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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

19 April 1984

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Jaw Shu

Future of Hong Kong: Foreign and Commonwealth Secretary's  
Visit to Peking

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You may find it helpful to have the enclosed set of telegrams reporting the Foreign Secretary's meetings with Chinese leaders from 16 - 18 April (Peking telnos 759, 764, 765 and 767 and Hong Kong telnos 1057 and 1058). I also enclose a summary of the points made by both sides.

While the atmosphere of the talks was good the Chinese took a tough line on the major items of substance. They did however make an important shift on the question of the timetable for the negotiation of an agreement. At the end of the series of talks, Deng Ziaoping agreed that we should aim for an initial agreement in September with Parliamentary consideration in November and signature before the end of the year. The question of the timing of ratification of the agreement however remains for further discussion.

The Chinese said that our draft agreement was unacceptable and pressed the claims of their own. They did however accept that our draft, as well as theirs, should remain on the table for consideration by the negotiators. There was little significant shift of substance on other questions affecting the agreement, although the Chinese did say that there should be some (though not too much) detail which could be included in an annex. They maintained that such an annex would be as binding as the rest of the agreement although they did not specify how this should be done in legal terms.

The Secretary of State explained his intention to make an "unveiling" statement in Hong Kong. This passed without comment by the Chinese leaders, although the Chinese negotiator, Zhou Nan, expressed some concern to the Secretary of State about the content of the statement.

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We shall report further after the Foreign Secretary's visit to Hong Kong and his discussions with EXCO.

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(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street

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10 DOWNING STREET

*From the Private Secretary*

25 April 1984

Future of Hong Kong : Foreign and Commonwealth  
Secretary's Visit to Peking

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Thank you for your letter of 19 April  
to John Coles on the above subject. The Prime  
Minister has seen and noted its contents.

David Barclay

R.B. Bone, Esq.,  
Foreign and Commonwealth Office,

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VISIT OF THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS  
TO PEKING, 16-18 APRIL 1984

Summary of discussions with Chinese leaders

1. Meetings: Sir Geoffrey Howe met:

- (a) Wu Xueqian, Chinese Foreign Minister for two sessions on 16 April;
- (b) Ji Pengfei, Head of the Chinese Office for Hong Kong and Macau for two hours on 17 April;
- (c) Zhao Ziyang, Chinese Prime Minister for one hour on 17 April;
- (d) Deng Xiaoping, Chairman of the Chinese Communist Party for one hour on 18 April;
- (e) Zhou Nan Chinese Assistant Foreign Minister and negotiator on Hong Kong, on 18 April

(Sir Percy Cradock held a separate working lunch with Zhou Nan, on 17 April).

2. The Talks

(a) Chinese Points

- (i) Wu said that after 12 rounds there were many common points, although some further discussion was needed, particularly on nationality.
- (ii) Wu emphasised the importance of mutual trust. The Chinese had stated publicly that their policies for Hong Kong would remain unchanged for fifty years. The Chinese Government would match words with action.
- (iii) Zhao said that agreement had been reached on a number of points and the remaining questions would not be hard to solve.

(b) British Points

- (i) Sir Geoffrey Howe said that we were negotiating on the basis of the Prime Minister's message of 10 March and 14 October 1983. He said that an agreement was within the grasp of the two sides. We sincerely intended to reach agreement.

3. The Draft Agreements

(i) Chinese points:

- (i) Wu said that an eventual agreement would reflect all points

agreed in the talks. The British annexes were too many, although the Chinese side did not reject discussion of them.

(ii) Wu said that the British draft agreement was unacceptable because it was ambiguous on the question of the transfer of sovereignty, and because the Chinese 12 points were an internal affair and not for approval by another country. Wu repeated detailed criticisms of our draft previously made by Zhou Nan.

(iii) Ji said that the agreement should contain the twelve points and the annex could contain further elaboration of them. The agreement should also contain a clear declaration on the transfer of sovereignty and provisions for the transitional period. The agreement should only contain matters of principle, but the annex would be equally binding and would be reflected in the Basic Law.

(iv) Zhao said that the Chinese side had shown the greatest possible flexibility in negotiations to the extent permitted by the principle of Chinese sovereignty. Chinese policies for Hong Kong after 1997 should not be subject to approval by the British side.

(v) Zhao said both the agreement and the annex would have binding force and be equally valid. The annex should contain the points agreed in the talks.

(vi) Deng said that the agreement should deal with matters of principle. Too many details would limit the competence of the future SAR government. He accepted that an annex in the form of an exchange of notes should deal with detail (but not excessive detail).

(vii) Zhou Nan said the Chinese side would formally table their draft agreement at the next round.

(viii) Zhou Nan said to Sir P Cradock that the degree of detail to be included in the annex could be discussed at the next round. Zhou said that the annex would have validity like the agreement and that both would be reflected in the Basic Law.

(b) British points:

(i) Sir Geoffrey Howe said to Wu that the British draft met Chinese requirements of principle. He expressed surprise and disappointment at the initial Chinese reaction.

(ii) Sir Geoffrey Howe said to Wu that the Chinese draft was unacceptable because it imposed legal obligations only on the

British side. Provision for post 1997 arrangements in Hong Kong should be made in the agreement to sustain confidence. The Basic Law was an internal Chinese affair, but the Chinese should exercise their sovereignty constructively by describing the post 1997 arrangements in the agreement. The drafting of the Basic Law would take some time, so the agreement should set out the details of its provisions. Sir Geoffrey Howe answered the criticisms of the British draft.

(iii) Sir Geoffrey Howe said to Wu that both agreements should remain on the table for further discussion. This was subsequently agreed with Ji Pengfei and Zhou Ziyang.

(iv) Sir Geoffrey Howe said to Ji that we needed to have an agreement that was binding on both sides. The Chinese should give a binding commitment to the arrangements which would be made after 1997, in return for our understanding about sovereignty. The precise wording could be left to the negotiators.

(v) Sir Geoffrey Howe said to Ji that we welcomed his assurance that the annex would be as valid as the agreement. Much would depend on how much detail it contained.

#### 4. Timetable

(a) Chinese points:

(i) Wu said that it would be possible to conclude discussion of an agreement by June, to allow Parliament time to debate it and to sign in September. Signature and ratification should not be prolonged.

(ii) Ji asked about Parliamentary procedures. He asked what would happen if the agreement was not approved. He said that a change in the timetable would be hard to justify to the Chinese people.

(iii) Zhao referred to the time limit for the signature of an agreement, and hoped HMG would demonstrate its reputation for efficiency and timing.

(iv) Deng agreed to the timetable proposed by the Secretary of State for publication of an agreement in September followed by debate in November and signature before the end of the year. Ratification was not mentioned.

(v) Zhou Nan asked Sir P Cradock for clarification on

ratification. He indicated no change in the Chinese position.

(b) British Points

(i) Sir Geoffrey Howe said to Wu that an agreement by July would not be possible for Parliamentary reasons. It was vital that Parliament should not be given the impression that it was being misled.

(ii) Sir Geoffrey Howe said to Ji that there was not enough time for a debate before July. Parliament would want more than a few weeks to consider an agreement and would want to observe reactions in Hong Kong.

(iii) Sir Geoffrey Howe said to Ji that he intended to publish the agreement in September for debate in November. Rejection was theoretically possible but would create a very serious situation. Parliament would not be able to amend the agreement only to accept or reject it.

(iv) Sir P Cradock said to Zhou Nan on a personal basis that if there were sufficient detail in the agreement, ratification could be much expedited.

5. Outstanding issues from the talks

(a) Chinese points

(i) Wu said that China did not recognise dual nationality. British consular protection for 3 million out of Hong Kong's population of 5 million would be absurd.

(ii) Wu said that the structure of Government of the future SAR would be defined in the Basic law. It was impossible to define it now. The two sides would need to discuss further changes in government structure prior to 1997 to ensure the smooth transfer of Government. He agreed that the matter should be left to further discussions between representatives of the two sides.

(iii) Wu said that foreign nationals could be employed up to deputy secretary level in the public service, but the chiefs of principle departments and the commissioner of police should be Chinese nationals with permanent Hong Kong ID cards. He agreed that this question should be discussed further.

(iv) Deng said that China would send a small armed force to Hong Kong in 1997, similar to the existing British garrison, to be paid for by the Central People's Government. It would be a

symbol of sovereignty and a factor for stability. Sir Geoffrey Howe registered our concern. Deng said this matter should be left to the negotiators.

(b) British points

(i) Sir Geoffrey Howe raised nationality, Constitutional arrangements and the public service with Wu.

(ii) Sir Geoffrey Howe said that it would be politically impossible for HMG to deprive BDTC's of their existing rights as British nationals. We proposed to create a new category of British nationality. It would be helpful if the Chinese could create a separate citizenship for Hong Kong under Chinese nationality.

(iii) Sir Geoffrey Howe said that a clear expression of the autonomy which the legislature and executive of Hong Kong would enjoy was essential.

(iv) Sir Geoffrey Howe said that continuity of employment in the public service was crucial to maintaining an effective administration. There should be no exclusion from any rank on grounds of race.

(v) Sir Geoffrey Howe raised the question of an internal security force with Ji.

6. Pre 1997 Arrangements

(a) Chinese points

(i) Wu said that a Joint Group in Hong Kong before 1997 would not give the impression of condominium in Hong Kong, its task was simply coordination. Britain would retain full responsibility for administration. Without the joint group questions such as land leases could not be resolved.

(ii) Ji said that after the agreement had been signed there would be specific issues affecting Hong Kong which would need to be discussed locally. In 1983, the Basic law would be promulgated and the people in Hong Kong could consider the territories future institutions and the composition of the first government of the SAR.

(iii) Zhao said that the Chinese had no intention of creating a condominium before 1997. He thought that British concerns could be met through further discussion of the Joint Commission's name and function. If the body was located in Peking, it would be difficult for it to be well informed about the Hong Kong



question. its work could not be seen by Hong Kong people which would lead to speculation about its function.

(iv) Zhao said that if the joint group was part of the agreement there should be no effect on confidence. The agreement would make it clear that Hong Kong would be administered by Hong Kong people, officials would not be sent from the mainland, and unnecessary changes would not be made. The NCNA and other Chinese organisations already operated in Hong Kong.

(v) Deng said that the Chinese were concerned that the SAR Government would inherit a mess in 1997. He did not accuse HMG or the Hong Kong Government, but referred to 'some people' eg businessmen. A joint commission would be needed to prepare for 1997. The two sides should consult together in choosing future officials. Deng suggested a joint group rotating between Hong Kong, London and Peking. Sir Geoffrey Howe agreed to explore the idea.

(vi) Zhou Nan said to Sir P Cradock that the joint commission must be in Hong Kong to deal with matters of detail. He suggested that the name or composition of the commission could be changed. He suggested that if we did not agree on item two then the Chinese might not agree on the timetable.

(b) British points

(i) Sir Geoffrey Howe said that this question could be approached on an agreed basis:

- (a) Hong Kong Government authority before 1997, should remain clear;
- (b) The handover should be smooth;
- (c) There should be the greatest possible continuity of existing systems.

He agreed with Wu that there were many questions requiring consultation before 1997, but the creation of a Joint Group would give the impression that China was preparing to send people to administer Hong Kong. The British side thought it best to avoid establishing formal machinery at this stage. Close contact should be maintained through the representatives of the two sides to deal with issues as they arose.

(ii) Sir Geoffrey Howe agreed with Zhao that there should be continuing consultation between the signing of the agreement and 1997, but said this would have the best effect if it took place

in Peking and not in Hong Kong.

(iii) Sir Geoffrey Howe said to Zhao that the existing Chinese agencies in Hong Kong were familiar ones with separate functions, and different from a new commission.

(iv) Sir P Cradock suggested to Zhou Nan on a personal basis that the negotiating teams could continue to meet in Peking to deal with outstanding matters after concluding an agreement. People could be brought from Hong Kong if necessary.

7. Unveiling Statement

(i) Ji said that Sir Geoffrey's statement in Hong Kong would be a very important one.

(ii) Zhou Nan said that he hoped the Secretary of State's statement in Hong Kong would not trespass on Chinese policy in Hong Kong. Sir Geoffrey Howe refused to disclose the contents of the statement to Zhou.

British Points

(i) Sir Geoffrey Howe said to Ji that it was important to prepare public opinion and that he would be making a short statement in Hong Kong outlining the British approach to the negotiations. It would not breach confidentiality. ?

Hong Kong Department  
19 April 1984

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Prime Minister's sec.

1) Sir Craig Rickards

17/4

2) Return to me pl. 17/iv

A. J. Cole 17/4

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TO IMMEDIATE FCO TELNO 759 OF 16 APR 84  
AND TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: SECRETARY OF STATE'S DISCUSSIONS WITH WU XUEQIAN ON 16 APRIL.

SUMMARY

1. IN THE MORNING SESSION, THE SECRETARY OF STATE MADE A GENERAL STATEMENT. HE SAID THAT THE BRITISH DRAFT AGREEMENT MET ESSENTIAL CHINESE REQUIREMENTS. HE EXPLAINED PARLIAMENTARY CONSTRAINTS, ESPECIALLY WITH RELATION TO THE TIMETABLE. HE EXPRESSED CONCERN AT CHINESE IDEAS ON ARRANGEMENTS BEFORE 1997.

2. WU SAID THAT AFTER 12 ROUNDS THE VIEWS OF THE TWO SIDES ON A NUMBER OF ISSUES WERE BASICALLY IDENTICAL. HE WELCOMED OUR DESIRE TO PRESS FORWARD TO AN AGREEMENT. BUT MUTUAL TRUST NEEDED TO BE FURTHER ENHANCED.

3. IN THE AFTERNOON WU SAID THAT OUR DRAFT, AS A WHOLE, WAS UNACCEPTABLE. HE LISTED CHINESE OBJECTIONS WHICH WERE SIMILAR TO THOSE PUT FORWARD ON 13 APRIL BY ZHOU NAN (MY TELNO 739). ON THE TIMETABLE, WU HOPED FOR AGREEMENT BY MAY OR JUNE, FOLLOWED BY DEBATE IN PARLIAMENT AND SIGNATURE IN SEPTEMBER. ON ARRANGMENTS BEFORE 1997, HE STRESSED THAT THE HONG KONG GOVERNMENT WOULD REMAIN FULLY RESPONSIBLE FOR HONG KONG'S ADMINISTRATION UNTIL 1997. A SINO-BRITISH JOINT GROUP WAS NONETHELESS NECESSARY TO IMPLEMENT THE AGREEMENT. IT WOULD BE A LIAISON BODY, NOT AN ORGAN OF POWER. WITHOUT IT, QUESTIONS LIKE LAND LEASES WOULD BE HARD TO SOLVE.

4. THE SECRETARY OF STATE SAID THAT THE CHINESE DRAFT WAS AS UNACCEPTABLE TO US AS OUR WAS TO THEM. IT ENVISAGED LEGAL OBLIGATIONS ON OUR SIDE BUT NONE ON THEIRS. IT WAS UNCLEAR WHICH PRINCIPLES DISCUSSED IN THE TALKS WOULD BE INCLUDED IN IT. A CLEAR AND PRECISE DEFINITION OF POST-1997 ARRANGEMENTS IN THE AGREEMENT WAS ESSENTIAL FOR CONFIDENCE. ON THE TIMETABLE, WE WISHED TO MOVE AS QUICKLY AS POSSIBLE. BUT SUFFICIENT DETAIL WOULD BE ESSENTIAL FOR PARLIAMENT. BOTH SIDES BELIEVED THEIR DRAFT TO BE THE BEST. BOTH SHOULD REMAIN ON THE TABLE. ON ARRANGEMENTS BEFORE 1997, CONTACT BETWEEN REPRESENTATIVES OF THE TWO SIDES COULD BE MAINTAINED IN THE PERIOD AFTER CONCLUSION OF AN AGREEMENT TO DEAL WITH VARIOUS ISSUES AS THEY AROSE.

5. WU SAID A GAP EXISTED BETWEEN THE TWO SIDES BUT THAT MATTERS COULD NOW BE LEFT TO THE REPRESENTATIVES OF THE TWO SIDES AT THEIR FUTURE DISCUSSIONS. THE EXCHANGE OF VIEWS HAD INCREASED MUTUAL UNDERSTANDING.

6. THE SECRETARY OF STATE PRESSED OUR CASE ON THREE OUTSTANDING ISSUES: NATIONALITY, CONSTITUTIONAL DEVELOPMENT, AND THE PUBLIC SERVICE. WU DID NOT MOVE. ALL THREE ISSUES WERE RETURNED TO REPRESENTATIVES OF THE TWO SIDES.

7. THE SECRETARY OF STATE OPENED DISCUSSION WITH A GENERAL STATEMENT. HE RECALLED THAT THE PRIME MINISTER'S MESSAGES OF 10 MARCH AND 14 OCTOBER 1983 WERE THE BASIS ON WHICH WE WERE NEGOTIATING. HE NOTED THE DETAILED GROUND THAT HAD BEEN COVERED IN THE NEGOTIATIONS AND EMPHASISED OUR SINCERITY IN SEEKING TO REACH AGREEMENT. IF THE NECESSARY ADVANCES COULD BE MADE ON THE IMPORTANT POINTS STILL OUTSTANDING THEN AGREEMENT WAS WITHIN THE GRASP OF THE TWO SIDES.

8. HE MOVED ON TO THE NATURE OF THE EVENTUAL AGREEMENT. IN OUR VIEW, THE BRITISH DRAFT AGREEMENT UNEQUIVOCALLY MET CHINESE REQUIREMENTS OF PRINCIPLE. IT TOOK AS ITS BASIS THE CHINESE PLAN FOR HONG KONG AND COVERED THE AREAS DISCUSSED BETWEEN THE TWO DELEGATIONS AT THE TALKS. IT MADE CLEAR THAT HONG KONG WOULD BE ADMINISTERED UNDER THE CHINESE CONSTITUTION AND STATED THE PRINCIPLES WHICH WOULD GUIDE THAT ADMINISTRATION. WE HAD BEEN SURPRISED AND DISAPPOINTED AT THE INITIAL CHINESE REACTION TO IT, BUT WE WERE CONVINCED THAT, TOGETHER WITH ITS ANNEXES, IT PROVIDED THE RIGHT BASIS FOR MAKING CLEAR HONG KONG'S FUTURE IN SUCH A WAY AS TO COMMAND CONFIDENCE IN HONG KONG AND ASSURE PROSPERITY AND STABILITY.

9. HE CONTINUED BY EXPLAINING THE PARLIAMENTARY CONSTRAINTS. HE EMPHASISED THAT HE WAS OFFERING ADVICE AS A PARLIAMENTARIAN HIMSELF ON A PRACTICAL QUESTION. THE COMMON INTEREST OF THE TWO SIDES LAY IN REACHING AN AGREEMENT WHICH WOULD COMMAND CONFIDENCE. THE CHINESE SIDE SHOULD LET HMG JUDGE HOW THEY COULD BEST PLAY THEIR PART ACCORDING TO BRITISH POLITICAL REQUIREMENTS. THE BRITISH SIDE ENTIRELY UNDERSTOOD THE CHINESE WISH TO AVOID DELAY BUT BELIEVED THAT THE BRITISH TIMETABLE COULD MEET CHINESE WISHES TO MAKE AN ANNOUNCEMENT BY SEPTEMBER AND WOULD ALSO ALLOW FOR SIGNATURE OF AN AGREEMENT WELL BEFORE THE END OF THE YEAR.

10. THE SECRETARY OF STATE CONCLUDED BY IDENTIFYING THREE KEY ISSUES FROM AGENDA ITEM 1 WHICH HE HOPED TO DISCUSS FURTHER: NATIONALITY, CONSTITUTIONAL ARRANGEMENTS, AND THE PUBLIC SERVICE. HE ADDED THAT WE WERE CONCERNED AT THE IDEAS BEING PUT FORWARD BY THE CHINESE SIDE UNDER AGENDA ITEM 2 AND SUGGESTED THAT THAT SUBJECT MIGHT ALSO BE DISCUSSED AT THE AFTERNOON SESSION.

11. WU CONFINED HIMSELF IN HIS RESPONSE AT THE MORNING SESSION TO SOME GENERAL REMARKS. HE WELCOMED THE DETERMINATION OF THE BRITISH GOVERNMENT TO SOLVE THE QUESTION OF TRANSFER OF SOVEREIGNTY TO CHINA THROUGH CONSULTATIONS. AFTER 12 ROUNDS OF TALKS THE VIEWS OF THE TWO SIDES ON A NUMBER OF ISSUES WERE BASICALLY IDENTICAL, WHILE ON OTHER ISSUES DIFFERENCES WERE MERELY OF TERMINOLOGY. HE SAID THAT THERE WERE MANY COMMON POINTS ON THE LEGAL SYSTEM, THE MONETARY AND ECONOMIC SYSTEMS, EXTERNAL ECONOMIC RELATIONS, SHIPPING, CIVIL AVIATION, GOVERNMENT STRUCTURES, THE PUBLIC SERVICE, CULTURE AND EDUCATION, AND RIGHTS OF INDIVIDUALS, ALTHOUGH SOME FURTHER DISCUSSION WAS STILL NEEDED. FURTHER DISCUSSION AND STUDY WAS NEEDED ON NATIONALITY AND CHINESE IDEAS FOR THE TRANSITION PERIOD.

12. WU WENT ON TO TALK ABOUT MUTUAL CO-OPERATION AND TRUST. THESE EXISTED ALREADY IN THE TALKS AND IT WAS BECAUSE OF THEM THAT PROGRESS HAD BEEN MADE. BUT IT WAS IMPORTANT TO ENHANCE THEM, ESPECIALLY TRUST. WU EMPHASISED THE CORRECT LINE CHINA HAD TAKEN SINCE THE THIRD PLENUM OF THE 11TH CENTRAL COMMITTEE IN DECEMBER 1978. GUIDED BY THIS LINE AND TAKING ACCOUNT OF THE HISTORY AND REALITIES OF HONG KONG, THE CHINESE GOVERNMENT HAD WORKED OUT A POLICY FOR HONG KONG: THE TWELVE GUIDELINES. IT HAD BEEN FORMULATED AFTER MUCH CAREFUL CONSIDERATION. THE POLICY WAS MAGNANIMOUS AND REASONABLE. IT WAS BECAUSE SOME PEOPLE IN HONG KONG AND ELSEWHERE HAD BEEN APPREHENSIVE ABOUT CHINESE POLICIES THAT CHINESE LEADERS HAD DECIDED TO STATE PUBLICLY THAT POLICIES TOWARDS HONG KONG WOULD REMAIN UNCHANGED FOR 50 YEARS. HE HOPED THESE FACTS WOULD ENABLE THE PRIME MINISTER AND OTHER BRITISH MINISTERS TO ENHANCE THEIR SENSE OF TRUST IN CHINESE POLICIES. THE CHINESE GOVERNMENT MEANT WHAT IT SAID AND WOULD MATCH WORDS WITH ACTION. CHINA WOULD BE VERY FRANK IN TELLING BRITAIN WHICH POINTS WERE UNACCEPTABLE, BUT OTHER POINTS ON WHICH AGREEMENT WAS REACHED WOULD BE STRICTLY HONOURED. HENCE THE IMPORTANCE OF MUTUAL TRUST BEFORE AGREEMENT WAS REACHED. IF TRUST WAS NOT ABSOLUTE THEN AN AGREEMENT, NO MATTER HOW DETAILED, MIGHT ONE DAY BECOME A 'SCRAP OF PAPER'. THE CHINESE SIDE WOULD SEE TO IT THAT THE EVENTUAL AGREEMENT WOULD REFLECT ALL POINTS OF AGREEMENT REACHED IN THE TALKS. WU CONCLUDED THAT THERE SHOULD NEVERTHELESS BE FLEXIBILITY IN SOME AREAS. HE THOUGHT THAT THE ANNEXES WHICH WE HAD PASSED TO THE CHINESE SIDE WERE TOO MANY. THE CHINESE SIDE DID NOT REJECT DISCUSSION OF ANNEXES, BUT THE POINT WAS TO ESTABLISH MUTUAL TRUST ON MAJOR MATTERS AND MATTERS OF PRINCIPLE. ONCE THAT HAD BEEN DONE IT WOULD NOT BE DIFFICULT TO DISCUSS OTHER MATTERS.

13. IN THE AFTERNOON SESSION WU SPOKE FIRST. HE SAID HE HAD LISTENED WITH CARE TO THE SECRETARY OF STATE'S EXPLANATION OF THE BRITISH DRAFT AGREEMENT. HE AGREED THAT NOW WAS THE TIME FOR THE TWO SIDES TO STUDY THE QUESTION OF AN AGREEMENT. REACHING AN EARLY AGREEMENT WAS A SHARED DESIRE AND WAS ALSO NECESSARY TO MAINTAIN HONG KONG'S STABILITY AND PROSPERITY. THE CHINESE SIDE WERE READY TO WORK TOGETHER TOWARDS THIS GOAL.

14. WU SAID THAT THE BRITISH DRAFT AGREEMENT TOUCHED ON THE QUESTION OF TRANSFER OF SOVEREIGNTY TO CHINA IN 1997. SOME OF ITS ARTICLES INCLUDED SOME OF THE CHINESE VIEWS. BUT THE DRAFT AS A WHOLE WAS UNACCEPTABLE. IT COULD NOT SERVE AS A BASIS FOR DISCUSSION BECAUSE IT WAS AMBIGUOUS ON THE QUESTION OF TRANSFER OF SOVEREIGNTY. THIS MUST BE DEALT WITH SQUARELY AND EXPLICITLY.

(B) THE 12 GUIDELINES, CHINA'S BASIC POLICIES FOR THE SETTLEMENT OF THE HONG KONG QUESTION, WERE AN INTERNAL AFFAIR AND NOT TO BE TREATED AS SOMETHING FOR APPROVAL BY ANOTHER COUNTRY OR TAKEN AS THE RESULT OF NEGOTIATION.

(C) THE CONTENT AND FORM OF THE DRAFT GAVE THE IMPRESSION THAT THE BRITISH SIDE WAS SEEKING TO REPLACE THE BASIC LAW WITH THE AGREEMENT OR THAT ENACTMENT OF THE BASIC LAW WAS WORK TO BE DONE BY THE TWO SIDES. THE CHINESE SIDE HAD REPEATEDLY SAID THAT THE BASIC LAW WOULD TAKE THE 12 GUIDELINES AS ITS BASIS AND THAT THE AGREEMENT WOULD BE REFLECTED IN IT. BUT IT WAS AN INTERNAL AFFAIR. OUR DRAFT ATTEMPTED TO DEFINE ITS DETAILS. THIS WAS IMPERMISSIBLE.

(D) THERE WERE ALSO REFERENCES IN THE DRAFT TO DISCUSSIONS ON THE IMPLEMENTATION OF THE AGREEMENT, BUT NO TERM WAS SET TO THESE. IF WE MEANT THEM TO CONTINUE BEYOND 1997, WOULD THIS NOT GIVE THE IMPRESSION OF A CONDOMINIUM ?

(E) WU ADDED THAT THE DRAFT ALSO REFERRED TO ACCEPTANCE BY THE INTERNATIONAL COMMUNITY OF HONG KONG'S AUTONOMOUS STATUS. IF THE BRITISH SIDE WERE SEEKING TO INTERNATIONALISE THE ISSUE THIS WAS A DANGEROUS INTENTION.

15. WU SAID THAT A NUMBER OF POINTS IN THE ANNEXES HAD BEEN CRITICISED BY THE CHINESE SIDE IN THE TALKS. THEY WERE NOW PRESENTED IN A DIFFERENT FORM. HE WONDERED IF WE WERE SEEKING TO RE-RAISE THESE ISSUES. IF SO OUR SINCERITY IN SEEKING AN EARLY AGREEMENT MIGHT BE CALLED INTO QUESTION.

16. WU SAID THE CHINESE VIEWS ON THE FORM AND CONTENT OF A DRAFT AGREEMENT WERE CLEAR CUT AND REASONABLE:

(A) THE RESTORATION OF HONG KONG TO CHINA MUST BE DEALT WITH SQUARELY SEMICOLON

(B) IT WAS FOR THE CHINESE GOVERNMENT TO DECLARE ITS 12 GUIDELINES WHICH SHOULD NOT BE SUBJECT TO BILATERAL AGREEMENT SEMICLN

(C) THE AGREEMENT SHOULD MAINLY COVER MAJOR ISSUES OF PRINCIPLE. SPECIFIC ISSUES WHICH WERE ISSUES OF PRINCIPLE TO A CERTAIN EXTENT COULD BE DEALT WITH IN ANNEXES. THE SUGGESTED EXCHANGE OF NOTES SHOULD DEAL WITH THESE SPECIFIC ISSUES OF PRINCIPLE AND THE SUGGESTED PROTOCOL WITH ARRANGEMENTS FOR THE TRANSITIONAL PERIOD.

WU SAID IT WAS HARD TO EXPLAIN WHY THE SECRETARY OF STATE HAD NOT MENTIONED THE CHINESE DRAFT THIS MORNING IF HE HAD SEEN IT. THIS DRAFT WAS REASONABLE AND FEASIBLE. IT SHOULD BE THE BASIS FOR DISCUSSION OF AN AGREEMENT.

17. ON THE TIMETABLE, WU SAID THAT THE FOUNDATIONS FOR CONCLUSION OF AN AGREEMENT HAD BEEN LAID. THERE WAS NO NEED TO DELAY. IT WAS ENTIRELY POSSIBLE TO CONCLUDE DISCUSSION OF AN AGREEMENT IN MAY OR JUNE. THERE WOULD THEN BE AMPLE TIME FOR PARLIAMENT TO COMPLETE THE NECESSARY CONSTITUTIONAL PROCEDURES FOR SIGNATURE TO TAKE PLACE IN SEPTEMBER. SIGNATURE AND RATIFICATION SHOULD NOT BE PROLONGED. THIS WOULD BE UNHELPFUL TO STABILITY AND PROSPERITY IN HONG KONG AND TO BRITISH INTERESTS.

18. ON ITEM 2, WU DISAGREED THAT THE PROPOSED SINO-BRITISH JOINT GROUP COULD GIVE THE IMPRESSION OF CONDOMINIUM IN HONG KONG. IT HAD BEEN MADE CLEAR THAT THE JOINT GROUP'S TASK WOULD BE TO COORDINATE THE IMPLEMENTATION OF THE AGREEMENT. IT WOULD BE A LIAISON BODY. IT HAD ALSO BEEN MADE CLEAR THAT BRITAIN RETAINED FULL RESPONSIBILITY FOR THE ADMINISTRATION OF HONG KONG IN THE TRANSITIONAL PERIOD. THE JOINT GROUP WOULD NOT INTERFERE IN HONG KONG'S INTERNAL AFFAIRS. THERE WAS THUS NO QUESTION OF CONDOMINIUM IN THIS PERIOD.



19. THE CHINESE PLAN FOR THE TRANSITIONAL PERIOD WAS INSEPARABLE FROM THEIR POST-1997 POLICIES. IT WAS DIFFICULT TO THINK THAT CHINA COULD LEAVE EVERYTHING INTACT IN 1997 WITHOUT UNDERSTANDING OF THE CHANGES TO BE MADE IN THE TRANSITIONAL PERIOD. CERTAIN MATTERS, EG LEASES, MUST BE SOLVED DURING THIS PERIOD. PROVIDED THE BRITISH SIDE CONFIRMED THE PREMISE OF CHINESE SOVEREIGNTY, WITH CHINESE APPROVAL HONG KONG COULD GRANT LEASES BEYOND 1997. THE AMOUNT OF LAND FOR SUCH LEASES WAS A QUESTION WHICH COULD BE STUDIED BY THE SPECIAL LAND SUB-GROUP OF THE JOINT GROUP. THE USE OF THE CONSTRUCTION AND DEVELOPMENT FUND SHOULD ALSO HAVE THE APPROVAL OF THE CHINESE SIDE. THUS WITHOUT THIS JOINT GROUP QUESTIONS SUCH AS LEASES WOULD BE DIFFICULT TO SOLVE. THE ESTABLISHMENT OF A JOINT GROUP WOULD NOT ADVERSELY AFFECT CONFIDENCE: IT HAD BEEN PROPOSED FOR THE OPPOSITE REASON. HE SAID THAT SOME PEOPLE WERE ANXIOUS THAT THE BRITISH WOULD ADMINISTER HONG KONG ON A SHORT-SIGHTED BASIS BEFORE 1997 AND THE CHINESE SIDE WAS AFRAID THAT BRITAIN WOULD LEAVE HONG KONG IN A MESS IN 1997. THE CHINESE REQUESTS WERE NOT UNDULY EXCESSIVE. HE HOPED FOR A POSITIVE RESPONSE. HE AGREED THAT THE HONG KONG QUESTION WAS COMPLEX. IT WAS FOR THIS REASON THAT A JOINT GROUP MUST BE ESTABLISHED. IF NOT CHINA WOULD HAVE LITTLE KNOWLEDGE OF HONG KONG IN 1997.

20. THE SECRETARY OF STATE WELCOMED THE FACT THAT BOTH SIDES AGREED TO PRESS FORWARD TO DISCUSSION OF THE DRAFT AGREEMENT. ALTHOUGH HE HAD NOT MENTIONED THE CHINESE DRAFT HE HAD SEEN THE DOCUMENT. JUST AS THE CHINESE SIDE REGARDED THE BRITISH DRAFT AS UNACCEPTABLE SO THE BRITISH SIDE REGARDED THE CHINESE DRAFT AS UNACCEPTABLE.

THE REASONS FOR THIS VIEW WERE:

(A) THE CHINESE DRAFT APPEARED TO VISUALISE LEGAL OBLIGATIONS ONLY ON THE BRITISH SIDE. HONG KONG BELIEVED THAT POST-1997 ARRANGEMENTS SHOULD BE THE SUBJECT NOT JUST OF A DECLARATION BUT OF A BILATERAL AGREEMENT SEMICL

(B) IT WAS UNCLEAR WHICH PRINCIPLES DISCUSSED IN THE TALKS WOULD BE INCLUDED IN THE CHINESE DRAFT. THE BRITISH SIDE BELIEVED THAT ITS DRAFT MET THE MAIN CHINESE REQUIREMENT. IT INDICATED OUR SINCERITY. THE CHINESE SIDE'S DISSATISFACTION WAS PERHAPS BASED ON MISUNDERSTANDINGS. CERTAINLY ARTICLE 1 MADE EXPLICITLY CLEAR THAT CHINA WOULD REGAIN SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION OVER HONG KONG IN 1997. THERE WAS NO INTENTION TO LITIGATE CHINESE SOVEREIGNTY. ALTHOUGH THE ARTICLE DID SEEK TO DEFINE THE DEGREE OF AUTONOMY WHICH THE SAR WOULD ENJOY, THIS WOULD BE WITHIN THE FRAMEWORK OF CHINESE SOVEREIGNTY.

21. PROVISION FOR POST-1997 ARRANGMENTS FOR THE SAR SHOULD BE MADE IN THE AGREEMENT BECAUSE

(A) IT WOULD BE EQUITABLE TO HAVE SOME MATCHING PROVISION TO HONG KONG'S OBLIGATION TO TRANSFER SOVEREIGNTY SEMICENTRALLY

(B) IT WOULD HELP FULFIL THE PRACTICAL PURPOSE OF SUSTAINING THE CONFIDENCE OF THE HONG KONG PEOPLE AND OVERSEAS INVESTMENTS.

FOR THIS THE ARRANGEMENTS MUST BE SET OUT WITH SUFFICIENT CONVICTON AND CLARITY. IT WAS UNDERSTOOD THAT THE BASIC LAW WOULD BE AN INTERNAL CHINESE AFFAIR, BUT ALL INTERNATIONAL AGREEMENTS REPRESENTED A CONSTRUCTIVE EXERCISE OF A COUNTRY'S SOVEREIGNTY. IN THAT SENSE, THE BRITISH SIDE ASKED THE CHINESE SIDE TO EXERCISE THEIR SOVEREIGNTY BY AGREEING TO MAKE PROVISION FOR POST -1997 ARRANGMENTS IN THE AGREEMENT.

22. THE SECRETARY OF STATE SAID THAT HE ACCEPTED WHAT WU HAD EARLIER SAID ABOUT TRUST. THE BRITISH SIDE WAS NEGOTIATING SINCERELY. WE RECOGNISED THAT THE 12 GUIDELINES WERE A CLEAR ILLUSTRATION OF CHINA'S GOOD FAITH. HOWEVER IT WAS CUSTOMARY AT THE CONCLUSION OF NEGOTIATIONS ON ANY IMPORTANT SUBJECT, FOR AN AGREEMENT TO BE SIGNED. HONG KONG WAS UNIQUE. ALL THE MORE NECESSITY FOR A DETAILED AGREEMENT. DETAILS WERE NECESSARY AS MANY THIRD PARTIES WOULD BE AFFECTED BY THE AGREEMENTS' TERMS AND WOULD BE ANXIOUS TO KNOW THEM EXACTLY. THE DETAILS IN OUR ANNEXES REPRESENTED THE DISTILLATION OF HONG KONG'S COMPLEX SYSTEMS.

23. ON THE LINK BETWEEN THE AGREEMENT AND THE BASIC LAW, THE SECRETARY OF STATE SAID THAT THE CHINESE SIDE HAD REPEATEDLY MADE CLEAR THAT THE AGREEMENT WOULD BE REFLECTED IN THE BASIC LAW. THIS MUST BE CLEARLY SPELT OUT IN THE AGREEMENT. THE INDIVIDUAL POINTS OF AGREEMENT BETWEEN THE TWO SIDES SHOULD ALSO BE REFLECTED IN THE AGREEMENT. THE CHINESE SHDE HAD SAID THAT DRAFTING OF THE BASIC LAW WOULD TAKE SOME TIME. THE BRITHS SIDE BELIEVED THAT BEFORE THIS PROCESS WAS COMPLETED, IT WAS NECESSARY FOR PEOPLE TO HAVE CLEAR AND PRECISE ASSURANCES ABOUT THEIR FUTURE. AGREEMENT SHOULD THEREFORE SET OUT THOSE ISSUES ON WHICH THE TWO SIDES HAD AGREED . IF THE BASIC LAW WAS TO REFLECT THE AGREEMENT, THE AGREEMENT ITSELF MUST CONTAIN SUBSTANTIAL DESCRIPTION OF THE SYSTEMS ON WHICH THE TWO SIDES HAD AGREED.

24. ON OTHER POINTS, THE SECRETARY OF STATE SAID THAT

(A) ARTICLE 3 HAD NOT BEEN PROPOSED TO CREATE A CONDOMINIUM BUT TO OFFER OUR COOPERATION OVER THE IMPLEMENTATION OF THE AGREEMENT.

(B) ARTICLE 4 WAS NOT INTENDED TO INTERNARUQNALISE THE ISSUE OR TO ESTABLISH INTERNATIONAL GUARANTEES. IT WAS COMMON GROUND THAT HONG KONG'S PROSPERITY SHOULH BEIMAINED. THAT DEPENDED ON HONG KONG'S ABILITY TO CONTINUE TO BENEFIT FROM EXISTING INTERNATINAL AGREEMENTS.

(C) WE HAD TRIED TO CONFINE THE DRAFT TO POINTS AGREED IN THE TALKS. THE DRAFT AND ANNEXES WERE BASED UPON THE WORKING PAPERS AND DISCUSSION OF THEM.

25. ON THE TIMETABLE, THE SECRETARY OF STATE SAID THAT BOTH SIDES WISHED TO MOVE QUICKLY. BUT IF THE AGREEMENT WAS TO BE COMMENDED TO PARLIAMENT, IT WOULD NNEED TO BE SUFFICIENTLY DETAILED. HE WAS NOT PERUSADED THAT IT WOULD BE POSSIBLE TO COMPLETE WORK BY MAY OR JUNE ALTHOUGH THE BRITISH INTENDED TO MOVE AS QUICKLY AS POSSIBLE. IT WAS NECESSARY TO GET MATTERS RIGHT, BOTH BETWEEN THE TWO SIDES AND FOR PARLAIMENT. IT WAS VITAL THAT PARLIAMENT SHOULD NOT BE GIVEN THE IMPRESSION THAT IT WAS BEING RUSHED. THIS COULD UNDO ALL OUR EFFORTS.

26. ON THE DRAFT AGREEMENTS, THE SECRETARY OF STATE SAID THAT BOTH SIDES BELIVED THEIR DRAFT TO BE THE BEST APPROACH. HE SUGGESTED THAT THE REPRESENTATIVES OF BOTH SIDES SHOULD HAVE MORE TIME TO STUDY THEM AND THAT BOTH SHOULD REMAIN ON THE TABLE FOR FURTHER DISCUSSION.

27 ON ITEM 2, THE SECRETARY OF STATE SAID THAT BOTH SIDES AGREED ON THE IMPORTANCE OF GETTING PRE-1997 ARRANGEMENTS RIGHT. BOTH APPROACHED THIS ISSUED ON AN AGREED BASIS:

- (A) HKG AUTHORITY BEFORE 1997 SHOULD REMAIN CLEAR SEMICLN
- (B) THE HANDOVER SHOULD BE SMOOTH SEMICLN
- (C) THERE SHOULD BE THE GREATEST POSSIBLE CONTINUITY OF EXISTING SYSTEMS.

HE NOTED THE CHINESE POINTS ON THE NEED FOR A HIGH DEGREE OF AUTONOMY FOR THE SAR AND THAT OFFICIALS FROM THE MAINLAND WOULD NOT BE SENT TO ADMINISTER HONG KONG.

28. HE ACCEPTED THAT THERE WERE MANY QUESTIONS REQUIRING CONSULTATION BEFORE 1997. LAND WAS ONE EXAMPLE ANOTHER WAS THE NEED TO DISCUSS THE PRESERVATION OF HONG KONG'S EXISTING RIGHTS UNDER INTERNATIONAL AGREEMENTS. HE COULD ASSURE THE CHINESE SIDE THAT THERE WAS NO QUESTION OF HMG OR HKG HAVING A NEGATIVE ATTITUDE : IT HAD A JOINT INTEREST IN HONG KONG'S CONTINUING SUCCESS. THIS WOULD BE A GREAT EXAMPLE TO THE REST OF THE WORLD. HOWEVER THE CHINESE PROPOSAL FOR A JOINT GROUP CAUSED DIFFICULTIES. ALTHOUGH THE JOINT GROUP WOULD NOT BE AN ORGAN O F POWER, HE WAS CONCERNED THAT IT WOULD GIVE THE IMPRESSION THAT CHINA WAS PROPOSING, OR PREPARING, TO SEND PEOPLE TO ADMINISTER HONG KONG OR THAT A CONDOMINIUM WAS BEING ESTABLISHED. THIS WOULD DAMAGE CONFIDENCE. HE WAS ALSO CONCERNED AT THE CHINESE SUGGESTION FOR STEP BY STEP REFORM OF THE LEGISLATIVE, JUDICIAL AND ADMINISTRATIVE ARRANGEMENTS TO BRING THEM INTO LINE WITH THE BASIC LAW. WE ACCEPTED THAT THERE WOULD BE A NEED FOR SOME CHANGES, BUT BOTH SIDES ATTACHED GREAT IMPORTANCE TO THE CONTINUITY OF SYSTEMS. THIS CHINESE SUGGESTION COULD IMPLY MAJOR CHANGES. THE BRITISH SIDE THUS CONSIDERED IT BEST TO AVOID ESTABLISHING FORMAL MACHINERY AT THIS STAGE. CLOSE CONTACT THROUGH REPRESENTATIVES OF THE TWO SIDES COULD BE MAINTAINED IN THE PERIOD AFTER THE AGREEMENT TO DEAL WITH VARIOUS ISSUES AS THEY AROSE.

29. AFTER A RECESS, WU SAID THAT HE AND THE SECRETARY OF STATE HAD NOW EXCHANGED VIEWS ON THE AGREEMENT IN A FRANK, FRIENDLY AND COMPREHENSIVE WAY. IN THE MORNING THE SECRETARY OF STATE HAD EXPLAINED THE BRITISH DRAFT. IN THE AFTERNOON WU HAD COMMENTED ON IT AND THE SECRETARY OF STATE HAD FURTHER EXPLAINED IT. THE BRITISH AND THE CHINESE SIDES HAD BOTH PUT FORWARD DRAFTS OF AN AGREEMENT. IT SEEMED THAT THERE EXISTED A GAP BETWEEN THE TWO SIDES IN THEIR UNDERSTANDING OF EACH OTHER'S DRAFTS. THERE HAD NEVERTHELESS BEEN A FULL AND DETAILED EXCHANGE OF VIEWS BETWEEN THE TWO FOREIGN MINISTERS AND MATTERS COULD NOW BE LEFT TO THE REPRESENTATIVES OF THE TWO SIDES AT THEIR FUTURE DISCUSSIONS. DESPITE THE DISTANCE BETWEEN THE TWO SIDES THE DAY'S EXCHANGE OF VIEWS HAD HELPED INCREASE MUTUAL UNDERSTANDING.

30. THE SECRETARY OF STATE SAID THAT HE WISHED TO RAISE THREE OUTSTANDING ISSUES: NATIONALITY, CONSTITUTIONAL DEVELOPMENT, AND THE PUBLIC SERVICE. ON NATIONALITY HE SAID THAT IT MIGHT BE HELPFUL TO EXPLAIN THE PROPOSALS IN THE BRITISH WORKING PAPER. THE POSITION WAS THAT A LARGE NUMBER OF PERSONS IN HONG KONG POSSESSED BRITISH NATIONALITY. AT PRESENT THEY WERE DESCRIBED AS BDTCS. IT WOULD OBVIOUSLY BE INAPPROPRIATE TO CONTINUE USE OF THAT TITLE AFTER 1997. BUT IT WAS POLITICALLY IMPOSSIBLE FOR HMG TO DEPRIVE BDTCS OF THE RIGHTS THEY NOW ENJOYED AS BRITISH NATIONALS UNDER BRITISH LAW. WE THEREFORE PROPOSED TO CREATE A NEW CATEGORY OF BRITISH NATIONALITY TO ALLOW INDIVIDUALS TO RETAIN THEIR EXISTING RIGHTS UNDER ANOTHER NAME WHICH WOULD HAVE NO COLONIAL CONNOTATIONS. IT WAS IMPORTANT TO EMPHASISE THAT THIS WOULD ONLY BE A TRANSITIONAL ARRANGMENT. IN GENERAL BRITISH NATIONALITY WAS TRANSMISSIBLE FOR ONE GENERATION ONLY. THE SECRETARY OF STATE SAID THAT HE UNDERSTOOD THAT THE CHINESE HAD IN MIND THE IDEA OF SEPARATE TRAVEL DOCUMENTS FOR RESIDENTS OF HONG KONG. IT WOULD BE HELPFUL IF THIS COULD REFLECT A SEPARATE CITIZENSHIP FOR THE SAR UNDER CHINESE NATIONALITY, TO WHICH ALL HONG KONG PEOPLE WOULD IN PRINCIPLE BELONG. THIS WOULD PROVIDE A POWERFUL SYMBOL OF AUTONOMY AND CONTINUITY BUT WOULD BE CONSISTENT WITH CHINESE SOVEREIGNTY. HE UNDERSTOOD THAT CHINA WOULD REGARD FORMER BDTCS AS HAVING CHINESE NATIONALITY. SUCH PEOPLE WOULD THUS HOLD DUAL NATIONALITY. THEIR RIGHT OF ABODE IN THE SAR SHOULD BE SPECIFIED IN THE AGREEMENT. THESE PEOPLE COULD THEN, AS THEY CHOSE, ENTER OR LEAVE THE SAR EITHER ON BRITISH OR ON SAR TRAVEL DOCUMENTS. WE REALISED THAT CHINESE NATIONALITY LAW DID NOT RECOGNISE DUAL NATIONALITY, BUT WOULD IT NOT BE POSSIBLE TO FIND A PRACTICAL WAY TO PROVIDE FOR THE SPECIAL CASE OF HONG KONG ALONG THE LINES WHICH WE HAD SUGGESTED ?

31. WU SAID THAT HE BELIEVED THERE TO BE SOME 3 MILLION BDTCS OUT OF A TOTAL POPULATION IN HONG KONG OF OVER 5 MILLION. IF THIS 3 MILLION WERE TO ENJOY CONSULAR PROTECTION, THE FUTURE BRITISH CONSULATE-GENERAL IN HONG KONG WOULD HAVE TO BE AS LARGE AS THE FUTURE SAR GOVERNMENT. HE HOPED THE BRITISH SIDE COULD RECONSIDER THIS QUESTION. CHINA DID NOT RECOGNISE DUAL NATIONALITY. THERE WERE SEVERAL MILLION PEOPLE OF CHINESE RACE IN SOUTH EAST ASIA AND ELSEWHERE BUT CHINA ONLY RECOGNISED THEM AS OVERSEAS CHINESE OR NATIONALS OF THEIR COUNTRY OF ABODE, NOT AS POSSESSING DUAL NATIONALITY. EVEN SO SOME SE ASIAN GOVERNMENTS CONTINUED TO HARBOUR ANXIETIES. THE REASONS FOR ACQUISITION OF BDTC STATUS VARIED FROM PERSON TO PERSON. IT SHOULD BE POSSIBLE TO DEVISE A WAY TO SOLVE THIS QUESTION. CONSULAR PROTECTION FOR 3 MILLION OUT OF HONG KONG'S POPULATION OF 5 MILLION WOULD BE ABSURD. THE SECRETARY OF STATE SAID THIS WAS A DIFFICULT QUESTION. WE MUST BOTH SEEK ANSWERS TO IT.

32. TURNING TO CONSTITUTIONAL ARRANGEMENTS THE SECRETARY OF STATE SAID THAT IF CONFIDENCE WERE TO BE MAINTAINED IT WOULD BE ESSENTIAL THAT THE BASIC PRINCIPLES OF GOVERNMENT STRUCTURE AFTER 1997 SHOULD BE DESCRIBED WITH CLARITY AND PRECISION IN THE AGREEMENT. THOSE WHO WOULD SCRUTINISE THE DOCUMENT AFTER IT WAS PUBLISHED, AND NOTABLY PARLIAMENT, WOULD BE SATISFIED WITH NO LESS. OUR DRAFT EMBODIED THE CONCEPT OF CONTINUITY OF GOVERNMENT STRUCTURE, A PRINCIPLE OF THE HIGHEST IMPORTANCE FOR THE BRITISH SIDE BUT ONE WHICH NATURALLY DID NOT PRECLUDE NECESSARY CHANGES CONSEQUENT UPON THE RETURN OF SOVEREIGNTY TO CHINA. WE HOPED

THAT THE CHINESE SIDE COULD PROVIDE A CLEAR EXPRESSION OF THE AUTONOMY WHICH THE LEGISLATURE AND EXECUTIVE OF THE FUTURE SAR WOULD ENJOY. THERE WAS NO QUESTION OF TREATING THE SAR AS AN INDEPENDENT POLITICAL ENTITY. WE HAD IN MIND A HIGH DEGREE OF DEVOLVED AUTONOMY UNDER THE CENTRAL PEOPLE'S GOVERNMENT AND A SPECIFIC INDICATION OF WHAT THIS WOULD MEAN IN PRACTICE. WE ACCEPTED THAT THERE WOULD BE LIMITS TO THIS AUTONOMY AND HAD SOUGHT TO DEFINE THEM IN OUR DRAFT IN A WAY WHOLLY CONSISTENT WITH CHINESE SOVEREIGNTY.

33. WU SAID THAT THERE WERE CLEAR PROVISIONS IN THE CHINESE 12 GUIDELINES ON THE RELATIONSHIP BETWEEN THE CENTRAL PEOPLE'S GOVERNMENT AND THE GOVERNMENT OF THE SAR AND ON THE FUNCTIONS OF THE EXECUTIVE, LEGISLATURE AND JUDICIARY. THE COMPOSITION, FUNCTIONS, PROCEDURES AND DUTIES OF THE GOVERNMENT STRUCTURE OF THE FUTURE SAR WOULD BE DEFINED IN THE BASIC LAW. AT PRESENT IT WAS IMPOSSIBLE TO DEFINE THEM. ALL THAT COULD BE SAID FOR CERTAIN WAS THAT THERE WOULD BE AN ADMINISTRATIVE SYSTEM WITH A CHIEF EXECUTIVE AND OTHER GOVERNMENT DEPARTMENTS, AS WELL AS AN INDEPENDENT JUDICIARY AND A LEGISLATURE. THE TWELVE GUIDELINES DID NOT SUGGEST THAT THERE WOULD BE NO CHANGE TO THE STRUCTURES, FUNCTIONS AND PROCEDURES OF GOVERNMENT AFTER 1997. IT WAS UNDERSTANDABLE THAT THERE SHOULD BE SOME, HOWEVER ALL CHANGE IN THE TRANSITIONAL PERIOD SHOULD SERVE THE INTERESTS OF THE STABILITY AND PROSPERITY OF HONG KONG AND FACILITATE THE SMOOTH TRANSFER OF GOVERNMENT IN 1997. THAT WAS WHY THE CHINESE SIDE HAD SUGGESTED THAT THE TWO SIDES SHOULD COOPERATE ON HOW TO MAKE CHANGES COMPATIBLE WITH THE PRINCIPLES LISTED ABOVE. THE SECRETARY OF STATE SAID THAT HE ACCEPTED THAT SOME CHANGES WOULD BE NECESSARY WHEN SOVEREIGNTY PASSED TO CHINA AND THAT THE FINAL POSITION WOULD HAVE TO BE DEFINED IN THE BASIC LAW. THE PROBLEM WAS HOW TO FIND A BRIDGE TO ASSURE CONFIDENCE IN THE INTERIM BEFORE THE PUBLICATION OF THE BASIC LAW, AND HOW TO ENSURE A HIGH DEGREE OF CONTINUITY. AS WE SAW IT, THE AGREEMENT COULD PROVIDE THE BASIS OF THE BRIDGE. WU SAID THAT HE THOUGHT THE QUESTION COULD BE SOLVED IN THE LIGHT OF THE 12 GUIDELINES WHICH WOULD BE REFLECTED IN THE BASIC LAW. THE SECRETARY OF STATE SAID THAT THERE NEEDED TO BE SUFFICIENT DETAIL ON THIS QUESTION IN THE AGREEMENT. THE MATTER NEEDED TO BE STUDIED FURTHER. IT WAS AN IMPORTANT POINT. WU SAID THAT IT SHOULD BE LEFT TO THE REPRESENTATIVES OF THE TWO SIDES FOR FURTHER DISCUSSIONS.

34. THE SECRETARY OF STATE SAID THAT IN ORDER TO MAINTAIN AN EFFECTIVE PUBLIC SERVICE AND CONFIDENCE IN IT UP TO AND BEYOND 1997, CONTINUITY OF EMPLOYMENT OF INDIVIDUALS WAS IMPORTANT. THE HONG KONG CIVIL SERVICE WAS COSMOPOLITAN. BRITISH AND OTHER FOREIGN NATIONALS SHOULD BE ABLE TO COMPLETE FULL CAREERS AFTER 1997 AND TO SERVE AT EVERY LEVEL OF THE SAR GOVERNMENT. THEY WOULD OF COURSE OWE LOYALTY ONLY TO THAT GOVERNMENT. THERE WAS NO QUESTION OF RESERVING SPECIFIC POSTS FOR CERTAIN INDIVIDUALS. BUT IT WAS IMPORTANT THAT THEY SHOULD NOT BE EXCLUDED FROM ANY POST SIMPLY BECAUSE OF THEIR RACE. IF NO SATISFACTORY PROVISION FOR CONTINUITY WERE MADE IN THE AGREEMENT MANY PEOPLE WOULD LEAVE. WE ATTACHED IMPORTANCE TO THE POINT THAT ALL PUBLIC SERVANTS, WHATEVER THEIR RACE, SHOULD BE ABLE TO COMPLETE A FULL CAREER.

35. WU SAID THAT CHINA DID NOT PRACTICE RACIAL DISCRIMINATION. BRITISH AND OTHER FOREIGN NATIONALS MIGHT BE EMPLOYED IN THE CAPACITY OF INDIVIDUALS UP TO DEPUTY SECRETARY LEVEL, BUT THE CHIEFS OF PRINCIPLE DEPARTMENTS AND THE COMMISSIONER OF POLICE SHOULD BE CHINESE NATIONALS WITH PERMANENT HONG KONG ID CARDS, NOMINATED BY THE SAR GOVERNMENT AND APPROVED BY THE CENTRAL PEOPLE'S GOVERNMENT. THE CHIEF EXECUTIVE WOULD BE NOMINATED ON THE BASIS OF CONSULTATIONS OR ELECTIONS HELD LOCALLY AND APPROVED BY THE CENTRAL PEOPLE'S GOVERNMENT. OTHER OFFICIALS BELOW THE RANK OF SECRETARY COULD REMAIN IN SERVICE. BRITISH AND OTHER FOREIGN NATIONALS WITH PERMANENT ID CARDS COULD BE EMPLOYED TO SERVE AS ADVISERS OR AS OFFICERS UP TO THE RANK OF DEPUTY SECRETARY IN CERTAIN DEPARTMENTS. THESE QUESTIONS HAD ALREADY BEEN DISCUSSED AT THE TALKS. AS FOR THE TERMS OF SERVICE AND RETIREMENT, INCLUDING PENSIONS, THE OLD PRACTICES WOULD CONTINUE. THE SECRETARY OF STATE SAID THAT THIS QUESTION SHOULD BE LEFT TO REPRESENTATIVES OF THE TWO SIDES TO DISCUSS FURTHER. WU SAID THAT SO LONG AS THERE WAS COOPERATION AND TRUST BETWEEN THE TWO SIDES, THE QUESTION SHOULD NOT BE HARD TO SOLVE.

36. WU SAID THAT THROUGH THE FRIENDLY AND FRANK DISCUSSIONS HELD IN THE COURSE OF THE DAY MUTUAL UNDERSTANDING HAD BEEN ENHANCED.

37. FOR JOINT PRESS COMMUNIQUES ON THE MORNING AND AFTERNOON SESSIONS SEE MIFT.

38. FOR COMMENT SEE MY SECOND IFT.

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TO IMMEDIATE FCO TELNO 764 OF 17 APRIL 84  
AND TO IMMEDIATE HONG KONG  
AND TO IMMEDIATE LISBON (FOR PRIVATE SECRETARY TO PRIME MINISTER)

FOLLOWING FROM PRIVATE SECRETARY.

FUTURE OF HONG KONG: SECRETARY OF STATE'S DISCUSSIONS

11KK C40/4	
WITHHOLD INFORMATION	
18 APR 1984	
DATE	TIME

PENGFEI ON 17 APRIL

SUMMARY

see (379), (381)

1. THE SECRETARY OF STATE HAD TWO HOURS WITH JI PENGFEI THIS MORNING. HE SET OUT OUR ARGUMENTS FOR A DETAILED AGREEMENT BINDING ON BOTH SIDES AND EXPLAINED FULLY OUR VIEWS ON THE TIMETABLE, UNDERLINING THE NEED TO GIVE PARLIAMENT SUFFICIENT TIME TO CONSIDER THE DRAFT AGREEMENT. HE SAID THAT PARLIAMENT COULD ONLY ACCEPT OR REJECT THE AGREEMENT NOT (NOT) TINKER WITH IT. THE SECRETARY OF STATE ALSO REFERRED TO OUR INTENTION TO MAKE AN UNVEILING STATEMENT IN HONG KONG. JI COMMENTED ONLY THAT THIS WOULD BE A VERY IMPORTANT STATEMENT. JI DESCRIBED CHINESE VIEWS ON THE AGREEMENT AND CONFIRMED THAT MATTERS OF DETAIL COULD BE DEALT WITH IN AN ANNEX. HE SAID THAT BOTH THE AGREEMENT AND THE ANNEX WOULD BE BINDING. HE EXPLAINED THE CHINESE IDEAS FOR A JOINT ADVISORY GROUP IN HONG KONG DURING THE TRANSITIONAL PERIOD: THE SECRETARY OF STATE SAID THAT WE THOUGHT CONTACTS IN PEKING WOULD BE SUFFICIENT.

2. JI ASKED THE SECRETARY OF STATE ABOUT HIS TALKS WITH WU XUEQIAN. THE SECRETARY OF STATE SAID THAT HE WAS PLEASED TO HAVE BEEN ABLE TO HAVE TWO SUCH LONG SESSIONS. HE BELIEVED THAT BOTH HE AND WU NOW HAD CLEARER IDEAS ABOUT EACH OTHER'S POINTS OF VIEW. JI SAID THAT CHINA ATTACHED IMPORTANCE TO THE SECRETARY OF STATE'S VISIT. THAT WAS WHY PREMIER ZHAO AND CHAIRMAN DENG BOTH WISHED TO MEET HIM. THE CHINESE SIDE HOPED THAT THE VISIT WOULD ENHANCE RESPECT AND UNDERSTANDING. THE APPROACH OF BOTH SIDES TO THE QUESTION OF HONG KONG SHOULD PROCEED FROM THEIR WIDER INTERESTS. AN AGREEMENT SHOULD BE CONCLUDED AT AN EARLY DATE. THIS WOULD REASSURE THE PEOPLE OF HONG KONG, THE PEOPLE ON THE CHINESE MAINLAND AND THE BRITISH PEOPLE. A SATISFACTORY SETTLEMENT THROUGH FRIENDLY CONSULTATIONS WOULD HAVE A CONSIDERABLE EFFECT INTERNATIONALLY. CHAIRMAN DENG HAD ORIGINALLY INTENDED TO BE OUTSIDE PEKING ON AN

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INSPECTION TOUR BUT HE HAD REMAINED IN PEKING TO MEET THE SECRETARY OF STATE. THE SECRETARY OF STATE SAID THAT HE WELCOMED THE OPPORTUNITY TO DISCUSS THE QUESTION OF HONG KONG WITH CHINESE LEADERS. HE ATTACHED IMPORTANCE TO THE QUESTION OF HONG KONG AS DID THE PRIME MINISTER.

3. THE SECRETARY OF STATE SAID THAT THE TWO NEGOTIATING TEAMS HAD HELD VALUABLE DISCUSSIONS ABOUT HONG KONG OVER THE LAST FEW MONTHS AND HAD COVERED MUCH DETAIL. THIS WAS IMPORTANT BECAUSE, AS BOTH SIDES AGREED, HONG KONG WAS A COMPLEX PLACE. A DETAILED UNDERSTANDING OF THE SITUATION THERE WAS NEEDED IF CHINA AND BRITAIN WERE TO ACHIEVE THEIR COMMON AIM OF AGREEING ARRANGEMENTS WHICH WOULD ENSURE THE CONTINUING PROSPERITY AND STABILITY OF THE TERRITORY.

4. THE SECRETARY OF STATE UNDERLINED OUR COMMITMENT TO SINCERE AND THOROUGH NEGOTIATION IN ORDER TO ACHIEVE THIS JOINT OBJECTIVE. WE WERE NEGOTIATING ON THE BASIS EXPLAINED IN THE PRIME MINISTER'S TWO MESSAGES TO PREMIER ZHAO. WE WERE EXAMINING TOGETHER WHETHER, ON THE BASIS OF THE CHINESE PROPOSALS FOR HONG KONG, ARRANGEMENTS SATISFACTORY TO THE GOVERNMENT OF CHINA, THE BRITISH PARLIAMENT AND THE PEOPLE OF HONG KONG COULD BE AGREED. IF THEY COULD, WE SHOULD BE READY TO RECOMMEND TO PARLIAMENT THAT SOVEREIGNTY OVER THE WHOLE OF HONG KONG AND THE RIGHT OF ADMINISTRATION THERE SHOULD BE TRANSFERRED TO CHINA FROM 1 JULY 1997. WE SAW OUR COMMON TASK AS BEING TO WORK OUT ARRANGEMENTS WHICH WOULD TAKE ACCOUNT OF HONG KONG'S HISTORICAL POSITION AS PART OF CHINA AND WHICH WOULD, AT THE SAME TIME, COMMAND CONFIDENCE AMONG THE PEOPLE WHO LIVED AND WORKED THERE. WE WERE DISCUSSING A NEW STATUS FOR HONG KONG AND WISHED TO ENSURE THAT THE TRANSITION WOULD BE AS SMOOTH AS POSSIBLE. THE PROBLEMS WERE UNIQUE. THEY REQUIRED UNIQUE SOLUTIONS. WE WERE CONFIDENT THAT TOGETHER WE COULD ACCOMPLISH THIS TASK.

5. THE NEGOTIATING TEAMS HAD ALMOST COMPLETED DISCUSSIONS OF AGENDA ITEM 1 ALTHOUGH THERE WERE STILL SOME QUITE IMPORTANT POINTS OUTSTANDING. WE WERE NOW BEGINNING TO DISCUSS ITEM 2 AND THE FORM AND CONTENT OF A BINDING AGREEMENT. ON THE QUESTION OF AN AGREEMENT THERE WAS FIRST THE QUESTION OF TRUST. HMG HAD CONFIDENCE IN WHAT THE CHINESE SIDE SAID ABOUT ITS INTENTIONS FOR THE FUTURE OF HONG KONG. CHINESE PROPOSALS WERE CLEARLY THE RESULT OF MUCH STUDY. THEY WERE IMAGINATIVE AND FAR REACHING. WE FIRMLY BELIEVED THAT WHAT WAS DISCUSSED AND AGREED BETWEEN US WOULD BE PUT INTO EFFECT. BUT IT WOULD ONLY BE BUSINESS-LIKE AND SENSIBLE TO SET OUT IN AN AGREEMENT THE POINTS ON WHICH WE AGREED. THIS WAS A STANDARD PROCEDURE EVEN BETWEEN THE CLOSEST OF ALLIES ON THE SIMPLEST OF MATTERS. IN THE CASE OF HONG KONG THERE WAS A PARTICULAR NEED TO CONVINCING OTHERS ABOUT THE NATURE OF THE AGREEMENT BETWEEN US. THESE WERE THE PEOPLE ON WHOM THE FUTURE PROSPERITY AND STABILITY OF HONG KONG DEPENDED: INVESTORS, BUSINESSMEN FROM ALL PARTS OF THE

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WORLD, THE GOVERNMENTS OF MEMBER STATES OF INTERNATIONAL ORGANISATIONS SUCH AS GATT AND THE PEOPLE OF HONG KONG THEMSELVES. THEY WOULD ALL WANT AND EXPECT TO SEE CLEARLY RECORDED IN AN AGREEMENT THE POINTS WHICH HAD BEEN DISCUSSED AND AGREED BETWEEN US.

6. FOR THE SAME REASON WE NEEDED TO HAVE AN AGREEMENT WHICH WAS BINDING OF BOTH SIDES. HMG WERE WILLING TO SIGN A SUITABLE AGREEMENT WHICH WOULD BIND US TO RELINQUISH SOVEREIGNTY AND ADMINISTRATIVE POWER OVER THE WHOLE OF HONG KONG ON 1 JULY 1997. THE AGREEMENT SHOULD BE A BALANCED ONE. THERE NEEDED TO BE AN EQUIVALENCE IN UNDERTAKINGS. HMG WOULD BE ENTERING INTO A SOLEMN OBLIGATION TO RELINQUISH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION. PARLIAMENT WOULD ASK WHAT MATCHING OBLIGATION THERE WAS ON THE OTHER SIDE. WE BELIEVED THAT THE CHINESE SIDE SHOULD GIVE A BINDING COMMITMENT TO THE ARRANGEMENTS WHICH WOULD BE MADE FOR THE SAR AFTER 1 JULY 1997. THE PRECISE WORDS IN WHICH THIS WOULD BE EXPRESSED WOULD OF COURSE BE A MATTER FOR DISCUSSION BY THE NEGOTIATING TEAMS.

7. EACH SIDE HAD PUT FORWARD A DRAFT OF AN AGREEMENT. NOT SURPRISINGLY, AT THIS STAGE, THERE WERE DIFFERENCES OF VIEW. WE WERE NEVERTHELESS GLAD THAT WE HAD AGREED THAT OUR NEGOTIATORS SHOULD CONTINUE A STUDY OF BOTH DOCUMENTS.

8. HMG WAS ANXIOUS TO REACH A SUITABLE AGREEMENT AS SOON AS POSSIBLE. BUT ALL THE FACTORS INVOLVED HAD TO BE TAKEN INTO ACCOUNT. THERE WAS A GREAT DEAL OF WORK STILL TO BE DONE. ON OUR SIDE AN AGREEMENT OF THIS IMPORTANCE HAD TO BE DEBATED AND APPROVED BY PARLIAMENT BEFORE IT COULD BE SIGNED. IF WE COULD REACH A SATISFACTORY AGREEMENT IT WOULD BE OUR INTENTION TO RECOMMEND THAT AGREEMENT STRONGLY TO PARLIAMANT. HOWEVER SPEAKING AS A MINISTER AND MP THE SECRETARY OF STATE STRESSED THAT PARLIAMENT COULD NOT BE TAKEN FOR GRANTED. HE HAD A PARTICULAR REASON FOR SAYING THAT. IN 1972 MR HEATH HAD ASKED HIM TO PILOT THROUGH THE HOUSE THE BILL WHICH LED TO BRITAIN JOINING THE EC. IT WOULD BE A GRAVE MISTAKE TO TRY TO RUSH PARLIAMENT OR TO TAKE IT FOR GRANTED. PARLIAMENT WOULD NEED MORE THAN JUST A FEW WEEKS TO CONSIDER AN AGREEMENT BEFORE DEBATING IT. THEY WOULD ALSO WISH TO HAVE AN OPPORTUNITY TO OBSERVE REACTIONS IN HONG KONG.

9. THIS WAS NOT FOOT-DRAGGING. WE WANTED TO STEER OUR JOINT ENTERPRISE TO A SUCCESSFUL CONCLUSION. PARLIAMENT RECESSED IN JULY AND DID NOT REASSEMBEL UNTIL OCTOBER. REALISTICALLY THERE WAS NOT ENOUGH TIME TO HAVE A DEBATE BEFORE JULY. THE SECRETARY OF STATE SAID THAT IN HIS JUDGEMENT IT WAS BEST TO AIM FOR A DRAFT AGREEMENT IN SEPTEMBER WHICH WOULD BE DEBATED BY PARLIAMENT IN NOVEMBER. THIS WOULD MEET THE CHINESE WISH FOR AN ANNOUNCEMENT BY SEPTEMBER AND WOULD ALLOW FOR SIGNATURE WELL BEFORE THE END OF THE YEAR. THE CHINESE SIDE MUST TRUST US TO KNOW HOW BEST TO DEAL WITH THE PRACTICAL QUESTION OF SECURING PARLIAMENT APPROVAL FOR AN AGREEMENT.

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10. IF HMG WERE TO COMMEND THE AGREEMENT TO PARLIAMENT, IT SHOULD EXPLAIN CLEARLY AND IN DETAIL WHAT THE ARRANGEMENTS WOULD BE FOR HONG KONG AFTER 1997. THIS WAS VITAL FOR ENSURING THAT INVESTORS AND PEOPLE IN HONG KONG WOULD HAVE CONFIDENCE IN THE FUTURE. THE CHINESE SIDE HAD SAID THAT THE BASIC LAW WOULD REFLECT WHAT WAS IN THE AGREEMENT. THEY HAD ALSO SAID THAT THE BASIC LAW WOULD TAKE SEVERAL YEARS TO DRAFT. IT WAS THUS ALL THE MORE IMPORTANT THAT PEOPLE SHOULD KNOW WHAT THE MAIN CONTENTS OF THE BASIC LAW WOULD BE. UNLESS THERE WERE THIS ASSURANCE AND THIS KNOWLEDGE ALL OUR WORK WOULD HAVE BEEN TO NO PURPOSE AND PEOPLE COULD NOT BE EXPECTED TO HAVE CONFIDENCE IN THE FUTURE. CLARITY IN THE AGREEMENT WAS THE ESSENTIAL BRIDGE FOR CONFIDENCE IN THE FUTURE. IF THE AGREEMENT WAS SATISFACTORY, HMG WOULD COMMEND IT STRONGLY TO PARLIAMENT.

11. TO SECURE ACCEPTANCE IT WOULD BE IMPORTANT TO PREPARE PUBLIC OPINION, PARTICULARLY IN HONG KONG BUT ALSO PARLIAMENTARY AND PUBLIC OPINION IN BRITAIN. WE SHARED A COMMON INTEREST IN ENSURING THAT THE PUBLIC REACTION TO AN ANNOUNCEMENT OF AN AGREEMENT BETWEEN US WAS ONE OF UNDERSTANDING AND ACCEPTANCE. TO HELP ENSURE THIS THE SECRETARY OF STATE THEREFORE INTENDED TO MAKE A SHORT PUBLIC STATEMENT IN HONG KONG OUTLINING THE BRITISH APPROACH TO THE NEGOTIATIONS. THIS WOULD NOT BREACH THE PRINCIPLE OF CONFIDENTIALITY WHICH WOULD EXPLICITLY BE ACKNOWLEDGED. NOR WOULD IT DIVULGE THE DETAIL OF AN EVENTUAL AGREEMENT. BUT IT WOULD HELP TO PREPARE PUBLIC OPINION FOR THE LIKELY OUTCOME OF OUR NEGOTIATIONS AND THUS HELP ASSURE ITS ACCEPTANCE.

12. JI REPLIED THAT THE STATEMENT WHICH THE SECRETARY OF STATE WOULD MAKE IN HONG KONG WOULD BE A VERY IMPORTANT ONE. SO WAS THE STATEMENT WHICH HE HAD JUST MADE. WHICH POINTS DID THE BRITISH SIDE DISAGREE WITH IN THE CHINESE DRAFT ?

13. JI CONTINUED THAT IN THE AGREEMENT, THE TRANSFER OF SOVEREIGNTY MUST BE CLEARLY AFFIRMED AS A COMMON POINT. CHINA HAD TAKEN INTO ACCOUNT THE REALITIES, HISTORICAL BACKGROUND AND INTERNATIONAL SIGNIFICANCE OF HONG KONG. AFTER 1997 THE PRESENT SYSTEM WOULD REMAIN BASICALLY UNCHANGED. HONG KONG WOULD REMAIN A CAPITALIST TERRITORY, WOULD RETAIN ITS PRESENT LIFE STYLE, WOULD REMAIN A TRADE CENTRE AND A FREE PORT. OUR TALKS HAD BEEN UNDERTAKEN FOR SOME MONTHS ON THE BASIS OF THE 12 CHINESE GUIDELINES. AMPLIFICATIONS TO THEM HAD BEEN GIVEN. THE 12 GUIDELINES SHOULD BE IN THE AGREEMENT. SOME OTHER ISSUES MIGHT BE SET OUT IN AN ANNEX ATTACHED TO THE AGREEMENT WHICH COULD TAKE THE FORM OF AN EXCHANGE OF NOTES. SINCE THE 12 GUIDELINES WERE AN INTERNAL CHINESE AFFAIR BRITAIN SHOULD SIMPLY EXPRESS APPRECIATION FOR THEM IN THE AGREEMENT. THEY COULD NOT BE ENCAPSULATED IN THE AGREEMENT AS THE RESULT OF OUR NEGOTIATIONS BECAUSE, WITH THE QUESTION OF SOVEREIGNTY SOLVED, BRITAIN SHOULD NOT INTERFERE IN THE INTERNAL AFFAIRS OF HONG KONG AFTER 1997. THIRDLY, THE

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AGREEMENT SHOULD COVER THE PERIOD BETWEEN NOW AND 1997. DURING THIS PERIOD THERE NEEDED TO BE A CONTINUITY OF EXCHANGE OF VIEWS BETWEEN THE TWO SIDES. A JOINT GROUP TO IMPLEMENT THE AGREEMENT AND CARRY ON SUCH CONSULTATIONS WAS NECESSARY.

14. ONCE THE AGREEMENT WAS SIGNED THERE WOULD BE MANY SPECIFIC ISSUES WHICH WOULD NEED TO BE DISCUSSED. CONSULTATIONS WOULD CERTAINLY CONTINUE BETWEEN THE EMBASSY AND COMPETENT CHINESE DEPARTMENTS BUT THERE WOULD BE SOME SPECIFIC ISSUES AFFECTING HONG KONG WHICH SHOULD BE DEALT WITH LOCALLY. CHINA THEREFORE SUGGESTED THE ESTABLISHMENT OF THE JOINT GROUP IN HONG KONG FOR THE TIMELY DISCUSSION OF THESE ISSUES. THE JOINT GROUP WOULD NOT BE AN ORGAN OF POWER BUT AN ADVISORY BODY FOR THE IMPLEMENTATION OF THE AGREEMENT. FROM NOW UNTIL 1997 BRITAIN WOULD HAVE FULL AUTHORITY FOR THE ADMINISTRATION OF HONG KONG AND FULL RESPONSIBILITY FOR THE STABILITY AND PROSPERITY OF THE TERRITORY. IN 1993 IT WAS PROBABLY THAT THE BASIC LAW WOULD HAVE BEEN PROMALGATED. THEN PEOPLE IN HONG KONG COULD CONSIDER THE TERRITORY'S FUTURE INSTITUTIONS, THE QUESTION OF TRANSFER OF GOVERNEMENT AND THE COMPOSITION OF THE FIRST GOVERNMENT OF THE SAR.

15. IN SHORT, CHINA SUGGESTED THAT THE THREE ASPECTS OF SOVEREIGNTY, CHINESE BASIC POLICIES AND THE TRANSITIONAL PERIOD SHOULD BE COVERED IN THE AGREEMENT. THIS WOULD SET PEOPLE'S HEARTS AT EASE AND WAS REASONABLE. OF COURSE THERE WAS SOME ROOM TO DISCUSS THE WORDING. BUT THE AGREEMENT SHOULD ONLY COVER MATTERS OF PRINCIPLE AND NOT TOO MUCH DETAIL. THERE SHOULD BE AN ANNEX WHICH WOULD BE EQUALLY VALID AND BINDING. THE AGREEMENT AND THE ANNEX WOULD BOTH BE REFLECTED IN THE BASIC LAW. ASPECTS TO BE COVERED IN THE ANNEX COULD BE FURTHER DISCUSSED.

16. JI SAID THAT THE TALKS HAD PRODUCED EFFECTIVE RESULTS. NOW ALMOST ALL THE POINTS FOR ARRANGEMENTS AFTER 1997 HAD BEEN AFFIRMED. THIS WAS A GOOD BASIS FOR THE WAY AHEAD TO AN AGREEMENT. IT SHOULD BE POSSIBLE TO CONCLUDE ONE IN MAY OR EARLY JUNE. THERE WOULD THEN BE TIME TO SUBMIT THE AGREEMENT TO PARLIAMENT WHICH WOULD HAVE ONE MONTH TO CONSIDER AND DEBATE IT BEFORE ITS RECESS IN JULY. THIS TIMETABLE WAS NOT AMBITIOUS SINCE THE AGREEMENT SHOULD ONLY COVER QUESTIONS OF PRINCIPLE. WHAT WERE THE SECRETARY OF STATE'S COMMENTS ON THE CHINESE DRAFT? THE MAIN CHINESE COMMENT ON THE BRITISH DRAFT WAS THAT IT INTERFERED TOO MUCH WITH THE PRINCIPLE OF CHINESE SOVEREIGNTY.

17. THE SECRETARY OF STATE SAID THAT THE AGREEMENT DID INDEED NEED TO DEAL CLEARLY WITH SOVEREIGNTY ALONG THE LINES WHICH JI HAD DESCRIBED. WE THOUGHT THAT OUR DRAFT DID THIS. IT WAS THE INTENTION OF BOTH OUR DRAFTS TO EXPRESS THE AGREEMENT THAT CHINA WOULD RESUME SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION FROM 1 JULY 1997. THERE WAS NO DOUBT ABOUT THAT. WE ALSO RECOGNISED THE IMPORTANCE OF THE STUDY OF HONG KONG WHICH THE CHINESE SIDE HAD UNDERTAKEN AND OF THE CONCLUSIONS WHICH THEY HAD REACHED,

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NAMELY TO CONTINUE THE TYPE OF SYSTEMS AND SOCIETY WHICH HONG KONG ENJOYED AT PRESENT. THESE ASSURANCES OF CONTINUITY WERE VERY VALUABLE. OUR ANXIETY ABOUT THE CHINESE DRAFT WAS THAT IT CONTAINED INSUFFICIENT DETAIL. IT SHOULD CONTAIN ALL THE POINTS FROM OUR WORKING PAPERS AGREED IN DISCUSSIONS. JI HAD SAID THAT THE IMPLICATIONS OF CHINESE POLICIES CONTAINED IN THE ANNEX WOULD BE AS VALID AS THE AGREEMENT ITSELF. THIS WAS A VERY IMPORTANT STATEMENT. IT WENT A LONG WAY TOWARDS REMOVING THE ANXIETIES WHICH WE HAD ABOUT THE ORIGINAL CHINESE DRAFT. BUT MUCH WOULD ALSO DEPEND ON WHAT THE ANNEX CONTAINED. IF IT WERE TO CARRY CONVICTION, THE SAME AMOUNT OF DETAIL AS WAS CONTAINED IN THE WORKING PAPERS WAS NECESSARY. THE PEOPLE OF HONG KONG AND INVESTORS NEEDED THE ASSURANCES OF THESE DETAILS.

18. IF THE BASIC LAW WOULD NOT BE PUBLISHED UNTIL 1993 A BRIDGE OF CONFIDENCE FROM NOW UNTIL THEN WAS PARTICULARLY IMPORTANT. IF THE FINAL AGREEMENT INCLUDING THE ANNEX WERE TO CONTAIN ALL MATTERS WHICH WE CONSIDERED IT SHOULD CONTAIN, IT WAS IMPORTANT THAT BOTH DRAFTS SHOULD REMAIN ON THE TABLE ALONGSIDE EACH OTHER. AS FOREIGN MINISTER WU HAD SAID YESTERDAY, WE SHOULD WORK ON BOTH. JI HAD SAID THAT THE PRINCIPLES WHICH CHINA HAD ENUNCIATED FOR ARRANGMENTS FOR HONG KONG AFTER 1997 WERE AN EXPRESSION OF CHINESE SOVEREIGNTY AND IN THAT SENSE AN INTERNAL AFFAIR. BUT IT WAS IMPORTANT FOR CONFIDENCE THAT CHINESE UNDERTAKINGS SHOULD FORM PART OF AN OVERALL AGREEMENT. WE WERE TAKING ON AN OBLIGATION TO RELINQUISH SOVEREIGNTY IN 1997. THIS SHOULD BE BALANCED BY OBLIGATIONS ON THE CHINESE SIDE.

19. ON ARRANGEMENTS BEFORE 1997, THE SECRETARY OF STATE SAID THAT HE WAS GLAD THAT THE CHINESE SIDE ACCEPTED THAT BRITAIN WOULD HAVE FULL RESPONSIBILITY FOR THE ADMINISTRATION OF HONG KONG UP TO 1997 AND THAT THERE WAS A NEED FOR CONTINUITY OF SYSTEMS AFTER 1997. WE ACCEPTED THAT THERE WOULD BE A NEED FOR CONSULTATION BETWEEN US BETWEEN NOW AND 1997 ON A NUMBER OF IMPORTANT QUESTIONS WHICH HAD BEEN IDENTIFIED YESTERDAY. WE AGREED WITH THE CHINESE SIDE ON THE NEED TO SET THE HEARTS OF HONG KONG PEOPLE AT EASE BETWEEN NOW AND 1997, AS WELL AS THE CHINESE VIEW THAT AFTER 1997 HONG KONG SHOULD ENJOY A HIGH DEGREE OF AUTONOMY. IT WAS IMPORTANT NOT TO GIVE AN IMPRESSION THAT CHINA WAS SETTING UP AN ORGAN OF POWER IN HONG KONG. THEREFORE CONTACTS IN PEKING OF THE PRESENT TYPE SHOULD CONTINUE. A BODY IN HONG KONG, EVEN A CONSULTATIVE ONE, WOULD WORRY PEOPLE THERE. THEY WOULD THINK THAT THERE WERE ABOUT TO BE BIG CHANGES. THE LOCATION OF CONSULTATIONS WAS THEREFORE IMPORTANT PSYCHOLOGICALLY AND SHOULD BE IN PEKING.

20. ON THE TIMETABLE THE SECRETARY OF STATE MAINTAINED HIS VIEW THAT THE CONCLUSION OF AN AGREEMENT BY MAY OR JUNE WOULD NOT BE POSSIBLE. EVEN IF IT WERE IT WOULD GIVE AN UNFORTUNATE IMPRESSION OF HASTE. HIS TIMETABLE WAS REALISTIC, NOT DILATORY. IT WAS THE MOST LIKELY TO SECURE CONFIDENCE AND THE ACCEPTANCE OF THE

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AGREEMENT. WE SHOULD AIM FOR AGREEMENT IN SEPTEMBER AND DEBATE IN PARLIAMENT IN NOVEMBER. THERE WOULD THUS BE AN ANNOUNCEMENT IN SEPTEMBER AND AGREEMENT WELL BEFORE THE END OF THE YEAR.

21. THE SECRETARY OF STATE SAID THAT HE HAD DISCUSSED THREE OUTSTANDING POINTS WITH WU YESTERDAY. HE WOULD NOT REPEAT THEM. BUT HE WOULD LIKE TO RAISE ONE OTHER POINT. THIS WAS THE NEED FOR HONG KONG TO HAVE ITS OWN INTERNAL SECURITY FORCE, SET UP BEFORE 1997. IT WAS AN IMPORTANT POINT. HE HOPED THAT JI COULD CONFIRM THAT IT WAS ACCEPTABLE.

22. JI ENQUIRED ABOUT PARLIAMENTARY PROCEDURES. WOULD THE AGREEMENT BE PUBLISHED AND SUBMITTED TO PARLIAMENT FOR DEBATE? WHAT IF IT WAS NOT APPROVED? WAS THE BRITISH IDEA THAT THE AGREEMENT SHOULD BE DEBATED IN NOVEMBER? THE SECRETARY OF STATE CONFIRMED THAT WE DID INDEED AIM TO PUBLISH THE AGREEMENT IN SEPTEMBER FOR DEBATE IN NOVEMBER. PARLIAMENT REASSEMBLED IN OCTOBER AND AFTER A FEW WEEKS STUDY COULD CONDUCT ITS DEBATE. BY SEPTEMBER WE SHOULD HAVE TO ARRIVE AT AN AGREEMENT WHICH WE COULD CONVINCINGLY AND HONORABLY RECOMMEND TO PARLIAMENT. THAT WAS WHY ARRANGEMENTS FOR HONG KONG AFTER 1997 MUST BE SET OUT IN A DETAILED, CLEAR AND PRECISE MANNER. WE COULD THEN RECOMMEND THE AGREEMENT TO PARLIAMENT FOR APPROVAL. REJECTION WAS THEORETICALLY POSSIBLE BUT WOULD CREATE A VERY SERIOUS SITUATION, AND WAS MOST UNLIKELY. PARLIAMENT WOULD NOT BE ABLE TO AMEND THE AGREEMENT, ONLY TO ACCEPT OR REJECT IT. OUR INTENTION WAS TO PUBLISH A SUITABLE AGREEMENT, RECOMMEND IT TO PARLIAMENT, HOLD A DEBATE ON IT AND HOPE THAT PARLIAMENT WOULD APPROVE IT. JI ASKED IF HE WAS RIGHT IN THINKING THAT THE AGREEMENT WOULD COME INTO EFFECT AFTER SIGNATURE? THE SECRETARY OF STATE EXPLAINED THAT LEGISLATION TO GIVE EFFECT TO THE AGREEMENT WOULD HAVE TO FOLLOW SIGNATURE.

23. JI SAID THAT IT SHOULD NOT BE DIFFICULT TO SOLVE THIS QUESTION PROVIDED BOTH SIDES COOPERATED. EFFECTIVE RESULTS IN THE TALKS HAD ALREADY BEEN ACHIEVED. THERE WERE STILL SOME DIFFICULTIES ON THE AGREEMENT. THESE COULD BE STUDIED FURTHER. THE SECRETARY OF STATE WOULD HAVE OPPORTUNITIES TO DISCUSS THE TIMETABLE AGAIN WITH PREMIER ZHAO AND CHAIRMAN DENG. CHINA HAD STATED

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THAT SHE WOULD ANNOUNCE HER POLICIES TOWARDS HONG KONG IN SEPTEMBER AND MEANT WHAT SHE SAID. A CHANGE TO THIS TIMETABLE WOULD BE HARD FOR THE CHINESE SIDE TO JUSTIFY TO THE CHINESE PEOPLE. THE SEPTEMBER DEADLINE HAD BEEN MENTIONED BY CHAIRMAN DENG TO MRS THATCHER. IT WAS THEREFORE HARD FOR JI TO COMMENT ON IT. JI ADDED THAT THE QUESTION OF AN INTERNAL SECURITY FORCE COULD BE DISCUSSED FURTHER BETWEEN THE TWO NEGOTIATING TEAMS.

EVANS

FUTURE OF HONG KONG

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D/ED/PUSD

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LEGAL ADVISER (MR FREELAND)

PS

PS/LADY YOUNG

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MR WRIGHT

SIR C HICKELL

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MR BURROWS LEGAL ADVS

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PS/S OF S FOR DEFENCE D

PS/ATTORNEY GENERAL

SIR P CRADOCK RM K195

SIR P CRADOCK NO 10 DOWNING STREET

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FOLLOWING FROM PRIVATE SECRETARY.

FUTURE OF HONG KONG: SECRETARY OF STATE'S MEETING WITH ZHAO  
 ZIYANG: 17 APRIL

see (379)

## SUMMARY

1. THE SECRETARY OF STATE HAD 70 MINUTES WITH ZHAO THIS AFTERNOON

ZHAO SAID THAT PROGRESS ACHIEVED MADE AN EARLY AGREEMENT POSSIBLE. CHINESE PROPOSALS ON ITEM 2 WERE REASONABLE. CHINA HAD NO INTENTION OF ESTABLISHING CONDOMINIUM IN HONG KONG BEFORE 1997. BRITISH ANXIETIES ABOUT THE JOINT GROUP TO BE LOCATED IN HONG KONG WERE GROUNDLESS. THE SECRETARY OF STATE EXPLAINED BRITISH CONCERNS ON THE JOINT GROUP AND ARGUED THAT CONSULTATIONS, WHICH WOULD BE NECESSARY, SHOULD BE IN PEKING. HE IDENTIFIED THE DEFICIENCIES OF THE CHINESE DRAFT AGREEMENT AND ARGUED THE NEED FOR A DETAILED AGREEMENT WHICH SET OUT POST-1997 ARRANGEMENTS. ZHAO CONFIRMED THAT THE AGREEMENT AND ANNEXES WOULD BE BINDING AND EQUALLY VALID AND THAT THE POINTS AGREED IN THE TALKS WOULD BE INCLUDED. HE UNDERLINED THE SEPTEMBER DEADLINE.

## DETAIL

2. ZHAO REFERRED TO THE SECRETARY OF STATE'S THOROUGH EXCHANGE OF VIEWS WITH WU XUEQIAN. HE REFERRED TO THE SIGNING OF THE CONSULAR AGREEMENT AND NOTED THAT BILATERAL RELATIONS WERE CURRENTLY VERY GOOD. HE HOPED AND BELIEVED THAT THE SECRETARY OF STATE'S VISIT WOULD PROMOTE AN EARLY SETTLEMENT OF THE HONG KONG QUESTION.

3. THE SECRETARY OF STATE AGREED THAT BILATERAL RELATIONS WERE EXTREMELY GOOD. HE CONVEYED THE PRIME MINISTER'S GOOD WISHES TO ZHAO. BOTH HE AND THE PRIME MINISTER ATTACHED GREAT IMPORTANCE TO REACHING A SATISFACTORY AGREEMENT.

4. ZHAO SAID THAT THE HONG KONG QUESTION WAS ONE LEFT OVER FROM HISTORY. IT SHOULD BE SOLVED BY THEIR GENERATION. HE RECALLED THE PRIME MINISTER'S EXCHANGE OF VIEWS WITH DENG AND HIMSELF.

SINCE THEN, JOINT EFFORTS HAVE PRODUCED GREAT PROGRESS. AGREEMENT HAD BEEN REACHED ON A NUMBER OF IMPORTANT ISSUES AND DISCUSSION OF ITEMS 2 AND 3, (IE ARRANGEMENTS FOR THE TRANSITIONAL PERIOD AND THE FORM AND CONTENT OF AN AGREEMENT) HAVE BEGUN AT ROUND 12. ALTHOUGH A NUMBER OF QUESTIONS REMAINED UNRESOLVED HE DID NOT BELIEVE THESE WOULD BE DIFFICULT TO SOLVE, GIVEN SINCERITY AND MUTUAL TRUST. HE WOULD NOT REPEAT WU'S DETAILED EXPOSITION OF CHINESE VIEWS ON THE TRANSITIONAL PERIOD. BUT HE BELIEVED THE CHINESE PROPOSITION TO BE REASONABLE. IT SHOULD NOT CAUSE THE BRITISH SIDE DIFFICULTIES. HE HOPED THEY WOULD CONSIDER IT SERIOUSLY.

5. ON ITEM 2, THE SECRETARY OF STATE SAID THAT HE HAD EXPLAINED TO WUS THAT THE BRITISH STILL HAD ANXIETIES ABOUT THE CHINESE PLAN FOR THE PRE 1997 PERIOD. HOWEVER, THERE WERE SEVERAL THINGS ON WHICH THE TWO SIDES AGREED:

- (A) CONSULTATION WOULD BE NECESSARY ON A NUMBER OF MATTERS :
- (B) A SMOOTH HANDOVER WAS IN BOTH SIDES' INTEREST SEMICLN
- (C) BRITAIN WOULD HAVE FULL RESPONSIBILITY FOR THE ADMINISTRATION OF HONG KONG.

THE SECRETARY OF STATE RECALLED THAT UNDER THE CHINESE PLAN THE SAR WOULD HAVE A HIGH DEGREE OF AUTONOMY. HE WAS CONCERNED THAT THE ESTABLISHMENT IN HONG KONG OF A JOINT GROUP, EVEN IF IT WERE NOT AN ORGAN OF ADMINISTRATIVE POWER, WOULD CAUSE ANXIETY AMONGST HONG KONG PEOPLE. THE BRITISH SIDE AGREED THAT AFTER 1997 HONG KONG'S HIGH DEGREE OF AUTONOMY SHOULD CONTINUE. THE CHINESE SIDE HAD GIVEN IMPORTANT ASSURANCES THAT AFTER 1997 OFFICIALS WOULD NOT BE SENT TO HONG KONG FROM THE MAINLAND. BUT A JOINT GROUP IN HONG KONG COULD LEAD PEOPLE TO FEAR THAT MAINLAND OFFICIALS WERE GOING TO ADMINISTER HONG KONG. THE JOINT GROUP COULD ALSO IMPLY THAT BIG CHANGES WERE IMMINENT. THIS WOULD NOT ACCORD WITH THE JOINT WISH TO EMPHASISE THE HIGH DEGREE OF CONTINUITY AND AUTONOMY FOR HONG KONG AFTER 1997. THE BRITISH SIDE DID NOT INTEND TO OBSTRUCT THE PROCESS OF CHANGE TO TAKE PLACE WHEN HANDOVER OCCURED IN 1997, BUT THEY WISHED THE HAND OVER TO TAKE PLACE WITH MAXIMUM CONTINUITY AND LEAST DISTURBANCE. HE KNEW THAT THE CHINESE SIDE ATTACHED IMPORTANCE TO THIS POINT AND HE AGREED THAT THERE SHOULD BE CONTINUING CONSULTATION BTWEEN NOW AND 1997. BUT HE CONSIDERED THIS WOULD BE BEST CONDUCTED AND WOULD HAVE THE BEST EFFECT IF IT TOOK PLACE IN PEKING NOT HONG KONG.

6. ZHAO SAID THAT THE BRITISH SIDE COULD REST ASSURED THAT THE CHINESE SIDE HAD NO INTENTION OF CONCOCTING ANY SORT OF CONDOMINIUM. THEY PROCEEDED FROM CONSIDERATIONS OF MAINTAINING HONG KONG'S PROSPERITY AND STABILITY AND ENSURING A SMOOTH TRANSFER OF GOVERNMENT IN 1997 WITHOUT UNNECESSARY DISTURBANCES OR BIG CHANGES.

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9. THE SECRETARY OF STATE SAID THAT HE AND ZHAO HAD NOT SUCCEEDED IN PERSUADING EACH OTHER. HE UNDERSTOOD ZHAO'S POINT ABOUT OTHER CHINESE AGENCIES IN HONG KONG. HOWEVER, THESE WERE FAMILIAR AGENCIES WITH FAMILIAR SEPARATE FUNCTIONS. BUT A JOINT GROUP DEALING MORE WIDELY WITH FUTURE ARRANGMENTS WOULD LEAD TO CONCERN. HOWEVER, EACH HAD STATED HIS POINT OF VIEW.

10. TURNING TO THE AGREEMENT, THE SECRETARY OF STATE SAID THAT ONE THING WHICH HAD BEEN AGREED WAS THAT ON THE PRESENT BASIS FOR THE NEGOTIATIONS, THE SUBSTANCE OF THE CHINESE CASE ON SOVEREIGNTY MUST BE MET. THE BRITISH DRAFT AGREEMENT PROVIDED SQUARELY FOR THE CHINESE REQUIREMENT THAT SOVEREIGNTY AND ADMINISTRATION OVER THE WHOLE OF HONG KONG BE TRANSFERRED TO CHINA IN 1997. THIS PROVISION WAS CERTAINLY THE BRITISH SIDE'S INTENTION. HOWEVER, IF PARLIAMENTARY APPROVAL FOR THAT AGREEMENT WERE TO BE SECURED, IT WOULD BE NECESSARY FOR CHINA TO UNDERTAKE MATCHING OBLIGATIONS WITH RESPECT TO POST-1997 ARRANGMENTS IN HONG KONG. A CLEAR AND PRECISE INDICATION IN THE AGREEMENT OF THESE POLICIES WOULD BE ESSENTIAL TO ACHIEVING THE JOINT OBJECTIVE OF MAINTAINING STABILITY AND PROSPERITY AND MAINTAINING THE CONFIDENCE OF INVESTORS, THE INTERNATIONAL TRADING COMMUNITY AND HONG KONG PEOPLE. IT WAS PARTICULARLY IMPORTANT THAT THESE POLICIES BE INCLUDED AS THE BASIC LAW MIGHT NOT BE PROMULGATED BEFORE 1993: A DETAILED AGREEMENT WAS NECESSARY TO SPAN THE PERIOD BETWEEN 1984 AND THE BASIC LAW'S PUBLICATION.

11. HE WELCOMED JI'S ASSURANCE THAT THE CONTENT OF BOTH THE AGREEMENT AND OF THE ANNEXES WOULD BE BINDING AND REFLECTED IN THE BASIC LAW. HE SAID THAT ALL INTERNATIONAL AGREEMENTS INVOLVED A POSITIVE EXERCISE OF SOVEREIGNTY. IN THE AGREEMENT THE BRITISH SIDE HAD IN MIND, THEY WERE PREPARED TO TRANSFER SOVEREIGNTY OVER HONG KONG TO CHINA IN 1997 AND ASKED THAT CHINA SHOULD MAKE A MATCHING OBLIGATION BY AGREEING TO PRECISE AND DETAILED ARRANGEMENTS FOR THE POST 1997 PERIOD.

12. ON THE CHINESE DRAFT AGREEMENT THE SECRETARY OF STATE IDENTIFIED TWO SHORTCOMINGS:

- (A) IT DID NOT APPEAR TO VISUALISE BINDING OBLIGATIONS ON BOTH SIDES SIMILAR
- (B) IT WAS NOT CLEAR THAT IT WOULD CONTAIN THE IMPORTANT ISSUES AGREED IN THE TALKS ON THE BASIS OF THE WORKING PAPERS.

HE RECALLED ZHAO'S REFERENCE TO THE SEVERAL POINTS OF SUBSTANCE REMAINING TO BE AGREED. HE SAID THAT ALL POINTS AGREED BETWEEN THE TWO SIDES SHOULD BE INCLUDED IN THE AGREEMENT TO ACHIEVE THE JOINT AIM OF SUSTAINING CONFIDENCE. THEY WERE THE MINIMUM NECESSARY TO DESCRIBE HONG KONG'S COMPLEX SYSTEMS IN A WAY TO GIVE ASSURANCE OF THE CONTINUITY OF THOSE SYSTEMS. HE REPEATED

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HE CONSIDERED THAT THE BRITISH CONCERNS COULD BE SOLVED THROUGH DISCUSSION. THE NAME OF THE BODY TO BE ESTABLISHED COULD BE FURTHER DISCUSSED AND ITS FUNCTION EXPLICITLY DEFINED. IF THE BRITISH SIDE HAD NO ANXIETIES, HONG KONG PEOPLE WOULD HAVE NO FEARS. IT WOULD HAVE A STABILISING EFFECT IF HONG KONG PEOPLE SAW THAT AFTER CONCLUSION OF THE AGREEMENT THE TWO SIDES CONTINUED THEIR WORK IN A SPIRIT OF FRIENDSHIP AND MUTUAL COOPERATION. A JOINT GROUP WOULD BE BEST LOCATED IN HONG KONG BECAUSE IT WOULD BE DEALING WITH HONG KONG QUESTIONS. IF LOCATED IN PEKING, IT WOULD BE DIFFICULT FOR IT TO BE WELL INFORMED ABOUT THE HONG KONG QUESTION. FURTHERMORE, ITS WORK COULD NOT BE SEEN BY HONG KONG PEOPLE. THIS COULD LEAD TO SPECULATION ABOUT ITS FUNCTION. HOWEVER, FURTHER DISCUSSION WOULD ALLEVIATE BRITISH CONCERNS.

7. THE SECRETARY OF STATE SAID THAT HIS ANXIETY CENTRED ON THE LOCATION FOR SUCH MEETINGS. THEY COULD STILL TAKE PLACE IN PEKING AND BE WELL INFORMED, AS WAS THE CASE WITH THE TALKS. MEETINGS IN HONG KONG COULD LEAD TO ANXIETIES THERE. THEY COULD SUGGEST THAT CONTINUITY WOULD NOT BE MAINTAINED AND HONG KONG'S HIGH DEGREE OF AUTONOMY NOT ACHIEVED.

8. ON THE PSYCHOLOGICAL EFFECT OF A JOINT GROUP AND CONFIDENCE IN THE MAINTENANCE OF STABILITY AND PROSPERITY, ZHAO CONSIDERED THE KEY TO LIE IN THE FINAL AGREEMENT. THE LOCATION OF THE JOINT GROUP SHOULD NOT BE SEPARATED FROM THE AGREEMENT TO BE CONCLUDED: THE AGREEMENT WOULD HELP STABILISE THE HONG KONG SITUATION AND THE JOINT GROUP'S PURPOSE WAS TO HELP CO-ORDINATE IMPLEMENTATION OF THE AGREEMENT. IF THE JOINT GROUP'S FUNCTIONS WERE AS DESCRIBED, IT SHOULD NOT ADVERSELY AFFECT CONFIDENCE. THERE SHOULD BE EXPLICIT PROVISION IN THE AGREEMENT THAT:

- (A) HONG KONG WOULD BE ADMINISTERED BY HONG KONG PEOPLE SEMICLON
- (B) OFFICIALS WOULD NOT BE SENT FROM THE MAINLAND SEMICLON
- (C) UNNECESSARY CHANGES, EXCEPT THOSE INVOLVING CHINA'S SOVEREIGNTY, WOULD NOT BE MADE. THE JOINT GROUP'S FUNCTION WOULD BE TO HELP CO-ORDINATE IMPLEMENTATION OF THE AGREEMENT. ITS ESTABLISHMENT WOULD NOT MEAN THAT MAINLAND OFFICIALS WOULD BE SENT TO HONG KONG TO ADMINISTER HONG KONG OR TAKE OVER HONG KONG FROM THE UK. IT WOULD ALSO NOT GIVE THE IMPRESSION OF MAJOR CHANGES IN THE TRANSITIONAL PERIOD. BRITISH ANXIETIES WERE UNNECESSARY. THE NPCA AND OTHER CHINESE ORGANISATIONS IN HONG KONG DID NOT GENERATE SUSPICION THAT PEOPLE WERE BEING SENT FROM THE MAINLAND TO ADMINISTER HONG KONG. THESE ORGANISATIONS TASKS WERE KNOWN. HE HOPED THAT THE BRITISH SIDE WOULD INFORM THE CHINESE SIDE OF ALL ITS CONCERNS. HE QUESTIONED THE BRITISH SIDE'S BELIEF THAT ESTABLISHMENT OF A JOINT GROUP WOULD GIVE THE IMPRESSION OF CONDOMINIUM. HE BELIEVED WAYS COULD BE FOUND OF SETTLING THIS QUESTION.

THAT THE COMMON OBJECTIVE WAS TO REACH AN AGREEMENT WHICH WOULD FULFIL THEIR JOINT PURPOSE. IT WAS IMPORTANT TO GET THIS RIGHT.

13. ZHAO SAID THAT GREAT PROGRESS HAD BEEN MADE. THE MAIN REASONS WERE:

- (A) THE BRITISH SIDE HAD RECOGNISED IN EXPLICIT TERMS THE FACT THAT CHINA WOULD RESUME THE EXERCISE OF SOVEREIGNTY OVER HONG KONG IN 1997 AND THAT CHINESE SOVEREIGNTY WAS NOT SEPARABLE FROM ITS RIGHT OF ADMINISTRATION OF HONG KONG.
- (B) TO THE EXTENT PERMITTED BY THE PRINCIPLE OF CHINESE SOVEREIGNTY, THE CHINESE SIDE HAD SHOWN THE GREATEST POSSIBLE FLEXIBILITY. THEY HAD GIVEN FULL CONSIDERATION TO THE QUESTIONS OF CONCERN TO THE BRITISH SIDE AND HAD FULLY ACCOMMODATED BRITISH WISHES.

THEIR PROPOSED AGREEMENT AND EXCHANGE OF NOTES SHOULD GIVE EXPRESSION TO THIS SPIRIT. CHINA MEANT WHAT IT SAID. IT KEPT PROMISES AND NEVER ACTED IN A PETTY WAY OR SET TRAPS. HOWEVER, IT MUST BE MADE CLEAR THAT BOTH THE AGREEMENT AND ANNEXES SHOULD SHOW FULL RESPECT FOR CHINESE SOVEREIGNTY. CHINESE POLICIES FOR POST-1997 HONG KONG SHOULD IN NO WAY BE TAKEN AS SUBJECT TO APPROVAL OR ENDORSEMENT BY THE BRITISH SIDE OR SEEN AS THE RESULT OF THE AGREEMENT. CHINESE POLICIES WERE FORMULATED BY THE CHINESE SIDE AND CHINA'S AFFAIR. THE AGREEMENT AND ANNEXES WOULD FORM A WHOLE SET. BOTH THE MAIN BODY OF THE AGREEMENT AND THE ANNEXES WOULD HAVE BINDING FORCE AND BE EQUALLY VALID. THE BRITISH SIDE HAD SO FAR RECEIVED INFORMALLY THE CHINESE IDEAS FOR AN ANNEX BUT WITHOUT CONTENT. THE ANNEXES SHOULD CERTAINLY CONTAIN THE POINTS AGREED IN THE TALKS. THESE MAJOR ISSUES SHOULD BE REFLECTED IN THE EXCHANGE OF NOTES.

14. THE SECRETARY OF STATE SAID THAT THE TWO SIDES WERE CLOSE TO UNDERSTANDING EACH OTHER. HE AGREED THAT GREAT PROGRESS HAD BEEN MADE ON BOTH SIDES. THE BRITISH SIDE HAD EXPRESSED RECOGNITION OF THE TRANSFER OF SOVEREIGNTY AND RIGHT OF ADMINISTRATION. THE CHINESE SIDE HAD EXPLAINED THEIR POLICIES. FOR POST 1997 HONG KONG THEY HAD THUS EXERCISED IN ADVANCE THEIR SOVEREIGNTY OVER HONG KONG. THE BRITISH SIDE ATTACHED IMPORTANCE TO THE SPIRIT OF THIS WORK BEING FULLY REFLECTED IN THE AGREEMENT: THIS SHOULD TAKE THE FORM OF MUTUALLY BINDING OBLIGATIONS. THE BRITISH SIDE FULLY ACCEPTED THAT THERE WAS GOOD FAITH BETWEEN THE TWO SIDES. HOWEVER, IT WAS IMPORTANT THAT THE RESULTS OF THAT JOINT GOOD FAITH SHOULD BE CONTAINED IN THE AGREEMENT AND PRESENTED TO THE WORLD AS AN EXAMPLE OF THE WAY TO SOLVE A PROBLEM LEFT OVER FROM HISTORY.

# SECRET

15. ZHAO REPEATED HIS HOPE FOR AN EARLY AGREEMENT; THIS WOULD BENEFIT HONG KONG AND BE VERY IMPORTANT FOR STABILITY. THE BRITISH SIDE WERE WELL AWARE OF THE TIME LIMIT FOR SIGNATURE OF AN AGREEMENT. HE HOPED HMG WOULD DEMONSTRATE ITS REPUTATION FOR EFFICIENCY AND TIMING.

16. ZHAO CONCLUDED BY ASKING THE SECRETARY OF STATE TO CONVEY HIS REGARDS TO THE PRIME MINISTER.

EVANS

FUTURE OF HONG KONG  
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ED/PUSD  
D/ED/PUSD  
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LEGAL ADVISER (MR FREELAND)  
PS  
PS/LADY YOUNG  
PS/MR LUCE  
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FROM PEKING 172320Z APR 84

TOP COPY

TO IMMEDIATE FCO

TELEGRAM NUMBER 767 OF 17/4/84

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: SECRETARY OF STATE'S VISIT:

LUNCH WITH ZHOU NAN

HK 040/4		
10 APR 1984		
EVIS	PA	IN T/200

1. ZHOU NAN GAVE A WORKING LUNCH ON 17 APRIL FOR SIR PERCY CRADOCK ACCOMPANIED BY WILSON AND GALSWORTHY. HE BEGAN BY RE-ARGUING THE CHINESE CASE ON ITEM 2, SAYING THAT A JOINT ORGANISATION IN HONG KONG WAS ESSENTIAL. IT COULD BE MADE CLEAR THAT IT WAS NOT AN ORGANISATION OF AUTHORITY. IT WOULD CEASE WORK IN 1997, AND THEREFORE COULD NOT BE SEEN AS 'SENDING PEOPLE FROM PEKING TO GOVERN THE SAR'. IT HAD TO BE IN HONG KONG SINCE IT WOULD BE DEALING WITH MATTERS OF DETAIL, SUCH AS LAND AND THE INTERNAL SECURITY FORCE. IF SUCH MATTERS WERE TO BE DEALT WITH SATISFACTORILY PEOPLE WOULD HAVE TO GO TO HONG KONG IN ORDER TO UNDERSTAND THE POSITION ON THE GROUND. WE HAD REJECTED THE CHINESE PROPOSALS AND SEEMED UNWILLING EVEN TO CONSIDER THEM.

2. SIR P CRADOCK DENIED THAT WE WERE UNWILLING TO CONSIDER THIS OR ANY OTHER CHINESE IDEA. ON THE OTHER HAND ACCOUNT HAD TO BE TAKEN OF THE IMPACT OF SETTING UP SUCH AN ORGANISATION IN HONG KONG. WHATEVER NAME THE CHINESE GAVE IT, IT WOULD BE SEEN AS AN ALTERNATIVE SOURCE OF AUTHORITY. THERE WAS NO DOUBT ABOUT THE BRITISH WISH TO CO-OPERATE CLOSELY WITH CHINA IN THE PERIOD UP TO 1997 AND TO ENSURE A SMOOTH TRANSITION. BUT THERE WERE OTHER AND MUCH SAFER METHODS OF ENSURING THIS. HE PUT FORWARD AS A PERSONAL SUGGESTION THE IDEA THAT THE NEGOTIATING TEAMS IN PEKING COULD CONTINUE TO MEET, THOUGH LESS FREQUENTLY, TO DEAL WITH MATTERS OUTSTANDING FROM THE NEGOTIATION. IF LOCAL EXPERTISE WERE REQUIRED, THERE SHOULD BE NO DIFFICULTY IN BRINGING IN PEOPLE FROM HONG KONG, DEPENDING ON THE SUBJECT. HE ASKED IN PARTICULAR WHAT MATTERS ZHOU WAS PROPOSING SHOULD BE DEALT WITH BY THE JOINT ORGANISATION.

3. ZHOU GAVE NO CLEAR REPLY TO THIS LAST QUESTION, BUT HE EMPHASISED THE IMPORTANCE OF THE JOINT ORGANISATION.

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/ IT WAS

IT WAS A MATTER OF PRINCIPLE FOR THE CHINESE. HE SUGGESTED IF WE WERE HAVING DIFFICULTIES OVER THE NAME OR THE COMPOSITION OF THE ORGANISATION THIS MIGHT BE CHANGED, BUT THERE MUST BE A JOINT ORGANISATION. HE HINTED THAT IF WE COULD NOT AGREE ON ITEM 2, THEN IT MIGHT BE DIFFICULT FOR THE CHINESE TO AGREE TO OUR PROPOSALS ON THE TIMETABLE.

4. CRADOCK EXPRESSED CONCERN OVER THE UNCERTAINTY CREATED BY THE CHINESE INTENTION TO PASS A BASIC LAW AFTER THE AGREEMENT WAS SIGNED. THERE COULD BE NO ASSURANCE THAT THE LAW WOULD BE THE SAME AS THE AGREEMENT, WITH THE RESULT THAT MANY MONTHS' PATIENT WORK COULD BE WASTED. ZHOU CLAIMED THAT JI PENGFEI HAD DEALT WITH THIS ISSUE THAT MORNING WHEN HE HAD STATED THAT THE ANNEX WOULD HAVE VALIDITY LIKE THE AGREEMENT, AND THAT BOTH WOULD BE REFLECTED IN THE BASIC LAW. CRADOCK ASKED HOW MUCH DETAIL WOULD BE INCLUDED IN THE ANNEX. THIS WAS A CRITICAL ISSUE ON THE BRITISH SIDE. HE ASSUMED THE ANNEX WOULD CONTAIN ALL THE POINTS AGREED IN THE WORKING PAPERS. ZHOU WAS UNCLEAR IN HIS REPLY AND SAID THAT THIS COULD BE DISCUSSED IN ROUNDS 13 AND 14.

5. ZHOU CONTINUED THAT OUR DRAFT AGREEMENT WAS OBJECTIONABLE BECAUSE IT SOUGHT TO TELL THE CHINESE WHAT THEIR BASIC LAW SHOULD BE AND TO GIVE THE IMPRESSION THAT IT WOULD EMERGE WITH THE APPROVAL OF THE BRITISH GOVERNMENT. THIS WAS TOTALLY UNACCEPTABLE. CRADOCK SAID THAT THE PRECISE WORDING OF THE AGREEMENT COULD BE LOOKED AT, BUT WHAT WAS

IMPORTANT WAS THAT IT SHOULD BE BALANCED AND BINDING. ZHOU SAID THAT THE WHOLE TEXT OF THE AGREEMENT, INCLUDING THE ANNEX WOULD BE BINDING. CRADOCK SUGGESTED THAT THE LAWYERS SHOULD EXAMINE THIS.

6. ZHOU THEN RAISED THE ISSUE OF RATIFICATION, SAYING THAT IT HAD NOT BEEN CLEARLY ANSWERED THAT MORNING DURING THE MEETING WITH JI PENGFEI. CRADOCK EXPLAINED THAT FOLLOWING DEBATE IN PARLIAMENT AND SIGNATURE THERE WOULD HAVE TO BE LEGISLATION AFTER WHICH THE AGREEMENT WOULD BE RATIFIED AND WOULD COME INTO EFFECT. ZHOU ASKED WHAT THE LEGISLATION WOULD BE ABOUT. CRADOCK EXPLAINED THAT IT WOULD DEAL WITH THE TRANSFER OR TERMINATION OF SOVEREIGNTY AT WHICH ZHOU LOOKED MUCH RELIEVED. THERE WOULD ALSO BE A NEED FOR OTHER LEGISLATION CONSEQUENTIAL ON THE DECISION TO TERMINATE ADMINISTRATION. ZHOU ASKED WHY PARLIAMENT HAD TO HAVE TWO BITES AT THE ISSUE, FIRST HOLDING A DEBATE AND THEN PASSING LEGISLATION. CRADOCK EXPLAINED THE DIFFERENCE BETWEEN THESE TWO PROCESSES. ZHOU THEN ASKED HOW LONG THE NECESSARY LEGISLATION WOULD TAKE. CRADOCK SAID IT WOULD DEPEND ON PARLIAMENTARY TIME, BUT IF THE AGREEMENT WE ACHIEVED WAS SUFFICIENTLY DETAILED,

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SECRET

/ THEN



THEN THE PROCESS OF RATIFICATION COULD BE EXPEDITED. ZHOU THEN SAID HIS IMPRESSION WAS THAT WE INTENDED TO LINK RATIFICATION TO THE PASSAGE OF THE BASIC LAW. CRADOCK EXPLAINED THAT THIS WOULD BE THE PROCEDURE IN NORMAL CIRCUMSTANCES. BUT HONG KONG WAS A UNIQUE CASE REQUIRING UNIQUE EXPEDIENTS. HE REPEATED THE IMPORTANCE OF DETAIL AND SAID THAT IF THERE WERE SUFFICIENT DETAIL IN THE AGREEMENT, RATIFICATION COULD BE MUCH EXPEDITED.

7. CRADOCK SAID THAT HE HAD BEEN WORRIED ABOUT THE REFERENCE IN THE CHINESE STATEMENT IN ROUND 12 TO A "REFORM" TAKING PLACE IN HONG KONG AFTER 1993. WE HAD BEEN ARGUING FOR CONTINUITY: THIS SOUNDED AS THOUGH THE CHINESE INTENDED THERE TO BE MAJOR CHANGES. ZHOU SAID THAT PERHAPS THERE HAD BEEN A MISUNDERSTANDING. ALTHOUGH THE BASIC LAW WOULD REFLECT THE AGREEMENT, THERE NEEDED TO BE A TRANSITION PERIOD. THE GROUP WHICH WOULD WORK ON THE BASIC LAW AND ADVISE ON ITS CONTENTS MUST HAVE SOME FLEXIBILITY: IF ALL THE DETAIL WAS SPECIFIED NOW IN THE AGREEMENT CONSULTATION WITH THE PEOPLE OF HONG KONG WOULD BE MEANINGLESS. SOME THINGS COULD NOT BE SETTLED AT THIS STAGE, SUCH AS THE STRUCTURE OF THE LEGISLATIVE AUTHORITY, THE STRUCTURE OF THE EXECUTIVE AUTHORITY, AND HOW ITS MEMBERS SHOULD BE PRODUCED (ZHOU NAN SAID HE FAVOURED A PROCESS OF CONSULTATION RATHER THAN ELECTION) AND WHAT THE CHINESE EXECUTIVE AND OTHER SENIOR OFFICIALS SHOULD BE CALLED. AFTER 1993, PEOPLE WOULD HAVE TO BE BROUGHT FORWARD GRADUALLY TO FORM A SORT OF SHADOW CABINET SO THAT THEY COULD TAKE OFFICE IN 1997. THE SAR GOVERNMENT COULD NOT JUST SUDDENLY APPEAR IN 1997. THE CHINESE HAD BEEN REFERRING IN THEIR STATEMENT TO THE ESTABLISHMENT AFTER 1993 OR THEREABOUTS OF THE GOVERNMENTAL ORGANS WHICH WOULD BE PROVIDED FOR IN THE BASIC LAW.

EVANS

FUTURE OF HONG KONG

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SIR P CRADOCK RM 4195

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DESKBY 181400Z

FM HONG KONG 181245Z APR 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1057 OF 18 APRIL

INFO IMMEDIATE PEKING(DESKBY 181400Z) LISBON(DESKBY 181400Z) For PS/PM

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Register

18 APR 1984

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FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S DISCUSSION WITH DENG XIAOPING  
SUMMARY

1. THE SECRETARY OF STATE HAD 90 MINUTES WITH DENG THIS MORNING. DENG WAS FRIENDLY AND EBULLIENT. ON THE TIMETABLE, HE ACCEPTED THE NEED FOR PARLIAMENT TO HAVE TIME TO CONSIDER THE DRAFT AGREEMENT AND RAISED NO (NO) OBJECTION TO OUR PROPOSALS FOR A PUBLISHED DRAFT AGREEMENT BY SEPTEMBER AND SIGNATURE BY THE END OF THE YEAR. ON THE FORM OF AGREEMENT, HE REPEATED THAT THE AGREEMENT ITSELF SHOULD DEAL WITH MATTERS OF PRINCIPLE, BUT ACCEPTED THAT DETAIL (BUT NOT EXCESSIVE DETAIL) SHOULD BE DEALT WITH IN AN ANNEXE. HE SHOWED CONSIDERABLE ANXIETY ABOUT THE PERIOD UP TO 1997, ARGUING THAT SOME PEOPLE (NOT HMG OR THE HONG KONG GOVERNMENT) MIGHT TRY TO LEAVE THINGS IN A MESS FOR THE INCOMING ADMINISTRATION. A JOINT GROUP SHOULD BE SET UP IN HONG KONG (OR POSSIBLY ROTATE BETWEEN HONG KONG, PEKING AND LONDON) TO DEAL WITH PROBLEMS OF THE TRANSITIONAL PERIOD. SECRETARY OF STATE EMPHASISED THAT WE WOULD DO EVERYTHING POSSIBLE TO HAND OVER A GOING CONCERN. HE ARGUED AGAINST ESTABLISHING A JOINT GROUP IN HONG KONG. AT THE END, DENG RAISED DEFENCE, AND SAID THAT CHINA WOULD SEND A SMALL ARMED FORCE TO HONG KONG IN 1997, SIMILAR IN NATURE TO THE BRITISH GARRISON. THE SECRETARY OF STATE EXPRESSED DISMAY AT THIS INTENTION.

DETAIL

2. DENG'S INTRODUCTORY REMARKS STRESSED THE FUTURE CONTINUITY OF CHINESE POLICIES. HE WAS LAYING DOWN ECONOMIC POLICIES FOR 20 OR EVEN 30 TO 50 YEARS AHEAD. THE CHINESE ASSURANCE THAT HONG KONG'S SYSTEMS WOULD REMAIN UNCHANGED FOR 50 YEARS SHOULD BE SEEN IN THIS CONTEXT. THE POLICY WAS NOT PERSONAL TO DENG. IF THE PATH WAS CORRECT, IT WOULD LONG OUTLAST HIM.

3. THE SECRETARY OF STATE UNDERLINED OUR DETERMINATION TO REACH AN EARLY AND SATISFACTORY AGREEMENT. VERY GOOD PROGRESS HAD BEEN MADE, BUT IMPORTANT POINTS STILL REMAINED TO BE RESOLVED. WE WERE, HOWEVER, NOW WITHIN REACH OF AN AGREEMENT UNDER WHICH THE CHINESE REQUIREMENT ON SOVEREIGNTY COULD BE MET.

4. DENG AGREED THAT THE NEGOTIATORS HAD WORKED WELL. HE RECALLED TELLING THE PRIME MINISTER IN 1982 THAT HE HOPED THE PROBLEM OF HONG KONG WOULD BE SOLVED IN HER TERM OF OFFICE. HE ASKED THAT HIS BEST WISHES BE PASSED TO THE PRIME MINISTER.

TIMETABLE

5. THE SECRETARY OF STATE SAID THAT HE HAD DISCUSSED WITH OTHER CHINESE LEADERS A TIMETABLE WHICH WOULD PROVIDE WHAT CHINA WANTED: THE TEXT OF AN AGREEMENT TO BE PUBLISHED IN SEPTEMBER. THE AGREEMENT COULD BE SIGNED BY THE END OF THE YEAR.

6. DENG WELCOMED THIS. THE CHINESE UNDERSTOOD THAT HMG HAD TO RESPECT PARLIAMENT AND GIVE THEM TIME TO CONSIDER THE MATTER. HE COMMENTED THAT THE BRITISH PARLIAMENT WAS VERY DIFFERENT FROM THE US CONGRESS. THE SECRETARY OF STATE AGREED, ADDING THAT PARLIAMENT WAS MOST UNLIKELY TO REJECT AN AGREEMENT COMMENDED TO IT BY THE PRIME MINISTER AND HIMSELF. IF THE UK AND CHINA REACHED AN AGREEMENT COVERING ALL THE CENTRAL POINTS, THEN THE PRIME MINISTER AND HE WOULD SO COMMEND IT. DENG COMMENTED 'D'ACCORD'. RATIFICATION WAS NOT RAISED.

#### FORM OF AGREEMENT

7. THE SECRETARY OF STATE UNDERLINED THE NEED FOR AN AGREEMENT WHICH WOULD CARRY CONVICTION WITH INTERNATIONAL BUSINESSMEN AND INVESTORS, AS WELL AS WITH PARLIAMENT. IT WOULD HAVE TO EXPLAIN CLEARLY THE ARRANGEMENTS FOR HONG KONG AFTER 1997. A GREAT DEAL OF EFFORT HAD BEEN MADE BY THE NEGOTIATORS ON BOTH SIDES TO WORK TOWARDS AN AGREEMENT. THIS EFFORT SHOULD BE REFLECTED AS PART OF THE AGREEMENT ITSELF. EACH SIDE WOULD BE COMMITTING ITSELF TO WHAT IT WOULD DO. THE AGREEMENT SHOULD BE A BALANCED ONE. EACH SIDE COULD THEN COMMEND THE AGREEMENT TO ITS OWN PEOPLE AND JOINTLY TO THE WORLD. DENG MADE TWO POINTS IN REPLY:

(I) THE HONG KONG PROBLEM WAS FOR CHINA AND BRITAIN TO SOLVE. IT WAS NOTHING TO DO WITH OTHERS, ALTHOUGH BRITISH AND FOREIGN BUSINESSMEN WOULD HAVE THEIR OWN IDEAS AND VIEWS (HE REFERRED TO JARDINES). THE THREE-LEGGED STOOL WOULD NOT (NOT) DO.

(II) THE AGREEMENT SHOULD DEAL WITH MATTERS OF PRINCIPLE. IF IT CONTAINED TOO MANY DETAILS, ERRORS MIGHT BE MADE AND IT WOULD NOT BE VERY PRACTICAL. THE COMPETENCE OF THE FUTURE SAR GOVERNMENT WOULD ALSO BE LIMITED. THE CHINESE DRAFT ALREADY INCLUDED MANY DETAILS AS IT WAS. THE IMPORTANT POINT WAS THAT CHINA HAD DECIDED ON THE PRINCIPLE THAT THERE WOULD BE ONE NATION WITH TWO SYSTEMS. WHEN THEY WORKED OUT THE DETAILS, THEY WOULD CERTAINLY ABIDE BY THIS PRINCIPLE. HE THEN WENT INTO A DIGRESSION TO THE EFFECT THAT MANY OF THE WORLD'S PROBLEMS COULD BE SOLVED BY ADOPTING THE PRINCIPLE OF ONE NATION TWO SYSTEMS (KOREAS, GERMANIES, EVEN ARGENTINA/FALKLANDS). CHINA'S DISPUTE WITH JAPAN OVER THE SENKAKU ISLANDS COULD BE SOLVED IN A SIMILARLY PRAGMATIC WAY: EXPLOITING THE RESOURCES TOGETHER AND LEAVING SOVEREIGNTY ASIDE FOR THE NEXT GENERATION TO SOLVE.

8. THE SECRETARY OF STATE AGREED THAT THE PROBLEM WAS ONE TO BE SETTLED BETWEEN THE UK AND CHINA AND THEN PRESENTED TO THE WORLD SO THAT ALL COULD HAVE CONFIDENCE IN HONG KONG'S FUTURE. IT WAS THEREFORE IMPORTANT, AS PREMIER ZHAO HAD SAID THE PREVIOUS DAY, THAT THE AGREEMENT AND ANNEXES SHOULD REFLECT THE MANY POINTS AGREED IN THE NEGOTIATIONS. DENG REPEATED HIS POINT THAT NOT TOO MUCH DETAIL SHOULD BE INCLUDED. THE SECRETARY OF STATE STRESSED AGAIN THAT THE DETAILS AGREED IN THE NEGOTIATIONS SHOULD BE REFLECTED IN THE AGREEMENT; OTHERWISE THE WORK DONE WOULD HAVE BEEN IN VAIN. DENG ACCEPTED THAT THERE SHOULD BE AN AGREEMENT DEALING WITH MATTERS OF PRINCIPLE AND AN ANNEX IN THE FORM OF AN EXCHANGE OF NOTES WITH THE DETAIL. BUT EXCESSIVE DETAIL WAS NOT GOOD.

#### PRE-1997 ARRANGEMENTS

9. THE SECRETARY OF STATE UNDERLINED THAT WE AND THE HONG KONG GOVERNMENT WERE DETERMINED TO DO ALL WE COULD TO MAINTAIN STABILITY AND PROSPERITY BEFORE 1997. WE WOULD NOT PURSUE SHORT-SIGHTED POLICIES AND WERE DETERMINED TO HAND OVER A GOING CONCERN. DENG SAID THAT HE HOPED THERE WOULD BE NO TROUBLE. BUT THE CHINESE HAD NOTED SOME SIGNALS: JARDINE'S MOVE, AND INCIDENTS STIRRED UP BY THE KMT. WE COULD NOT TAKE IT FOR GRANTED THAT THE NEXT 13 YEARS WOULD BE PEACEFUL. HE KNEW THAT SOME PEOPLE FROM TAIWAN HAD PLANS TO USE TRIADS (SECRET SOCIETIES) IN HONG KONG TO MAKE TROUBLE. HE ACCEPTED THAT JARDINE'S MOVE HAD NOT BEEN ENCOURAGED BY HMG, BUT IT SHOWED THAT SOME BUSINESSMEN WERE PLAYING A DAMAGING ROLE. DISTURBANCES ON THE MONEY MARKETS SHOWED THE SAME THING. HE HAD BEEN TOLD THAT THERE WERE SOME PEOPLE WHO WERE TRYING TO LEAVE HONG KONG IN A MESS FOR THE FUTURE SAR GOVERNMENT.

10M DENG CONTINUED THAT THE CHINESE HAD NO INFORMATION ABOUT MONETARY POLICIES IN HK, AND VERY LITTLE ABOUT LAND LEASES. IT MIGHT BE THAT WHEN THE SAR TOOK OVER THERE WOULD BE NO LAND LEFT TO LEASE. HK GOVERNMENT EXPENDITURE MIGHT INCREASE GREATLY AND LEAVE A HEAVY BURDEN FOR THE PEOPLE OF HONG KONG AFTER 1997. THESE THINGS COULD BE CONTROLLED, BUT IT WAS POSSIBLE THAT BIG CHANGES MIGHT OCCUR: E.G. THE WHOLESALE FLIGHT OF CAPITAL FROM HK. HE HAD SAID TO THE PRIME MINISTER THAT IN THE CASE OF DISTURBANCES IN HONG KONG HE WOULD BE FORCED TO RECONSIDER THE TIMING OF CHINA'S TAKEOVER OF THE TERRITORY. THE SECRETARY OF STATE HAD EXPLAINED THE BRITISH POSITION. HE BELIEVED THAT NEITHER THE BRITISH NOR CHINESE GOVERNMENTS WOULD DO ANYTHING TO DISTURB THE SITUATION, BUT IT WAS IMPOSSIBLE TO PREDICT WHAT MIGHT HAPPEN IN THE TRANSITIONAL PERIOD. HMG AND THE HKG SHOULD TAKE PREVENTIVE MEASURES.

11. DENG THEN MOVED ON TO PRACTICAL ARRANGEMENTS FOR THE TRANSITION. AN ENTIRELY NEW GOVERNMENT IN 1997 WOULD PRODUCE CONFUSION. FUTURE LEADERS WOULD NOT BE SENT FROM PEKING. THEY WOULD BE CHOSEN FROM AMONG HONG KONG PEOPLE. THEY SHOULD KNOW ABOUT MANAGEMENT AND ADMINISTRATION AND SHOULD THEREFORE BE TRAINED BEFOREHAND. THEY SHOULD BE YOUNG, BUT NOT TOO YOUNG. THIS WAS A PRACTICAL QUESTION. IT WAS THEREFORE VITALLY IMPORTANT TO SET UP A JOINT GROUP TO INCREASE CHINA'S KNOWLEDGE AND CREATE CONDITIONS FOR THE HANDOVER. THE AGREEMENT SHOULD CONTAIN A REFERENCE TO SETTING UP THE JOINT GROUP. IN THE REMAINING 13 YEARS (A SHORT TIME), HONG KONG PEOPLE SHOULD PARTICIPATE IN THE ADMINISTRATION. THE BRITISH AND CHINESE SIDES SHOULD CONSULT TOGETHER ON CHOOSING CANDIDATES TO BE FUTURE OFFICIALS. THE ONLY CRITERION WOULD BE THAT THEY SHOULD BE PATRIOTS, I.E. STAND FOR CHINA'S RESUMPTION OF SOVEREIGNTY. IT WOULD NOT MATTER WHETHER THEY BELIEVED IN CAPITALISM, SOCIALISM OR COMMUNISM. NOR WOULD IT MATTER WHAT PASSPORT THEY CARRIED OR WHETHER THEY WERE BRITISH, AUSTRALIAN OR AMERICAN.

12. THE SECRETARY OF STATE RESPONDED THAT THERE WERE CLEARLY A NUMBER OF THINGS TO BE DISCUSSED BEFORE 1997. HE AGREED THAT WE SHOULD EXPLORE HOW TO DO SO ALONG THE LINES DENG HAD SUGGESTED (I.E. A ROTATING GROUP). DENG APPEARED TO TAKE THIS AS ACCEPTING HIS SUGGESTION FOR A JOINT GROUP AND AGREED. THE SECRETARY OF STATE WENT ON TO STRESS THAT A HIGH DEGREE OF AUTONOMY AND CONTINUITY WOULD CREATE CONFIDENCE IN HONG KONG. HE PICKED UP DENG'S POINT ABOUT PREVENTIVE MEASURES WHICH WOULD COMMAND CONFIDENCE. WE WOULD DO ALL IN OUR POWER TO HAND OVER A PROSPEROUS HONG KONG IN WORKING ORDER. THE CHINESE SHOULD GIVE ASSURANCES THAT THE SYSTEM WOULD CONTINUE.

#### STATIONING OF FORCES

13. IN THE CLOSING MINUTES DENG SAID THAT IN 1997 CHINA WOULD SEND A SMALL ARMED FORCE TO HONG KONG. ITS NATURE WOULD BE THE SAME AS THAT OF THE PRESENT BRITISH GARRISON. EXPENSES WOULD BE BORNE BY THE CENTRAL GOVERNMENT. ITS PRESENCE WOULD BE A SYMBOL OF SOVEREIGNTY AND A FACTOR FOR STABILITY. HE TRIED TO CHOK OFF ANY DISCUSSION. BUT THE SECRETARY OF STATE SAID THAT HE WISHED TO MAKE OUR POSITION CLEAR. WE ACCEPTED THAT WHEN CHINA RESUMED SOVEREIGNTY SHE WOULD HAVE THE RIGHT AND OBLIGATION TO DEFEND HONG KONG. BUT DENG'S REMARKS WERE DISTURBING. CHINESE TROOPS STATIONED IN HONG KONG COULD WELL HAVE AN ADVERSE EFFECT ON CONFIDENCE. INTERNAL SECURITY COULD BE SECURED BY AN INTERNAL SECURITY FORCE. IT WOULD HELP IF CHINA COULD BE PRUDENT AND CIRCUMSPECT AND VOLUNTARILY REFRAIN FROM STATIONING FORCES. DENG SAID THAT THERE WAS NOT TIME TO DISCUSS THIS. IT SHOULD BE LEFT TO THE NEGOTIATORS.

14. THE SECRETARY OF STATE HAD A FEW WORDS WITH ZHOU NAN ON THE WAY TO THE AIRPORT IN WHICH, INTER ALIA, HE CLARIFIED OUR POSITION ON DENG'S PROPOSAL ABOUT A JOINT GROUP. SEE MIFT.

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FOLLOWING FROM PRIVATE SECRETARY

MIPT: FUTURE OF HONG KONG: DISCUSSION WITH ZHOU NAN

1. THE SECRETARY OF STATE HAD A FURTHER DISCUSSION WITH ZHOU NAN ON THE WAY TO THE AIRPORT AFTER HIS MEETING WITH DENG XIAOPING.
2. ZHOU NAN BEGAN BY EMPAHSISING THE IMPORTANCE WHICH THE CHINESE LEADERS ATTACHED TO THE SETTING UP OF A JOINT LIAISON BODY. HE HOPED THAT WE WOULD FIND THIS IDEA ACCEPTABLE ON THE BASIS DISCUSSED WITH DENG XIAOPING. THE SECRETARY OF STATE SAID THAT HE HOPED IN TURN THAT THE CHINESE LEADERS UNDERSTOOD THE REASONS FOR OUR CONCERN. WE REALISE OF COURSE THAT THERE NEED TO BE DISCUSSIONS OF VARIOUS ADMINISTRATIVE QUESTIONS. BUT WE WERE CONCERNED ABOUT THE IDEA OF SETTING UP SUCH A BODY IN HONG KONG. HE POINTED OUT THAT HE HAD NOT ACCEPTED DENG'S PROPOSAL BUT HAD AGREED TO EXAMINE IT CONSTRUCTIVELY. ZHOU NAN WENT ON TO REFER TO RECENT EVENTS (EG DISTURBANCES IN THE CURRENCY MARKETS) IN HONG KONG AS A CAUSE OF CONCERN FOR THE CHINESE. THE SECRETARY OF STATE EXPLAINED THAT THESE MATTERS HAD BEEN HANDLED INDEPENDENTLY BY THE HONG KONG GOVERNMENT. THIS WAS AN EXAMPLE OF THE PRESENT INDEPENDENCE OF THE GOVERNMENT OF HONG KONG. IT WAS THIS WHICH HAD TO BE LEFT UNDISTURBED.
3. ZHOU SAID THAT THERE WERE MANY ASPECTS OF HONG KONG'S ECONOMIC AND SOCIAL SYSTEM WHICH THE CHINESE GOVERNMENT DID NOT FULLY UNDERSTAND. HE GAVE THE EXAMPLE OF THE HONG KONG DOLLAR EXCHANGE RATE SYSTEM. THE SECRETARY OF STATE EXPLAINED ONCE AGAIN THAT THE HONG KONG EXCHANGE RATE SYSTEM WAS OPERATED BY THE HONG KONG GOVERNMENT AND NOT BY LONDON. THIS WAS HOW IT SHOULD REMAIN.
4. ZHOU SAID THAT THE CHINESE SIDE WOULD FORMALLY TABLE THE CHINESE DRAFT AND ANNEX EITHER AT THE NEXT OR AT THE SUCCEEDING ROUND. THE SECRETARY OF STATE SAID THAT WE WOULD EXAMINE THIS CLOSELY. THE BEST WAY MIGHT BE FOR PEOPLE NOW TO WORK TOGETHER ON BOTH DRAFTS.
5. ZHOU NAN WENT ON TO EXPRESS ANXIETY ABOUT THE SECRETARY OF STATE'S IMPENDING UNVEILING STATEMENT. HE HOPED THAT THIS WOULD NOT TRESSPASS ON CHINESE POLICY IN HONG KONG. THE SECRETARY OF STATE ASSURED HIM THAT IT WOULD RESPECT THE PRINCIPLE OF CONFIDENTIALITY. ZHOU COMMENTED THAT IF THE SECRETARY OF STATE QUOTED DIRECTLY WHAT HAD BEEN SAID PUBLICLY BY CHINESE LEADERS THIS WOULD CAUSE NO DIFFICULTY. THE SECRETARY OF STATE SAID THAT WE WERE WELL AWARE OF THIS. HE VERY MUCH HOPED THAT THE CHINESE GOVERNMENT WOULD REFRAIN FROM ANY PUBLIC ADVERSE COMMENT ON THIS STATEMENT. ZHOU PRESSED TO KNOW THE CONTENTS OF THE STATEMENT BUT THE SECRETARY OF STATE REFUSED TO DISCLOSE THEM.

6. ZHOU WENT ON TO SAY THAT HE HOPED WE RECOGNISED THE POSITIVE MOVES WHICH THE CHINESE HAD MADE OVER THE TIMETABLE. HE UNDERSTOOD THAT THE AGREEMENT WOULD BE PUBLISHED AND INITIALLED IN SEPTEMBER, APPROVED BY PARLIAMENT IN NOVEMBER AND SIGNED WELL BEFORE THE END OF THE YEAR. THE SECRETARY OF STATE CORRECTED HIM, SAYING THAT ON THIS BASIS THE AGREEMENT COULD BE SIGNED BY THE END OF THE YEAR. HE WENT ON TO SAY THAT THE LEGISLATION WOULD BE ENACTED IN THE NORMAL WAY. THE CHINESE BASIC LAW WOULD ONLY BE PUBLISHED AFTER A PERIOD OF TIME. ZHOU ATTEMPTED TO ARGUE THAT UNDER BRITISH PRACTICE, IF THE AGREEMENT WAS ON THE TABLE OF THE HOUSE AND THERE WERE NO OBJECTIONS WITHIN 30 DAYS, THE AGREEMENT WAS AUTOMATICALLY RATIFIED. THE SECRETARY OF STATE TOLD HIM THAT THE RATIFICATION WOULD REQUIRE LEGISLATION, AS HAD HAPPENED IN THE CASE OF COMMUNITY LEGISLATION. ZHOU SAID THEY WANTED THE AGREEMENT TO COME INTO EFFECT ONLY A MONTH OR TWO AFTER SIGNATURE. THE SECRETARY OF STATE GAVE HIM NO ASSURANCE ON THIS POINT AND SAID THAT ALL THIS NEEDED TO BE DISCUSSED FORTHER. THE SECRETARY OF STATE CONCLUDED BY SAYING THAT THE MORE COMPREHENSIVE AND DETAILED THE AGREEMENT THE EASIER IT WOULD BE TO SECURE PARLIAMENTARY APPROVAL.

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