



Foreign and Commonwealth Office

London SW1A 2AH

20 May 1983

*I have agreed with the F.C.O. that no action should be taken on this letter until the prospect of substantive talks is firm and the F.C.O. contact me again. A.S.C. 25/5 p-a.*

*Dear John,*

Talks on the Future of Hong Kong

My letter of 13 May and your reply of 17 May dealt with Premier Zhao's response to the Prime Minister's letter. As you will have seen, EXCO unanimously supported the proposed reply.

In your letter of 17 May you said that the Prime Minister would like to consider the timing of the substantive talks in the light of the Chinese reaction to Sir P Cradock's call on Vice Minister Yao. If Yao suggests an early substantive meeting, the Ambassador will simply undertake to report this. Given that we wish, without rushing, to keep up the momentum, Mr Pym's view is nevertheless that we should be ready to agree to an early meeting, even one before the election, since we do not wish to give the Chinese the impression that elections here are a relevant factor.

In practice, the Chinese are likely to take some time to evaluate our reply, but since events could move quickly, it makes sense to do some planning ahead for the substantive talks now. We have been discussing our strategy with the Governor and Sir P Cradock. Assuming that the Chinese agree to talks, we believe that the first substantive meeting should from our side take the form of a presentation by the Governor setting out how Hong Kong works now. I enclose a text on which the Governor would draw. This illustrates the value of the present systems there and the key importance of the UK link. The aim is to try to draw the Chinese into discussions on practical matters. In doing so, we should seek to avoid confrontation on matters of principle, particularly sovereignty, although if necessary the Ambassador would make our position, as set out in the Prime Minister's letter of 10 March, clear. We would then attempt to seek Chinese views on how the continuity of the various systems in Hong Kong could best be guaranteed in the future. In this way we would hope to lead the Chinese towards subsequent detailed discussion of practical matters, such as currency, trade and the legal system.

/Obviously

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Obviously, this will not be easy. We may come up against the sovereignty point at any time. But it is essential to begin the educative process soon. It is difficult to predict how the Chinese will react, and there is little point in trying to look much beyond the first meeting. It would nevertheless be very helpful to have the Prime Minister's views on timing and the proposed initial approach. If the Prime Minister is generally content, we propose to ask the Governor to discuss it with EXCO in general terms, showing them the text of the proposed presentation. He could do this, on a contingency basis in advance of the Chinese reply, on 25 May at one of his regular meetings.

*Yours ever*

*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

S E C R E T

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ANNEX B

SECRET

FM HONG KONG 052620Z MAY 83

TO PRIORITY FCO

TELEGRAM NUMBER 624 OF 5 MAY 1983

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MPT: FUTURE OF HONG KONG: STRATEGY FOR SUBSTANTIVE TALKS.

1. FOLLOWING IS TEXT OF OUR REVISED DRAFT PRESENTATION.

## INTRODUCTION

IN THREE DECADES HONG KONG HAS DEVELOPED FROM AN ENTREPOT AND COMMERCIAL CENTRE, TO A MAJOR LIGHT MANUFACTURING CENTRE (DOMESTIC EXPORTS ACCOUNTING FOR 65 PER CENT OF TOTAL EXPORTS), AND THEN TO A DIVERSIFIED ECONOMY WITH AN INTERNATIONAL DIMENSION (THE FINANCIAL AND ALLIED SERVICES SECTOR ACCOUNTING FOR ABOUT A QUARTER OF THE GDP, I.E. AS MUCH AS THE MANUFACTURING SECTOR). THE HONG KONG ECONOMY HAS BECOME INCREASINGLY EXTERNALLY ORIENTED: AND WITH THE GROWTH OF THE MONEY AND FOREIGN EXCHANGE MARKETS IT HAS BECOME EVEN MORE SENSITIVE THAN HITHERTO TO INTERNATIONAL AS WELL AS DOMESTIC INFLUENCES.

## INHERENT ADVANTAGES

2. UNDERLYING THIS DEVELOPMENT HAVE BEEN CERTAIN ADVANTAGES -

(A) HONG KONG'S GEOGRAPHICAL POSITION:

(B) THE BIGGEST (AND ONLY DEEPWATER) PORT IN SOUTH CHINA, WITH SHIPPING, CARGO AND CONTAINER HANDLING SERVICES TO MATCH, COMPLEMENTED BY AN INTERNATIONAL AIRPORT WITH MAJOR AIRCRAFT ENGINEERING FACILITIES AND A DEVELOPED INTERNATIONAL TELECOMMUNICATIONS NETWORK:

(C) THE PROXIMITY OF DEPENDABLE SOURCES OF BASIC FOODSTUFFS, RAW MATERIALS AND CONSUMER GOODS FOR LOCAL CONSUMPTION, AND THE AVAILABILITY OF A SUPPLEMENTARY WATER SUPPLY FROM CHINA AND A RELIABLE SUPPLY OF SEMI-FINISHED INPUTS FROM JAPAN:

(D) A FLEXIBLE, MOBILE, WELL TRAINED, HIGHLY MOTIVATED AND HIGHLY PRODUCTIVE LABOUR FORCE:

(E) RESOURCEFUL ENTREPRENEURS, WHO AMORTISE THEIR CAPITAL INVESTMENTS OVER THE ECONOMIC LIFE OF THE ASSETS CONCERNED, WHO SEEK TO UTILISE CAPITAL INVESTED AS EFFICIENTLY AS POSSIBLE, AND WHO HAVE THE COURAGE TO ADOPT NEW PROCESSES AND EQUIPMENT:

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(F)

1. A LARGE AND SKILLED PROFESSIONAL AND MANAGERIAL CLASS, A HIGH LEVEL OF EDUCATION AND LINGUISTIC ABILITY. MANY MEMBERS OF THIS CLASS HAVE BEEN EDUCATED ABROAD AND HAVE MAINTAINED THEIR LINKS WITH THE COUNTRIES IN WHICH THEY WERE TRAINED:

(G) EXCELLENT WORLD-WIDE MARKETING ARRANGEMENTS ON WHICH HONG KONG'S EXPORT-ORIENTED MANUFACTURING SECTOR DEPENDS.

#### FAVOURABLE FACTORS

3. THE NATURAL AND HUMAN ADVANTAGES WHICH THE TERRITORY ENJOYS ARE NOT SUFFICIENT IN THEMSELVES TO ACCOUNT FOR ITS DEVELOPMENT, WHICH COULD NOT HAVE BEEN ACHIEVED WITHOUT:-

(A) A COOPERATIVE RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA, BASED ON MUTUAL BENEFIT:

(B) MOST-FAVOURLED-NATION (MFN) RIGHTS OF ACCESS TO MAJOR FOREIGN MARKETS AND RESTRAINT AGREEMENTS NEGOTIATED UNDER THE MULTI-FIBRE ARRANGEMENT (MFA):

(C) A FISCAL AND SOCIAL ENVIRONMENT ENCOURAGING ENTERPRISE, HUMAN ENDEAVOUR, AND THE SPREAD OF PROSPERITY:

(D) FREEDOM OF MOVEMENT, FREEDOM OF EXPRESSION, FREE CHOICE OF CAREER AND OCCUPATION, AND A FAMILIAR LIFE STYLE:

(E) INTERNAL POLITICAL STABILITY:

(F) CONTINUITY OF POLICY, IMPLEMENTED BY AN IMPARTIAL CIVIL SERVICE.

4. BUT THE MAINTENANCE OF (C), (D), (E) AND (F) ABOVE REQUIRES -

(I) CONSISTENT AND PREDICTABLE ADMINISTRATION:

(II) A KNOWN AND WELL DEVELOPED SYSTEM OF LAW WHOSE PRACTICE IS INTERNATIONALLY ACCEPTED AND UNDERSTOOD, BACKED UP BY

(III) THE IMPARTIAL ADMINISTRATION OF THE LAW THROUGH AN INDEPENDENT JUDICIARY:

(IV) BUDGETARY POLICIES AND A TAX REGIME WHICH ENCOURAGE BUSINESS ENTERPRISE AND FOSTER DOMESTIC AND INTERNATIONAL INVESTMENT:

(V) A CAREFULLY MANAGED MONETARY SYSTEM AND A CURRENCY WHICH IS FULLY BACKED WITH FOREIGN EXCHANGE ASSETS, FREELY CONVERTIBLE AND INTERNATIONALLY ACCEPTED AND TRADED:

(VI) AN EDUCATION SYSTEM GEARED TO PROVIDING THE MANAGERIAL, PROFESSIONAL AND TECHNICAL SKILLS REQUIRED AT ALL LEVELS.

## THE BASIS OF CONFIDENCE

HONG KONG COULD RETAIN ITS NATURAL GEOGRAPHICAL ADVANTAGES WHATEVER ITS CONSTITUTIONAL STATUS OR FORM OF GOVERNMENT. BUT HONG KONG COULD NOT PRESERVE ITS PRESENT LEVEL OF PROSPERITY AND STABILITY IF THERE WERE A WITHDRAWAL OF INVESTMENT AND SKILLS, A LOSS OF HONG KONG'S RIGHTS OF ACCESS TO OVERSEAS MARKETS OR DOUBTS ABOUT THE CONVERTIBILITY AND VALUE OF THE HONG KONG DOLLAR OR THE CONTINUITY OF THE LEGAL SYSTEM.

6. THE HUMAN AND CAPITAL RESOURCES WHICH ARE ESSENTIAL TO HONG KONG'S SUCCESS ARE HIGHLY MOBILE. HONG KONG PLACES NO RESTRICTIONS UPON THE MOVEMENT OF CAPITAL. DOMESTIC AND INTERNATIONAL INVESTORS COULD AND WOULD SEEK TO LIQUIDATE THEIR ASSETS AND TRANSFER THE PROCEEDS AND CAPITAL EQUIPMENT OVERSEAS IF THERE WAS SERIOUS DOUBT ABOUT THE MAINTENANCE OF THE PRESENT BUSINESS ENVIRONMENT. PROFESSIONALLY QUALIFIED PEOPLE, WHETHER OF OVERSEAS OR HONG KONG ORIGIN POSSESS SKILLS WHICH ARE EASILY MARKETABLE ELSEWHERE. MANY OF THEM WILL REMAIN IN HONG KONG ONLY SO LONG AS THEY SEE NO THREAT TO THE PRESENT SOCIAL, LEGAL AND BUSINESS ENVIRONMENT, AND HENCE TO THE OPPORTUNITIES AVAILABLE TO THEM AND THE LIFESTYLE WHICH THEY NOW ENJOY.

7. BOTH DOMESTIC AND INTERNATIONAL INVESTORS AND THOSE WHOSE SKILLS ARE ESSENTIAL TO HONG KONG THEREFORE REQUIRE SOME GUARANTEE THAT THERE WILL BE NO FUNDAMENTAL CHANGE IN THE SYSTEMS IN FORCE OR IN THE POLICIES PURSUED. OTHERWISE, THERE WILL BE NO CONFIDENCE AND THEY WILL LEAVE.

8. IT HAS BEEN SUGGESTED THAT SUFFICIENT GUARANTEE WILL BE PROVIDED BY APPROPRIATE PROVISIONS IN THE CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA. THE DIFFICULTY FOR HONG KONG PEOPLE IS THAT IT IS NOT EASY TO SEE HOW A LIBERAL, CAPITALIST SYSTEM CAN SUCCESSFULLY EXIST WITHIN A COUNTRY OPERATING A SOCIALIST SYSTEM. THEY WOULD NEED TO SEE A LONG PERIOD OF STABILITY AND SUSTAINED ECONOMIC PROGRESS IN CHINA BEFORE THEY MIGHT OVERCOME THE GRAVE RESERVATIONS WHICH THEY HAVE TODAY ABOUT A FUTURE UNDER THE ULTIMATE AUTHORITY OF A SOCIALIST ADMINISTRATION. THESE DOUBTS ARE REINFORCED BY RECENT CHINESE HISTORY, AND IN PARTICULAR THE MEMORIES OF SOME HONG KONG INDUSTRIALISTS OF EVENTS IN SHANGHAI, AND THE EXPERIENCE OF THE CULTURAL REVOLUTION.

9. SO IF HONG KONG IS TO RETAIN INVESTMENTS AND THE SKILLED PROFESSIONALS ESSENTIAL TO ITS ECONOMY, SOME MEANS MUST BE FOUND TO SHOW THAT THE TERRITORY WILL CONTINUE TO BE INSULATED FROM THE EFFECTS OF POLITICAL CHANGES ELSEWHERE. AT PRESENT THIS INSULATION IS PROVIDED BY THE LINK WITH THE UK WHERE SIMILAR SYSTEMS AND POLICIES ARE IN FORCE, AND BY LONG EXPERIENCE OF RESPECT FOR HONG KONG'S INTERNAL AUTONOMY. OTHER FORMS OF INSULATION HAVE BEEN SUGGESTED, FOR EXAMPLE INDEPENDENCE OR UN TRUSTEESHIP, BUT IT IS CLEAR THAT THESE WOULD NOT BE ACCEPTABLE TO CHINA. THE OBVIOUS SOLUTION IS THEREFORE TO MAINTAIN THE EXISTING MEANS OF INSULATION WHICH HAS PROVED EFFECTIVE AND IS KNOWN AND ACCEPTED BY THE PEOPLE OF HONG KONG.

... THUS THE LINK WITH THE UK ACTS AS A GUARANTEE AGAINST FUNDAMENTAL CHANGE, AND AS A MEANS OF PRESERVING CONFIDENCE. IT IS ALSO THE SOURCE OF COMMERCIAL AND OTHER RIGHTS, ESSENTIAL TO HONG KONG'S ECONOMY WHICH WOULD BE LOST IF THE LINK WERE BROKEN. THIS CAN BE ILLUSTRATED BY A NUMBER OF EXAMPLES -

(A) CURRENCY AND CONVERTIBILITY

AN INDEPENDENT AND CONVERTIBLE HONG KONG DOLLAR IS ESSENTIAL TO THE MAINTENANCE OF THE EXTERNALLY ORIENTED ECONOMY OF HONG KONG. THE OWNERSHIP AND CONTROL OF HONG KONG'S FOREIGN EXCHANGE ASSETS LIES IN HONG KONG NOT IN THE UK. BUT THE INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR ARE TAKEN FOR GRANTED, PARTLY BECAUSE IT IS MANAGED BY A GOVERNMENT IN HONG KONG DEDICATED TO FREE MARKET PRINCIPLES AND TO THE FREEDOM OF FINANCIAL FLOWS WITHIN THE INTERNATIONAL SYSTEM; AND PARTLY BECAUSE THE FINAL AUTHORITY IN THESE (AND ALL OTHER) MATTERS IN HONG KONG LIES WITH THE UK WHICH IS ITSELF FULLY INTEGRATED INTO THE INTERNATIONAL OPEN TRADING AND FINANCIAL SYSTEMS. THERE WOULD BE NO CONFIDENCE IN THE CONTINUED INDEPENDENCE AND CONVERTIBILITY OF THE HONG KONG DOLLAR IF THE ULTIMATE AUTHORITY RESTED WITH A GOVERNMENT DEDICATED TO A FULLY MANAGED ECONOMY AND WITH NO EXPERIENCE OF A CONVERTIBLE CURRENCY:

(B) INTERNATIONAL TRADE

HONG KONG DERIVES ITS OPEN ACCESS TO ITS MAIN MARKETS, IN PARTICULAR THE UNITED STATES AND EUROPE, FROM THE UK'S MEMBERSHIP OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE ULTIMATE GUARANTEE TO OTHER GATT MEMBERS THAT GATT RULES WILL APPLY IN HONG KONG IS THE ACCEPTANCE OF THESE RULES BY THE UK. THIS GUARANTEE WOULD BE REMOVED IF RESPONSIBILITY FOR HONG KONG LAY WITH CHINA, WHICH OPERATES A STATE MANAGED ECONOMY (AND WHICH IS NOT A MEMBER OF THE GATT). AGREEMENTS WITH HONG KONG'S MAIN TRADING PARTNERS WHICH ARE CLOSELY LINKED TO THE GATT AND WHICH APPLY TO A LARGE PROPORTION OF HONG KONG'S EXPORTS WOULD HAVE TO BE RENEGOTIATED IF THE LINK WITH THE UK WERE SEVERED. IT IS DIFFICULT TO SEE HOW HONG KONG'S TRADING PARTNERS WOULD AGREE TO HONG KONG RETAINING QUOTAS SEPARATE FROM AND ADDITIONAL TO THOSE OF CHINA IF THIS LINK WERE BROKEN:

(C) THE LEGAL SYSTEM

THE LAWS OF HONG KONG ARE BASED ON BRITISH COMMON AND STATUTE LAW, AND THE PROGRESSIVE INTERPRETATION OF THAT LAW BY COURTS IN THE UK IS ONE OF THE MAIN BASES ON WHICH THE LAW IN HONG KONG IS ADMINISTERED. THIS IS A SITUATION WELL UNDERSTOOD AND RELIED UPON BY THE INTERNATIONAL COMMUNITY TRADING IN AND INVESTING IN HONG KONG. THE JUDICIARY IS INDEPENDENT OF THE EXECUTIVE. THE GUARANTEE OF THE CONTINUED OPERATION OF THIS LEGAL SYSTEM IS THE LINK WITH THE UK WHERE THE SEPARATION OF THE JUDICIARY AND THE EXECUTIVE ARE THE SAME

SYSTEM OF LAW HAVE BEEN IN FORCE FOR MANY CENTURIES. THE POLICE OFFICERS ARE TRAINED TO OPERATE WITHIN THE FRAMEWORK OF THE BRITISH LEGAL SYSTEM. THE CONFIDENCE WHICH THIS GIVES THAT THE BRITISH CONCEPT OF LAW WILL PREVAIL WOULD NOT BE MAINTAINED IF THE LINK WAS WITH CHINA WHICH HAS A COMPLETELY DIFFERENT CONCEPT AND SYSTEM OF LAW, AND ONE WHICH, IN MANY AREAS IMPORTANT FOR HONG KONG, IS STILL BEING DEVELOPED:

(D) THE JURISDICTIONAL LINK

SINCE IN THE CASE OF HONG KONG THE GUARANTEE CANNOT BE FOUNDED ON THE POLICIES OF AN INDEPENDENT GOVERNMENT (AS IN THE CASE OF SINGAPORE) IT MUST BE PROVIDED IN ANOTHER WAY. THE ULTIMATE GUARANTEE THAT THE POLITICAL, ECONOMIC AND SOCIAL SYSTEMS IN HONG KONG WILL NOT DIVERGE FROM THEIR PRESENT FORM IN ANY SUBSTANTIAL WAY HAS BEEN THAT FINAL AUTHORITY LIES, THROUGH THE GOVERNOR, WITH HER MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM WHERE SIMILAR SYSTEMS EXIST.

CONCLUSION

11. THE FOREGOING REPRESENTS ONLY A VERY BRIEF AND GENERAL PICTURE OF THE WAY IN WHICH THE LINK BETWEEN HONG KONG AND THE UK PRESENTLY OPERATES. THIS LINK, AND THE BRITISH ROLE IN THE ADMINISTRATION OF THE TERRITORY, AT PRESENT PROVIDE A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. WE PROPOSE IN SUBSEQUENT MEETINGS TO ENLARGE ON THESE ASPECTS OF THE ADMINISTRATIVE STATUS QUO IN HONG KONG, AND IN PARTICULAR ON THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE FABRIC OF AGREEMENT ON WHICH HONG KONG'S ROLE AS A FINANCIAL AND COMMERCIAL CENTRE DEPENDS. OUR OBJECTIVE WILL BE TO ILLUSTRATE OUR VIEW OF HOW THE AGREED COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG CAN BE ACHIEVED.

YOUDE

FUTURE OF HONG KONG

LIMITED

ED/HKGD

ED/FED

ED/PLANNING STAFF

ED/FUSD

PS

PS/MR HURD

PS/LORD HILLSTEAD

PS/FUS

SIR J BULLARD

MR GIFFARD

MR DONALD

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SIR I SINCLAIR LEGAL ADVISER

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MR MARTIN ASSESSMENTS STAFF  
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Mr Coles, No 10 Downing St.

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10 DOWNING STREET

*From the Private Secretary*

17 May 1983

Future of Hong Kong: Letter from Chinese Premier

Thank you for your letter of 13 May.

The Prime Minister agrees that Sir Percy Cradock should respond to Zhao Ziyang's letter in the terms suggested in the speaking note enclosed with your letter and that the text of this should be left with the Chinese. She also agrees that we should take EXCO fully into our confidence and show them the text (while making it clear if necessary that the final decision on the text will be taken in London).

The Prime Minister has made no comment on the timing of the commencement of substantive talks. I should like an opportunity to bring this point to her attention again in the light of the Chinese response to Sir Percy Cradock's demarche.

A. J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office,

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PRIME MINISTER

Hong Kong

May I just be sure that you agree (see attached letter) that Sir Percy Cradock should be instructed to speak to the Chinese about Zhao Ziyang's reply on the lines of the paper at Flag J and also that we should show this to EXCO before it goes to the Chinese?

If so, the Governor will show it to EXCO on Wednesday.

A.S.C.

16 May 1983



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

1) Agree to reply at

Flag J :

Yes mt

2) Agree that we should

show it to EXCO before  
delivery to Chinese?

Yes mt

13 May 1983

A.J.C.  $\frac{13}{5}$

Dear John,

Future of Hong Kong: Letter from Chinese Premier

You will have seen Sir P Cradock's telegrams from Peking reporting the Chinese Premier's reply to the Prime Minister's letter of 10 March and his discussion with Vice Foreign Minister Yao Guang, and making comments and recommendations (I enclose copies). Sir E Youde has since given EXCO the gist of the Chinese reply and sent his own comments (also enclosed),

Zhao's response represents a step forward. The Chinese have reacted well to the Prime Minister's letter and seem keen to get substantive talks going. However, he has distorted the assurance in the Prime Minister's letter about sovereignty by suggesting that she would be ready to recommend a transfer 'at a certain stage'. And the Chinese insistence that the agenda centres on 'the form of transference of sovereignty' is also not acceptable. It is important that our response should leave the Chinese in no doubt that our position on sovereignty has not changed since we cannot exclude the possibility that the Chinese might publish the exchange at some stage, with consequent effect on confidence in Hong Kong. At the same time it is in our interests to avoid a further confrontational exchange with the Chinese which might delay or even prevent altogether the talks we have been seeking. Sir P Cradock of course repeated our position clearly to Yao Guang. I enclose a draft response in the form of a Speaking Note for Sir P Cradock, the text of which he would leave with the Chinese. This attempts to steer between these two dangers. The tactics of this have been fully discussed with both Sir P Cradock and Sir E Youde.

/The degree



The degree of consultation with EXCO presents a difficult problem. There is obviously a risk that if we show the text of the response to them, they will wish to strengthen it in ways which would provoke the Chinese. It is of course important not to allow EXCO a veto. However, Mr Pym believes that, having shown them the Prime Minister's letter and the Chinese response, and in the light of the assurances we have given them, we must take EXCO fully into our confidence and show them the text. In doing so the Governor should make it clear that while he will transmit any comments they may have, the final decision will of course be taken in London.

If the Prime Minister is content, the next stage would be to get substantive talks going. As far as the composition of our delegation is concerned, we should tell the Chinese that this would be flexible. The purpose would be to allow for the possible later participation of representatives of Hong Kong, including EXCO Unofficials, if this should become desirable or necessary. The immediate aim would be to start substantive talks with a session attended by the Governor in which a presentation would be given on Hong Kong in order to underline the importance of the British link. On timing, Mr Pym considers that it is important to keep up the momentum and that, while not appearing over-anxious, we should not give the impression that we are delaying because of the election. If the Chinese respond quickly, we shall of course need to seek clearance during the campaign for the line which our presentation to the Chinese should take.

*Yours ever*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

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*This is a speaking note for Sir  
P. Coadoch, but the text will  
be left with the Chinese. A.S.C. 17.  
8*  
MT

DRAFT RESPONSE TO CHINESE LETTER ON FUTURE OF HONG KONG

The Prime Minister has studied with great care the letter from HE the Prime Minister Zhao Ziyang. She welcomes the positive spirit of that letter which she shares. She agrees that substantive talks on the future of Hong Kong should begin in the next few weeks. The British approach to these talks remains as set out in the Prime Minister's letter of 10 March.

The Governments of the United Kingdom and the People's Republic of China have a common interest in working towards the aim agreed during Mrs Thatcher's visit in September 1982. The Prime Minister shares Premier Zhao's hope that through the efforts of both sides such differences as there are may be gradually narrowed. She is confident that in this way the conditions can be met to enable the interests of all parties to be satisfied.

I am instructed to put forward proposals on timing, composition of delegations and other modalities to make possible an early start to substantive discussions. We hope that discussions on modalities will not occupy the two sides for long and that we shall be able to agree to hold an early meeting.

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DATE: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+ 17

FROM:

Reference

PRIVATE SECRETARY  
DEPARTMENT:

TEL. NO:

*Mr. Coles (No 10)  
We spoke.*

*M 13/5*

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

A J COLES ESQ  
NO 10

Copies to:

*Justly 13/5*

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

FUTURE OF HONG KONG: LETTER FROM CHINESE PREMIER

In Peking telnos 416 and 436 Sir P Cradock reported the revised text of the Chinese Premier's reply to the Prime Minister's letter of 10 March and his discussion with Vice Foreign Minister Yao Guang. He has followed this up (Peking telnos 418 and 426) with comment and recommendations. The Governor has reported that he has given EXCO the gist of the Chinese reply and sent his own comments (Hong Kong telnos 650 and 666). Peking telno 440 comments on the Governor's views.

Sir P Cradock sees the Chinese response as positive and as having broken the deadlock. He believes we have secured talks without surrendering anything. The Governor is more cautious. He picks up the points to which the Ambassador first drew attention that Zhao has blurred the assurance in the Prime Minister's letter of 10 March about sovereignty, suggesting that she would be ready to recommend a transfer "at a certain stage". Both underline the problem in the Chinese insistence that the

Enclosures—flag(s).....

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talks would be about "the form of transference of sovereignty" and about cooperation in the transition period between now and 1997 and after 1997. The Governor believes we may still come up at an early stage against the sovereignty stumbling block.

We agree with the Ambassador that Zhao's response represents a step forward. The Chinese have reacted well to the Prime Minister's letter and seem keen to get substantive talks going. However, we believe that it is very important that our response should leave the Chinese in no doubt about our position on sovereignty, since we cannot exclude the possibility that the Chinese might publish the exchange at some stage. At the same time it is <sup>important</sup> ~~essential~~, as the Prime Minister said to the Governor and Ambassador in March, to avoid confrontation with the Chinese <sup>if we can</sup>. The Ambassador emphasises that, in his discussions with Yao Guang, he made the Prime Minister's position abundantly clear and he advises against reiterating our conditions on sovereignty in detail. The attached draft instructions aim to leave the Chinese in no doubt that our position is unaltered while preserving the forthcoming tone of Sir P Cradock's original draft. We consider that, to avoid misunderstanding, Sir P Cradock should after all leave a copy of his speaking note with the Chinese.

If the Prime Minister agrees <sup>(that Sir P Cradock should be instructed to speak on his line)</sup> ~~with the proposed~~ instructions we shall then need to ask the Governor to consult EXCO, ~~about them~~. This would be in line with assurances given to the Unofficials and repeated by the

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Prime Minister to Sir S Y Chung only last week. The Ambassador has strong objections about showing EXCO the text of <sup>the</sup> these instructions (because he sees a risk that EXCO will wish to strengthen dangerously the tone of the message). It is of course important not to allow EXCO a veto. However, Mr Pym believes that we must take EXCO fully into our confidence and show them the text. In doing so the Governor should make it clear that while he will transmit their advice, the final decision will be taken in London.

The next stage would be to get substantive talks going as quickly as possible. In Mr Pym's view we should instruct Sir P Cradock to deal with procedural matters when he delivers our response. We should <sup>avoid</sup> avoid a separate "agenda session" which could encourage the Chinese to reopen the argument over sovereignty.

We should tell the Chinese that the composition of our delegation would be flexible. The purpose of this would be to allow for the possible participation of representatives of Hong Kong, including EXCO Unofficials, if this should become desirable or necessary. The aim would then be to start substantive talks with a session attended by the Governor in which a presentation would be given on Hong Kong in order to underline the importance of the British link.

On timing, both the Ambassador and Governor favour moving reasonably quickly. Mr Pym considers that it is important to keep up the momentum and that the election should not prevent us proposing that substantive talks

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begin soon. If the Chinese responded quickly we should  
of course <sup>need to</sup> ~~seek~~ seek Ministerial clearance during the  
campaign for the line which our presentations to the  
Chinese should take. But if at ~~all~~ possible we should  
avoid appearing to be responsible for delaying progress.  
~~because-of-the-election.~~



E.R.

CONFIDENTIAL

cc Mr. Jackling

MR. COLES

HONG KONG

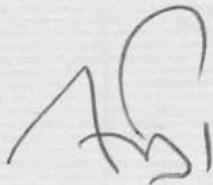
Sir A. Parsons

AD 17/5 File

The Prime Minister has now agreed to the F.C.O. recommendations. A.D.C. 17/5

I have read Peking Telegrams nos 416-418. So far, so good - just. I agree with Percy Cradock's interpretation of the Chinese move and with his proposal for our response to it. It seems to me that he spoke very well to his Chinese interlocutor.

I discussed the question with the FCO yesterday. I understand that they will probably propose an immediate response on the lines suggested by Percy Cradock, ie welcoming the Chinese readiness to talk, suggesting that we should get down to detail, while restating our position plainly (to counter Chinese misrepresentation) but without stating our views in such a way as to oblige the Chinese to back off. I think that this is the right way to proceed.



A.D. PARSONS  
12 May 1983

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