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Foreign and Commonwealth Office

Prime Minister.

London SW1A 2AH

Agree the Foreign Secretary  
message to Chinese Foreign  
Minister (attached)?

4 June 1984

Dear John,

A.S.C. 4/6.

Yes - but do I think  
me as a very  
long message  
no.

Hong Kong: Fifteenth Round of Talks

You will have seen Peking telnos 999, 1000, 1014 and 1015, reporting on the latest round of talks with the Chinese. The Chinese took an extremely tough line on all the questions discussed, in particular on Item 2 (the transitional period); on our commentary on their draft exchange of notes and on our proposal for a working group to discuss the annexes.

We are clearly approaching a major point of decision in the negotiation. We do not know whether the Chinese position on these questions is immovable or to what extent they are testing our nerve. There is no question however that, both on Item 2 and on their attitude to the degree of detail in the agreement, their line as it stands is unacceptable to us. On Item 2 they are insisting on a joint group based in Hong Kong and on the degree of involvement by Peking in the period up to 1997 which would certainly damage confidence irreparably. On the agreement and annexes they are saying that their draft exchange of notes has gone as far as they can contemplate. We must obviously make every effort to shift them but we have to recognise that if we do not succeed we shall have to tell the Chinese that an agreement cannot be signed on that basis. The question now is what tactics we should employ to put pressure on them.

In the Foreign Secretary's view, we should hold our position on Item 2 for the moment and make no fresh approach to the Chinese until we have seen their considered response to our proposals. We can expect it to be unhelpful but we must at any rate give the Chinese negotiator a chance to report to his leaders. Meanwhile, our priority task should be to work on the Chinese to accept that an agreement should contain detail and to get work on the annexes started soon.

Sir Geoffrey Howe proposes to send a further message to the Chinese Foreign Minister on this. I enclose a draft of

/what



what he intends to say. As you see, the line is to leave the Chinese in no doubt that we insist on an agreement with adequate detail, to oppose their idea dealing with the main agreement before the annexes in the working group but to suggest instead a parallel procedure involving discussion of the main agreement in plenary and of the annexes in the working group. The alternative proposal which Sir R Evans put forward, (Peking telno 1024) is that we should move gradually towards acceptance that the working group should discuss the main agreement first, does not seem so satisfactory. It would delay progress initially and would almost certainly result in a hold up in the working group, with the Chinese refusing to move on to the annexes. We should emphasise to the Chinese that the issues affecting the main agreement could only be resolved in plenary and that, to avoid wasting time, it must be accepted that work should proceed on the annexes, subject always to eventual agreement on the total package.

Sir Geoffrey Howe believes that these points should be conveyed to the Chinese in a message at ministerial level. The Chinese negotiator, Zhou Nan, is of course acting on instructions, but we cannot expect him to react in any way favourably and must put over our line in a form which he is obliged to submit to a high level. We will need to assess the Chinese response carefully. If it does not do the trick, we may need to recommend a message from the Prime Minister herself which leave the Chinese in no doubt that they were risking a breakdown of the talks. At that stage we may well need to cover Item 2 as well.

I should be grateful to know whether the Prime Minister agrees with the action proposed.

It would be most useful to know tomorrow, 5 June, so that the message can be despatched that day.

*Y* *over*

(P F Ricketts)  
Private Secretary

*Peter Ricketts*

A J Coles Esq  
10 Downing Street

DRAFT MESSAGE FROM THE SECRETARY OF STATE TO THE  
CHINESE FOREIGN MINISTER

1. On 28 June Sir Richard Evans delivered a message to you from me emphasising our wish to make rapid progress in the talks on the future of Hong Kong and offering ideas on practical ways in which this might be assisted. I suggested that a working group should be set up to move ahead quickly and complete discussion of your draft exchange of notes and our draft annexes in order to reach agreement on a text as soon as possible.
  
2. This question has now been discussed between our negotiators during the latest round of talks in Peking. From the reports which I have seen of those talks, I fear that there may be some misunderstanding on the Chinese side about the purpose of our proposal. Assistant Foreign Minister Zhou Nan put to Sir Richard Evans the suggestion that the working group should tackle the main agreement, the Chinese draft protocol and the draft exchange of notes in that order and that the working group should be subordinate to the main negotiating teams. I naturally understand the reasoning of this proposal but I am concerned that we should avoid in practice having a machinery for discussion which might be too cumbersome and which might hold up progress. We must make use of the resources at our joint disposal in order to move as expeditiously as possible.
  
4. I am myself keen to adopt the most flexible approach possible. In order to meet the Chinese concerns, and to move ahead quickly, I suggest that we agree to tackle the main agreement and the annexes simultaneously by making use of the plenary sessions and of the new working group. It would seem most appropriate that the main agreement should be dealt with in the plenary talks. This is after all the document likely to raise most questions of principle rather than simple textual amendment. The same should, I suggest, apply to the draft protocol. These two important major items could form the main issues for the next few sessions of the plenary talks.

5. We should at the same time not hold up on discussion of the exchange of notes and annexes. There will be much detailed ground to be covered. The most practical arrangement would, I suggest, be for the 16th round of talks on 12 and 13 June to start discussion of the main agreement, that consideration could continue, both in further plenary sessions and in the useful informal contacts between our chief negotiators. But in any case the working group should begin its examination of the exchange of notes and annexes immediately after the next round and independently of the work being done in the plenary session on the main agreement and on arrangements for the period up to 1997. I think it is important that the leaders of the working group should be able to take decisions as they proceed without necessarily referring questions to plenary. They would of course report progress to Assistant Foreign Minister Zhou Nan and to Sir Richard Evans and each plenary session would taken note of the progress made by the working group. If we do not adopt a practical arrangement on these lines, I believe believe we run a serious risk that the work will not be completed within the timescale we are trying to meet. Both of us want to avoid that.

6. But if the arrangements which I have outlined are to be of any value we shall have to reach a common understanding that in discussions of all these documents, whether the main agreement or the annexes, we should discuss both your draft texts and ours. This is relevant to the question of the amount of detail which should be included in a document appended to the agreement. Here again I think there may be some misunderstanding. Assistant Foreign Minister Zhou Nan indicated that in the Chinese view we were suggesting the inclusion of too much detail and that our proposals implied some doubt about Chinese sincerity. I must emphasise that this is not the case. There is no question of our doubting the intention of the Chinese Government to agree arrangements involving a high degree of autonomy for the future Special Administrative Region of Hong Kong. But, as I explained to you and to the other Chinese leaders during my visit in April, we believe that it is in our common interest to present these arrangements to Hong Kong and to the world in as precise a way as possible, in order to preserve the confidence in Hong Kong. People there will of course obtain

some reassurance from general statements. But it is clear that both people in Hong Kong and investors elsewhere will be seeking a clear picture of how the arrangements for the future of Hong Kong will work in practice. I do not believe that it would be practicable to expect them to wait until the Basic Law for the SAR emerged. We are concerned that, unless we make clear in whatever announcement is made this year, the precise principles on which Hong Kong will operate in the future, there will be continuing doubts and lack of confidence. This was a point to which a number of Members of Parliament drew attention during the recent debates in the British Parliament. It is therefore in our view essential that we make a common effort, in a spirit of co-operation, to agree on terms of future arrangements which when published will genuinely commend themselves both to people in Hong Kong and to foreign investors. I understand that Premier Zhao agreed with this point when he told me on 17 April that the annex to an agreement would certainly contain the points agreed between the two sides over the past few months of talks. He said that all these major issues would be reflected in the exchange of notes.

7. The proposals which we have made in our draft annexes are sincerely intended to meet this need. The supplementary points which we would propose to add to the material in the Chinese exchange of notes do not raise new issues. They are almost all matters which have already been agreed between our negotiators in discussion of the working papers earlier this year. We are of course very ready to discuss variations of language. At the last round indeed we put forward revised annexes on two subjects designed to illustrate how we thought that Chinese ideas could be combined with our own. I hope that you can agree that it would be helpful to move forward in the working group on this basis.

8. I have not gone into any detail of the question of Item 2 of the Agenda, matters arising before 1997. Discussion on this is proceeding with our negotiators. The response which we made at the last round was a serious attempt to meet Chairman Deng's proposals. We have heard the preliminary reaction of Assistant Foreign Minister Zhou Nan. I would ask you to study our ideas seriously and to let us have your considered response.

SECRET

9. I look forward to an early answer to the suggestions which I have made on the machinery for our discussions. I am sure that you will agree that it is important that we should not hold up our work in prolonged debate over procedures but should get on with our common task as quickly as possible.

SECRET

NOTE ON THE FIFTEENTH ROUND OF NEGOTIATIONS ON THE FUTURE OF  
HONG KONG

1. The fifteenth round of talks on the future of Hong Kong took place on 30/31 May.

ESTABLISHMENT OF A WORKING GROUP

2. At the round Zhou Nan responded to our proposal for the establishment of a working group to begin detailed negotiations on the annexes which describe post-1997 arrangements. He said that the Chinese had been working on a similar proposal, but he insisted that:

- (a) the agreement should be discussed as a whole, starting with the main document and moving on to the annexes and the Chinese draft protocol (dealing with Item 2); and
- (b) the working group should report to the plenary sessions rather than take decisions itself.

3. Zhou Nan agreed that the group could begin work in mid-June and that its duration should be flexible. The Ambassador explained in reply that we believed that the working group should start with the annexes, following the order of the agenda for the talks themselves, which had also started with arrangements post 1997. The Chinese indicated informally that they were not arguing for discussion on the basis of the Chinese draft texts alone.

ITEM TWO

4. The Ambassador spoke as instructed on Item 2, agreeing to the creation of a peripatetic joint group but tightly defining its functions. Zhou Nan reacted sharply, insisting that the group should be based in Hong Kong, and claiming that we had rejected Deng Xiaoping's proposal. He criticised us for trying to monopolise the selection of candidates for the public service in the transitional period. He argued again that the joint group would not replace the Hong Kong Government, but would conduct consultations on the

implementation of the agreement and the smooth transfer of Government. Zhou said that the Chinese side would not be able to agree to arrangements facilitating the extension of land leases beyond 1997, nor to the authorisation of the present note-issuing banks in Hong Kong to continue their function after 1997, if we did not agree to the creation of a joint group on Chinese terms. He also insisted again that the property, archives etc of the Hong Kong Government should be made over to the Chinese Government in 1997 for transmission to the SAR Government, rather than to the SAR Government directly. A direct transfer would make the SAR an independent political entity. The joint group was an essential component of an overall agreement, and without it an agreement would be out of the question.

5. In replying to our statement on Item 2 Zhou made it clear that this was a formal Chinese response. In informal contacts members of the Chinese delegation emphasized the importance of this issue, and said that the Chinese offer had been their absolute limit. They said that many on the Chinese side had wanted to ask for much more in the transitional period.

#### CRITIQUE OF CHINESE DRAFT EXCHANGE OF NOTES

6. The Ambassador explained to the Chinese in detail why their draft note on post-1997 arrangements was unacceptable to us and introduced revised draft annexes on the legal system and external economic relations. He made a brief reference to our position on the stationing of PLA troops. Zhou Nan responded by saying that the Chinese drafts had accommodated our interests to the maximum extent and to the limit which any sovereign state could accept. We were pressing for the inclusion of an excessive amount of detail. Our demands contradicted the notion of a high degree of autonomy for the SAR. In response to our argument that the agreement would be preserving systems as they stood on 30 June 1997 Zhou said that the Chinese side would only agree to the preservation of the existing systems. They could not agree in advance to British arrangements made unilaterally in the next thirteen years. On the stationing of PLA troops and the continuation of expatriate public servants in ranks above deputy secretary level the Chinese position was final



and we should be advised not to press these issues further. The other detailed points in the Ambassador's statement could be dealt with by the working group. The Chinese side hinted informally that considerably greater detail could be included in the Chinese draft note once they had been satisfied on the articles relating to sovereignty in the main agreement and on its form.

## LAND

7. Zhou Nan commented on the Ambassador's statement at the last round on land leases. He complained that we were asking for unconditional Chinese authorisation for the Hong Kong Government to grant land leases running after 1997 and then dispose of all revenues. He insisted that the number of leases to be issued each year should be agreed between the two sides and that the revenue relating to the period after 1997 should be deposited in a fund to be handed over to the SAR Government, or used for the economic development of the territory with the agreement of the Chinese Government. Since this was a matter for the transitional period, a reference to it should be included in the proposed protocol on pre-1997 arrangements and not in the agreement.

## CONCLUSION

8. Despite our constructive response over the joint group for the transitional period and our willingness to enter detailed negotiation on the annexes Zhou Nan maintained his usual negative and argumentative line. Even on the creation of a working group to study the annexes, agreement could not be achieved.

1 June 1984

Huy King

Future

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SECRET



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cds/Carole  
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10 DOWNING STREET

*From the Private Secretary*

5 June 1984

HONG KONG: FIFTEENTH ROUND OF  
TALKS

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Thank you for your letter of 4 June.  
The Prime Minister thought that the proposed  
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rather lengthy but agrees that it may be  
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A. J. COLES

Peter Ricketts, Esq.  
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SECRET

*MR*

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