

FUTURE OF HONG KONG

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TO IMMEDIATE FCO

TELEGRAM NUMBER 2195 OF 1 AUGUST

INFO IMMEDIATE PEKING

FOLLOWING FROM PRIVATE SECRETARY.

FUTURE OF HONG KONG : SECRETARY OF STATE'S DISCUSSION WITH UMELCO

SUMMARY

1. GOOD INITIAL REACTION FROM UMELCO MEMBERS TO SECRETARY OF STATE'S ACCOUNT OF THE VISIT TO PEKING AND OUTLINE OF HIS PRESS STATEMENT. SEVERAL MEMBERS COMMENTED THAT RESULTS WERE BETTER THAN THEY HAD EXPECTED.

DETAIL

2. THE SECRETARY OF STATE HAD LUNCH AND A MEETING WITH MEMBERS OF THE UNOFFICIAL MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS (UMELCO) EARLIER THIS AFTERNOON. HE GAVE THEM A REASONABLY FULL OUTLINE OF THE DISCUSSIONS IN PEKING AND A FULL SUMMARY OF THE PRESS STATEMENT HE MADE LATER IN THE AFTERNOON. HE ADDED THAT HE HAD THOUGHT IT RIGHT TO GO SOMEWHAT FURTHER THAN BEFORE IN GIVING THEM A FULL ACCOUNT OF THE TALKS, AND ASKED THEM NOT TO REVEAL IN PUBLIC AT THIS STAGE POINTS OF PARTICULAR SENSITIVITY FOR THE CHINESE, NAMELY THE TRANSLATION OF THE AGREEMENT AND ANNEXES INTO THE BASIC LAW AND THE DIVISION OF THE WORK OF THE JOINT GROUP INTO TWO HALVES.

3. SIR S. Y. CHUNG THEN REPEATED THE TRIBUTE HE HAD PAID EARLIER IN

THE BASIC LAW AND THE DIVISION OF THE WORK OF THE JOINT GROUP INTO TWO HALVES.

3. SIR S Y CHUNG THEN REPEATED THE TRIBUTE HE HAD PAID EARLIER IN EXCO TO THE SECRETARY OF STATE'S EFFORTS. HE POINTED OUT THAT THE SECRETARY OF STATE HAD SECURED ACCEPTANCE OF THE SIGNIFICANT POINTS ON THE MAIN AGREEMENT WHICH UMELCO MEMBERS HAD EXPRESSED AT THEIR MEETING WITH THE SECRETARY OF STATE LAST WEEK. THE ARRANGEMENTS FOR THE JOINT LIAISON GROUP ALSO REPRESENTED A MAJOR ACHIEVEMENT.

4. A NUMBER OF LEGCO MEMBERS COMMENTED THAT THE EMERGING AGREEMENT WAS BETTER THAN THEY HAD EXPECTED. THE MAIN POINTS WHICH EMERGED FROM THE SUBSEQUENT DISCUSSION WERE:

(I) NATIONALITY: THIS WAS A SUBJECT TO WHICH UMELCO MEMBER ATTACHED GREAT IMPORTANCE. THE SECRETARY OF STATE SAID THAT WE HAD PUT IN OUR PROPOSALS ON THIS BUT DIFFICULT POINTS REMAINED TO BE SETTLED:

(II) POSSIBLE CHINESE INTERFERENCE IN THE ADMINISTRATIVE STRUCTURE AFTER 1997. THE SECRETARY OF STATE EMPHASISED THAT IT HAD BEEN AGREED WITH THE CHINESE THAT HONG KONG PEOPLE WOULD CONTINUE TO RUN HONG KONG. THE MAXIMUM DEGREE OF AUTONOMY WAS BEING SECURED AREA BY AREA: THIS PROCESS WAS NOT YET COMPLETE:

(III) THE TEST OF ACCEPTABILITY, AND IN PARTICULAR THE PURPOSE IT SERVED IF THE ONLY OPTIONS WERE ACCEPTANCE OR REJECTION OF AN AGREEMENT. THE SECRETARY OF STATE EMPHASISED THAT IT WAS STILL USEFUL TO GAIN AN INSIGHT INTO ATTITUDES IN HONG KONG TOWARDS AN AGREEMENT WHEN IT WAS REACHED:

(IV) THE POSITION REACHED ON THE PUBLIC SERVICE AND LAND. THE SECRETARY OF STATE MADE CLEAR THAT IN BOTH CASES WE HAD HONG KONG'S CONCERNS VERY MUCH IN MIND. LAND WAS A GOOD ILLUSTRATION OF AN AREA WHERE THERE WOULD NEED TO BE A LONG PROCESS OF EDUCATION IF THE CHINESE WERE TO UNDERSTAND HOW HONG KONG'S ARRANGEMENTS WORKED.

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FUTURE OF HONG KONG: SECRETARY OF STATE'S DISCUSSION WITH EXCO.

## SUMMARY

1. A GENEROUS AND STATESMANLIKE RESPONSE FROM SIR S.Y. CHUNG AND THE UNOFFICIALS TO THE ACHIEVEMENTS MADE DURING THE SECRETARY OF STATE'S VISIT. CONSENSUS THAT IF WORK ON ANNEXES PROCEEDS SATISFACTORILY, PARTICULARLY ON NATIONALITY AND LAND, BASIS FOR AN AGREEMENT ACCEPTABLE TO HONG KONG PEOPLE NOW EXISTS. PROPOSAL FROM UNOFFICIALS THAT POSSIBILITY OF SIGNATURE BY CHINESE AND BRITISH PRIME MINISTERS SHOULD BE CONSIDERED IN ORDER TO GIVE GREATEST POSSIBLE STANDING TO AGREEMENT IN THE EYES OF HONG KONG. TEXT OF UNVEILING STATEMENT DISCUSSED AND APPROVED.

## DETAIL

2. SIR S.Y. CHUNG, SPEAKING ON BEHALF OF ALL THE UNOFFICIALS, EXPRESSED WARM APPRECIATION FOR THE ACHIEVEMENTS MADE DURING THE SECRETARY OF STATE'S VISIT AND PAID GENEROUS TRIBUTE TO THE EFFORTS OF ALL INVOLVED. IT HAD BEEN A MAJOR ACHIEVEMENT TO SECURE CHINESE AGREEMENT TO THE VITAL COMPONENTS WHICH MADE THE AGREEMENT BINDING AND COMMITTED THE CHINESE TO DRAFT THE BASIC LAW IN ACCORDANCE WITH ITS PROVISIONS. ON THE JOINT LIAISON GROUP, SIR S.Y. SAID THAT THE PROLONGATION OF ITS LIFE BEYOND 1997 WOULD BE OF INESTIMABLE VALUE IN OFFSETTING THE ADVERSE EFFECTS OF ITS ESTABLISHMENT BEFORE 1997, AND WOULD PLAY AN IMPORTANT PART IN ACHIEVING ACCEPTANCE OF THE FINAL AGREEMENT. PROVIDED THE OUTSTANDING ISSUES OF DETAIL, AND IN PARTICULAR THE NATIONALITY QUESTION, WERE RESOLVED SATISFACTORILY, SIR S.Y. HAD HIGH HOPES THAT THE FINAL AGREEMENT WOULD BE ACCEPTABLE TO HONG KONG PEOPLE. THE PROGRESS MADE DURING THE SECRETARY OF STATE'S VISIT REPRESENTED AN IMPORTANT ACHIEVEMENT IN A NEGOTIATION WHERE THE BALANCE OF FORCES WAS UNEQUAL.

3. THE SECRETARY OF STATE THANKED SIR S.Y. FOR HIS RESPONSE AND IN TURN PAID TRIBUTE TO THE SUPPORT AND ADVICE OF THE EXECUTIVE COUNCIL THROUGHOUT THE NEGOTIATING PROCESS.

4. SIR S.Y., WITH SUPPORT FROM HIS UNOFFICIAL COLLEAGUES, THEN PROPOSED THAT THE POSSIBILITY OF HAVING THE AGREEMENT SIGNED AT PRIME MINISTERIAL LEVEL SHOULD BE CONSIDERED. THE MORE SENIOR AND AUTHORITATIVE THE PERSON WHOSE SIGNATURE APPEARED ON THE TEXT, THE MORE HONG KONG PEOPLE WOULD BE INCLINED TO HAVE CONFIDENCE IN IT. FAILING THE PRIME MINISTER, SIR S.Y. AND HIS COLLEAGUES SAID THAT THE SECRETARY OF STATE SHOULD SIGN. THE SECRETARY OF STATE TOOK NOTE AND SAID THAT HE APPRECIATED THE IMPORTANT PRESENTATIONAL ARGUMENT.

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5. THE POINTS OF INTEREST WHICH EMERGED FROM SUBSEQUENT DISCUSSION WERE AS FOLLOWS:

(A) A NUMBER OF MEMBERS ENQUIRED ABOUT TIMETABLE: THE SECRETARY OF STATE EXPLAINED THAT INITIALLING IN LATE SEPTEMBER, A PARLIAMENTARY DEBATE IN DECEMBER AND SIGNATURE BY THE END OF THE YEAR WAS THE MOST LIKELY TIMETABLE. ON RATIFICATION, HE HAD MADE IT CLEAR TO THE CHINESE THAT THIS WAS LIKELY TO TAKE MONTHS RATHER THAN WEEKS. UNTIL HE HAD DISCUSSED THIS WITH THE PRIME MINISTER AND THE MANAGERS OF THE PARLIAMENTARY TIMETABLE, IT WOULD BE DIFFICULT TO GIVE ANY PRECISE INDICATION.

(B) MISS LYDIA DUNN ASKED WHETHER, NOW THAT THE CHINESE HAD SECURED AGREEMENT ACCEPTABLE TO THEM ON SOVEREIGNTY, RIGHT OF ADMINISTRATION AND THE JOINT GROUP, WAS THERE ANY NEGOTIATING LEVERAGE LEFT FOR THE BRITISH SIDE TO USE IN DISCUSSION OF THE ANNEXES. THE SECRETARY OF STATE SAID THAT THE CHINESE NEGOTIATORS WERE LIKELY TO BE AFFECTED BY THE TIME PRESSURES WHICH THEY THEMSELVES HAD CREATED. FURTHERMORE, THERE HAD BEEN A VERY SPECIFIC ENDORSEMENT FROM DENG XIAOPING ON THE MAINTENANCE OF THE CAPITALIST SYSTEM IN HONG KONG WHICH COULD BE EXPLOITED TO BRING PRESSURE TO BEAR ON THE CHINESE (AND WOULD BE MADE CLEAR IN PUBLIC) THAT THE POINTS WHICH REMAINED TO BE SETTLED WERE NOT MERE DETAILS, BUT WERE MATTERS OF SUBSTANCE. SIR PERCY CRADOCK SAID THAT THE CHINESE WERE LIKELY TO BE MORE HELPFUL IN FURTHER DISCUSSION FOLLOWING THE AGREEMENT REACHED DURING THE SECRETARY OF STATE'S VISIT, BUT THIS SHOULD NOT BE OVERSTATED. THEY WERE LIKELY TO MOVE MUCH MORE QUICKLY TO THEIR BOTTOM-LINE, BUT THE LIKELIHOOD OF ANY GREATER DISPOSITION TO SHIFT THEIR BOTTOM-LINE WAS OPEN TO QUESTION. UNOFFICIAL MEMBERS SUGGESTED THAT, IF THE PUBLIC IN HONG KONG COULD BE MADE AWARE IN GENERAL TERMS OF WHAT WE WERE SEEKING ON THE OUTSTANDING ISSUES, THEY WOULD BE ENCOURAGED TO SPEAK UP IN SUPPORT OF THESE REASONABLE DEMANDS. THERE WAS EVIDENCE THAT PRESSURE OF PUBLIC OPINION IN HONG KONG DID HAVE AN EFFECT ON THE CHINESE.

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6. A DRAFT OF THE SECRETARY OF STATE'S UNVEILING STATEMENT WAS DISTRIBUTED. THE COUNCIL READILY ENDORSED THE GENERAL APPROACH AND SUGGESTED A NUMBER OF HELPFUL AMENDMENTS. FINAL TEXT BEING TELEGRAPHED SEPARATELY.

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