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DESKY 141100Z

FROM PEKING 141005Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1188 OF 14/11/83

MIPT: FUTURE OF HONG KONG: ROUND SIX, FIRST DAY.

COMMENT

1. BY AND LARGE THIS WAS A NEGATIVE SESSION. THE CHINESE MADE THE MOST OF OUR AGREEMENT TO PROCEED WITH DISCUSSIONS ON THE BASIS OF THEIR PROPOSALS, BUT DESPITE THIS SAID THEY DID NOT WISH TO AGREE TO AN AREA-BY-AREA DISCUSSION. THEY MADE AN UNCOMPROMISING RESTATEMENT OF THEIR POSITION ON ALL MATTERS OF SUBSTANCE. THIS ADDED A NUMBER OF DETAILS TO THE CHINESE PROPOSALS: THOUGH MANY OF THESE WERE UNCLEAR AND ARE NOT NECESSARILY THE FINAL WORD, THEY TEND TO POINT IN THE WRONG DIRECTION. EXAMPLES ARE THE STIPULATION THAT PEKING WOULD APPOINT SENIOR OFFICIALS AFTER THEY HAD BEEN PRODUCED BY ELECTIONS OR CONSULTATIONS IN HONG KONG (THOUGH THIS MAY NOT BE SO VERY DIFFERENT IN PRACTICE FROM APPROVING THOSE PRODUCED BY LOCAL SELECTION), AND THE SUGGESTION THAT BRITISH PERSONNEL COULD ONLY REMAIN IN THE CIVIL SERVICE AS ADVISERS. IN COMMENTING ON OUR PAPERS YAO ALSO QUESTIONED OUR STATEMENT THAT THERE WOULD BE NO POWER OF DISALLOWANCE OF LAWS OUTSIDE HONG KONG.

2. THE CHINESE ALSO MADE AGAIN, RATHER MORE EMPHATICALLY, THE DISTINCTION BETWEEN MATTERS WHICH THEY REGARDED AS THEIR OWN INTERNAL AFFAIRS, AND ON WHICH THEY WERE PREPARED TO LISTEN TO OUR IDEAS AND SUGGESTIONS, AND MATTERS INVOLVING BRITISH INTERESTS ON WHICH THEY WERE PREPARED TO HAVE A MORE GENUINE NEGOTIATION. FINALLY, THEY SAID THAT THEY DID NOT WISH TO GO

INTO EXCESSIVE DETAIL, AND THAT WHOLE AREAS OF THE FUTURE ARRANGEMENTS WERE OUT OF BOUNDS BECAUSE THEY WOULD BE FOR THE FUTURE GOVERNMENT OF THE SPECIAL ADMINISTRATIVE REGION TO DECIDE.

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3. ON THE POSITIVE SIDE, THE CHINESE SAID THAT THEY WERE READY TO HAVE OUR PAPERS, AND TO RECEIVE ANY FURTHER QUESTIONS ON THEIR POLICIES. IN PRACTICE, HOWEVER GRUDGINGLY, THERE HAS BEEN SOME COMMENT ON THE SUBJECTS IN OUR FIRST TWO PAPERS. THEY SAID THAT THE SPECIAL ADMINISTRATIVE REGION WOULD ATTACH IMPORTANCE TO THE POSITIVE ROLE WHICH BRITAIN MIGHT PLAY IN MAINTAINING AND DEVELOPING ITS PROSPERITY. THEY SAID THAT OUR REFERENCES TO A BRITISH ROLE STILL CAUSED THEM CONCERN AND PUT FURTHER PRESSURE ON US TO GIVE DETAILS OF WHAT WE SAW AS BEING THE CONTENT OF A BRITISH LINK, OR A BRITISH ROLE. BUT THEY SAID THAT IF DIFFERENCES OF PRINCIPLE WERE ELIMINATED IT WOULD BE EASIER TO DISCUSS OTHER SPECIFIC MATTERS AND REACH IDENTITY OF VIEWS ABOUT PRACTICAL ARRANGEMENTS.

4. WE SHALL TELEGRAPH FURTHER ON FUTURE TACTICS AT THE END OF THIS ROUND, BUT AT PRESENT WE THINK WE HAVE LITTLE ALTERNATIVE BUT TO PERSEVERE IN FEEDING IN DETAIL AND AS FAR AS POSSIBLE DRAWING THE CHINESE INTO DISCUSSION OF IT, HOWEVER UNFERTILE THE GROUND. WE PROPOSE TO CONTINUE TOMORROW ARGUING ON THE NECESSITY FOR DETAIL AND THE IMPOSSIBILITY OF LEAVING LARGE AREAS BLANK FOR DECISION EVENTUALLY BY THE GOVERNMENT OF THE SAR. WE SHALL PUT FURTHER QUESTIONS ON THE LEGAL AND FINANCIAL AREAS, DRAWING ON THE VAGUE AND INADEQUATE CHINESE COMMENT HITHERTO. WE INTEND THAT THE GOVERNOR SHOULD GIVE A GENERAL EXPLANATION OF THE PUBLIC SET-UP IN HONG KONG IN ORDER TO GET OVER TO THE CHINESE THE COMPLEXITY OF THIS ISSUE AND THE NEED FOR SOME AGREEMENT NOW ON WHAT WILL HAPPEN AFTER 1997 IF CONTINUITY OF ADMINISTRATION IS TO BE PRESERVED. WE SHALL ALSO PRESENT THE THIRD PAPER, ON EXTERNAL ECONOMIC RELATIONS.

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DESKBY 141230Z

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FROM PEKING 141130Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1187 OF 14/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: SIXTH PLENARY ROUND : FIRST DAY

1. YAO GUANG SPOKE FIRST, AND AT LENGTH. HE ACKNOWLEDGED AND WELCOMED THE EFFORTS MADE BY US SINCE THE 5TH ROUND, AND INDICATED THAT DISCUSSIONS ON THE BASIS OF THE CHINESE PROPOSALS WERE NOW STARTING. HE SUMMARISED THE PRIME MINISTER'S MESSAGE AND OUR SUBSEQUENT EXPLANATIONS IN MAXIMALIST TERMS FROM THE CHINESE POINT OF VIEW. HE SAID THAT SOME DIFFERENCES STILL REMAINED. HE REITERATED THE EXTREME IMPORTANCE OF THE PREMISE. BOTH CONTINUED BRITISH ADMINISTRATION AFTER 1997 AND ANY FORM OF CO-ADMINISTRATION WERE ABSOLUTELY UNACCEPTABLE. HE NOTED THAT WE WERE NOT SEEKING CO-ADMINISTRATION, BUT AS BRITISH LEADERS REPEATEDLY STRESSED IN PUBLIC THE IMPORTANCE OF THE BRITISH LINK AND ROLE WITHOUT OFFERING FURTHER CLARIFICATION THE CHINESE SIDE NATURALLY HAD SOME DOUBTS ON THIS POINT.

2. HE CRITICISED THE SUGGESTION OF THE BRITISH SIDE THAT AN AGREEMENT SHOULD BE ACCEPTABLE TO THE PEOPLE OF HONG KONG, CATEGORISING IT AS THE 3-LEGGED STOOL ARGUMENT WHICH HAD BEEN REFUTED EARLIER BY THE CHINESE SIDE. HE ALSO CRITICISED AN ARGUMENT THAT ONLY PARLIAMENT COULD MAKE DECISIONS ON SOVEREIGNTY.

3. YAO THEN ELABORATED ON CHINESE POLICIES TOWARDS HONG KONG: HE MADE THE FOLLOWING POINTS:

(A) HONG KONG HAD ALWAYS BEEN CHINESE TERRITORY. THE GOVERNMENT OF THE PRC DID NOT RECOGNISE THE THREE UNEQUAL TREATIES AND HAD ALWAYS MAINTAINED THAT THE HONG KONG QUESTION HAD TO BE SETTLED AT AN OPPORTUNE TIME. CHINA WOULD RESUME THE EXERCISE OF SOVEREIGNTY OVER HONG KONG ON 1 JULY 1997 AND THE INTERVENING PERIOD WAS THE TRANSITION TIME FOR A SETTLEMENT OF THE HONG KONG QUESTION:

(B) AFTER THE RESUMPTION OF SOVEREIGNTY A HONG KONG SPECIAL ADMINISTRATIVE REGION (SAR) DIRECTLY UNDER THE AUTHORITY OF THE CENTRAL PEOPLE'S GOVERNMENT WOULD BE ESTABLISHED IN ACCORDANCE WITH ARTICLE 31 OF THE CONSTITUTION OF THE PRC. IT WOULD ENJOY A HIGH DEGREE OF AUTONOMY:

(C) THE SAR WOULD BE VESTED WITH THE POWER OF LEGISLATION AND INDEPENDENT JUDICIAL POWER, INCLUDING THAT OF FINAL JUDGEMENT. LAWS, DECREES AND REGULATIONS CURRENTLY IN FORCE WOULD REMAIN BASICALLY UNCHANGED:

(D) THE SAR GOVERNMENT WOULD BE COMPOSED OF INHABITANTS OF HONG KONG. THE PRINCIPAL OFFICIALS WOULD BE APPOINTED BY THE CENTRAL PEOPLE'S GOVERNMENT OF CHINA ON THE BASIS OF THE RESULTS OF ELECTIONS OR CONSULTATIONS HELD LOCALLY. LOCAL BRITISH AND OTHER FOREIGN NATIONALS COULD BE EMPLOYED AS ADVISERS IN ORGANS AT VARIOUS LEVELS IN THE SAR:

(E) CURRENT SOCIAL AND ECONOMIC SYSTEMS WOULD REMAIN UNCHANGED AS WOULD THE EXISTING LIFE-STYLE. THE FREEDOMS OF SPEECH, PRESS, ASSEMBLY, ASSOCIATION, TRAVEL, CHANGE OF DOMICILE, CORRESPONDENCE AND RELIGIOUS BELIEF WOULD BE ENSURED. PRIVATE PROPERTY, THE OWNERSHIP OF ENTERPRISES, LEGITIMATE RIGHTS OF INHERITANCE AND FOREIGN INVESTMENTS WOULD BE PROTECTED BY LAW:

(F) THE SAR WOULD REMAIN A FREE PORT AND A SEPARATE TARIFF AREA:

(G) IT WOULD MAINTAIN THE STATUS OF AN INTERNATIONAL FINANCIAL CENTRE. THE FOREIGN EXCHANGE, GOLD, SECURITIES AND FUTURES MARKETS WOULD REMAIN OPEN. THERE WOULD BE A FREE FLOW OF CAPITAL. THE HONG KONG DOLLAR WOULD CIRCULATE AND BE FREELY CONVERTIBLE AS USUAL:

(H) THE SAR WOULD HAVE INDEPENDENT FINANCES:

(I) THE SAR COULD ESTABLISH RECIPROCAL ECONOMIC RELATIONS WITH BRITAIN. BRITISH ECONOMIC INTERESTS WOULD BE TAKEN CARE OF
(J) USING THE NAME 'HONG KONG CHINA' THE SAR COULD ON ITS OWN MAINTAIN AND DEVELOP ECONOMIC AND CULTURAL RELATIONS AND SIGN AGREEMENTS WITH FOREIGN COUNTRIES, REGIONS, AND RELEVANT INTERNATIONAL ORGANISATIONS. THE SAR GOVERNMENT COULD ISSUE ITS OWN TRAVEL DOCUMENTS FOR ENTRY INTO AND EXIT FROM HONG KONG:

(K) PUBLIC ORDER WOULD BE MAINTAINED BY THE SAR GOVERNMENT:

(L) THESE POLICIES FOR THE SAR WOULD BE STIPULATED BY THE NATIONAL PEOPLE'S CONGRESS (NPC) AS THE BASIC LAW OF THE SAR AND WOULD REMAIN UNCHANGED FOR 30 YEARS.

4. YAO GUANG OFFERED SOME FURTHER POINTS OF EXPLANATION TO THE ABOVE:

(I) HE EMPHASISED ONCE AGAIN THE PREMISE:

(II) THE POLICIES FOR HONG KONG WERE DIFFERENT FROM THOSE ON THE MAINLAND. THEY WERE THE RESULT OF CAREFUL CONSIDERATION OF THE OPINIONS OF HONG KONG PEOPLE FROM ALL WALKS OF LIFE. THEY ENJOYED EXTENSIVE SUPPORT AMONG THE PEOPLE OF HONG KONG:

(III) THE POLICIES WOULD BE SUBMITTED TO THE NPC FOR ADOPTION AS THE BASIC LAW OF THE SAR. THE CHINESE GOVERNMENT WOULD DO ITS UTMOST TO IMPLEMENT THE BASIC LAW ONCE IT WAS ADOPTED AND PROMULGATED:

(IV) THE POLICIES PROVIDED FOR A HIGH DEGREE OF AUTONOMY FOR THE SAR EXCEPT IN THE FIELD OF FOREIGN AFFAIRS AND DEFENCE, WHICH WOULD BE THE RESPONSIBILITY OF THE CENTRAL GOVERNMENT. CHINA HAD CONFIDENCE IN THE TALENTS, MANAGERIAL ABILITY AND ENTERPRISING SPIRIT OF THE PEOPLE OF HONG KONG. THE CHINESE GOVERNMENT WOULD CONTINUE TO PROVIDE THE CONDITIONS FOR THEM TO MAINTAIN PROSPERITY AND A HAPPY LIFE FOR THEMSELVES:

(V) IN VIEW OF FRIENDLY RELATIONS BETWEEN BRITAIN AND CHINA AND HISTORICAL RELATIONS BETWEEN BRITAIN AND HONG KONG THE SAR WOULD ATTACH IMPORTANCE TO ANY POSITIVE ROLE BRITAIN MIGHT PLAY IN PROMOTING ITS DEVELOPMENT, WOULD TAKE CARE OF BRITISH ECONOMIC INTEREST. MUTUALLY BENEFICIAL ECONOMIC RELATIONS COULD BE ESTABLISHED .

5. YAO HOPED THAT AN IDENTITY OF VIEWS COULD BE REACHED ON PRACTICAL ARRANGEMENTS. THE POLICIES WERE CLEAR AND FORMED AN INTEGRAL WHOLE. THEY WERE ENTIRELY THE INTERNAL AFFAIR OF CHINA AS THE SOVEREIGN STATE BUT CHINA WISHED TO HEAR BRITISH VIEWS AND OPINIONS AS BOTH SIDES SOUGHT TO SETTLE THIS PROBLEM LEFT OVER FROM HISTORY.

6. YAO TURNED TO OUR TWO WORKING PAPERS. IF WE MADE AN OVERALL AND THOROUGH STUDY OF THE CHINESE POLICIES AS ENUNCIATED WE WOULD FIND THE ANSWER TO MANY QUESTIONS. THUS, AS REGARDS THE LEGAL SYSTEM, CHINESE POLICY WAS THAT IT WOULD BE BASICALLY UNCHANGED. THERE WOULD BE ALTERATION ONLY IN THOSE PARTS WHICH IMPLIED COLONIAL RULE AND IMPAIRED CHINESE SOVEREIGNTY . LAWS, RULES AND REGULATIONS WHICH DID THIS WOULD UNDOUBTEDLY HAVE TO BE ABOLISHED. THE LETTERS PATENT, THE ROYAL INSTRUCTIONS AND THE COLONIAL REGULATIONS WERE IN THIS CATEGORY. COLONIAALLY TAINTED LEGAL TERMS WOULD ALSO HAVE TO BE DELETED OR REVISED. LAWS OTHER THAN THESE WOULD REMAIN UNCHANGED. HE PICKED UP THE FIRST SENTENCE OF PARAGRAPH 1 OF OUR WORKING PAPER ON THE HONG KONG LEGAL SYSTEM. THIS MEANT THAT THERE WOULD BE NO CHANGES AT ALL, INCLUDING NO CHANGES IN THE THREE KINDS OF LAW HE HAD ALREADY MENTIONED. THIS WAS NOT THE SAME AS BASICALLY NO CHANGE. WAS THIS NOT CLEARLY IN CONTRADICTION OF THE CHINESE PREMISE? HE ALSO PICKED UP THE POINT IN THE WORKING PAPER ABOUT NO POWER OF DISALLOWANCE OUTSIDE HONG KONG. THIS CLARLY REFERRED TO THE CHINESE CENTRAL GOVERNMENT. BUT HOW COULD THIS BE SO WHEN THE BASIC SYSTEMS PRESCRIBED IN HONG KONG WOULD BE BOUND BY A LAW WHICH WOULD BE ADOPTED BY THE NPC? THIS OBLITERATED THE DIFFERENCE BETWEEN AN SAR WITH A HIGH DEGREE OF AUTONOMY AND AN INDEPENDENT STATE AND WAS INADMISSIBLE. SPECIFIC ASPECTS SUCH AS THE FUTURE COURT SYSTEM AND A JUDICIARY INDEPENDENT OF THE EXECUTIVE WERE MOSTLY MATTERS CONCERNING THE IMPLEMENTATION OF THE BASIC POLICIES, AND THEREFORE TO BE DECIDED BY THE SAR GOVERNMENT ON ITS OWN. THEY SHOULD NOT BE PRE-JUDGED BY THE CENTRAL GOVERNMENT.

7. CHINESE POLICIES ON THE FINANCIAL SYSTEM WERE ALSO CLEAR. THE HONG KONG DOLLAR WOULD CONTINUE, AS NOW, TO CIRCULATE AND BE FREELY CONVERTIBLE AFTER 1997. IT WOULD BE BACKED

7. CHINESE POLICIES ON THE FINANCIAL SYSTEM WERE ALSO CLEAR. THE HONG KONG DOLLAR WOULD CONTINUE, AS NOW, TO CIRCULATE AND BE FREELY CONVERTIBLE AFTER 1997. IT WOULD BE BACKED BY AN INDEPENDENT EXCHANGE FUND CONTROLLED AND ADMINISTERED BY THE SAR GOVERNMENT. ALL REVENUE WOULD BE USED FOR LOCAL PURPOSES AND NOT REMITTED TO THE CENTRAL GOVERNMENT. THE SAR WOULD HAVE TO REPORT ITS BUDGET AND FINANCIAL ACCOUNTS TO THE CENTRAL GOVERNMENT FOR THE RECORD. THE STATEMENT IN THE WORKING PAPER ON THE FINANCIAL SYSTEM THAT THERE WOULD BE NO EXTRA SUPERVISION OR APPROVAL REQUIRED WAS TOO SWEEPING IF IT PRECLUDED THE REPORTING OF THE BUDGET AND ACCOUNTS TO THE CENTRAL GOVERNMENT. ON SPECIFIC MEASURES TO BE ADOPTED, AS WITH THE LEGAL SYSTEM, THESE WERE FOR THE SAR GOVERNMENT.

IT WAS IMPROPER AND UNNECESSARY FOR THE CENTRAL GOVERNMENT TO DECIDE ON THEM

8. HE CONCLUDED BY SAYING THAT HE WAS NOT IN FAVOUR OF A STEP-BY-STEP APPROACH, NOR OF SPENDING TIME IN DISCUSSION ON DETAIL. HE HAD NO OBJECTION TO US PRESENTING FURTHER WORKING PAPERS BUT HOPED THEY WOULD NOT GO INTO EXCESSIVE DETAIL. WE SHOULD CONCENTRATE ON PRINCIPLES AND REACH AGREEMENTS ON THEM AS SOON AS POSSIBLE. DISCUSSION OF DETAIL WOULD IN ANY CASE INVOLVED MANY TECHNICAL MATTERS WHICH WOULD BE THE RESPONSIBILITY OF THE FUTURE SAR GOVERNMENT AND COULD NOT BE DISCUSSED BETWEEN US. THERE WAS NOT MUCH TIME LEFT: HE LOOKED FORWARD TO OUR POSITIVE RESPONSE.

9. I THANKED YAO FOR HIS ACKNOWLEDGEMENT OF OUR EFFORTS. I COULD ONLY OFFER PRELIMINARY COMMENTS. HIS STATEMENT WOULD RECEIVE CAREFUL STUDY. I REMINDED HIM THAT WE WERE PROCEEDING ON THE BASIS OF THE PRIME MINISTER'S MESSAGE. I WAS RELIEVED THAT WE WERE AT LAST MOVING ON TO MATTERS OF DETAIL AND CONSTRUCTIVE TALKS. BUT YAO'S STATEMENT REMAINED AN EXTREMELY GENERALISED ONE, SIMILAR TO EARLIER ONES WE HAD HEARD. I IMPRESSED ON HIM THE EXTREME IMPORTANCE OF GREATER DETAIL, OFFERING THREE PRINCIPAL REASONS:

(I) THE NEED TO SUSTAIN CONFIDENCE IN HONG KONG. THIS WAS IMPOSSIBLE IF WE COULD OFFER NO MORE INFORMATION THAN GENERALISED STATEMENTS OF INTENT. PEOPLE WHO LIVED AND INVESTED IN HONG KONG WOULD NEED TO KNOW IN MUCH GREATER DETAIL, IN WHAT RESPECT, IF ANY, SYSTEMS WOULD BE CHANGED:

(II) THE PRIME MINISTER COULD NOT PUT AN AGREEMENT TO PARLIAMENT THAT WAS DEVOID OF DETAIL. IF SHE DID SO, SHE WOULD BE LAUGHED OUT OF THE HOUSE:

(III) A LACK OF DETAILED PLANNING IN THE ARRANGEMENTS WOULD CREATE AN ADMINISTRATIVE VACUUM IN HONG KONG. IT WAS OUR WISH TO PRESERVE AS MUCH AS POSSIBLE OF HONG KONG'S CURRENT EXCELLENT ADMINISTRATION AND PASS IT OVER TO THE NEW GOVERNMENT OF THE SAR. BUT PEOPLE WOULD LEAVE IF THEY WERE WORRIED: THEY NEEDED ASSURANCE AND TO KNOW IN GREATER DETAIL THE ADMINISTRATIVE ARRANGEMENTS AFTER 1997. WITHOUT THAT DETAIL NOW THE ADMINISTRATION WOULD DETERIORATE AND CONFIDENCE WOULD DISAPPEAR.

10. I ARGUED AGAINST YAO'S ASSERTION THAT WE SHOULD NOT PROCEED ON A STEP-BY-STEP BASIS. IT WAS HUMANLY POSSIBLE ONLY TO DISCUSS ONE ISSUE AT A TIME. I POINTED OUT THAT YAO HIMSELF HAD TO SOME EXTENT ADOPTED THIS APPROACH IN DEALING WITH OUR WORKING PAPERS AND WELCOMED THIS FACT AND THE POINTS HE MADE. BUT THESE POINTS THEMSELVES RAISED FURTHER QUESTIONS. I CITED HIS REMARKS ABOUT THE POWER OF DISALLOWANCE. WE DID

HE CITED HIS REMARKS ABOUT THE POWER OF DISALLOWANCE. WE DID NOT DISPUTE THAT THE ESTABLISHMENT OF A 'CONSTITUTION' FOR HONG KONG AFTER 1997 WAS A MATTER FOR THE CENTRAL GOVERNMENT. BUT SUPPOSING THE SAR GOVERNMENT WISHED SUBSEQUENTLY TO AMEND THE LAWS GOVERNING THE EXCHANGE FUND. IF THE NEW LAW WAS PASSED BY THE SAR GOVERNMENT WOULD THE CENTRAL GOVERNMENT HAVE THE POWER OF DISALLOWANCE OVER IT? AND IF SO, HOW COULD THIS BE RECONCILED WITH FINANCIAL INDEPENDENCE FOR THE SAR? I TOOK UP HIS POINT ABOUT CERTAIN SPECIFIC MATTERS BEING FOR THE FUTURE SAR GOVERNMENT AND NOT FOR US. IT WAS NOT ENOUGH TO BRUSH SUCH MATTERS AS THE ADMINISTRATION OF THE COURTS AND JUDICIAL POWER ASIDE FOR THE SAR GOVERNMENT TO DEAL WITH IN THE FUTURE. THEY MUST BE CLEARLY UNDERSTOOD BEFOREHAND BECAUSE PEOPLE IN HONG KONG WOULD BE RELYING ON JUDGEMENTS IN THESE COURTS AND CONTINUITY IN THESE SYSTEMS. I ALSO SOUGHT CLARIFICATION ABOUT THE ABOLITION OF THE LETTERS PATENT, ROYAL INSTRUCTIONS AND COLONIAL REGULATIONS. WOULD THIS BE A TOTAL ABOLITION, OR WOULD PARTS OF THEM APPEAR ELSEWHERE IN THE LAWS UNDER A DIFFERENT TITLE?

11. I REMINDED HIM THAT HE HAD, AS IN THE PAST, MADE ASSERTIONS ABOUT THINGS THAT WOULD HAPPEN WHICH DEPENDED NOT UPON CHINA OR BRITAIN ALONE BUT UPON THIRD PARTIES AS WELL. ACCESS TO MARKETS, FOR EXAMPLE, WOULD HAVE TO BE NEGOTIATED WITH THIRD PARTIES. IT WAS A MATTER ON WHICH CHINA AND BRITAIN MUST COOPERATE BUT WHERE THE OUTCOME COULD NOT BE PREDICTED OR STATED IN ADVANCE. WE WOULD BE TOUCHING ON THESE MATTERS IN THE WORKING PAPER ON EXTERNAL ECONOMIC RELATIONS WHICH I HOPED TO HAND OVER THE FOLLOWING DAY. I HOPED SHEET WOULD RECEIVE DETAILED AND REALISTIC EXAMINATION AND WOULD NOT MEET WITH VAGUE AND GENERALISED STATEMENTS.

12. IN STRESSING FINALLY THE IMPORTANCE OF DETAIL IF WE WERE TO ARRIVE AT ARRANGEMENTS THAT WOULD MEET THE COMMON AIM I DREW ATTENTION TO STATEMENTS BY YAO AND ZHOU NAN WHICH GAVE ME SOME ENCOURAGEMENT. YAO HAD SAID THAT MORNING HE HOPED THROUGH FULL CONSULTATIONS AN IDENTITY OF VIEWS COULD BE REACHED ON HOW TO MAKE PRACTICAL ARRANGEMENTS. ZHOU HAD SAID IN NEW YORK TO YOU THAT IF WE CHANGED OUR APPROACH OF INSISTING ON CONTINUED BRITISH ADMINISTRATION THEN DETAILED DISCUSSIONS ON ALL PRACTICAL ASPECTS OF THE ISSUE COULD BEGIN IMMEDIATELY. (UKMIS NEW YORK TEL NO 006 TO HONG KONG). YAO WAS WELL AWARE THAT THERE HAD BEEN A BIG CHANGE IN OUR APPROACH AS EXPRESSED IN THE PRIME MINISTER'S MESSAGE. WE WISHED TO ENGAGE IN DETAILED DISCUSSIONS ON ALL ASPECTS.

13. YAO SPOKE AGAIN BRIEFLY BEFORE THE END OF THE MORNING. HE REITERATED HIS VIEW THAT DISCUSSION ON MATTERS OF PRINCIPLE WAS OF VITAL IMPORTANCE. HE UNDERSTOOD MY VIEWS ON THE IMPORTANCE OF DETAIL BUT HELD A DIFFERENT VIEW. HE DREW A DISTINCTION BETWEEN THE POLICIES WHICH CHINA WOULD ADOPT TOWARDS HONG KONG AFTER 1997, WHICH WERE CHINA'S INTERNAL AFFAIR, AND IN WHICH THEY WOULD WELCOME OUR SUGGESTIONS, AND MATTERS CONCERNING BRITISH INTERESTS IN HONG KONG AND SINO-BRITISH CO-OPERATION IN THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG, WHERE THEY HOPED TO HAVE DETAILED DISCUSSION WITH US. TAKING NO ACCOUNT OF WHAT I HAD SAID, HE REPEATED THAT THERE WERE SOME SPECIFIC POINTS WHICH WERE FOR THE FUTURE SAR GOVERNMENT AND NOT FOR US TO DISCUSS. HE ALSO ADDED THAT DETAILED DISCUSSION

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PARA 7.

LINE 9 W THERE WOULD BE NO EXTERNAL SUPERVISION ETC

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