATEMENT OF 30 MAY. HE WAS GLAD THAT WE WERE SATISFIED WITH SOME ASPECTS OF THE CHINESE DRAFT NOTE AND RECOGNISED COMMON POINTS IN OUR POSITIONS. HOWEVER, OUR COMMENTS ON SO-CALLED CHINESE SHORTCOMINGS IN THE DRAFT NOTE AND THE EXAMPLES CITED WERE NOT CONVINCING. HE WOULD NOT COMMENT ON MY STATEMENT IN EXHAUSTIVE DETAIL, BUT WOULD COVER RELEVANT POINTS OF PRINCIPLE.

4. IN HIS MEETING WITH YOU, DENG HAD POINTED OUT THAT CHINESE POLICY ON HONG KONG WAS FOUNDED ON ONE BASIC CONCEPT - ONE COUNTRY, TWO SOCIAL SYSTEMS. CHINA WAS SINCERE IN THIS AND WAS NOT PLAYING TRICKS. SINCE THE PRINCIPLE THAT CAPITALISM WAS TO BE PRACTICED IN HONG KONG WAS FIRM, THERE SHOULD BE NO DIFFICULTY WITH DETAILS. THE IMPORTANT POLITICAL DECISION THAT AFTER 1997 HONG KONG SHOULD KEEP ITS CURRENT CAPITALIST SYSTEM AND LIFE STYLE UNCHANGED HAD BEEN WRITTEN INTO THE

~~SYSTEM AND LIFE STYLE UNCHANGED HAD BEEN WRITTEN INTO THE~~
CHINESE DRAFTS. ZHAO ZIYANG HAD CONFIRMED THIS IN HIS GOVERNMENT
WORK REPORT TO THE NPC, AND WE COULD REST ASSURED ON THIS POINT.
SINCE IN MAJOR ASPECTS THERE WOULD BE NO CHANGE FOR FIFTY YEARS,
THE SOCIAL AND ECONOMIC SYSTEMS WOULD NOT AND NEED NOT BE
CHANGED. EXPLICIT PROVISIONS WERE IN THE CHINESE DRAFT.
IT WAS INAPPROPRIATE FOR US TO CONTINUE TO EXPRESS DOUBTS ABOUT
CHINESE SINCERITY.

5. CHINESE DRAFTS HAD ACCOMMODATED OUR INTERESTS TO THE MAXIMUM AND
TO THE LIMIT OF WHAT ANY SOVEREIGN STATE COULD AGREE TO.
NO MORE EXCESSIVE DEMANDS SHOULD BE MADE AND PARTICULARLY NO MORE
DEMANDS IMPAIRING CHINESE SOVEREIGNTY. THESE WERE IN DIRECT
CONFLICT WITH POINTS ALREADY MADE.

6. ON THE STATIONING OF TROOPS IN HONG KONG, ZHOU SAID DENG HAD
ALREADY MADE THE POSITION CLEAR DURING HIS TALKS WITH YOU. IN
MANY ROUNDS THE CHINESE HAD PATIENTLY AND REPEATEDLY EXPLAINED
THIS. IT WAS ABSURD TO SAY THAT THE PRESENT STATIONING OF BRITISH
TROOPS IN HONG KONG WAS CONDUCIVE TO MAINTAINING STABILITY
AND PROSPERITY BUT THAT WHEN CHINA RESUMED EXERCISE OF SOVEREIGNTY
STATIONING OF TROOPS WOULD CAUSE PROBLEMS. ENOUGH HAD
BEEN SAID ON THIS SUBJECT. THERE WAS NO ROOM FOR NEGOTIATION
AND ZHOU ADVISED US NOT TO GO ANY FARTHER.

CONTINUING ARGUMENTS WOULD NOT PRODUCE ANY CONSTRUCTIVE RESULTS
BUT WOULD HURT THE NATIONAL FEELINGS OF THE CHINESE PEOPLE.

7. THE STIPULATION IN THE CHINESE DRAFT THAT FOREIGN
NATIONALS COULD BE EMPLOYED TO SERVE AS ADVISERS OR UP TO
THE RANK OF DEPUTY SECRETARY WAS VERY MAGNANIMOUS AND
WAS AS FAR AS THE CHINESE COULD GO. WE COULD NOT SAY
THAT THIS WAS UNSATISFACTORY AND UNACCEPTABLE.

8. THE CHINESE DRAFT CLEARLY AND SPECIFICALLY STIPULATED THE
HIGH DEGREE OF AUTONOMY IN ADMINISTRATIVE MATTERS TO BE
ENJOYED BY THE SAR AND DID NOT MERELY STATE AS I HAD
CLAIMED THAT IT WOULD ENJOY A HIGH DEGREE OF AUTONOMY. THE CHINESE
HAD TO AFFIRM THAT THE HONG KONG SAR WAS UNDER THE AUTHORITY OF
THE CENTRAL PEOPLES GOVERNMENT OF THE PRC AND THAT POWERS
WERE TO BE VESTED IN THE SAR BY THE CENTRAL GOVERNMENT.
ONLY THIS EMBODIED THE PRINCIPLE OF SOVEREIGNTY. WE HAD NO
REASON TO OBJECT. IF THE SAR WERE NOT ACKNOWLEDGED TO
BE UNDER THE AUTHORITY OF THE CENTRAL GOVERNMENT, IT WOULD MEAN
IT CAME UNDER THE AUTHORITY OF SOME OTHER GOVERNMENT.
IN DESCRIBING THE POWERS OF THE SAR GOVERNMENT THE
CHINESE HAD ADOPTED A POSITIVE APPROACH WHILE WE HAD CLUNG
TO NEGATIVE FORMULATIONS. THE CHINESE COULD NOT UNDERSTAND WHY
WE HAD NOT GIVEN UP THE NOTION OF TREATING THE SAR AS AN
INDEPENDENT ENTITY.

9. ZHOU SAID WE HAD INTRODUCED A NEW CONCEPT IN TAKING 30
JUNE 1997 AS THE REFERENCE POINT FOR ALL ARRANGEMENTS AFTER
1 JULY 1997. THERE WOULD BE MANY UNKNOWN FACTORS
DURING THE 13 YEARS, AND UNILATERAL ARRANGEMENTS MADE BY
THE BRITISH SIDE, AND WE WERE ASKING THE CHINESE TO ACCEPT ALL OF
THESE IN ADVANCE. WE HAD ALREADY RAISED SUCH UNREASONABLE
DEMANDS ABOUT GOVERNMENT STRUCTURE AND THE CHINESE
HAD OBJECTED. THEY NOW WERE EVEN MORE UNWILLING TO
AGREE. WHEN USING THE TERM CURRENT EXISTING SYSTEMS THE CHINESE
MEANT THE STATE OF AFFAIRS AT THE TIME OF REACHING AGREEMENT,
IT DID NOT INCLUDE CHANGES WHICH WE MIGHT MAKE IN THE COMING
13 YEARS. THIS POINT PROVED AGAIN THE NECESSITY OF SETTING
UP A SINO/BRITISH JOINT GROUP IN HONG KONG DURING THE TRANSITION
PERIOD.

10. DENG HAD SAID TO YOU DURING YOUR TALKS THAT THE AGREEMENT SHOULD DEAL WITH GENERAL PRINCIPLE. TOO MANY DETAILS WOULD LEAD TO MISTAKES AND WOULD DAMAGE THE HIGH DEGREE OF AUTONOMY TO BE ENJOYED BY THE SAR GOVERNMENT. THE CHINESE AGREEMENT WAS ALREADY RATHER DETAILED. DENG HAD POINTED OUT THAT OUR DRAFTS AND ANNEXES WERE UNPRECEDENTEDLY DETAILED. IN MY STATEMENT OF 30 MAY I HAD AGAIN ASKED FOR THE INCLUSION OF AN EXCESSIVE AMOUNT OF DETAIL AND HAD COMPLAINED, FOR EXAMPLE, THAT THE CHINESE DRAFTS DID NOT SPECIFY THAT COURTS SHOULD HAVE THE POWER OF JUDGEMENT OVER CIVIL AND CRIMINAL PROCEEDINGS. WE WERE CONDUCTING TALKS TO REACH AN AGREEMENT BETWEEN TWO GOVERNMENTS, NOT MAKING PROPOSALS ON DRAFTING THE BASIC LAW, NOR THE LAWS OF THE HONG KONG COURTS. THE DUTIES OF ANY COURT WERE COMMON KNOWLEDGE. IF WE WROTE SUCH DETAILS INTO AN AGREEMENT WE WOULD BECOME AN INTERNATIONAL LAUGHING STOCK. THERE WERE SEVERAL SIMILAR EXAMPLES IN OUR STATEMENT, E.G. ON FREE PORTS.

11. A MORE GENERAL FORMULATION DEALING WITH PRINCIPLES COULD HAVE A WIDER SCOPE THAN AN EXCESSIVELY DETAILED DOCUMENT. IN ATTENDING TO ONE DETAIL, MANY OTHERS COULD BE OVER-LOOKED. ZHOU CITED OUR COMMENTS ON EMPLOYMENT OF FOREIGN NATIONALS IN THE FINANCIAL AND MONETARY FIELDS AS AN EXAMPLE. THE CHINESE DRAFT CONCERNING RIGHTS AND FREEDOMS ALSO COVERED A LARGER AREA THAN THE LIST PROVIDED BY US. OUR DEMANDS CONTRADICTED THE NOTION OF A HIGH DEGREE OF AUTONOMY OF THE SAR, AND, IF GRANTED, WOULD NOT IN ANY WAY GUARANTEE PROSPERITY AND STABILITY IN HONG KONG.

12. IN MY STATEMENT I HAD SAID THAT THE LANGUAGE OF ANY AGREEMENT SHOULD BE READILY UNDERSTOOD AND ACCEPTABLE TO HONG KONG PEOPLE AND TO THE INTERNATIONAL COMMUNITY. IN ZHOUS VIEW THE LANGUAGE OF THE CHINESE DRAFTS WOULD NOT CAUSE ANY DIFFICULTIES OF ACCEPTANCE OR COMPREHENSION IN HONG KONG OR INTERNATIONALLY. SINCE IT WAS A BILATERAL AGREEMENT THE LANGUAGE SHOULD ALSO BE ACCEPTABLE TO ONE BILLION CHINESE, INCLUDING HONG KONG COMPATRIOTS. THE QUESTION OF LANGUAGE IN OUR STATEMENT ALSO COVERED SUBSTANTIVE PARTS. ZHOU SAID HE WOULD THEREFORE NOT COMMENT ON THESE ONE BY ONE AND COMPREHENSIVELY. DETAILED DISCUSSIONS COULD BE CARRIED OUT IN THE WORKING GROUP. IT WAS, HOWEVER, USEFUL TO MAKE PLAIN THE POINTS OF PRINCIPLE BEFORE THE WORKING GROUP STARTED WORK. AS FOR OTHER POINTS IN MY STATEMENT OF 30 MAY THEY SEEMED TO STEM FROM A MISUNDERSTANDING OF THE CHINESE DRAFT. SUCH QUESTIONS COULD BE EASILY SOLVED IN THE WORKING GROUP.

13. TURNING TO ITEM 2 ZHOU SAID HE WANTED TO MAKE SOME PRELIMINARY COMMENTS ON THE STATEMENT I HAD JUST MADE. HE WOULD COMMENT FURTHER AT FUTURE ROUNDS. DURING THE 12TH ROUND HE HAD FULLY INTRODUCED THE ARRANGEMENTS ENVISAGED FOR THE TRANSITION PERIOD. IN HIS TALKS WITH YOU, DENG HAD EXPLAINED THE CHINESE WERE GREATLY CONCERNED ABOUT AND ATTACHED GREAT IMPORTANCE TO THIS QUESTION. THEIR PLAN WAS PRESENTED IN FULL TO US IN THE DRAFT PROTOCOL. BEFORE YOU LEFT PEKING YOU HAD PROMISED DENG TO CONSIDER CONSTRUCTIVELY HIS PROPOSAL AND RESPOND AS SOON AS POSSIBLE. A LONG PERIOD OF TIME HAD PASSED. THE CHINESE ORIGINALLY EXPECTED WE WOULD MAKE A POSITIVE RESPONSE. ZHOU SAID OUR RESPONSE WAS FAR FROM CONSTRUCTIVE AND POSITIVE. IT DISAPPOINTED THE CHINESE AND CAUSED THEM DEEP REGRET. ARRANGEMENTS FOR THE TRANSITION PERIOD WERE AN IMPORTANT AGENDA ITEM AND AN IMPORTANT PART OF OUR TALKS. THE CHINESE HAD TAKEN THE VIEW THAT AFTER OUR EXCHANGE OF VIEWS ON ARRANGEMENTS AFTER 1997 THE CURRENT ROUNDS SHOULD SHIFT THEIR FOCUS TO PROBLEMS IN THE TRANSITION PERIOD. ONCE WE HAD AGREED TO CHINESE

IN THE TRANSITION PERIOD. ONCE WE HAD AGREED TO CHINESE RESUMPTION OF SOVEREIGNTY IN 1997, TRANSITIONAL PERIOD ARRANGEMENTS NATURALLY CAME TO THE FORE. WITHOUT SUITABLE ARRANGEMENTS MANY POINTS OF THE BILATERAL AGREEMENT WOULD NOT BE IMPLEMENTED AND A SMOOTH TRANSFER OF GOVERNMENT WOULD NOT BE GUARANTEED. THE TWO SIDES WERE CONDUCTING EFFECTIVE COOPERATION TO CONCLUDE AN AGREEMENT. THE DECISION WHETHER OR NOT TO MAKE APPROPRIATE ARRANGEMENTS FOR THE TRANSITION PERIOD WAS AN IMPORTANT TEST OF BOTH SIDE'S SINCERITY IN WISHING TO CONTINUE COOPERATION.

14. DENG HAD SAID THE CENTRAL GOVERNMENT WOULD NOT SEND PERSONNEL FROM PEKING TO RUN HONG KONG IN 13 YEARS TIME. CANDIDATES WOULD BE CHOSEN IN HONG KONG. THE HONG KONG PEOPLE HAD TO FAMILIARISE THEMSELVES WITH ADMINISTRATIVE SKILLS OVER THE COMING 13 YEARS. TO CHANGE ONLY THE LEADING FIGURES OR A FLAG WOULD CAUSE CHAOS. CANDIDATES FOR THE GOVERNMENT SERVICE SHOULD BE CHOSEN JOINTLY. THIS WAS A MAJOR CONCESSION TO US AND WAS THEREFORE FAIR AND REASONABLE. ZHOU SAID THAT IN MY STATEMENT I HAD TRIED TO REJECT THE NECESSITY OF JOINT SELECTION OF CANDIDATES. WE WERE THEREFORE TRYING TO MONOPOLISE THIS. THIS WOULD NOT ENSURE STABILITY AND PROSPERITY. WE WERE BEHAVING IN AN UNACCEPTABLE WAY. METHODS OTHER THAN JOINT SELECTION MIGHT NOT PROVE BENEFICIAL. THE CHINESE HAD THEREFORE SAID DENG'S PROPOSAL WAS THE ONLY REASONABLE AND FEASIBLE ONE. WE SHOULD THEREFORE WELCOME, NOT REJECT IT.

15. DENG HAD STRESSED THE IMPORTANCE OF ESTABLISHING A JOINT GROUP IN HONG KONG AFTER AGREEMENT WAS REACHED. THIS WAS IMPORTANT FOR CREATING CONDITIONS FOR THE TRANSFER OF GOVERNMENT. WE HAD RECOGNISED THIS AND HAD AGREED IN MY STATEMENT OF 31 MAY THAT THERE WERE MANY MATTERS IN THE TRANSITION PERIOD ON WHICH CONSULTATIONS WERE NEEDED. TO ALLEVIATE OUR CONCERNS THAT SUCH A GROUP WOULD INTERFERE IN HONG KONG'S INTERNAL AFFAIRS DENG HAD SUGGESTED THE GROUP BE SET UP IN HONG KONG BUT MEET IN HONG KONG, PEKING OR LONDON. IT WAS DISAPPOINTING AND REGRETABLE THAT MY STATEMENT OF 31 MAY REJECTED THIS REASONABLE PROPOSAL. I HAD SAID SETTING UP SUCH A GROUP WOULD BE CONSIDERED BUT IT SHOULD NOT BE A PERMANENT ORGAN NOR MEET ON A PERMANENT BASIS. THE JOINT GROUP WAS TO DEAL WITH HONG KONG MATTERS. THEREFORE IT WAS BOTH APPROPRIATE AND CONVENIENT FOR IT TO BE SET UP IN HONG KONG WHERE IT COULD HAVE DIRECT ACCESS TO INFORMATION AND CARRY OUT CONSULTATIONS PROMPTLY. IN MY STATEMENT, I HAD ALSO SAID THE TWO CHAIRMAN SHOULD HAVE CLOSE CONTACTS. ZHOU SAID HE HAD NEVER REFUSED MY REQUESTS TO SEE HIM AND WE ALREADY KEPT IN CLOSE CONTACT. AGAINST THIS BACKGROUND, HE COULD SEE NO REASON TO SET UP A JOINT GROUP IN PEKING.

16. ZHOU SAID WE HAD ALSO EXPRESSED OBJECTIONS TO A JOINT GROUP ON THE GROUNDS THAT IT WOULD CREATE AN IMPRESSION OF CONDOMINIUM. THE CHINESE HAD EXPLAINED PATIENTLY AND REPEATEDLY THEY HAD NO INTENTION OF ENTERING INTO A CONDOMINIUM. THE PROBLEM DID NOT EXIST. THE CHINESE HAD ALSO MADE PLAIN THAT THE GROUP WOULD NOT REPLACE THE HONG KONG GOVERNMENT IN RUNNING HONG KONG DURING THE TRANSITION PERIOD, BUT WOULD CONDUCT CONSULTATIONS ON THE IMPLEMENTATION OF THE AGREEMENT AND SMOOTH TRANSFER OF GOVERNMENT. IF WE WANTED TO SPELL OUT THE TASKS OF THE JOINT GROUP FURTHER, WE SHOULD PUT FORWARD OUR OWN PROPOSAL. IT WAS ABSURD TO SAY THAT IF A JOINT GROUP WERE ESTABLISHED IN HONG KONG IT WOULD CREATE FEARS AMONGST THE HONG KONG PEOPLE. ZHAO HAD SAID TO YOU THAT SETTING UP THE JOINT GROUP IN HONG KONG WOULD ENABLE HONG KONG PEOPLE TO SEE THAT ONCE THE AGREEMENT WAS CONCLUDED WORK WOULD

THE JOINT GROUP WOULD PUT PEOPLE'S MINDS AT REST.

17. IMPORTANT POINTS WOULD BE CONTAINED IN THE AGREEMENT, SUCH AS PROVISION OF LAND LEASES AND PROVISION FOR THE ISSUANCE OF BANKNOTES BY THE SAR. THESE WOULD REQUIRE CONSULTATION IN THE JOINT GROUP TO ALLOW IMPLEMENTATION. ZHOU SAID THAT HE HAD FULLY ELABORATED THE CHINESE POSITION ON LAND LEASES ON 30 MAY. THE CHINESE HAD BEEN MAGNANIMOUS AND REASONABLE, AND THE MATTER HAD BEEN HANDLED ACCORDING TO CHINESE PRINCIPLES. THIS ISSUE COULD BE SETTLED THROUGH CONSULTATIONS IN THE JOINT GROUP. IF THE BRITISH SIDE REJECTED THE PROPOSAL TO SET UP SUCH A GROUP, THE CHINESE MUST INFER THAT WE HAD NO INTENTION OF SOLVING THE LAND LEASE PROBLEM. AS FOR THE ISSUANCE OF BANKNOTES IN HONG KONG, ZHOU SAID THE CHINESE POSITION HAD BEEN STATED CLEARLY IN THE 14TH ROUND. CURRENT NOTE ISSUING BANKS COULD BE AUTHORISED TO CONTINUE THIS ROLE AFTER 1997 ONLY IF THE HONG KONG DOLLAR WAS SOUND AND ITS VALUE ASSURED. IF THE CHINESE WERE NOT ALLOWED TO FAMILIARISE THEMSELVES WITH THE CURRENT STATUS OF THE EXCHANGE FUND AND WERE NOT PROVIDED WITH INFORMATION THEN THEY SHOULD NOT BE ASKED TO AUTHORISE CURRENT NOTE ISSUING BANKS TO CONTINUE AS SUCH AFTER 1997. ZHOU THEN EXPRESSED SURPRISE ABOUT MY COMMENTS ON THE CONFIDENTIALITY AND LIMITED ACCESS TO INFORMATION ON THE EXCHANGE FUND. THE CHINESE WERE ASKING FOR THIS INFORMATION ON A CONFIDENTIAL BASIS. AS FOR THE RELEVANT EXCHANGE FUND ORDINANCE THIS WAS ALREADY FREELY AVAILABLE IN HONG KONG. IF THIS REASONABLE REQUEST WERE TURNED DOWN, THEN THE CHINESE COULD NOT BE EXPECTED TO CO-OPERATE. THEIR PROPOSAL NOT ONLY CONFORMED TO CHINESE BUT ALSO TO BRITISH INTERESTS. CONTINUED REJECTION OF THE CHINESE PROPOSAL EQUATED TO BLOCKING THE POSSIBILITY OF THE CHINESE AUTHORISING CURRENT NOTE ISSUING BANKS TO CONTINUE ISSUING AFTER 1997.

18. ZHOU SAID THAT IN MY STATEMENT I HAD REJECTED ARTICLE 8 OF THE CHINESE DRAFT PROTOCOL CONCERNING MATTERS RELATING TO THE TRANSFER OF POWER FROM THE HONG KONG GOVERNMENT TO THE SAR. WHEN HE HAD INTRODUCED THIS ARTICLE IN THE 14TH ROUND, HE HAD MADE CLEAR THIS ARRANGEMENT WAS COMPATIBLE WITH INTERNATIONAL PRACTICE. IT WAS NOT AN EXCESSIVE DEMAND AND WAS IN ACCORDANCE WITH THE PRINCIPLE OF SOVEREIGNTY. HE HAD STATED CLEARLY THAT THE HONG KONG GOVERNMENT MUST HAND OVER PROPERTY, ARCHIVES ETC TO THE CENTRAL GOVERNMENT OF THE PRC FIRST. THE CENTRAL GOVERNMENT WOULD THEN PASS THESE TO THE SAR GOVERNMENT. I HAD SAID THIS WAS NOT ACCEPTABLE AND THAT THE HONG KONG GOVERNMENT WOULD HAND THEM DIRECTLY TO THE SAR GOVERNMENT. THIS HAD SERIOUS POLITICAL IMPLICATIONS. SUCH AN ARRANGEMENT WAS APPLICABLE WHERE FORMER COLONIES BECAME INDEPENDENT STATES. IF WE BYPASSED THE CENTRAL GOVERNMENT AND TRANSFERRED THESE ASSETS DIRECTLY TO THE SAR GOVERNMENT IT WOULD NOT ONLY GIVE THE IMPRESSION THAT THE SAR GOVERNMENT WAS AN INDEPENDENT AUTHORITY BUT WOULD MAKE THE SAR AN INDEPENDENT POLITICAL ENTITY. THIS WAS IN DIRECT CONFLICT WITH THE PRINCIPLE OF SOVEREIGNTY AND THE CHINESE COULD NOT BE EXPECTED TO AGREE TO IT.

19. THE ARRANGEMENTS PROPOSED BY THE CHINESE SIDE FOR THE TRANSITION PERIOD, INCLUDING A SINO/BRITISH JOINT GROUP, WERE ESSENTIAL COMPONENT PARTS OF AN OVERALL AGREEMENT. WITHOUT SUCH ARRANGEMENTS THERE WOULD BE A SERIOUS OBSTACLE TO AGREEMENT AND INDEED CONCLUSION OF AN AGREEMENT WOULD BE OUT OF THE QUESTION.

ZHOU HOPED WE WOULD CONSIDER THIS AGAIN CAREFULLY AND EARNESTLY, REALISE THE FAIRNESS OF THE CHINESE PROPOSALS AND ACCEPT THEM. ONCE THIS PROBLEM WAS SOLVED OTHER MATTERS WOULD BE SETTLED EASILY AND CONDITIONS CREATED FOR LONG-TERM COOPERATION BETWEEN CHINA AND BRITAIN. DENG HAD POINTED OUT TO YOU THAT THE SETTLEMENT OF THE HONG KONG QUESTION WAS AN EXAMPLE OF SINO/ BRITISH COOPERATION AND WOULD STRENGTHEN AND PROMOTE FRIENDLY RELATIONS. IT WOULD ALSO MAKE A MAJOR IMPACE INTERNATIONALLY. ZHOU STRESSED THAT ALTHOUGH THESE COMMENTS WERE PRELIMINARY THEY WERE A FORMAL CHINESE RESPONSE TO MY STATEMENTS.

20. I THEN SPOKE. I SAID I WOULD COMMENT OF ZHOU'S STATEMENT OF 30 MAY ON LAND LEASES LATER.

WE WOULD STUDY ZHOU'S PRELIMINARY RESPONSE TO MY STATEMENT BUT I HOPED THE CHINESE WOULD CONTINUE TO STUDY IT AND GIVE US CONSIDERED RESPONSE.

AS FOR THE FIRST PART OF THE STATEMENT ZHOU HAD JUST MADE, I SAID WE HAD NO DOUBTS ABOUT CHINESE SINCERITY. THE CHINESE IN TURN SHOULD NOT DOUBT OUR SINCERITY ABOUT WHAT WE SAID WE WOULD DO OR ABSTAIN FROM DOING. WE MEANT WHAT WE SAID ABOUT CONFIDENCE. THIS WAS AN INVISIBLE BUT PRECIOUS COMMODITY. WITH IT MUCH COULD BE DONE, WITHOUT IT LITTLE OR NOTHING. MAINTENANCE OF CONFIDENCE IN AND IN RELATION TO HONG KONG WAS A NECESSARY CONDITION FOR MAINTAINING STABILITY AND PROSPERITY IN THE TERRITORY. THE AGREEMENT WE WERE SEEKING TO CONCLUDE MUST HAVE CERTAIN FEATURES IF IT WERE TO UPHOLD CONFIDENCE IN HONG KONG AND ELSEWHERE. I INVITED THE CHINESE SIDE TO CONSIDER THE IMPORTANCE OF CONFIDENCE FOR ALL CONCERNED INCLUDING THEMSELVES. I THEN SPOKE ON THE WORKING GROUP ALONG THE LINES OF THE INSTRUCTIONS IN YOUR TELNO 563.

21. IN REPLY, ZHOU NAN SAID THE DIFFERENCE BETWEEN US ON THE WORKING GROUP RELATED NOT TO THE METHODS OF WORK BUT TO THE GROUPS TASKS. THE WORKING GROUP WAS TO DISCUSS THE TEXTS OF THE AGREEMENTS. THE CHINESE PROPOSAL THAT THE JOINT DECLARATION, ARRANGEMENTS FOR THE PERIOD AFTER 1997, AND ARRANGEMENTS BEFORE 1997 SHOULD BE CONSIDERED IN THAT ORDER WAS REASONABLE AND SHOULD BE FOLLOWED. BOTH SIDES HAD PRESENTED DRAFTS OF THE MAIN BODY OF THE AGREEMENT AND THEIR OWN TEXTS RELATING TO ARRANGEMENTS AFTER 1997. THE CHINESE HAD PUT FORWARD A DRAFT PROTOCOL CONCERNING THE TRANSITION PERIOD. BUT WE HAD NOT YET DONE SO

IF WE WERE UNABLE TO DO SO WE SHOULD DISCUSS THE CHINESE DOCUMENT. THE CHINESE PROPOSAL WAS REASONABLE AND FAIR AND ZHOU COULD NOT UNDERSTAND WHY WE REJECTED IT. HE HAD EXPERIENCE OF WORKING GROUPS OF INTERNATIONAL ORGANISATIONS. THE TASKS THE CHINESE HAD SET OUT FOR THE WORKING GROUP FOLLOWED INTERNATIONAL PRACTICE. OUR PROCEDURE WAS UNUSUAL. HE HOPED WE WOULD NOT INSIST ON IT AS THIS WOULD GIVE RISE TO THE SUSPICION THAT THE BRITISH SIDE WAS ONLY INTERESTED IN DISCUSSING ONE PART OF THE AGREEMENT. THE CHINESE HAD STATED AT THE OUTSET THAT ARRANGEMENTS AFTER 1997 WERE AN INTERNAL CHINESE AFFAIR. IF THE WORKING GROUP STARTED AT THIS POINT ZHOU WONDERED WHAT IMPRESSION THIS WOULD CREATE.

22. I NOTED WHAT ZHOU HAD SAID, AND SAID THAT WHAT I HAD JUST DESCRIBED WERE IMPORTANT MATTERS OF PRINCIPLE.

23. SEE MIFT FOR COMMENT

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EVANS

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CCN PARA 19 LINE 14..... PSE READ ALSO MAKE A MAJOR IMPACT

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