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FROM PEKING 110205Z JUL 83

TO IMMEDIATE FCO

Read in file.

TELEGRAM NUMBER 656 OF 11/7/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG

1. ZHOU ASKED ME WHAT I SAW PERSONALLY AS THE LIKELY OUTLINE OF POST-1997 ARRANGEMENTS. HE SUMMARISED HIS OWN IDEAS AS:

- (A) TRANSFER OF SOVEREIGNTY
- (B) SPECIAL ADMINISTRATIVE REGION
- (C) SPECIAL POLICIES TAKING ACCOUNT OF EXISTING SITUATION
- (D) CONTINUITY OF LIFE STYLE, AND SOCIO-ECONOMIC ORDER TO REMAIN "BASICALLY UNCHANGED"
- (E) REMOVAL OF "VESTIGES" OF COLONIAL RULE (I TOOK HIM UP ON THE WORD "VESTIGES" WHICH HE SEEMED TO ACCEPT WAS TOO STRONG AND SUBSTITUTED "IMPRESSION").

2. IN REPLY, I REFERRED ZHOU TO OUR COMMON AIM OF MAINTAINING STABILITY AND PROSPERITY, AND SAID THAT I ASSUMED CHINA DID NOT WANT TO WIN A PYRRHIC VICTORY BY RUINING HONG KONG AS SHE RECOVERED IT. MY PERSONAL CONTENTION WAS THAT STABILITY AND PROSPERITY COULD ONLY BE MAINTAINED ON THE BASIS OF CONTINUED BRITISH ADMINISTRATIVE CONTROL. I WAS REFERRING ONLY TO ADMINISTRATION, NOT SOVEREIGNTY. I SPOKE ON STANDARD LINES ABOUT THE NEED FOR CONFIDENCE IN THE LEGAL SYSTEM, THE CURRENCY AND THE NETWORK OF TRADE AGREEMENTS, AND THE NEED FOR CONFIDENCE AMONG INVESTORS THAT BASIC POLICIES WOULD NOT CHANGE. CHINA WAS NOT YET ABLE TO GIVE PEOPLE THAT CONFIDENCE, AND IT COULD NOT BE DONE BY GENERAL ASSURANCES. IT MIGHT BE HARD FOR ZHOU TO TELL THIS TO HIS LEADERS, BUT IT WAS VITAL THAT THEY SHOULD APPRECIATE THIS POINT. I ADDED THAT IN MY VIEW, ITEM ONE OF OUR AGREED AGENDA WAS THE ONLY REAL QUESTION. IF ARRANGMENTS AFTER 1997 COULD BE AGREED, ARRANGMENTS FOR THE INTERIM PERIOD AND THE SOVEREIGNTY ISSUE SHOULD GIVE US LITTLE TROUBLE.

3. ZHOU SAID HE BELIEVED THAT SUFFICIENT GUARANTEES FOR THE FUTURE COULD BE GIVEN WITHOUT CONTINUED BRITISH ADMINISTRATIVE CONTROL. SOVEREIGNTY AND ADMINISTRATIVE CONTROL COULD NOT BE DIVORCED. THIS WAS A MATTER OF PRINCIPLE ON WHICH CHINA COULD NOT YIELD.

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4. I TOLD ZHOU WE WOULD NOT CLAIM A MAGICAL QUALITY FOR BRITISH ADMINISTRATION. BUT IT WAS A FACT AND CHANGE WAS DANGEROUS. THE KEY POINT, HOWEVER WAS, THAT AN INSULATOR EXISTED BETWEEN TWO VERY DIFFERENT SYSTEMS.

5. ZHOU ASKED WHAT EXACTLY I MEANT BY CONTINUED BRITISH ADMINISTRATIVE CONTROL AFTER 1997. I TOLD HIM I COULD NOT ENLARGE ON

THIS POINT, EVEN ON A PURELY PERSONAL BASIS. I INVITED HIS VIEWS.

6. ZHOU SAID THAT A CHANGE OF FLAG WAS IMPORTANT, BUT IT WAS NOT ENOUGH. HE HATED THE PHRASE "BRITISH ADMINISTRATIVE CONTROL". HE REPEATED THAT SOVEREIGNTY AND ADMINISTRATION WERE NOT SEPARABLE. WE SHOULD NOT TRY TO CHALLENGE CHINA ON THIS FUNDAMENTAL PRINCIPLE AND SHOULD HAVE NO ILLUSION THAT THEY WOULD YIELD. MAINTENANCE OF THE ADMINISTRATIVE STATUS QUO WAS UNACCEPTABLE. IN ZHOU'S

VIEW THERE COULD BE NO BRITISH GOVERNOR OR CHIEF SECRETARY AND NO BRITISH TROOPS AFTER 1997. BRITISH ADMINISTRATORS COULD HOWEVER STAY ON IN AN ADVISORY CAPACITY. THE SOCIO-ECONOMIC SYSTEM WOULD BE BASICALLY UNCHANGED, AND FULL ACCOUNT WOULD BE TAKEN OF BRITISH INTEREST.

7. I SAID THE CHINESE SEEMED TO SEE BRITISH INTERESTS AS SOMETHING DISTINCT FROM OUR OBLIGATIONS TO THE PEOPLE OF HONG KONG. THERE FOLLOWED AN EXCHANGE ON THE NATURE OF BRITAIN'S INTERESTS IN HONG KONG, DURING WHICH ZHOU REVEALED THAT HE BELIEVED BRITAIN PROFITED FINANCIALLY FROM RUNNING HONG KONG. I COMPREHENSIVELY REBUTTED THIS: WE DID NOT TAKE TAX REVENUES, OR BENEFIT FROM THE RESERVES: THE TRADE BALANCE WAS IN HONG KONG'S FAVOUR: SOME BRITISH COMPANIES OPERATED PROFITABLY IN HONG KONG BUT MOST OF THESE PROFITS WERE NOT REPATRIATED TO BRITAIN: OTHER FOREIGN COMPANIES ALSO DID BUSINESS THERE AND SOME COUNTRIES HAD MUCH MORE SUBSTANTIAL TRADING AND INVESTMENT INTERESTS THAN BRITAIN: IN SOME FIELDS HONG KONG INDUSTRY COMPETED WITH THE UK TO THE LATTER'S DISADVANTAGE. I TOLD ZHOU THAT BRITAIN'S INTEREST IN HONG KONG WAS ESSENTIALLY THAT WE WERE RESPONSIBLE FOR THE PRESENT RUNNING OF THE TERRITORY AND OUR DUTY TO THE PEOPLE OF HONG KONG WAS TO ENSURE THE BEST POSSIBLE FUTURE FOR THEM. THE NEGATIVE CONSEQUENCES FOR BRITAIN IF WE FAILED IN THAT DUTY WOULD BE SERIOUS - DAMAGE TO OUR INTERNATIONAL STANDING, A SOURING OF RELATIONS WITH CHINA IF THINGS WENT WRONG, AND A MAJOR IMMIGRATION PROBLEM FOR THE UK. I EXPRESSED ALARM THAT A MAN OF ZHOU'S EXPERIENCE AND SOPHISTICATION SHOULD THINK THAT WE DIPPED INTO THE HONG KONG TILL.

8. ZHOU WAS UNMOVED BY THIS ARGUMENT AND TOLD ME IN TERMS THAT IT WAS USELESS TO TRY TO MAKE HIM BELIEVE THAT BRITAIN DID NOT PROFIT FINANCIALLY FROM HONG KONG. HE SAID STERNLY THAT WE SHOULD NEVER TRY TO TELL CHINA THAT THE INTERESTS OF THE HONG KONG PEOPLE WERE DIFFERENT FROM THE INTERESTS OF THE CHINESE PEOPLE. IF WE DID SO, THEY WOULD HAVE TO "REACT".

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9. ZHOU ALSO RAISED THE QUESTION OF THE FORM OF THE FINAL AGREEMENT ON HONG KONG'S FUTURE. I TOLD HIM THAT A UNILATERAL STATEMENT BY CHINA ^{would not} ~~WULD~~ BE SUFFICIENT GUARANTEE THAT THE SETTLEMENT WOULD STICK. THE AGREEMENT WOULD NEED AN INTERNATIONAL FLAVOUR. ZHOU AT FIRST MISUNDERSTOOD THIS TO MEAN UN SUPERVISION AND SHOWED SOME ALARM. I EXPLAINED THAT I WAS THINKING IN TERMS OF A BILATERAL AGREEMENT AND HE SEEMED TO HAVE NO DIFFICULTY WITH THIS SUGGESTION.

10. FINALLY ZHOU AGAIN MENTIONED THE SEPTEMBER 1984 'DEADLINE'. I TOLD HIM I COULD NOT UNDERSTAND THE SIGNIFICANCE OF THIS DATE, BUT IF WE WERE TO REACH AGREEMENT BY THEN WE SHOULD NEED TO MOVE QUICKLY. ZHOU SAID HE THOUGHT THE TALKS WOULD PROGRESS QUICKLY PROVIDED THERE WERE NO 'OBSTACLES', SUCH AS EG, THE GOVERNOR'S REMARKS AT KAI TAK (NY TEL NO 651).

COMMENT

11. THIS WAS A FRANK AND NOT PARTICULARLY FRIENDLY EXCHANGE, SERVING AS A BLEAK REMINDER OF THE SIZE OF THE TASK BEFORE US. I WAS QUITE GENUINELY DISTURBED THAT ZHOU WAS SO SERIOUSLY WRONG ABOUT THE BRITISH INTEREST IN HONG KONG. IF HE OF ALL PEOPLE IS SO IGNORANT, THERE IS NO PROSPECT THAT THE CLOISTERED CHINESE LEADERSHIP WILL KNOW BETTER. MY STRONG IMPRESSION WAS THAT WHEN HE SPOKE OF 'TAKING FULL ACCOUNT OF BRITISH INTERESTS' ZHOU THOUGHT WE COULD BE INDUCED TO COME TO TERMS WITH THE CHINESE POSITION IF WE COULD CONTINUE TO ENJOY THESE IMAGINED REVENUES. THIS SERIOUS MISUNDERSTANDING MUST BE CORRECTED AS A PREREQUISITE FOR CONSTRUCTIVE TALKS. AS A FIRST STEP I PROPOSE TO MAKE THE POINTS IN PARA 7 ABOVE AGAIN DURING THIS

TALKS.

WEEK'S

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CRADOCK

(REPEATED AS REQUESTED)

FUTURE OF HONG KONG

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FM PEKING 110200Z JUL 93

TO IMMEDIATE FCO

TELEGRAM NUMBER 655 OF 11 JULY

INFO IMMEDIATE HONG KONG

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MY TELNO 652: FUTURE OF HONG KONG: SECOND PLENARY SESSION AND SUB-COMMITTEES

1. AT LUNCH ON 8 JULY, I ALSO RAISED WITH ZHOU NAN THE OBJECTIVE OF THE SECOND MEETING. AS I PERSONALLY SAW IT, WE SHOULD EMBARK ON THE FIRST AGENDA ITEM, IE ARRANGEMENTS AFTER 1997, AND THE LOGICAL WAY TO BEGIN WAS TO CONDUCT A JOINT EXAMINATION OF THE PRESENT ARRANGEMENTS. WE SHOULD START THIS PROCESS AT THE SECOND PLENARY AND AGREE HOW TO PROCEED WITH A MORE DETAILED EXAMINATION. TO THIS END WE SHOULD SET UP SUB-COMMITTEES AND SET THEM TO WORK AS SOON AS POSSIBLE.

2. I TOLD ZHOU THAT I HAD BEEN GIVING THOUGHT TO THE IDEAS HE HAD PUT TO ME IN OUR EARLIER CONVERSATION. HIS SUGGESTION OF THREE SUB-COMMITTEES - ONE LEGAL, ONE FINANCIAL AND ONE DEALING WITH INTERNATIONAL ECONOMIC RELATIONS- SEEMED ABOUT RIGHT. MY FEELING WAS THAT THESE SUB-COMMITTEES SHOULD ENABLE EXPERTS FROM BOTH SIDES TO DISCUSS MATTERS RELATING TO THEIR PARTICULAR SUBJECTS. THEIR DISCUSSIONS SHOULD BE SUPPLEMENTARY TO THE PLENARY DISCUSSIONS. SUB-COMMITTEES SHOULD CLEARLY BE SUBORDINATE TO THE PLENARY, AND THE DELEGATION LEADERS WOULD NOT THEMSELVES SIT ON THE SUB-COMMITTEES. IT WOULD BE POSSIBLE FOR JUNIOR MEMBERS OF THE TWO DELEGATIONS TO ATTEND THE SUB-COMMITTEES BUT THEIR MAIN FUNCTION WOULD BE TO OBSERVE: THE REAL WORK WOULD BE DONE BY THE EXPERTS. THE FUNCTION OF SUB-COMMITTEES SHOULD BE TO DISCUSS MATTERS REFERRED TO THEM BY THE PLENARY SESSION AND TO REFER THE RESULTS OF THEIR DISCUSSIONS BACK TO THE PLENARY. THEY COULD ALSO BE USED TO EXCHANGE INFORMATION BUT THEY WOULD HAVE NO POWER OF DECISION. THIS MUST REMAIN WITH THE PLENARY.

3. ZHOU SAID HE AGREED WITH THE POINTS IN PARA 2 ABOVE, AND REPEATED THAT THE SUB-COMMITTEES SHOULD "DISCUSS AND REPORT BACK". HE AGREED THAT SUB-COMMITTEES SHOULD BE SET UP, BUT ONLY AT THE APPROPRIATE TIME. HE COULD NOT SAY WHEN THAT WOULD BE: IT DEPENDED ON THE PROGRESS OF THE FIRST AND SECOND PLENARIES. WHAT WAS NEEDED FIRST WAS A ROUGH IDEA OF WHAT ARRANGEMENTS AFTER 1997 WOULD BE. THE CHINESES WERE NOT VERY INTERESTED IN PROLONGED DISCUSSIONS OF THE PRESENT ARRANGEMENTS, BECAUSE THEY KNEW ABOUT HONG KONG ALREADY.

4. I TOLD ZHOU THAT THE EVIDENCE WAS THAT THE CHINESE LEADERS DID NOT KNOW VERY MUCH ABOUT HONG KONG, AND THAT THERE WAS A GREAT DEAL OF DETAILED KNOWLEDGE WHICH HAD TO BE TRANSFERRED TO THE CHINESE SIDE BEFORE BOTH SIDES, ARMED WITH A COMMON BODY OF KNOWLEDGE, COULD USEFULLY TALK ABOUT THE FUTURE. THIS WAS THE LOGICAL WAY TO PROCEED. UNTIL WE BEGAN TO EXCHANGE HARD INFORMATION WE WERE MERELY DEALING IN POLITICAL SLOGANS. THIS SORT OF WORK COULD BE LAUNCHED IN A PLENARY SESSION BUT SUB-COMMITTEES WERE NECESSARY FOR MATTERS OF DETAIL.

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5. ZHOU SAID THAT, IF WE FELT STRONGLY ABOUT THE NEED FOR DETAILED DISCUSSION OF THE PRESENT ARRANGEMENTS, THE CHINESE SIDE WAS READY TO LISTEN. HOWEVER THE SETTING-UP OF SUB-COMMITTEES DEPENDED UPON PROGRESS IN THE PLENARY, BY WHICH HE MEANT RAPID AGREEMENT ON THE "GENERAL PRINCIPLES GOVERNING CONCRETE ARRANGEMENTS AFTER 1997". HE SPOKE OF AN EARLY "OUTLINE AGREEMENT OF PERHAPS 2 OR 3 PAGES".

COMMENT

6. ZHOU HAS CHANGED HIS TUNE ON SUB-COMMITTEES. UNTIL NOW IT HAS BEEN HE WHO HAS MADE THE RUNNING IN OUR DISCUSSIONS ON THE SUBJECT. NOW IT SEEMS THAT THE CHINESE MAY NOT BE READY TO MOVE ON TO THIS STAGE STRAIGHT AWAY. IN SUGGESTING THAT "GENERAL PRINCIPLES" SHOULD BE REACHED ON THE DEGREE OF ADMINISTRATIVE CONTROL WHICH SHOULD PASS WITH SOVEREIGNTY, TO CHINA IN 1997. (SEE ALSO MIFT FOR MY REPORT ON OUR CONVERSATION ON THE LONGER TERM ARRANGEMENTS). I HOPE TO BE BETTER ABLE TO COMMENT ON THIS AFTER THIS WEEK'S TALKS. AT FIRST SIGHT HOWEVER, THE RISK OF A SECOND ICE AGE IN THIS NEGOTIATION, AFTER A BRIEF THAW, SEEMS ALL TOO POSSIBLE.

7. ALTHOUGH THE SETTING UP OF SUB-COMMITTEES NOW THEREFORE LOOKS LESS IMMINENT, I RECOMMEND THAT WORK ON THE PAPERS NOW UNDER PREPARATION IN HONG KONG SHOULD NEVERTHELESS GO AHEAD AS PLANNED. THEY REMAIN PART OF OUR STRATEGY AND IT IS POSSIBLE THAT WE SHALL WISH TO DEPLOY THEM EVEN WITHOUT SUB-COMMITTEES, UNSATISFACTORY THOUGH THIS WOULD BE.

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