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PREM 19/789

PART 1 ends:-

AJC 50 PM

8-9-82

PART 2 begins:-

Peking Tel 508

8/9

PRIME MINISTER

HONG KONG

You asked me to arrange:

(a) A brain storming session with officials on Hong Kong. This can be done on Friday morning. I suggest that it is attended by Lord Maclehorse, Sir Anthony Ackland, Mr. Donald and a Legal Adviser. Agree?

(b) A meeting with a small group of Ministers. This could be done next Monday. May I invite the Foreign Secretary, the Defence Secretary, the Home Secretary and perhaps the Chancellor and the Attorney General?

A. J. COLES

8 September 1982



c. FWO

FWO

10 DOWNING STREET

*From the Private Secretary*

8 September 1982

The Prime Minister has asked me to thank you for your interesting letter of 7 September. It deals with a subject of great importance and your views are most useful to the Prime Minister as she approaches her visit to the Far East later this month. Mrs. Thatcher is grateful to you for writing.

A. J. COLES

Mr. Daniel Koo

FWO

# The Shui Hing Company Limited

(Established 1926)

Shui Hing House, 23-25 Nathan Road,  
Kowloon, Hong Kong.

7th September, 1982.

Mrs. Margaret Thatcher,  
Prime Minister of United Kingdom,  
No. 10 Downing Street,  
London,  
United Kingdom.

Prime Minister

To see. I have  
signed briefly - you  
believe. MR 5/9

mt  
Dear Mrs. Thatcher,

I am writing to you as a Hong Kong Chinese businessman born here whose family has been identified with economic progress in Hong Kong for several generations. I am also writing as a person deeply concerned with the future of Hong Kong and conscious of the fact that you will shortly visit China to discuss this important matter. My company is, I believe, one of the largest retail establishments in Hong Kong and I have tried over many years to contribute my experience to the operation of many local associations and organisations. I am presently a General Committee member of the Hong Kong General Chamber of Commerce and the Vice Chairman of the Chinese General Chamber of Commerce of Hong Kong.

I believe that my views are supported by a very large number of Hong Kong businessmen and citizens. I have no doubt that you will have received many other letters on this subject and direct representations from concerned Hong Kong people and organisations. I have no doubt also that you will have been well briefed and advised by the Foreign and Commonwealth Office and by His Excellency Sir Edward Youde and his Hong Kong advisers. It must be assumed therefore that the 1997 issue has been thoroughly examined and considered in the light of the possibilities open to Britain and the P.R.C. to work out an amicable and mutually beneficial arrangement which will prove acceptable to all three of the principal parties involved.

I should like to make a number of observations on important aspects of the discussions which will take place in Beijing and which I consider to be essential elements of any settlement of the 1997 issue. These are as follows :

- a) Chinese sovereignty over the entire area of Hong Kong should be conceded if, as we believe, the Chinese will not settle for less. The question of sovereignty for a large part of Hong Kong, i.e. the New Territories hardly arises since it is on lease from China.

... / 2

There is no possibility, in my view, that China will agree to any arrangement which treats the ceded and leased areas differently.

An agreement which re-establishes Chinese sovereignty over the territory must therefore require the present treaties of tenure to be invalidated.

- b) British administration in its full meaning and capacity must be retained. That will mean that the present British legal system and full British responsibility for the maintenance of law and order should be retained. I believe that any form of agreement which is predicated on joint responsibility for administration of Hong Kong cannot possibly succeed. Any indication that such a system may be under serious consideration would, I believe, have rapid adverse influence on the confidence of business and other investors in Hong Kong leading to an outflow of funds, assets and people.

Hong Kong's economic success is due, in part, to a very high level of national and international confidence in the stability of our free enterprise system which, in turn, is the result of enlightened Government policies and procedures. Such a system is completely incompatible with the severe restrictions inherent in a state-controlled economy.

- c) The Hong Kong currency should not be altered or linked in any way, other than at present, through the free play of financial market forces, with the Chinese Ren Min Bei currency. Hong Kong's financial services are presently among the best in the world with very large potential for further growth and development. Hong Kong can work side by side with the PRC and each can contribute to the other but neither has the capacity to adjust to the economic and social systems of the other.
- d) An agreement to replace the present treaties could be negotiated under Article 30 of the revised Chinese constitution which appears to have been worked with such a possibility in mind. An agreement, whether or not linked to Article 30, should be open ended with a clause ensuring that 20 years warning will be given by either side should major changes be required.

No doubt negotiations will be difficult and time consuming and neither side may gain all it wishes. I believe, however, that your Government, with the best interests of the people of Hong Kong at heart, will seek a just and acceptable solution, one which will recognise the realities of our peculiar and unique situation.

Hong Kong people will help you in any way they can. Once a successful outcome has been achieved, I have no doubt that British administration and Chinese business acumen will continue to meld together to provide Hong Kong with a future even more illustrious than our past.

The future of Hong Kong lies substantially in the hands of the British and Chinese Governments. The great undertaking represents the future livelihood of over five million people, the great majority of whom undoubtedly seek to maintain the economic status quo. May I wish you every success in your personal endeavours and those of your Government, to bring about a satisfactory and long lasting solution to Hong Kong's future. We shall all be happy to see you in Hong Kong later this month.

Sincerely,  
Daniel Ho

FLEETWAY  
ONTON SKIN  
MADE IN U.S.A.

Confederation of British Industry  
Centre Point  
103 New Oxford Street  
London WC1A 1DU  
Telephone 01-379 7400  
Telex 21332  
Telegrams Cobustry London WC1

From  
Sir Campbell Fraser  
President

**CBI**  
CONFEDERATION OF  
BRITISH INDUSTRY

*Original on Japan  
Policy*

6th September 1982

*Dear Prime Minister,*

In advance of your visit to Japan, China and Hong Kong in the second half of September, I thought you might like to know some of the main pre-occupations of CBI membership over trading relations with these countries, particularly with Japan.

The main concern is readily identifiable: the ever-widening trade gap between this country and Japan. The imbalance in Japan's favour in 1980 was £1.11bn, and that rose, for the first ten months of 1981, to £1.24bn, and for the first six months of 1982 to £990m. Despite the fact that full trade figures for 1981 are still not available, the worsening trend is clear, and it increases further in 1982, when the total gap might well reach £2bn. In the context of trade we consider that the Japanese market has a long way to go before it can genuinely be considered as open to foreign companies, despite the January 1982 measures to promote imports, followed by a second liberalisation package in May. Experience shows that the distribution channels for foreign goods in the Japanese market provide a more effective constraint than quotas or tariffs.

We are also concerned that, despite apparent legal freedoms, there are notable obstacles to be overcome in the acquisition by foreign companies of shareholding in Japanese firms. Allied to this are problems affecting the operations of foreign banks and insurance companies in Japan, which affect British interests among others.

We can and will continue to press the need for changes in the EEC industrial forum in Brussels; it is worth saying that the pressure on Japan for greater liberalisation should be mainly from European sources as opposed to a purely British source. Although you personally are highly regarded in Japan it is desirable to avoid specifically anti-British attitudes being generated in Tokyo. In that context, it was interesting to read in The Times of 18 August, a "vigorous criticism of British management, workers and unions" by Mr. Miyoshi, the Director-General of the Keidanren. The timing of these comments is clearly designed to coincide with your visit, but they are made in the context of a desire to promote measures to strengthen industrial co-operation between Japan and Britain, which will be central to your discussions in Japan. Our own discussions with the Keidanren over the past two years drew some acknowledgement that there was room for more even-handedness in Japanese commercial practices, but as time has passed we have seen little evidence of this. We would agree with the Keidanren, however, that at least some of the hope for improvement lies in the hands of British management.

/ ...



With regard to Japanese imports into the UK market, we are still concerned over the actual and potential threats from Japan's penetration in such sectors as cars and electronics. Not only do existing voluntary restraint agreements need official support from both the British and Japanese Governments, but we need Governmental help, in the shape of specific monitoring by our Embassy staff of developments in Japan which could threaten sectors of British industry. At the same time, we appreciate that British industry itself, via trade associations and companies already operating in Japan, can and must contribute to this process.

As to beneficial inward investment by Japanese companies in the UK, it would be unfortunate if the apparent shelving of the Nissan project discouraged further Japanese investment in Britain, although we of course appreciate that HMG as such can do little directly to influence such decisions by Japanese industry. Once again, the main thrust need be from British management.

I should add that we aired all these matters at a very useful meeting with Lord Cockfield and Mr. Rees on the 16 July, and reached a large measure of agreement on the nature of the problems, even if the solutions are not instantly discernible.

Turning to China, the pre-occupations are on a smaller scale, but nevertheless, they exist. Our exports to China in the first three months of this year have dropped to £21m from a figure of something like £50m in the comparative period in 1981, whereas, over the same period, our imports from China have risen sharply. It is appreciated that the solution to much of this problem lies in the hands of British business, but in spite of a proliferation of inward missions from China, the trading situation from the UK's point of view does not seem to improve.

Two of the complications are: the growing emphasis on counter trade and purchase (i.e. barter); an increasing difficulty in locating the Chinese decision makers, due to reallocation of responsibilities; and, as yet, the undecided roles of such central bodies as the industrial ministries and provincial authorities. Another reason for a diminishing British interest in the market may be a tendency to last minute alterations on the part of the Chinese in project and contract requirements.

But there are bright spots. Within the past few months, Dunlop has signed a contract worth £6.2 m with the Guangzhon Rubber Bureau for the modernisation of a tyre factory near Canton.

You may be interested to know that the Sino-British Trade Council, supported by the CBI, will be paying one of its regular visits to China in November of this year, but should you feel able to discuss in advance of this visit any of the difficulties which British businessmen find in China, this would be very useful.

Finally, no doubt one of your most important preoccupations will be the situation in 15 years' time, when the leased territory in Hong Kong reverts to China. While we realise that this is largely a political matter, British business interests in Hong Kong are so considerable that there cannot be any of them who are not concerned to know what intentions the Chinese authorities may now have in mind.

I have tried in this letter to avoid going into excessive detail in outlining our members' main concerns in this very important part of the world. However, to the extent that you might think it desirable, should your officials wish to go into some of these matters in greater depth, those members of our staff who are involved will be very ready to assist.

*Yours sincerely,  
Campbell Fraser*

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London, SW 1.

6 September 1982

Prime Minister's Visit to Hong Kong

I enclose a letter which the Prime Minister has received from Dr. Jeremy Bray. This suggests certain specific steps which might be taken to secure a satisfactory future for Hong Kong.

I should be grateful if you could let me have a draft reply for signature by the Prime Minister by Monday 13 September.

AJC

John Holmes, Esq.,  
Foreign and Commonwealth Office.

to

6 September 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 31 August.

I shall of course place this before the Prime Minister and a reply will be sent to you as soon as possible.

AJC

Dr. Jeremy Bray, M.P.

*ds*



Foreign and Commonwealth Office

London SW1A 2AH

6 September 1982

Prime Minister

It would be helpful to know tomorrow morning whether you are content with the suggestions in this letter for press handling. Agree?

A.J.C. 7/9

Dear John,

Call on the Prime Minister by the Governor of Hong Kong and 5 Unofficial Members of the Executive and Legislative Councils

FLAG A /

In his letter of 20 August, Tim Flesher confirmed that the Prime Minister had invited the Governor of Hong Kong and 5 Unofficial Members of the Executive and Legislative Councils to lunch at 1245 on 8 September. I enclose a brief for the Prime Minister. You will see that we recommend that the Prime Minister should concentrate on exploring the views of the Unofficials on the future and assuring them that she will take these into account in her talks with Peking.

FLAG B /

As you know, there is great interest in Hong Kong in this visit. The Governor has proposed that a press statement should be issued after the lunch to pre-empt further questioning. I enclose a draft for your consideration and would be grateful if you would let me have a copy of the final version. I assume that you will wish to issue it.

The Governor has also pointed out that he will need to make a more detailed statement on his return to Hong Kong. He would not of course allow himself to be drawn on the views expressed by the Prime Minister, but he believes that it would be helpful if he could say that he and the Unofficial Members conveyed to the Prime Minister a full account of public opinion in Hong Kong, including expressions of views by organisations, in the press, in correspondence with Unofficial Members and through opinion surveys. He would decline to expand further on the draft statement, but would emphasise that the issue would not be settled all at one go, and that progress would be step by step. He would also like to be able to reveal publicly on his return that he will be accompanying the Prime Minister

/to Peking



to Peking. This would be a helpful supplement to an otherwise meagre public line, given the level of media interest in Hong Kong. I would be grateful for your confirmation that this is acceptable.

*Yours ever*  
*J E Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 DOWning Street

S E C R E T

PRIME MINISTER'S LUNCH WITH THE GOVERNOR OF HONG KONG AND  
5 UNOFFICIAL MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS:  
8 SEPTEMBER 1982

POINTS TO MAKE

General Introduction

1. Very pleased to see you all. Most grateful to you for agreeing to come to London for this meeting. Had useful discussion with Governor on 28 July. Agreed then it would be helpful to invite Unofficial Members to give first-hand account of views of Hong Kong people on the future before my visit to China.

The Future of Hong Kong

2. What is the general climate of opinion? Have seen reports of opinion polls suggesting that public wants continuation of British administration - is this a fair reflection of views? Do different sections of the community hold different views?


3. Are public aware of the possible options, and of the realistic constraints? What account should be taken of the Chinese claim to sovereignty over the whole territory?

4. How soon must a solution be found? Have noticed the considerable speculation in Hong Kong, and the recent Stock Market decline - hope that expectations are not too high that

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a quick agreement will be reached. What elements of a solution would be acceptable in Hong Kong? Does the Chinese Government show any signs of having understood these?

5. How can HMG best demonstrate that the views of the people of Hong Kong are being taken into account? At what stage should the process of consultation be widened? How should this be done?

Prime Minister's Visit to China

6. Will take views expressed by Unofficials fully into account in talks in Peking. Governor will accompany me. Not possible to judge what solution might emerge until have had authoritative exchange of views with Chinese leaders.

7. Don't expect talks to produce any immediate settlement. But hope for agreement to hold serious talks on a basis acceptable to both sides. This will be major achievement. The issue will not be settled all at one go. Progress will be step by step.

8. Important to restrain speculation in Hong Kong about possible solutions or about likely British negotiating position. Must avoid Chinese being provoked into unhelpful comment before visits - cf Lord Carrington's visit in 1981.

/Prime

- 2 -

S E C R E T



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Prime Minister's Visit to Hong Kong

9. Realise that people will expect me to report on progress of talks in Peking. Unlikely to be able to say much publicly without jeopardising negotiations. Helpful if expectations of results of visit could be lowered.

10. Visit provides opportunity to discuss other bilateral areas of interest, eg commercial relations. Unhealthy if future totally dominated visit.

Other Issues (Defensive)

11. ( The main purpose of the Unofficials' call is to brief the Prime Minister on opinion in Hong Kong about the future of the territory. They are unlikely to raise other issues, but might mention some bilateral questions briefly:

- (a) the Multi-Fibre Arrangement;
- (b) the British Nationality Act (and, in particular, the question of nomenclature in passports);
- (c) Overseas Students' Fees;
- (d) Vietnamese refugees.

12. The Unofficial will have had an opportunity to raise these issues with Lord Belstead and the Secretary of State on 7 September. The Prime Minister may, therefore, wish merely to listen to the Unofficials' views, and to suggest that these subjects be discussed at greater length during her visit to Hong Kong.)

S E C R E T

S E C R E T

BACKGROUND

General Introduction

1. Apart from the Governor, Sir Edward Youde, the party consists of the following 5 Unofficials:

- (a) Sir S Y Chung CBE. Aged 64. Senior Unofficial Member of Executive Council since 1980. Member of Legislative Council 1968-78 and Executive Council since 1972. A self-made industrialist. Chairman of Sonca Industries Ltd and Grindleys Dao Heng Bank Ltd.
- (b) Mr Roger Lobo CBE. Aged 59. Senior Unofficial Member of Legislative Council. Member of Legislative Council since 1972 and Executive Council since 1978. A businessman of Portuguese origin, and closely involved with Catholic charities and voluntary organisations.
- (c) Mr Li Fook-wo CBE. Aged 65. A member of Executive Council since 1978, and a member of Legislative Council 1973-81. A banker from one of the inner group of established Hong Kong families.
- (d) Miss Lydia Dunn OBE. Aged 42. A member of Legislative Council since 1976 and now (since

/1

S E C R E T

S E C R E T

1 September 1982) also of Executive Council.

A successful executive with John Swire and Sons Ltd, and representative of the younger Chinese professional class. A member of the Textiles Advisory Board.

- (e) Mr Chan Kam-chuen. Aged 57. A member of Legislative Council since 1980. A building services manager with Cable and Wireless Ltd with close links to labour organisations.

The Future of Hong Kong

2. The Special Study on Hong Kong prepared by the Foreign and Commonwealth Office was submitted to the Prime Minister on 3 September. This gives an analysis of the interests of HMG, the PRC and the people of Hong Kong, considers various options for the future of Hong Kong that seem to be impracticable and suggests that the approach that would promise the best chance of success would be the negotiation of a 'management contract' that would allow for continued British administration of the whole of Hong Kong in return for an acknowledgement of Chinese sovereignty over the whole territory.

3. Annex E of the Study gives the Governor's views on current opinion in Hong Kong, as reflected in opinion polls, the media and informal soundings, and suggestions on ways in which consultation might be carried out after the Prime Minister's visit.

/Prime

  
S E C R E T

Prime Minister's Visit to China

5. The Hong Kong Study recommended that the Prime Minister's main objectives in her talks with Chinese leaders should be:

- (a) to secure Chinese agreement that negotiations about the future should begin very soon on a basis acceptable to both sides, and that this agreement be registered in a joint statement in terms that will strengthen confidence in Hong Kong;
- (b) failing this, to ensure as far as possible that any public statements made from the Chinese side during or after the visit represent a significant step forward to maintain confidence in Hong Kong; and
- (c) throughout the discussions and the follow-up, to avoid a damaging confrontation with the Chinese.

6. It is expected that the Chinese will assert that the whole of Hong Kong is Chinese territory, that they must 'recover' sovereignty over it all but that subject to this they wish to preserve the prosperity and stability of Hong Kong. They may suggest that this could be achieved by making Hong Kong a 'Special Administrative Region' within China, run largely by Hong Kong Chinese under a similar system to the present but without continued British administration.

/Prime

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S E C R E T

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Prime Minister's Visit to Hong Kong

7. The Prime Minister will arrive in Hong Kong on the afternoon of 26 September. It has been proposed that she should meet Unofficial Members of the Executive and Legislative Councils at 09.45 on 27 September, attend a lunch with businessmen at 13.00 and give a press conference at 16.00. A speech has been drafted for the businessmen's lunch mainly on the theme of the opportunities that Hong Kong offers for UK commercial interests. The main objective of interest at the press conference, however, and at the meeting with Unofficial Members, will undoubtedly be the progress of talks in Peking.

8. The Hong Kong Study has suggested that the public presentation in Hong Kong of the results of the Prime Minister's visit to China will be very important, and that the aim should be:

- (a) to avoid any public impression of a clash with the Chinese;
- (b) to emphasise that HMG and the Chinese share a common objective in maintaining the prosperity and stability of Hong Kong;
- (c) to provide evidence of a step forward (eg the holding of talks).

Some suggested answers to possible questions have been provided in Annex P. These are for illustrative purposes and will need revision depending on progress in Peking.

/OTHER

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OTHER ISSUES

Multi-Fibre Arrangement (MFA)

9. First round of EC-Hong Kong bilateral negotiations took place on 1 - 15 June and ended without agreement. Negotiations due to restart on 15 September. Main point of disagreement is over EC's demand for cutbacks averaging 10% on quotas for 5 of the most sensitive categories of low-cost imports.

10. Commission's mandate is a negotiated compromise between wishes of member states. UK resisted pressure from other member states for more severe treatment for Hong Kong. UK domestic industry faces severe difficulties: since beginning of 1980, output down 25% and over 170,000 jobs lost.

British Nationality Act 1981 (BNA)

11. Hong Kong fears that change in citizenship title as result of BNA may lead other countries to tighten up immigration rules for British Dependent Territories' Citizens (BDTCs). Germany and Austria have for some time required visiting Hong Kong passport holders to obtain visas. Spain have recently introduced this requirement and France may be about to do so. HMG have made representations on Hong Kong's behalf but so far with little success.

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- 5 -

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12. At instigation of UMELCO, Hong Kong Government have recently proposed inclusion of word 'National' (eg, 'British National') in passports of BDTs. There is no basic legal objection to this, but Home Secretary's view is that there could be other problems, and possible legal complications. Now under discussion between Whitehall Departments.

Overseas Students' Fees


13. Decision in November 1979 to withdraw subsidy from fees paid by overseas students, including those from Hong Kong, caused ill-feeling in Hong Kong. Drop of 50% in Hong Kong students coming to UK 1979-81. Hong Kong Government instituted loan scheme, but this has not achieved aim of maintaining number of Hong Kong students coming to UK.

14. Overseas Students Trust recommended in June home student status for students from Dependent Territories, with, in the case of Hong Kong, joint subsidy by HMG and HKG. HKG have now proposed means-tested system of joint-funding: HMG's share estimated to be £1.6 million in 1983/4, rising to £5.1 million in 1987/8. Now being considered by Whitehall Departments.

/Vietnamese

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Vietnamese Refugees in Hong Kong

15. In 1979, HMG agreed to take 10,000 Vietnamese refugees from Hong Kong. Have taken more, because of those covered by previous agreed quota and ship rescue cases.

16. Number of refugees in Hong Kong now rising again (from 10,000 in April to over 13,000 now), owing to seasonal influx and falling off of resettlement places worldwide. Arrivals in July were 1,613, highest monthly figure since July 1979, and nearly 50% of regional total. From July, all new arrivals placed in closed camps to await resettlement, but no noticeable effect yet on numbers arriving.

Hong Kong and General Department

3 September 1982

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S E C R E T



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BACKGROUND

General Introduction

1. Apart from the Governor, Sir Edward Youde, the party consists of the following 5 Unofficials:

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3. Annex E of the Study gives the Governor's views on current opinion in Hong Kong, as reflected in opinion polls, the media and informal soundings, and suggestions on ways in which consultation might be carried out after the Prime Minister's visit.

/Prime

PRESS STATEMENT FOR ISSUE AFTER THE PRIME MINISTER'S  
LUNCH WITH THE GOVERNOR OF HONG KONG AND 5 UNOFFICIAL  
MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS ON  
WEDNESDAY 8 SEPTEMBER

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The Prime Minister today received a group of Unofficial Members of the Executive and Legislative Councils of Hong Kong, accompanied by the Governor, and entertained them to lunch. Her object was to hear at first hand their views on the climate of opinion in Hong Kong and of the wishes of the people there on the question of the future of the territory before her visit to Peking and Hong Kong at the end of September. The Prime Minister assured the Unofficial Members that in her discussions in Peking she would fully represent the views and interests of the people of Hong Kong.

DRAFT

Press statement for issue after the Prime Minister's Lunch with the Governor of Hong Kong and 5 Unofficial Members of the Executive and Legislative Councils on 8 September

'The Prime Minister today received a group of Unofficial Members of the Executive and Legislative Councils of Hong Kong, accompanied by the Governor, and entertained them to lunch. Her object was to hear at first hand their views on the climate of opinion in Hong Kong and of the wishes of the people there on the question of the future of the territory before her visit to Peking and Hong Kong at the end of September. The Prime Minister assured the Unofficial Members that in her discussions ~~the views and wishes of the people of Hong Kong would be taken fully into account.~~

*in Peking she would fully represent the views and interests of the people of Hong Kong.*

SEP 1982

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PRIME MINISTER

Future of Hong Kong

The special study, commissioned at the end of July, is attached, together with a minute by the Foreign and Commonwealth Secretary.

OD is due to discuss Hong Kong on Wednesday. In view of the bulkiness of this study, I have investigated whether it would be possible for OD to discuss the question later. But it would be very difficult to get the key Ministers together on any other date before your departure for the Far East.

Are you content:

- a) that OD should discuss Hong Kong on Wednesday;
- b) that the Foreign Secretary should circulate this study to members of OD as a basis for the discussion?

No - most A.J.C.  
 certainly not. I have not  
 ever begun the  
 consultations  
 not

6 September, 1982



PM/82/74

PRIME MINISTER

Future of Hong Kong: Special Study

1. At your meeting on 28 July you asked that a study should be prepared on the future of Hong Kong to examine possible solutions to the problem and the implications of changes which might result from an agreement with the Chinese.

*Filed in folder  
with back of file.*

2. I now attach a paper which has been prepared under the supervision of John Belstead. A number of Departments have been consulted at official level in preparing the detailed aspects which are covered in the Annexes, but the views set out and the recommendations are the responsibility of the FCO alone. The Governor of Hong Kong and the Ambassador to Peking have been consulted throughout.

3. The paper argues that while it will not be easy to reconcile the divergent positions of the British and Chinese Governments early action is necessary to prevent a slide in confidence in Hong Kong. It examines a number of options and concludes that the likeliest way of reconciling our position and that of the Chinese, while meeting the interests of the people of Hong Kong as a whole, would be some form of 'management contract'. It would be necessary to ensure that any such arrangement provided very firm guarantees for the continuation of British administration beyond 1997. Only on that basis could any acknowledgement of Chinese sovereignty be considered.

*And if they are not OK then what?*

/4.



SECRET

4. The paper considers in detail what such an arrangement might involve. The view is that, provided agreement could be reached with the Chinese, there would be no legal or other objections to a system in which British jurisdiction continued after acknowledgement of Chinese sovereignty. The implications for such areas as the constitution, defence, finance and citizenship are discussed in the various annexes.

5. While I am sure there must be no illusions that the negotiation of such a package would be at all easy, I think it represents the best alternative to an evaporation of confidence in Hong Kong, a rundown of the Territory's economy and, by 1997, its eventual removal from British control. It is the view of the Governor of Hong Kong that such an arrangement would best meet the interests of the people there. I think that it would also be saleable in this country both in Parliament and to public opinion. It would indeed represent a very considerable foreign policy success.

6. One point of particular importance is that the maintenance of confidence in Hong Kong's future would discourage people in Hong Kong from trying to leave and come to this country. For this purpose I think it would be important to ensure that any agreement with the Chinese allowed for the continuation of the status of British Dependent Territories Citizens there. We would not achieve this by a change which involved removing the inhabitants' rights to British Dependent Territories' passports. Hong Kong people do not of course have the right of abode in the UK. Provided that they have confidence in their future in the Territory they will not want to leave but any move to deprive them of overall British protection would destroy their faith in the effectiveness of the new arrangement.

/7.

SECRET





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7. I hope the study will form the basis of your briefing on Hong Kong, but you may wish to discuss this further.

8. I am copying this minute and the study to the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for Trade and Sir R Armstrong. Because of the extreme sensitivity of the subject and of the policy options discussed in the paper, the subject is being handled on a very restricted basis within the FCO. In Hong Kong the existence of the study is only known to the Governor, the Chief Secretary, the Commander British Forces, the Attorney General and the Political Adviser. I should be grateful if my colleagues would ensure that the need-to-know principle is exercised rigorously and that no reference be made to the study in discussion with other Departments or Hong Kong without prior reference to the FCO.

A handwritten signature in dark ink, appearing to be 'FP', with a horizontal line underneath.

(FRANCIS PYM)

Foreign and Commonwealth Office  
3 September 1982

SECRET

SEP 12 1982

SEP 3 1982

11



A.J.C. (or)

②

DR. JEREMY BRAY M.P.  
HOUSE OF COMMONS  
LONDON SW1A 0AA

01- 219 4057 (direct line)  
01- 219 3000 (switchboard)

Prime Minister

I shall let you have a  
draft reply.

e3

31st August, 1982.

A.J.C. 6/9.

MT

Dear Prime Minister,

As you know, your visit to Peking and Hong Kong is a matter of great interest in Hong Kong because of what you will have to say about its future. As I think I am the only Member of Parliament born in Hong Kong, and one who has maintained an interest in its development for the 20 years since I entered Parliament, I hope you will allow me to offer some suggestions.

The future of Hong Kong and its five million inhabitants lies in its continuing role in the economic development of China. This was the theme of my speech in the House on 11 April 1963, when I had the first debate on Hong Kong in the House since the war. I enclose a copy, as it is still relevant. I also enclose a copy of a document from the Hong Kong Prospect Institute, which I expect you too have received, giving what seems to me a realistic political analysis of the position, and suggestions which I would support.

However to cement interests on all sides more specific steps might be taken:

1. China might declare a "special economic zone" adjacent to the New Territories, stretching towards and perhaps including Canton.
2. Britain and China would declare that it was their intention to foster the integrated economic development and harmonisation of economic and social conditions in the "special economic zone" and in Hong Kong.
3. The "special economic zone" would remain wholly under Chinese administration which would seek to realise for the "special economic zone" the economic development achieved in Hong Kong. Britain would recognise the ultimate sovereignty of China over the whole of Hong Kong, but would accept the indefinite continuation of its role in Hong Kong, with the nature and role of particular institutions being progressively harmonised with those of the "special economic zone".
4. As a first step the Bank of England and the Bank of China, together with Hong Kong interests, would have talks about the gradual development of a financial system in which Hong Kong and the "special economic zone" operated together as an open financial system integrated with the international financial system.

5./

5. To meet the Chinese hunger for Western known how, institutes of technology and further universities would be set up in Hong Kong and the "special economic zone" of the highest international standard.

It would be neither necessary nor possible during your visit to do more than set the agenda for talks leading to such developments. The long term economic, social and political reality would be that five million people in Hong Kong became an indistinguishable element in a larger "special economic zone" of 20 million Chinese, which would itself achieve a special role in the development of China as a whole, perhaps with similar zones round Shanghai and elsewhere.

I am sure you will be told that it will go down well if you attribute the success of Hong Kong to the virtues of the Chinese people, while saying that Britain will be ready to continue its humble role in whatever ways may be of service.

You have my best wishes for the success of your visit.

Yours sincerely  
Jeremy Bray

Rt. Hon. Margaret Thatcher, M.P.,  
Prime Minister,  
10 Downing Street,  
SW1.

# 香港前景研究社

Hong Kong Prospect Institute, Ltd.,

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鄧宇頌  
黃錫永（義務司庫）

July, 1982.

Dear Mr. Bray,

Enclosed herewith for your reference and/or publication is a document of the Hong Kong Prospect Institute Ltd. : The Future of Hong Kong: an approach and a proposal, with its attachment A Résumé of the Proposed "Sino-British Treaty of Friendship and Co-operation.

With our best wishes,

Sincerely yours,

Hong Kong Prospect Institute Ltd.



The Hongkong Prospect Institute Ltd.

THE FUTURE OF HONGKONG:  
AN APPROACH AND A PROPOSAL

July, 1982.  
HONGKONG

## I. BASIC PRINCIPLES

In any consideration of the future of Hongkong, there are three basic principles which, in our view, ought to be observed.

First, we should focus our attention on the effects in the future instead of the rights and wrongs of the past.

Second, any proposal for the future of Hongkong should base itself on what is practicable and on what is acceptable to the three parties concerned, viz., Peking, London and the residents of Hongkong.

Third, in considering the political future of Hongkong, we should take Hongkong as a whole and should not treat the lease of Kowloon and the New Territories as a separate issue.

## II. THE POSITION OF THE THREE PARTIES CONCERNED

According to our understanding, the three parties concerned have each its own position regarding the future of Hongkong:

### (i) Peking

(a) The sovereignty over the whole of Hongkong belongs to the People's Republic of China and the existence of unequal treaties signed by the Ching Government and Great Britain cannot be recognised.

(b) The present prosperity of Hongkong rests on its political and economic system and as this prosperity is of vital importance to the modernization of China, the existing system should, for a period of time, be maintained.

(ii) London

(a) The British rule of Hongkong rests on provisions in past treaties. If these treaties are not recognised, the British rule will lose its legal basis. Great Britain, however, appears not to be without understanding of the Chinese position concerning sovereignty over Hongkong and to be willing, at the opportune moment, to negotiate with China over this matter.

(b) It is because the British cannot ignore the legal basis of their rule of Hongkong that the expiry of the lease of North Kowloon and the New Territories cannot be swept under the carpet. Hence before the sovereignty problem of the whole of Hongkong can be solved through negotiations, ways and means for solving the issue of the lease, such as its extension, must first be found.

(iii) Hongkong Residents

(a) The majority of Hongkong residents, while they have no objection to the positions of both China and Great Britain, nevertheless, hope that some satisfactory solution in keeping with their own interests and aspirations can be found, and believe that, in the search for such a solution, they ought to have the right of active participation.

(b) It is their view that, if the authorities concerned fail to find a satisfactory solution before it is too late, the investors and the elite will have no alternative but to look to their own interests individually or collectively.



### III. POINTS OF VITAL IMPORTANCE IN THE SEARCH FOR A SOLUTION

In the search for a satisfactory arrangement for the political future of Hongkong, it is essential to take the following points into account:

#### (i) Conciliation

As the legal point concerning the sovereignty of Hongkong Island and South Kowloon is of paramount importance, if undue emphasis is put either on the position of Peking or on the position of London, the result can only be a confrontation which is detrimental to the interests of all parties concerned. Hence the only way to pursue the matter is to seek a path on which to move gradually towards solution in a conciliatory spirit. On the one hand, Great Britain should recognize the right on the part of China to claim sovereignty over the whole of Hongkong and show willingness, at the opportune moment, to negotiate with the Chinese Government on the matter. On the other, China ought to recognize that it is of mutual benefit and in keeping with the interests and wishes of the Hongkong inhabitants for Hongkong to remain, for a considerable period of time, under British rule.

#### (ii) Stability

While recognizing that China should eventually regain the sovereignty of the whole of Hongkong, we must bear in mind that in say the next thirty to fifty years, a stable and prosperous Hongkong will have a crucial role in the modernization programme of China, a role only Hongkong is apt to play. Thus, should an announcement be made too soon that the sovereignty of Hongkong will revert to China, this would most probably create great instability. There would be an outflow of foreign and local capital as well as

movable industrial equipment and a migration of professionally and technically qualified people, leaving Hongkong in an impossible situation. Rather than a help to China, Hongkong would then be a great burden instead. Of course, after regaining the sovereignty of Hongkong, Peking could reshape Hongkong according to its own plans, but in the transitional period, there would inevitably be political and economical changes and socio-psychological disorder. This period of disruption and readjustment could be very long. Thus, exactly when China needs Hongkong most in its attempt at modernization, Hongkong would become a worse than useless encumbrance.

(iii) Practicability

Any agreement on the future of Hongkong should avoid unnecessary complications. If the method of a "joint communique" is adopted, it may be simple but will have no legal validity. If a treaty specifically dealing with the status of Hongkong is signed, it would seem to necessitate an immediate solution to the problem of sovereignty, but, as we all understand, it is not yet the most opportune time to deal with this basic and controversial issue. Again, if Hongkong is to be made into an international free port or a United Nations trust territory, this would complicate matters further by involving parties other than China and Great Britain.

IV. THE SOLUTION MOST WORTHY OF CONSIDERATION

From the above considerations it can be seen that the ideas of a joint-communique, of a treaty on the status of Hongkong, or of making Hongkong an international free port, are all infeasible. Furthermore, there has also been the proposal that Hongkong should become an independent state. But this is obviously unacceptable to Peking, and there is the further

disadvantage of not being in accordance with the wishes of the majority of Hongkong inhabitants. Again, the proposal that Hongkong should be taken back by China and turned into a special autonomous region or a special economic zone, may, in the very distant future, be a feasible plan worthy of serious consideration, but in the less distant future, it is not a good plan as it would have too much of an unsettling effect on Hongkong. As to other proposals, they all have their advantages and disadvantages, and we do not propose to go into them here. We, members of the Hongkong Prospect Institute, having held a number of discussion meetings, have reached the tentative view that the most feasible plan is for a "Treaty of Friendship and Co-operation" to be concluded between China and Great Britain. This proposal is set out in the attached document "A Résumé of the Proposed 'Sino-British Treaty of Friendship and Co-operation'."

The Hongkong Prospect Institute Ltd.

A RÉSUMÉ OF THE PROPOSED

"SINO-BRITISH TREATY OF FRIENDSHIP AND CO-OPERATION"

July, 1982.

HONGKONG

## I. PRELIMINARY

The proposal contained herein is one of the schemes formulated with an eye to solving the urgent issue of the "Status of Hongkong". As the lease of the New Territories and North Kowloon will expire in a relatively short time, the inhabitants of Hongkong and other people involved in this matter are increasingly concerned over the problems arising from Hongkong's changing status and political future. A number of schemes have evolved during the past year, and, from the Chinese side, it has been reported that the idea of a "special economic zone" was brought up, and the notion of a "free port" was also mentioned. A "special economic zone", applied to areas which had all along been under the existing system at work in China, may yield certain results, but, if a similar scheme were to be applied to Hongkong, it would imply the bringing about of a series of extreme changes which will have drastic impacts upon Hongkong's political, economical and social structures. The existing rule of law in Hongkong, with its legal implication for foreign investors, as well as the status of Hongkong as a financial centre based on the Hongkong Dollar as the medium of exchange, will all undergo drastic change. With the tremendous impacts brought about by such changes, it would be inevitable for Hongkong to lose its characteristic functions and would have to depend, instead, upon China for help in its effort to adjust itself to the new system. The upshot is that, should the "special economic zone" scheme be introduced for Hongkong, China not only could not expect to get any benefit from Hongkong in her modernization programmes, but would have to make very considerable efforts, in terms of both manpower and expenditure, to help Hongkong undergo the metamorphosis. From the viewpoint of China's national needs and priority, the idea of turning Hongkong into a "special economic zone" is detrimental to her interests rather than beneficial. The Chinese authorities, it would appear, have gradually come to realise this point. As to the suggestion of a "free port",

if this means an "international free city" similar in nature to Danzig, it would directly involve the sovereignty of the territory in Hongkong, an issue which is anathema to the Chinese authorities. Other suggestions such as "trusteeship" would involve all kinds of problems in international law and is acceptable only if both China and Great Britain are willing to make great sacrifices. On the other hand, the Chinese and the British authorities have hitherto looked upon the problem of Hongkong as a bi-lateral issue and will not countenance any intervention from a third party (including sundry and all international bodies).

If a scheme, acceptable both to the two nations' authorities and to Hongkong itself, as well as objectively capable of meeting the needs of all parties, is to be formulated, the normal, and most feasible course of action would be for the two countries to conclude a new "Sino-British Treaty of Friendship and Co-operation". Hence the proposal herewith.

## II. AN OUTLINE OF THE NATURE AND CONTENTS OF THE "SINO-BRITISH TREATY OF FRIENDSHIP AND CO-OPERATION"

### (i) The Nature of the Treaty

The treaty proposed herewith does not deal with the Hongkong issue as its main item. Rather, it aims at re-defining the Sino-British relationship as a whole. The Hongkong issue has never been an isolated one and should, therefore, be looked upon as part of the foreign policies of the two nations. The proposed enactment of a new treaty has as its objective the firm establishment of a relationship of close co-operation between China and Great Britain, with the hope of maximising Hongkong's function as the centre feature of such co-operation, so that the modernisation programmes in

China can be better facilitated. The discord between China and Great Britain left over from history should be swept away under the new treaty.

(ii) Contents of the Treaty

(a) Tangible Items of "Friendship and Co-operation"

The detailed items for co-operation between China and Great Britain should be clearly defined, enumerated and programmed. These items should include co-operation and co-ordination in the field of scientific and technological research; bi-lateral economic development projects and joint ventures; co-operation in various programmes of advanced and specialised training; co-operation and concerted efforts to safeguard the world peace, etc.. And as soon as the treaty is concluded, concrete, detailed steps towards the implementation of a clear-cut programme of co-operation should be taken immediately.

(b) The Hongkong Clause

There should be a specific clause in the proposed treaty to indicate that the existing system at work in Hongkong will remain unchanged, and that Hongkong is the main base for substantive co-operation between China and Great Britain. A declaration should be made to the effect that Hongkong's status quo does not involve any difference of views with regard to sovereignty. In this clause, Great Britain recognises China's claim to sovereignty over the entire territory of Hongkong, and expresses her preparedness to negotiate the transfer of Hongkong's sovereignty with the Chinese government at the appropriate time, while China recognises the fact that, under existing circumstances, the continuation of British administration in Hongkong is beneficial to both nations, as well as meeting the interests and aspirations of the residents, or the people of Hongkong.

Both parties should state clearly in the Hongkong clause their intention to see Hongkong progress further on the path of democratisation of local government, of the rule of law and of economic prosperity and social stability.

(iii) Procedure

Although this treaty is not enacted solely for the sake of Hongkong, it affects the lives and prospects of the people of Hongkong to a very great extent. Prior to the official conclusion of the treaty, public opinion from Hongkong' residents should be solicited in order to strengthen their sense of participation and to enhance their understanding of the true meaning of the treaty, which consists in bringing about a normal relationship of co-operation between the two nations, clearing-up all the complications left by the historical accidents, and serving the interests of China and other parties concerned, without involving national pride or disgrace, lest deviated responses should be aroused. When the treaty is concluded and signed, representatives of the government and the people of Hongkong should be officially present to bear testimony to the undertaking pledged by both the Chinese and the British authorities to the people of Hongkong.

(iv) Duration

The duration of effectiveness of the treaty should be sufficiently long. There should at any rate be no fewer than thirty years in order to give guarantee that all the co-operation programmes can be implemented in a period of time long enough to be deemed stable. Amendments and renewals should be handled in accordance with internationally accepted precedence. It should however, be stated clearly that any amendment or renewal must comply with the aspiration and well being, i.e., the advice and consent, of the people of Hongkong.



[Mr. MARTEN.]  
of any ground running at night. Complaints are investigated immediately.

As the hon. Member for Loughborough appreciates, a great deal of work is also being done by way of research to lessen the noise of jets. This is being carried out in Britain at the National Gas Turbine Establishment, near Farnborough, at the College of Aeronautics, at Cranfield, and at Southampton University. The Government spent £400,000 on this last year. It costs B.O.A.C., which is only one airline, £410,000 a year in extra fuel and lost payload because of the noise; £10,000 a year to maintain the suppressors; and the suppressors themselves cost B.O.A.C. £397,000 as an item of capital equipment. The earth banks and mufflers cost £400,000. Hon. Members will see what one airline is doing in the way of suppressing noise to help the constituents of those who have taken part in the debate.

Mr. Hunter rose—

Mr. Marten: I must press on with my speech.

The hon. Member for Loughborough asked about the new planes and another hon. Member asked whether these would be noisier. The development of the bypass engine, in particular, has reduced jet noise for the same engine power. The Trident will be 8 to 10 perceived noise decibels quieter than the Comet for the same thrust. There are signs of great progress in this respect. The B.A.C.111 is in the same range as the Trident.

I think that the hon. Member for Loughborough has taken this matter up with the British Aircraft Corporation in respect of the VC10. The Corporation tells me that the VC10, with an all-up weight of 299,000 lb., registered 101½ perceived noise decibels, whereas the Super VC10, with an all-up weight of 320,000 lb., registered 102 perceived noise decibels. This is a remarkable feat for this remarkable plane. I am sure that hon. Members agree that this is progress in the right direction.

There are many more points which I would very much like to make. I have the answers to many questions and will send them to hon. Members. But time has run out and I must give way to the next debate.

These are some of the things being done to tackle this most irritating problem. It is a problem which I recognise. I thank my right hon. and learned Friend the Member for Chertsey for having raised the question and I thank other hon. Members for having contributed to the debate. I hope that they will accept that the Government are doing their best to solve the problem. I should like to end by joining the hon. Member for Eton and Slough, who has now left the Chamber, in expressing sympathy particularly with those who are sick and old and who, perhaps, suffer more than any other people from this very irritating noise.

### HONG KONG

1.39 p.m.

Dr. Jeremy Bray (Middlesbrough, East): It is many years since the House had an opportunity of giving its full attention in debate to the affairs of Hong Kong. I am sure hon. Members will feel that it is high time that we did so. I trust, Mr. Deputy-Speaker, that you will allow this debate to overrun at least to the extent it has been overrun by its predecessor.

Hong Kong is now our most populous dependent territory, with a population higher than that of New Zealand and a foreign trade equal to half that of the whole of India. It has our sole common frontier with the Communist world and it is our most intimate contact with the most numerous race on earth. I think that hon. Members will agree, too, that we have a special responsibility for the 3½ million people, mostly Chinese, who have chosen to live in Hong Kong.

I know that many hon. Members wish to speak so I will plunge straight into the consideration of the future of Hong Kong without dwelling on its great past achievements or upon the spell which it casts over all who visit Hong Kong, a charm which I have known since my childhood, for I was born there. Much needs to be said about the social and political developments within Hong Kong and I hope that my right hon. Friend the Member for Middlesbrough, East (Mr. Bottomley) will have an opportunity to say something about this. My time is limited, so I shall concentrate on the economic and external affairs of the territory.

The key to the understanding of Hong Kong and of its future is its unique economic position. Hong Kong has enormous overseas trade. Since 1952, when industrialisation and local manufactures began in a big way, Hong Kong has had a very large gap in its balance of visible trade. In 1962, the value of exports was only 66 per cent. of imports, leaving a gap of £140 million in an import bill of £420 million. Most modern economies certainly do have a deficit on visible trade, including our own, but whereas our gap has not exceeded 10 per cent. in any recent year, Hong Kong's is 34 per cent. India certainly has a comparable gap, but this is in a country which has an enormously larger domestic economy, and in India it is covered by carefully negotiated loans between Governments. Hong Kong receives no Government loans.

Some of the gap in the balance of Hong Kong's trade is filled by invisible earnings, notably from tourism, but undoubtedly the large remaining gap indicates a very substantial inflow of capital. The source of this capital, I understand, is mainly overseas Chinese all over South-East Asia who are investing their money in Hong Kong, and who find it profitable to do so. No one seems able to say just how large is this capital inflow. One reason for this lack of statistics—which is being remedied now—is the happy position of the Hong Kong Government in having practically no national debt.

As the Government have not had to borrow money they are not bothered about having to pay it back, or paying interest on debt. So the Hong Kong Government say that the balance of payments is self-regulating, surely an ideal economy in the eyes of the hon. Members opposite. The Government just do not have to know what is going on in the way that we have to know in this country. This is fine so long as the capital inflow continues. Even if the capital inflow falls off the Government can still avoid embarrassment to themselves or to the currency by reducing their spending on capital goods, on capital programmes. It would be the private citizen, the ordinary worker, who would suffer.

Much of the money coming into Hong Kong is now being invested in property. The supply of land is very limited and

it all belongs to the Government and the Government make a good deal of money by the sale of land leases at prices which put London's land prices quite in the shade. Government income from this source in 1962-63 doubled over that of the previous year to over £11 million, and it is sufficient to finance the whole of the Government's impressive public works building programme for housing, education, and health services. So the private property investor from abroad is financing the Government as well as the private building in the economy.

There is, of course, a spiral in this investment boom. It is highly profitable to invest in property which is to house the people who are to build the next property in which one is to invest, and so on. The Hong Kong Government are very well aware of the dangers of such a boom running away to the point where it "busts", with a fall off in new investment destroying the profitability of former investments. In his Budget speech on 27th February, the Financial Secretary in Hong Kong said that one of his

"nightmares is that by rapid and wasteful expansion we come to the end of our resources with an incomplete and unbalanced structure".

In other words, it is necessary to build up Hong Kong's industry and trade so that it can earn a sound living. Certainly, no one development will secure this, but it does seem to me that a new element is needed in the situation other than the old battle of tariffs and quotas.

It would be helpful, at this point, to consider the political position of Hong Kong. It exists because it is useful to China, not only as a meeting place with the outside world but as a very substantial source of foreign exchange. Hong Kong imports, mainly of food, from China in 1962 were £75 million. Its exports to China were £5 million, leaving China with foreign exchange earnings of £70 million.

From China's point of view this meeting place with the outside world is as convenient in British hands as any. As an independent territory everyone recognises that it would become a cockpit for the struggle between Chinese Nationalists and Communists which could only lead to its absorption into China, with the loss of its value as a meeting place. Also,

[DR. BRAY.]

in this House we should recognise that the integrity and efficiency of the Administration in Hong Kong is seen to contribute greatly to the well-being of the people of Hong Kong. That is not to say, of course, that there is no urgent need to continue reform and advance.

Looking to the future, if we can build up a sufficient mutual interest between Peking and ourselves in the continuing prosperity of Hong Kong, then, when the time comes at the end of the century, I can see no reason why the lease of the New Territories should not be renewed, with the courtesy of a host providing a guestroom for an honoured guest who brings long life and happiness.

We have, then, a dual task. We have to build up a viable economy in Hong Kong which will not depend on the capital inflow continuing for ever, and we have also to build up mutual interest between Peking and ourselves in maintaining and increasing the prosperity of Hong Kong. This debate occurs at a time when the Chinese Vice-Minister for Trade, Mr. Lou, is on a visit to London. I am sure that we all hope that his visit has been worth while and that it will lead to growth of trade and good relations between his country and ours.

China is today looking for practical technological "know-how", for experience in modern industry, for plant and machinery for advanced engineering products for the manufacture of fertilisers, chemicals, steel, and so on. This is precisely the kind of industry which Hong Kong lacks, partly because of its shortage of land and water, but mainly because of a lack of a large domestic market for products with high transport costs.

If such industry were placed in Hong Kong, China would hardly wish to find the foreign exchange to buy its products, so that would not help. On the other hand, such industry could be built up by China under her own control and ownership on her own territory, next to Hong Kong and complementary to Hong Kong's industry. A modern fertiliser, oil, petrochemical and steel complex needs access to deep water berths for 100,000 ton tankers and ore carriers which could well be built round Hong Kong.

No less important than access for bulk materials is nearness of supporting in-

dustry, trade, and commerce, air communications and know-how. All of these can be found in Hong Kong, where most major British firms are already well represented and where development could proceed rapidly and efficiently. With Canton the centre of communications in South China, with ample crude oil supplies available in the world, with the rich iron ore deposits in Hainan, the river estuary between Canton and Hong Kong is the natural site for this type of heavy industrial development in South China.

China, naturally, would wish to shape such development to meet her own need to build up agriculture and the infrastructure of industrialisation. So it would be more an industrial development exercise than merely an old-fashioned spot sale. Payment would need to be arranged so that it was made out of, for example, the increased food production which would be achieved by the use of fertiliser from new fertiliser plants. China would, therefore, ask for credits. The British Government in London could easily raise loans in Hong Kong to finance such credits, provided that they carried a guarantee from London, for which, in turn, London would obtain a guarantee from Peking. An arrangement on these lines could well provide an export trade from this country of £30 or £40 million a year for many years.

Such a development scheme would give Hong Kong the solid base which it needs. By industrialising and raising the standard of living in China, it would also avoid the sharp economic differences between the two sides of the border which can make it humanly and, therefore, politically unstable. It would give both China and ourselves a major interest in the continued prosperity of Hong Kong.

This may seem to many a daring scheme, but I ask the House to consider whether anything less is possible. It seems to me to be in line with the most constructive efforts of British foreign policy in the past. It is, of course, a matter for us in Westminster, and we should not expect—we obviously cannot expect—the Hong Kong Government to take the initiatives involved. Certainly, everything will depend on the reaction of people in Hong Kong and of Peking, and, in turn, their reaction will depend

on their judgment of the British attitude. To them I would merely say that, for what my judgment as a back bencher is worth, the British Government would consider some development on these lines with interest.

Any such development would, of course, have international repercussions. I am sure that everyone in the House will be thinking of India to which we owe our especial loyalty as a free and democratic member of the Commonwealth whose own development is our dearest wish. Development of relations such as those I have described with China through Hong Kong would not be possible if China and India were engaged in a border war. I have this week called upon the Indian High Commissioner to tell him that this proposal which I am making, far from being unfriendly to India, is intended to cement the foundations of peace. I think this is understood. No one understands more clearly than our friends and colleagues in New Delhi that a necessary foundation for peace is the end of poverty and hunger and the development of the economy in China as in India itself. We have supported many projects such as this in India, and I earnestly hope that we shall support many greater projects. This proposal in relation to China and Hong Kong is therefore in no sense competitive with India, a country which has an even greater stake in the peace of South-East Asia than we have.

To sum up, I would ask whether we see Hong Kong like the string of crackers with which our Chinese friends so delight to welcome us, flashing and banging and then leaving the deepened stillness of a tropical night; or whether we see Hong Kong like a seed which will grow into a tree which the children and the children's children of all those millions in China and in Hong Kong will see, and seeing, give thanks for the labour, the wisdom and the piety of their ancestors.

I do not expect the Government to reply today to the points which I have made, but I would ask them to consider what they should do and to listen to the reaction and responses of our friends in the East; and then to respond with vigour.

1.56 p.m.

Mr. Anthony Royle (Richmond, Surrey): I congratulate the hon. Member for Middlesbrough, West (Dr. Bray) upon initiating this debate. All of us who are interested in Hong Kong welcome the chance to talk about the Colony at Westminster. I have visited Hong Kong twice during the past year, and have just returned from there.

While, naturally, all of us on both sides of the House were very interested in the hon. Member's thoughtful suggestions about the Colony's future, I feel that much of what he put forward is not practical at this moment. I believe that the more appropriate way to strengthen Hong Kong is to strengthen her trade position, that is, by strengthening her ties with and her markets in South-East Asia and other parts of the world. While it is right that we should all give careful thought to such problems as the hon. Member put forward with such care, I feel that there are other matters that we ought to discuss today.

The first thing that struck me when I heard that there was to be this debate was the vital necessity for the future of Hong Kong that the confidence of businessmen and other countries in Hong Kong should continue. When I returned from Hong Kong at the end of January I was wholeheartedly impressed with the drive and dynamism which exists there. It has a population of 3½ million people, increasing at a rate at the moment of nearly 250,000 per year. Some of this is natural increase and some is the result of illegal immigration, with which I shall deal later, if there is time. It is, therefore, vital for Hong Kong that it should expand to keep pace with the population increase. This expansion can be done and is being done through the drive and vigour of the Chinese community and the help that it gets from our excellent administration in the Colony.

During a short visit to Red China, to Canton, I saw the industrial situation—I do not know whether the hon. Member has recently done so—in Kwantung Province, of the Chinese People's Republic. This is another reason which leads me to believe that now is not the moment to put forward economic suggestions for building industry in the way the hon. Member suggested. I do not believe that it could have practical acceptance from Peking at this moment.



FILE

RM

Hong Kong

10 DOWNING STREET

*From the Private Secretary*

20 August, 1982

Thank you for your letter of 19 August about the visit to London by Unofficial Members of the Executive and Legislative Councils of Hong Kong in September. I can confirm that the Prime Minister has invited the Governor together with representatives mentioned in your letter to lunch at 1245 hrs on 8 September and that we are content with the Governor's suggestion about the announcement of the visit to London.

I am sending a copy of this letter to Michael Arthur (Lord Belstead's Office).

(Timothy Flesher)

J E Holmes, Esq.,  
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

London SW1A 2AH

19 August, 1982

1) Agreed X by telephone  
20/8. 2) Miss Stephens to  
note guest list for  
Hong Kong lunch 3) See  
letter to me. JH 20/8.

Dear Tim,

Future of Hong Kong: Visit to London by Unofficial Members of  
Executive and Legislative Councils in September

Further to my letter of 16 August, the Governor of Hong Kong has now invited the following Unofficials to accompany him on his visit to London next month when they will call on the Prime Minister at 12.45 on 8 September:

Sir S Y Chung Senior Unofficial Executive Council (a self-made industrialist).

Mr R H Lobo Senior Unofficial Legislative Council (of Portuguese origin). He is representative of the minority communities in Hong Kong.

Mr Li Fook-wo Executive Council, a banker and a representative of the inner group of established Hong Kong families.

Miss Lydia Dunn Legislative Council. A successful executive and representative of the Chinese professional class in Hong Kong.

Mr Chan Kam-chuen Legislative Council. A building services manager with Cable and Wireless Ltd and in close touch with the labour force side of industry.

X / He has suggested that a press announcement regarding the visit should be made in Hong Kong on or about 26-27 August, ie, about 10 days before the visit takes place, in order to avoid any dramatic speculation in Hong Kong about why a 'sudden visit' is necessary. The announcement could be made in the terms already agreed with you earlier in case there was a leak (copy attached), with the addition of the Unofficials' names.

The Governor's suggestion seems sensible to us and we support it, but I would be grateful to know if the Prime Minister is content. The Governor has requested a reply from us as soon as possible.

I understand that a general press release formally

/announcing

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announcing the Prime Minister's visit to the Far East will be issued on or shortly after 24 August. However, it is already widely known in Hong Kong that her visit will take place, and reference was made to it in connection with the Governor's previous visit to London in July.

I am copying this letter to Michael Arthur (Lord Belstead's office), Mr Donald and Mr Giffard.

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

T Flesher Esq  
Private Secretary  
10 Downing Street

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## PRESS LINE IN CASE OF LEAK

It is expected that the Governor will visit London again early in September for further consultations on the Prime Minister's visit to the Far East. He will be inviting some Unofficial Members from UMELCO, including the Senior Unofficial, Sir S Y Chung, to accompany him on this visit. It is expected that an appointment will be arranged for a call on the Prime Minister.

## FORMULA FOR USE ON AN UNATTRIBUTABLE BASIS

The Prime Minister is of course interested in obtaining views from Hong Kong before she sets off on her tour.



Box

PRIVATE AND CONFIDENTIAL

19th August 1982

The Future of Hong Kong - the British Interest

I am writing, on the Prime Minister's behalf, to thank you very much for your letter of 17th August, with which you enclosed a paper of the same date, which you had prepared in view of the Prime Minister's forthcoming visit to China and Hong Kong.

I will show your letter and its enclosures to the Prime Minister on her return to London on Sunday.

She will, I know, be most grateful to you for having taken the trouble to prepare this most helpful paper.

With best wishes.

IAN GOW

Henry Keswick Esq

bcc. John Coker.

I am reading this after Paul Byrnes' letter. In addition to the points I am sure I should give to see Henry Keswick and someone from Standard Chartered (I don't think it can be Tony White's). We will take it up with John Coker as well as he returns not

Copied to J.C. 25/8/82  
with PM's notes

TELEGRAPHIC ADDRESS:  
MATHESON LONDONEC3  
TELEX: 8953378 MANDCO  
TELEPHONE: 01-480 6633

*100%*  
*box*  
Matheson & Co., Ltd  
3 Lombard Street  
London EC3V 9AQ

PRIVATE & CONFIDENTIAL

17th August, 1982

Dear Prime Minister

THE FUTURE OF HONG KONG  
THE BRITISH INTEREST

In view of your forthcoming visit to China and Hong Kong, I enclose a short paper on how I see the British interest in the future of Hong Kong which I hope you will find useful.

*Yours sincerely*

*Henry Keswick*  
Henry Keswick

The Rt. Hon. Margaret Thatcher, M.P.,  
Prime Minister,  
10 Downing Street,  
LONDON, S.W.1.

Enclosure:

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THE FUTURE OF HONG KONG  
THE BRITISH INTEREST

BACKGROUND ON CHINA

China is a subsistence agricultural economy which can most unlikely ever make any real economic progress per capita; the rest of the world is too small and China's population too large for her to get any foreign trade leverage going. A complex egalitarian régime is not helpful to economic progress. China's dilemma on Hong Kong is highlighted when China considers the "luxury" of her foreign exchange earnings (40% US\$6.5 billion but only 1.5% of GDP) which are not practically replaceable (without an independent Hong Kong dollar supported by large remittances from South East Asia). The Four Modernizations and the Soviet threat, not Hong Kong, are China's day to day principal priorities. There is possibly some naivety among Chinese politicians (and Hong Kong Belongers) about Hong Kong's worth to Britain.

HONG KONG'S WORTH TO BRITAIN

Hong Kong's wealth is over 95% (particularly the Hong Kong Bank) owned by Hong Kong Belongers. The Swire and Keswick families, Cable & Wireless, The Standard Chartered Bank and Inchcape shareholders have significant (to them

only and not to the British public) direct investments but these are not vital to the U.K. economy. The U.K. export trade is a useful 1% (£580 million) but not fundamental and the British Financial Service business there is opportunist and mobile as is direct portfolio investment. Hong Kong's success is a good advertisement for British governed administration.

#### PITFALLS TO WATCH FOR

1. The "wisdom" of potentates who want to get involved as middlemen for natural self interest reasons (Y.K. Pao/Lord Kadoorie/Hong Kong LEGCO Members/ The writer of this memorandum/etc.).
2. The "wisdom" of expatriate British managers of Hong Kong Belonger owned business institutions who can confuse the British interest with their own comfortable mercenary employment.
3. The "wisdom" of Foreign Office and Hong Kong Government Civil Servants who may tend to be "activists" in order for the "achievement" of a settlement.
4. "The Barbarian visiting the Middle Kingdom" scenario played by China on all foreign visitors.

#### THE STRENGTH OF BRITAIN'S POSITION

While I have minimized Hong Kong's worth to Britain, it nevertheless remains more than marginally positive.

Morally Britain has an obligation to the five million Hong Kong Belongers. In practice even if Britain's interests were to withdraw (ignoring morality) this would not be achieved free of political repercussions without a willing Chinese receiver. The negative wish for no trouble is one of the prime reasons for Britain aiming for a satisfactory Hong Kong settlement.

Of the three participants in the Hong Kong triangle, Britain's position is the strongest because her interest should be the least committed for the present situation to be extended. It should be important for the Chinese (Financial) and it certainly is for the Hong Kong Belongers (free way of life).

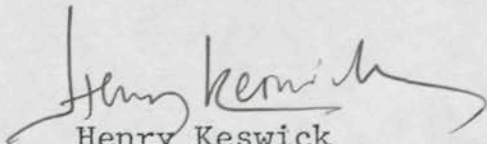
#### BRITAIN'S SUGGESTED ATTITUDE TO CHINA

1. It is a Chinese problem first and foremost and they must be encouraged to see it as such.
2. Britain should be prepared to co-operate by playing it long to help China with a cautious step by step solution to the Lease expiry date legal problem, in keeping with their domestic political position but this does not mean any unnecessary or unreasonable compromise on the British side (Sovereignty, Flags, Commissioners, etc.).
3. It would be helpful for the Chinese interest if the Prime Minister can make a reassuring long term mutual interest statement as this will help confidence in the short term.

4. Soviet hegemony is a good common subject for discussion when the Chinese become touchy on facing up to the realities of their weak position in Hong Kong.

Hong Kong is a child of uncertainty (Korean War, 1967 Red Guards, Refugees, Trade Quotas) it has a good record of surviving temporary down turns of confidence. Faint heart vacuums are soon filled. It tends to cry wolf too often, particularly in the MacLehose era (Nationality Bill, Student fees, Textile Quotas, Refugees). It should be able to prosper with occasional crises right up to the day it returns to China 2098?

China's civilization is so old and its confidence in its eventual sovereignty over Hong Kong so clear that it sees the time span of solving the Hong Kong and Taiwan problems as being far longer than a European would with our comparatively modern civilization.

  
Henry Keswick  
London  
17th August, 1982.

MFJ

17 August 1982

The Prime Minister who is on holiday at present has asked me to thank you for your letter of 13 August which I will ensure that she sees on her return. I know she will wish to write to you herself then.

TIM FLESHER

Sir Yue-Kong Pao, C.B.E., J.P.

GR 250  
CONFIDENTIAL  
FM HONG KONG 171021Z AUG 82  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 882 OF 17 AUGUST

CONFIDENTIAL

FOLLOWING FOR CLIFT, HKGD  
YOUR TELNO 600 : MY VISIT TO LONDON IN SEPTEMBER

*Carry on!*  
*These are the*  
*Under guests, I*  
*think.*

I HAVE NOW INVITED THE FOLLOWING UNOFFICIALS TO ACCOMPANY ME ON  
MY VISIT TO LONDON EARLY IN SEPTEMBER AND THEY HAVE ACCEPTED.

*TF*  
*18/8*

- (A) SIR S.Y. CHUNG. SENIOR UNOFFICIAL EXECUTIVE COUNCIL (A  
SELF-MADE INDUSTRIALIST),
- (B) MR. R.H. LOBO. SENIOR UNOFFICIAL LEGISLATIVE COUNCIL (OF  
PORTUGUESE ORIGIN). HE IS REPRESENTATIVE OF THE MINORITY  
COMMUNITIES IN HONG KONG,
- (C) MR. LI FOOK-WO. EXECUTIVE COUNCIL, A BANKER AND A  
REPRESENTATIVE OF THE INNER GROUP OF ESTABLISHED HONG KONG  
FAMILIES,
- (D) MISS LYDIA DUNN. LEGISLATIVE COUNCIL. A SUCCESSFUL EXECUTIVE  
AND REPRESENTATIVE OF THE CHINESE PROFESSIONAL CLASS IN  
HONG KONG,
- (E) MR. CHAN KAM-CHUEN. LEGISLATIVE COUNCIL. A BUILDING SERVICES  
MANAGER WITH CABLE AND WIRELESS LTD AND IN CLOSE TOUCH WITH  
THE LABOUR FORCE SIDE OF INDUSTRY.

2. WE ALREADY HAVE AN AGREED LINE IN CASE NEWS OF THE VISIT SHOULD  
LEAK (YOUR TEL UNDER REFERENCE) BUT IN ORDER THAT IT SHOULD APPEAR  
TO BE PART OF AN ORDERLY PROCESS I THINK IT WOULD BE HELPFUL TO  
ANNOUNCE IT HERE ABOUT TEN DAYS BEFORE IT TAKES PLACE (I.E. ABOUT  
26/27 AUGUST). THE ANNOUNCEMENT COULD BE IN THE TERMS ALREADY  
AGREED WITH THE ADDITION OF THE NAMES OF THOSE WHO WILL BE  
ACCOMPANYING ME. IF WE LEAVE IT UNTIL THE LAST MINUTE THERE WILL BE  
DRAMATIC SPECULATION ABOUT WHY A "SUDDEN VISIT" WAS NECESSARY.

3. GRATEFUL FOR CONFIRMATION, IF POSSIBLE BY THE OPENING OF BUSINESS  
HERE ON FRIDAY, 20 AUGUST THAT THERE IS NO OBJECTION TO OUR MAKING  
THIS ANNOUNCEMENT.

YOUDE

LIMITED  
HD/HK & GD  
HD/NEWS D  
PS

PS/LORD BELSTEAD  
PS/PUS  
MR DONALD

COPIES TO  
MR COLES  
NO 10 DOWNING STREET]

CONFIDENTIAL





Foreign and Commonwealth Office

London SW1A 2AH

16 August 1982

Dear Tim,

Responded by phone 17/8. The FCO will let us have details of UMERCO representatives. The meeting / lunch has been arranged at 12.45. JH 17/8.

Future of Hong Kong: Visit to London of Unofficial Members of Executive and Legislative Councils in September

At the Prime Minister's meeting on 28 July with Sir Edward Youde, the Governor of Hong Kong, it was agreed that Sir Edward would return to London in early September with representatives of the Unofficial Members of the Executive and Legislative Councils of Hong Kong (UMELCO). The idea was that they should see the Prime Minister in order to explain the feeling in Hong Kong on the main issues.

I understand that Wednesday 8 September at 1230 would be convenient for the Prime Minister. I should be grateful for your confirmation so that we can let the Governor know.

12.45

Yours ever

John Holmes

(J E Holmes)  
Private Secretary

T Flesher Esq  
10 Downing Street

S. Yue-Kong Pao CONF. LTD. J.P.

*Original on ~~File~~*  
*China Policy ~~File~~*

WORLD-WIDE SHIPPING GROUP  
16th Floor, World Shipping Centre  
Harbour City  
7, Canton Road, Kowloon  
Hong Kong  
Tel: 3-7327333 Telex: HX43247

13th August, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
London W1  
ENGLAND

*Prime Minister:*  
*To be aware. We*  
*will give you a draft*  
*reply.*

*Dear Prime Minister,*

*JH.*  
*24/8*

For your possible interest and reference, I am pleased to have had translated and enclose copies of two articles published in the latest issue of the Chinese magazine "Zheng Ming". As you will no doubt have been informed, the question of the future of Hong Kong has during the past few weeks become one of the most serious public concerns locally and to a degree is also responsible for the dramatic fall of the Hong Kong stock market. Clearly a number of previous assumptions are now being examined more closely on this issue, and it appears that confidence among the community here is indeed waning. It would, in my personal opinion, be of considerable benefit if a serious representative of the Hong Kong Government, either H.E. The Governor or the Chief Secretary, be seen to be involved during your visit to China. I of course appreciate the complexities involved in your selection of the personnel who will accompany you but do believe that a presence from Hong Kong would be most opportune.

In light of the intense preoccupation of the people of Hong Kong now with the year 1997, and the importance attached to your visit to Beijing next month, it is very much hoped that the results of your discussions will at least allow an announcement that the United Kingdom and the People's Republic are both agreed on the importance Hong Kong has for both countries, and that they will cooperate in doing everything possible to preserve the economic stability of Hong Kong and to assure its potential for growth, while both Governments continue during the next few years to negotiate the detailed legal and technical questions involved in Hong Kong's future. This might help to alleviate some of the

Cont'd. 2/-

World-Wide Shipping Group  
20/21st Floors, Prince's Building  
Hong Kong

The Rt. Hon. Mrs. Margaret Thatcher, MP  
13th August, 1982  
Page 2

short-term fears now building up which could, if left unchecked, prejudice the ultimate solution that clearly needs more time for negotiation.

The good wishes of the people of Hong Kong will be with you for a successful trip to China, and I am of course very much looking forward to seeing you in Beijing and Shanghai in a few weeks' time.

With kind regards,

*yours sincerely*  
*J. K. Fung*

Encl.

1. Ownership and Governorship

The future of Hong Kong is of course a complex subject, but I believe it can be boiled down to two central issues: ownership and governorship. An owner can be at the same time the governor. The converse is also true: an owner may not also necessarily be a governor.

It is one thing to have ownership claims; quite another to exercise ownership rights. It is often the case that the owner relinquish his rights to manage or take care of his property and asks that someone else stand in his place and assume management. This is the case when the owner of a house authorizes a caretaker to look after his rental affairs; or when the owner of a car hires a chauffeur to take care of his vehicle.

In my view, in the satisfactory solution to the problem of Hong Kong's future a clue may perhaps be found from recognising this all-important distinction.

2. Who shall assume the task of running Hong Kong?

The question of who will run Hong Kong of course depends on the decision of those who own Hong Kong. On the question of Hong Kong's ownership, there is already a consensus. China had formally or informally made claims to Hong Kong's ownership, a claim to which U.K. had given its tacit consent. In a way, the issue concerning ownership has already been satisfactorily resolved. It is perhaps the more remarkable in that the resolution is achieved without precipitating any overt military confrontation. The same characteristic response of tacit acknowledgement marks the British attitude towards the recent rumour about China's move to regain sovereignty over Hong Kong. One can therefore be confident that this time, like before, the issue will be settled peacefully and without much ado.

3. Regaining Hong Kong's sovereignty is a different issue from regaining Hong Kong.

Not a few of the Hong Kong people will of course be happy to see China making no claim over Hong Kong's sovereignty and letting it remain

the way it is. To them, any changeover will give them forebodings of a major disaster. Such feelings are entirely understandable, if a little naive and claustrophobic.

The root of such fears is to confuse the term ownership with governorship. . Thus, on hearing the news that China will in time regain Hong Kong's sovereignty, they jump to the conclusion that China will eventually take over Hong Kong. To regain Hong Kong's sovereignty is far from the same thing as to take over Hong Kong. The latter of course involves more than just regaining sovereignty. Hence, Hong Kong people should have nothing to fear if China intends simply to lay claims on Hong Kong's sovereignty. It will be a different story if China's intention is to take back Hong Kong.

#### 4. Keeping perspective and forgoing opportunity

Hong Kong people will have a lot to be thankful for if China merely lays claim over the place's sovereignty with no intention whatsoever of assuming the task of running Hong Kong's day-to-day affairs into her own hands. There are some who are not content with anything less than China doing nothing at all. These people are not being realistic and not keeping matters in perspective. On the one hand, are we ever happy to be citizens of a British colony in perpetuity? On the other, is it not simply good sense and pragmatism on China's part not to forgo the chance of resuming Hong Kong's ownership at a time when the lease over <sup>the</sup> New Territories is about to expire? To regain Hong Kong's sovereignty can thus be seen as a most sensible course of action and should give no cause for anxiety and worries.

#### 5. China to assume ownership; U. K. Governorship

The focal point of the Hong Kong issue, one that is likely to have far-reaching consequences on lives of the average Hong Kong people, is the question of who will assume the task of governing and running Hong Kong after the sovereignty of the place is reverted back to China. In other words, when the question of ownership is settled, by whom will Hong Kong be governed?

Will China assume the task? To forge ahead with the unprecedented task of modernising the nation is already a gargantuan undertaking that taxes heavily on the resources of the Chinese leadership. Moreover, China may not be ideally suited to governing Hong Kong with a political and economic system so very different from the Mainland. Shall Hong Kong be governed

Circumstances do not seem to warrant its practicability. In my view, the ideal arrangement is for Hong Kong to be governed by its "old caretaker" who has proven to be so adept at the task through long years of constant practice. To put it straightforwardly, it would be best for the future of Hong Kong to have China as the "owners" and U.K. as the "governor", granted that the friendship between the two countries are as long-lasting as are the benefits to be derived from such arrangements for both parties.

## 6. Freedom and Equality

China has already made no secret about how Hong Kong should be run in the future by laying-down the principle of "one country; two systems". Hong Kong should do well to develop to the fullest extent the potentials and capabilities of a capitalist system, while at the same time avoid its many pitfalls. It should also learn to adopt some of the merits of a socialist system and sidestep some of its shortcomings.

A major virtue about a capitalist system is the "freedom" it provides for the people and one of its blemishes is the danger of "exploitation"; the greatest merit of a socialist government is the principle of "equality", while its most regrettable fault is "autocracy". The future management of Hong Kong should be based on the principles of "Freedom" and "Equality", and a minimum of "exploitation" and autocracy".

To look ahead, the future new Hong Kong should make its reputation not just as a "free port" but also as a place where the principles of "freedom" and "equality" are vindicated and upheld. From there, it may set a shining example to the world about what a new political system Hong Kong is able to create out of the blending of socialist and capitalist regimes.

If the eventual resolution of the problem about Hong Kong's future usher in such a grand vista, should we not stop fidgetting and set our own hearts at ease instead?

## THE RENTAL SYSTEM - A PROPOSED SOLUTION TO HONGKONG'S FUTURE

---

In the last issue of Zheng Ming, Lo Bing reports on the guidelines the Chinese leadership has laid down for a satisfactory solution of the Hong Kong issue. These guidelines may perhaps be summarised as follow:-

- 1) Hong Kong is part of China and there is no way China will recognise the unequal treaties concerning Hong Kong;
- 2) China will in the not-too-distant future regain its sovereignty over the territory;
- 3) This may take the form of "one-country; two-systems" which means that Hong Kong will still retain its present status as a free port and continue its existence as a capitalist city.

There is a high credibility to Lo Bing's report, for it confirms the views divulged by the industry and business leaders as well as left-wing elements who have been invited to Beijing in June for an audience with Premier Deng to discuss the Hong Kong issue.

### Regain Hong Kong's sovereignty - no laughing matter

It is no news to hear about China's refusal to recognise the unequal treaties. The Beijing government has already made claims about her sovereignty over HK some time ago, a claim which has been ratified by the United Nations. While no one may perhaps dispute China's territorial rights, the fact is that Hong Kong has remained a British colony administered by the U.K. government ever since the days of Communist takeover in China. Hong Kong is governed by the Governor appointed by U.K.; it hoists the British flag, and is run on the basis of ordinances modelled after U.K. laws. The British government in Hong Kong is virtually the landlord of the Hong Kong island, Kowloon and the New Territories and exercises absolute discretion with regard to the allocation of the Reserve Fund. All these show that the Beijing government's claim of sovereignty is purely nominal, and not de facto. However, the present expressed intention by the Chinese leadership to regain the sovereignty of Hong Kong may have far-reaching consequences. It may affect the present as well as the future prosperity of Hong Kong, as well as the way of life for its 5 million population. The subject should engage the serious attention of all concerned.

Factors that have gone into the making of China's recent move

The first question to ask is, why is the Chinese government taking up again the question of sovereignty over a piece of land (over which it has so far exercised no political authority) only after a period of more than thirty years, and after turning down the Portuguese government's suggestion a few years ago to return Macao to China?

As everyone may be well aware, the past reticence of the Chinese government is due mainly to the fears about the economic repercussions any claims of sovereignty may cause on Hong Kong's economy. China fully appreciates the economic value of a prosperous Hong Kong towards China, and is far from being tempted to frighten the goose that lays golden eggs. The same considerations must be behind China's refusal to take back Macao. These basic worries have not disappeared even now, but the Chinese move may be accounted for by the emergence of the following factors in recent years.

One of them is the fast approach of expiry date of the unequal treaties. Despite the traditional refusal by China to recognise them as legally binding, it is incumbent upon the U.K. government to do something, thus obliging the Chinese government to place the Hong Kong /Macao issue on its agenda.

Secondly, China's recent efforts to induce foreign investment may have created the illusion that since capitalists are willing to make investments in a communist economy, by the same token, they may also continue to invest in Hong Kong, provided that the Chinese government gives appropriate guarantee about its interest in the perpetuation of capitalist conditions in Hong Kong.

In a recent rally for unification, Ye Jiangying made a nine-point proposal in which it was suggested that after the unification, Taiwan may still retain its present military, political and economic systems, and be treated as a "Special Administrative Region" of China. The Chinese government may feel that the same principle may also be applied to the Hong Kong situation.

The first point is the crucial factor behind the taking up on the sovereignty issue, while the other two factors may have been instrumental in helping the Chinese government to map out a blue-print for the return of Hong Kong to the Mainland.



A conflict between nationalism and economic interests

The Hong Kong issue is a complex problem full of inherent contradictions.

From the nationalist viewpoint, Hong Kong's existence as a remnant of the British empire is an eyesore to China. On the other hand, the territory is a colony with a difference. Under the British government, Hong Kong has developed into an international financial and commercial centre. The maintenance of such a status hinges very much on investors' confidence in the British rule. The importance of Hong Kong to China hardly needs emphasising - in difficult times, Hong Kong has been the main source support; it is also invaluable to China in helping it to accomplish its modernisation goals. Trade with Hong Kong constitutes forty percent of China foreign earnings. Thus, from the economic point of view, China should do nothing to endanger Hong Kong's prosperity, nor the British government that makes this possible.

Reality is so often a pretty kettle of fish, but essentially, the issue before us is this: should national interests come before economic benefits, or vice versa? The ideal solution is of course that we can keep both considerations in harmony. But reality does not always favour a utopian settlement, and a decision needs to be made in setting up priorities.

The inherent contradictions between achieving the goal of regaining sovereignty while at the same time protecting Hong Kong's continued prosperity have already been observed by Deng Xiaoping in his recent audience with representatives from Hong Kong and Macao, and that is why he invites more public discussions on the issue in the hope that a satisfactory solution to all the concerned parties may finally materialise.

Regaining sovereignty - what form shall it take ?

Let us assume that a decision is made to regain China's sovereignty over Hong Kong and that nationalist sentiments have the upper hand. The question then remains: what form should this take without jeopardising Hong Kong's prosperity ?

From my understanding of international law, sovereignty means that complete autonomy of a nation in exercising its full authority in the conduct of affairs within its national boundaries. Sovereignty is not a term empty of substantive meaning. It can mean perfect autonomy in the allocation and use of land, and the power to rule over its citizens according to its code of law.

Seen from this angle, regaining sovereignty will mean the termination of British rule and an actual political changeover. Regrettably, such move will inevitably prove disastrous to Hong Kong's prosperity.

Another way to accomplish political changeover is for Hong Kong not to revert directly into China, but to be governed, as an interim measure, by the Chinese people in Hong Kong. Should such a new government possess complete autonomy in the conduct of its affairs (i.e. without interferences from Beijing) - the extent of damage may conceivably be less severe. Hong Kong may become "Singapore II"; and may shake off the infamy of its existence under its "colony" status. But conceivably, such an independent government is not likely to be tolerated by the Chinese government who would rather prefer placing Hong Kong under U.K. rule.

In summary, Hong Kong is destined to become either a part of China or a part of the British Commonwealth. There is no middle way. Recently, there has been suggestions for Hong Kong to become a Free City under the administration of United Nations, in the same manner as Gdansk was before the First World War. This may be a viable alternative except that China will unlikely give it consent.

#### China's blueprint for regaining sovereignty

Basically, the Chinese blueprint is for Hong Kong to revert back to China without causing a massive outflow or drainage of local capital. Two methods are devised to forestall such a possibility :-

- 1) to maintain its present capitalist form of economic system without introducing any drastic changes for a period of time. This is the "One country; two systems" proposal.
- 2) to practise a form of government different from the existing governmental system in China, or what is called "Special Administrative region".

But until now, no specific details have been revealed for a meaningful assessment to be made.

In a way, all the foregoing steps or methods are evidence of a large measure of open-mindedness and tolerance on part of communist China as well as its eagerness to protect Hong Kong's prosperity. However, they are based on the erroneous assumption that Hong Kong's status quo may be preserved when the territory is not ostensibly run by communists from China. Investor confidence is a fragile, and extremely delicate affair, and hinges very much on whether political power still resides in the hands of the British government.

At this point, it may be necessary to draw a line of demarcation between capitalism under the British flag and under the Chinese flag.

On the surface, capitalism may be just a way of economic life, involving no major differences whatever the flag it happens to be under.

This supposition is a fallacy. Communism in theory or in practice, or communism in its revised version for that matter, is an antinomy to capitalism. The communist insistence for decision-making to rest with a "class society" makes capitalism under a communist government miles apart from the same system under a capitalist society. The natural extension of the communist ideology is for the nationalisation of the economy. If some form of capitalist economy is allowed to exist under a communist regime, they would be permitted only as a stop-gap measure, as an exception rather than the rule, and above all on sufferance.

Will the system of "Special Administrative Region" boost public confidence?

By the same token, the proposal to set up "Special Administrative Region" is also based on the principle of toleration, for communists are experts in the understanding of the psychology of the average entrepreneur and the public in Hong Kong. They are well aware of the harmful effects a straightforward transplant of the communist system into the Hong Kong soil may cause, and therefore they design in advance a system which in their view is able to set the hearts of Hong Kong people at ease.

The nine-point proposal of Ye Jianying for the unification of China stipulates that Taiwan retains its present political system and army. It is however not expected that Hong Kong will be given the same tolerant treatment. Or else, the suggestion to regain sovereignty simply does not make sense.

Conceivably, the suggestion of a "Special Administrative Region" is for Hong Kong to be governed initially by politically neutral elements such as foreign capitalists who will be accepted by the majority of the public after a political changeover.

Whatever the case, the "Special Administrative Region" should not be taken as anything but another propagandistic device by communist China designed to ward off any fears about a totalitarian government. For after this curtain-lifting act, who knows what reality will unveil itself?

We can perhaps ask a fundamental question which may help to clarify the whole complex issue : Does a "Special Administrative Region" fall within the jurisdiction of Communist China ? If the answer is positive, then one may ask whether the Hong Kong public may be required to abide by the four principles (in fact should be five - translator) in the Draft Constitution which Chinese people are obliged to abide. What will be the limits of communist tolerance ? Will it not be wearing thin if Hong Kong people refuse to believe in Leninism or Maoism ? Or, communist leadership ?

In the last analysis, the doubts felt by the public towards "Special Administrative Regions" are not without ground. While they understand that Article 30 of the Draft Constitution stipulates that "The rules and regulations in force in "Special Administrative Regions shall be stipulated by law according to specific conditions," they certainly appreciate that the Preamble of the Draft Constitution \* has an even greater legal prowess.

Hence, it can be seen that there is limited usefulness in allaying the fears of Hong Kong public by means of setting up "Special Administrative Regions". Even less effective will this device be in boosting investor confidence. While the general public may have no other country to flee to in case of a communist takeover, there will definitely be a massive outflow of capital. A communist takeover will mean inheriting an economic wasteland and taking on the burden of feeding Hong Kong's 5 million population.

#### A Rental System that benefits all parties

In the author's personal opinion, the top echelon in the Chinese leadership may not be too wise and may perhaps be a little hasty in divulging its plans about regaining sovereignty, setting up "Special Administrative Regions", and practising the principle of "one country; two systems". The Hong Kong issue is a complex problem, and the best way to tackle it is not to construct any models which offer themselves as satisfactory solutions, but to sound out the opinions of the Hong Kong public as well as the British

\* The relevant paragraph states "China abides by the five principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful coexistence, and develops diplomatic relations and economic and cultural exchange with other countries; China consistently opposes imperialism, hegemonism and colonialism, strengthens unity with people of the other countries in their just struggle for the preservation of their national independence and for national economic development, and strives to safeguard world peace and

government, and prominent figures in Hong Kong's industrial and commercial communities. Any preconceived models cannot avoid being subjective and therefore impracticable, and when the ill effects are realised only after a model is seen to operate in actual circumstances, any remedies may be too late.

There have already been a welter of opinions concerning how the 1997 issue should be dealt with.

There are some who suggest that a friendly treaty be signed between the Chinese and the British government expressing their mutual interest in the maintenance of Hong Kong's status quo for another fifty or thirty years. Others advocate a formal agreement to allow British presence in Hong Kong with the stipulation that notice needs to be given at least fifteen years in advance should China wish to regain sovereignty. Some suggest that China regain her sovereignty over Hong Kong, but entrust the place to U.K. for government. In summary, all these views are built on one common assumption: Hong Kong can only maintain its status quo under British rule.

Another suggestion is for Hong Kong to be run by the United Nations with a view to avoiding a communist takeover on the one hand and shrugging off the infamy of its existence as a colony on the other.

Still others suggest joint Sino-British rule. Perhaps, those who advocate this idea intend this as a measure to fall back on in case China refuses to accept continued British rule in the colony.

Amidst this multitude of opinions, the author would like to venture yet another suggestion which may be termed the Rental System. (Please take care to distinguish this proposal from the Lease System advocated by Lenin). The Rental System may be worked out as follows:

- 1) China to regain sovereignty over Hong Kong
- 2) China is to lease Hong Kong out to U.K. for periods of thirty or fifty years
- 3) U.K. is to pay China rent mutually agreed upon (should the rent amount be denominated in foreign currencies, the conversion rate should be based on the value of gold)
- 4) Notice of termination of lease should be given fifteen years in advance.

The merit of this system is that it achieves the dual purpose of maintaining Hong Kong's status quo while at the same time realising China's intention to regain sovereignty. As for the rental payments, I believe both the

British government and the Hong Kong people will be perfectly willing to fulfil their obligations. Moreover, this rental payment will also give the much-needed foreign earnings necessary for China to forge ahead with her modernisation programmes, and appears to be a much more reasonable arrangement than is the present position where Hong Kong is on lease to the U.K. without any monetary compensations at all.

I wonder what the Chinese government and the Hong Kong public may feel towards this proposal.



19128

Future of Hong Kong  
Kings  
Hong Kong:  
& Hong Kong's  
Policy:

Original on China's  
China's Policy file.

House of Lords · Westminster

The Rt Hon Margaret Thatcher MP  
Prime Minister  
House of Commons  
London SW1A 0AA

10 August 1982

*Margaret Thatcher*

I feel duty-bound since I have just returned from Hongkong, to write this letter to you regarding your coming visit to China. I am sure you are adequately briefed by Ministers and Officials in the Foreign & Commonwealth Office in preparation for the visit, however, the following paragraphs may give you additional information and insight into the Hongkong lease question which, by all accounts, will be a subject raised by the Chinese at some point during your visit.

In my capacity as adviser to one of the leading Banking/Real Estate/Trading/Broking groups in Hongkong, I have been in constant contact, through frequent visits to the colony, with a dozen or so leading Chinese businessmen each of them in control of companies with assets in excess of 500 million pounds. Typically, these people are publicity shy and therefore largely unrepresented in the formal government consultative machinery.

The question of the lease (of the New Territories expiring in 1997) has always been in the back of people's minds in Hongkong, but came to the fore earlier as a result of the British Nationality Amendment Act which inter-alia, changed the status of Hongkong citizens from British Subjects to citizens of British Dependent Territories. Many in Hongkong saw this as a step taken by HMG to disclaim responsibility for the two million plus who were born or naturalised as British Subjects in the colony. The economic barometers in Hongkong, i e the stock market and the strength of the Hongkong Dollar, both fell dramatically last October when the Nationality issue was hotly debated. Admittedly world economic situation also had a bearing. There has been noticeable increase in outflow of capital from Hongkong

cont'd....



House of Lords · Westminster

-2-

mainly to North America, (one estimate by the Americans puts it at around \$25 billion US over the next five years). Both the governments of Taiwan and Singapore are making overtures to Hongkong investors to take shelter in their respective countries. The fact that confidence was largely maintained is due to the trust people of Hongkong have in the good sense and well intention of both Beijing and London in seeing that the prosperity of Hongkong should continue. This confidence is fragile, it was shaken again in recent weeks when Mr Peng Zhen, Vice Chairman of the Standing Committee of the National People's Congress, when commenting on the draft constitutional amendments, asked people of Taiwan, Hongkong and Macau to study Clause 30, which refers to the setting up of special administration regions. These regions can have a non-socialist economic system but would nonetheless be under Chinese sovereignty. The stock market and the Hongkong dollar again reacted strongly during the past few weeks since that statement was made.

In the meantime, expectation is being built up that discussion during your coming visit will result in a positive statement on the future of Hongkong. Public opinion, as expressed in the local press and various seminars conducted on the subject recently, showed a definite preference for status quo (ie British rule) to continue. A drastic decline of the economy is predicted if the system is to change in any material way.

Much has been said about Hongkong's economic value to China, so much so that it has put up with colonialism at its doorstep for so long. The Chinese official pronouncement on the fate of Hongkong has evolved from "to settle when the time is ripe" (Zhou En-lai 1952) to "investors should put their heart at ease" (Deng Xiaoping 1980). In the past four months, however, according to my Chinese friends who were invited to meet with Vice Chairman Deng Xiaoping and Premier Zhao Ziyang and were given a message, it is quite clear that (a) the Chinese hosts intend to raise the topic of their own volition, (b) the issue of sovereignty was not negotiable. There is therefore no possibility for the lease to be extended and Hongkong island which is ceded territory

cont'd....





*House of Lords · Westminster*

-3-

according to the former treaty will not be exempt from the sovereignty reversion, (c) the Chinese officials have apparently given thought to the possible format of government to replace the current system. The term self-administered special zone or autonomous region has been consistently mentioned to all those invited to receive the message which found its way to the Financial Times, (d) within the limits of sovereignty, there was due concern for the prosperity of Hongkong to continue, the same people were assured that to the extent possible British civil service and legal system will be retained, the Hongkong dollar will continue to be an independent currency fully backed by the exchange fund. But apparently whether all these are compatible with the formula of sovereignty that China will eventually come up with is not clear.

With only 15 years before the expiry of the New Territories Lease, it is natural that not only Hongkong people but investors from abroad will be increasingly anxious to know what the future holds. The recent events have caused anxiety to rise to the pitch that a solution is expected within this year. The view expressed is that though none could challenge China on the question of sovereignty over Hongkong and, in fact, if sovereignty is in name only while everything remains practically unchanged this will not jeopardise investments or Hongkong's economic well-being, Britain does have some bargaining power in that China realises some form of British presence is essential for Hongkong's continued stability and prosperity in the foreseeable future.

The people of Hongkong and, indeed, the world will watch closely your China visit in the context of any progress on the Hongkong lease question. It is appreciated that a perfect solution to such a complex problem may take longer to finalise but the urgency of the situation calls for a joint statement between you and the Chinese Premier. In the opinion of my Chinese friends, the assurance given will have to go beyond generalities to maintain public confidence in the future of Hongkong.

cont'd....



House of Lords · Westminster

-4-

If there is any further information that I could obtain on the developing Chinese thoughts I will send them to you. Needless to say these senior business people in Hongkong would fly immediately if you wished to see them.

*J. P. ...*  
*... ..*  
*... ..*

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FM PEKING 050856Z AUG 82

TO ROUTINE FCO

TELEGRAM NUMBER 424 OF 5 AUGUST

INFO ROUTINE HONG KONG (PERSONAL FOR GOVERNOR)

MF HKop

FUTURE OF HONG KONG

1. K Y CHEUNG, NEWS EDITOR OF THE HONG KONG "MING PAO EVENING NEWS" CALLED ON PEIRCE TODAY AT THE END OF A SHORT VISIT TO PEKING. HE SAID THAT A "LEFT-WING HONG KONG PUBLISHER WHO HAD RECENTLY VISITED PEKING" (HE DENIED THAT THIS WAS FEI YIMIN) HAD TOLD HIM THAT PEKING INTENDED TO APPOINT A HONG KONG CHINESE GOVERNOR OF HONG KONG BEFORE 1997. NOTHING ELSE WOULD BE CHANGED HOWEVER AND BRITISH CIVIL SERVANTS COULD CONTINUE TO WORK IN THE HONG KONG GOVERNMENT. PEIRCE POINTED OUT THAT IT WAS NOT REALISTIC TO EXPECT THAT THE STATUS QUO COULD SURVIVE IF THE GOVERNOR WERE APPOINTED BY PEKING. CHEUNG DID NOT DEMUR, BUT EXPRESSED CONFIDENCE IN HIS SOURCE, WHOM HE SAID HAD BEEN RIGHT IN THE PAST ABOUT CHINESE THINKING.

2. CHEUNG SAID THAT HE HAD A FRIEND IN THE WESTERN EUROPEAN DEPARTMENT OF THE MFA, WHOM HE COULD NOT NAME, WHO HAD RESPONSIBILITY FOR HONG KONG MATTERS. THE FRIEND HAD SAID THAT THE INTERNAL CHINESE DEBATE ON THE FUTURE HAD TO TAKE ACCOUNT OF A SIGNIFICANT, MAINLY MILITARY LOBBY WHICH COULD NOT UNDERSTAND WHY CHINA DID NOT SIMPLY TAKE BACK HONG KONG AND THROW OUT THE FOREIGN ADMINISTRATORS. THIS LOBBY MIGHT NOT HOLD SWAY, BUT IT WAS NOT WITHOUT INFLUENCE.

ATKINSON

LIMITED  
HKGD (4)  
FED  
PUSD  
PS  
PS/LORD BELSTEAD  
PS/PUS  
MR GIFFARD  
MR DONALD

COPIES TO  
MR BURROWS  
LEGAL ADVISERS  
SIR I SINCLAIR  
LEGAL ADVISERS  
MR COLES  
NO 10 DOWNING STREET

THIS TELEGRAM  
WAS NOT  
ADVANCED

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CONFIDENTIAL

Hong Kong JP



10 DOWNING STREET

*From the Private Secretary*

4 August 1982

HONG KONG

I showed the Prime Minister a copy of the record of conversation which took place when Lord MacLehose and Sir E. Youde lunched with the Chinese Ambassador on 29 July. The Prime Minister's comment on the line taken by Lord MacLehose and Sir E. Youde was "excellent".

A. J. COLES

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

P

Prime Minister

To see.

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RECORD OF CONVERSATION

1. The Chinese Ambassador invited Lord MacLehose and Sir E Youde to lunch on 29 July. Mr Liang Geng and an interpreter were also present.
2. The Ambassador referred to his discussion with the Prime Minister after dinner on 12 July about the future of Hong Kong when he had sought the Prime Minister's reactions to the ideas put to Mr Heath by Vice Premier Deng Xiaoping. He knew that both Lord MacLehose and Sir E Youde had seen the Prime Minister and believed it would be useful to have an exchange of views on this issue so that good advice could be offered to state leaders on each stage. It was on them that decisions would fall.
3. Lord MacLehose invited the Ambassador to elaborate on the comment he had made at a dinner for Sir E Youde before the latter's departure for Hong Kong to the effect that the principles for the solution of the Hong Kong question were clear. The Ambassador said that the first was the principle of Chinese sovereignty. The People's Republic of China had stated on the first day of its establishment in 1949 that it would not recognise the 'unequal' treaties. Chinese sovereignty over Hong Kong was an issue of principle as Mao Tse Tung himself had made clear to Field-Marshal Montgomery and Zhao Enlai had made clear to Lord Home in the 50s and 60s. He had added that it was nevertheless a question left over from history to be settled by discussion at the appropriate time. By the 1990s the People's Republic of China would have been in power for nearly half a century and the Chinese people would not understand it if sovereignty had not been recovered in that time. The second principle was that the prosperity and stability of Hong Kong should be preserved and in particular it should remain a free port and a commercial and international financial centre. This would be to the advantage of both the Chinese and the British.
4. Lord MacLehose said that speaking personally he thought that there would be great difficulty over the idea of a transfer of sovereignty. He did not know whether the subject could be further considered but he was sure that it could not be unless HMG could be fully satisfied on arrangements for the future administration of Hong Kong. He explained the parliamentary difficulties which would be involved in any abrogation in treaties. Sir E Youde endorsed what Lord MacLehose had said and ensured in Chinese that the Ambassador had understood the difficulty of the idea.
5. In speaking of future arrangements the Ambassador referred to the Chinese idea that, while socialism would be the policy in the main part of China, capitalism could continue in Hong Kong. Sir E Youde stressed the importance of confidence as a factor in the prosperity of Hong Kong and recalled what the Prime Minister had said to the Ambassador on the link between the survival of confidence and British administration.

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S E C R E T

S E C R E T

6. Lord MacLehose said that he had told Mr Liao Chengzhi that however sound the policies of the present Chinese Government, given the upheavals during the Cultural Revolution, a long time would have to elapse before there was confidence in the continuity of Chinese policy. The Ambassador referred to the Chinese proposal that Hong Kong should be run by a local administration in which British residents and civil servants could play a part. He believed that with the passage of time there would be confidence in continuity. Lord MacLehose emphasised that while that might be true, a track record over many years would be necessary. Lack of confidence in continuity was a factor which had to be faced. The Ambassador repeated that Chinese sovereignty was for Peking a question of principle. If this were clear, other issues could be considered.

7. The Ambassador referred to press reports in The Times and Financial Times about supposed Chinese attitudes. He said that something should be done about such unfounded reports which were unhelpful. In further discussion he said that the views attributed to Mr Huan-Hsiang were not authoritative expressions of the Chinese Government's view any more than the views of UK academics could be taken as the views of HMG.

8. Sir E Youde emphasised the need for great caution in official statements on the question of the future of Hong Kong. Such statements could have a powerful impact on confidence in the Territory. The Ambassador agreed and said that on the Chinese side policy was being handled by a small and select group of senior people.

9. In the discussion there was agreement on the objective of maintaining the prosperity and stability of Hong Kong; the problem was how to achieve it. The Ambassador said that he would be returning to Peking at the end of August and the discussion would be useful to him in advising Chinese leaders. Lord MacLehose and Sir E Youde said they hoped the exchange of views had been useful as they were concerned that the difficulty in the proposals being made on the Chinese side might not have been sufficiently frankly expressed by the Embassy's contacts to give the Chinese leaders an accurate impression.

Distribution:

PS  
PS/Lord Belstead  
PS/PUS  
Mr Donald  
Sir I Sinclair  
Head/HKGD  
Head/FED

J Coles Esq., No.10 ✓  
Governor, HONG KONG  
M W Atkinson Esq MBE, PEKING  
Sir P Cradock KCMG

S E C R E T

PRIME MINISTER

FUTURE OF HONG KONG

Following your talk with the Foreign and Commonwealth Secretary yesterday, you may like to know that the FCO this morning constituted a special group, which will probably be under Lord Belstead, to produce for you by, I suggested, the end of August a full study of all aspects of the problem. This will include a description of the solution at which we might aim together with possible alternative solutions. It would then go on to analyse every aspect of the present administration of Hong Kong (judicial system, the garrison, the currency, nationality, etc.) and state which of these elements will have to be retained with or without change in the future. The purpose would be to provide you with a full dossier on which you can draw during your briefing meetings in the first week of September and during your visit.

A. J. C.

29 July 1982

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OO GOVERNOR HONG KONG

OO PEKING

RR SINGAPORE

GPS 275

CONFIDENTIAL

DESKBY 300830Z

FROM WASHINGTON 300240Z JUL 82.

TO IMMEDIATE F C O

TELEGRAM NUMBER 2612 OF 29 JULY

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR), PEKING, ROUTINE SINGAPORE.

R  
R/me O. n. l. w.  
R/me h. u. e. g.  
R/Pur  
me Gre.

Mr. Donald

HP NAD  
HP FED  
HP News

~~(Handwritten signature)~~

x/10

R/No 10 287(2)

M.I.P.T.: (NOT TO ALL): MEETING WITH SHULTZ: CHINA.

1. ON HONG KONG, YOU TOLD SHULTZ THAT THE CHINESE HAD MADE IT CLEAR THAT THEY HAD NO INTENTION OF RENEWING THE LEASE ON THE NEW TERRITORIES WHICH EXPIRED IN 1997. THEY ALSO WANTED TO ASSERT SOVEREIGNTY OVER HONG KONG ISLAND AND SOUTH KOWLOON (WHICH WOULD PRESENT US WITH OBVIOUS PROBLEMS IN THE FALKLANDS AND GIBRALTAR CONTEXTS); THE CHINESE HOWEVER WANTED HONG KONG'S ROLE AS AN INTERNATIONAL BUSINESS CENTRE TO CONTINUE. THEY HAD PRODUCED AN OUTLINE OF A SCHEME WHICH WOULD NOT WORK BECAUSE IT WOULD NOT RETAIN THE CONFIDENCE OF THE HONG KONG BUSINESS COMMUNITY. THIS DEPENDED ON A CONTINUED BRITISH ADMINISTRATION. THE PREIME MINISTER, ON HER VISIT TO PEKING IN SEPTEMBER, WOULD TRY TO EXPLAIN TO THE CHINESE THAT A BRITISH ADMINISTRATION WAS NEEDED IN ORDER TO MAINTAIN CONFIDENCE AND THAT, IF THAT WERE AGREED, THE SOVEREIGNTY PROBLEM COULD BEI DISCUSSED.

2. SHULTZ SAID THAT LEE KWAN YEW HAD TOLD HIM THAT THE CHINESE PROPOSAL DID NOT MAKE MUCH SENSE BUT THAT THE INTERESTING QUESTION WAS ITS IMPLICATIONS FOR CHINESE INTERNAL AFFAIRS. LEE THOUGHT THAT THE CHINESE UNDERSTOOD WHAT WAS REQUIRED BUT THAT



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10 DOWNING STREET

*From the Private Secretary*

28 July 1982

FUTURE OF HONG KONG

When Sir Percy Cradock called on the Prime Minister this afternoon it was agreed that on his return to Peking he should inform the Chinese Government, before the Prime Minister's visit, of the minimum objective which we should seek to secure on the subject of Hong Kong during that visit. This objective was defined as: agreement to have serious talks at official level about Hong Kong. Sir Percy Cradock would also request the Chinese Government to avoid any public statement which might prejudice the obtainment of that objective.

It was further agreed that in a letter which the Prime Minister will be sending to the Chinese Ambassador (your letter of 27 July refers) we should state that Sir Percy Cradock will be conveying a message to the Chinese Government shortly about the question of Hong Kong.

A. J. COLES

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

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10 DOWNING STREET

*From the Private Secretary*

28 July 1982

*Dear Brian,*

Future of Hong Kong

The Prime Minister held a meeting this morning with the Foreign and Commonwealth Secretary and officials to discuss the above subject. I enclose a record of the conversation.

*Yours ever*

*John Major*

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

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NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND THE FOREIGN AND COMMONWEALTH SECRETARY AT NO.10 DOWNING STREET AT 0900 HOURS ON WEDNESDAY 28 JULY 1982

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- Present:
- Prime Minister
  - Foreign and Commonwealth Secretary
  - Lord Belstead
  - Sir Antony Acland
  - Sir Edward Youde
  - Sir Percy Cradock
  - Sir Ian Sinclair
  - Mr. Donald
  - Mr. Coles

The Prime Minister said that there appeared to be a fundamental lack of comprehension on the Chinese side as to what was needed to maintain confidence in Hong Kong. Proposals they had so far put forward would in themselves bring about a collapse of confidence. Their habit was always to couch their policies in a few simplistic propositions, from which they were reluctant to diverge. Meanwhile, expectations in Hong Kong were high; unless progress was made with regard to future arrangements, confidence could disappear quickly. We needed to apply some original thinking ourselves. It might be necessary to establish a special group to handle the matter. The difficulty was <sup>that</sup> /if we made any gesture with regard to giving up sovereignty, we should lose our locus for the future. The only real guarantee of our position was the international treaties on which it was based. She wondered whether someone should visit Peking in advance of her own visit to explain to the Chinese what was required to maintain confidence in Hong Kong.

Sir Percy Cradock thought it advisable that the Prime Minister herself should take on this task. He agreed that there was a lack of comprehension on the Chinese side. They did not understand the mainsprings of Hong Kong's success. He believed there was scope for a flexible and co-operative solution. But it would take time and a good deal of explanation would be necessary. Deng had the authority and influence to reach an agreement. The Chinese would honour any agreement reached because it was in their interest to do so. Their record of keeping their word, once given, was good.

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The Prime Minister reiterated her view that if we abandoned sovereignty we had no insurance for the future. Sir Edward Youde said that the Unofficials approached the problem realistically. They knew that Hong Kong must be maintained as a whole. They wished British administration to continue. They believed this would not be achieved unless we were prepared to concede sovereignty. They had no emotional attachment to British sovereignty. The Prime Minister commented that a "management contract" was a possible device for the future. Sir Edward Youde observed that Britain had exercised that type of jurisdiction in a number of areas of the world. The key question with regard to Hong Kong was whether British administration was linked so closely to British sovereignty that the one could not exist without the other. China did not accept the present treaties. A new agreement with the Chinese which was signed and accepted by them would be a considerable improvement on the present situation.

The Prime Minister asked whether there would be nationality problems. If sovereignty were transferred, the inhabitants of Hong Kong would have to accept that they could not come here. But we should also have to avoid precipitating a situation whereby they sought entry to the United Kingdom in advance of an agreement. The Foreign and Commonwealth Secretary agreed. Sir Ian Sinclair said that any eventual agreement with the Chinese would have to deal with the question of nationality. Sir Edward Youde pointed out that the problem would be with us in 1997 in any case, if no action was taken. The Prime Minister reiterated her view that citizenship was linked to sovereignty. The inhabitants of Hong Kong could no longer have British passports, if sovereignty were transferred. It would be necessary to make this plain at some stage to them.

Sir Percy Cradock pointed out that the alternative, if we clung to sovereignty, was a confrontation with China. The Prime Minister thought it might be possible to agree to set aside the sovereignty question and simply concentrate on future administrative arrangements. But she supposed that the Chinese would not accept this formula. In any case, we should not start by assuming that we shall have to give up sovereignty. Agreeing, Sir Edward Youde said that if we began by dismissing any possibility of a concession on sovereignty we should make no progress.

The Foreign and Commonwealth Secretary asked whether any eventual agreement would last in perpetuity. The Prime Minister thought that it would contain no terminal date. It would simply continue unless something happened to upset it.

Mr. Donald said that the formal Chinese position was as presented to the then Lord Privy Seal in China<sup>last January</sup>. The Chinese had then said that they had not made up their minds about the problem but were guided by two general principles. First, Chinese sovereignty must be safeguarded. Secondly, Hong Kong must be maintained as a free port and commercial centre. The various statements which were now appearing in the media did not amount to a new formal position. The Chinese were simply sounding us out. We should go back to them and point out the fundamental contradiction between the two principles they had described.

The Prime Minister then raised the question of how discussions on the problem should be carried forward. Should she leave someone behind to continue talking with the Chinese? Sir Percy Cradock suggested that there should be serious talks at official level through diplomatic channels. The Prime Minister felt that some special device might be necessary. The situation was unique. In order to indicate the importance we attached to the problem, it might be necessary to appoint a special emissary who knew both China and Hong Kong and in particular the financial and commercial systems of the latter. Sir Antony Acland pointed out that the Chinese would probably not expect rapid progress. Sir Edward Youde observed that the Prime Minister's visit was the subject of intense speculation in Hong Kong. Great importance would be attached to what the Prime Minister said publicly when she left China. The right kind of statement would maintain confidence. The wrong one could seriously weaken it. The danger of appointing a special emissary at too early a stage would be that, if he returned without agreement, confidence would fail. The Prime Minister expressed the view that it might be possible for the special emissary to visit China towards the end of the negotiations. Meanwhile, and following her visit, Sir Percy Cradock and Sir Edward Youde could conduct the discussions with the Chinese together. This would have the advantage of avoiding publicity. But she did not want a solution to be long delayed.

We should aim to reach one in about six months. The key to reaching a solution in such a short timescale might be to make a concession on sovereignty. But the presentation in the United Kingdom of any concession would need the utmost care. It would help if we could show that as a result of an agreement there was no danger of a mass influx of Hong Kong citizens into this country. What she could not do, particularly in the light of the recent Falkland Islands problem, was simply to announce that we had conceded sovereignty over Hong Kong. Sir Edward Youde pointed out that the question of immigration would need careful handling if it too was not to have a harmful effect on confidence in Hong Kong.

Sir Edward Youde said that whatever agreement was reached with the Chinese, the main factor making for continued confidence in Hong Kong would be the Chinese interest in maintaining that confidence.

The Foreign and Commonwealth Secretary said it was important that, according to our most recent information, the people of Hong Kong wanted an agreement of the kind envisaged. The Prime Minister concurred. Endorsement of any agreement by the people of Hong Kong would be of great assistance in presenting it in the United Kingdom. Sir Edward Youde said that, if it would be helpful, he could bring a small delegation of the Unofficial Members of the Executive and Legislative Councils to London in September. It was agreed that the Prime Minister would receive such a delegation at a suitable date before her departure to the Far East.

The Prime Minister said that we should need to give further thought to consultation of Hong Kong opinion at a future date. We might need to send a team of people to explain our thinking about the future. Sir Antony Acland referred to the precedent of the sounding of opinion in Bahrain about its relationship with Iran.

The Prime Minister wondered whether we should not seek the assistance of a third party to corroborate to the Chinese what she would be saying about the need to maintain confidence in Hong Kong. Perhaps the Prime Minister of Singapore might be able to do this. Sir Edward Youde pointed out the difficulty that Mr. Lee Kuan Yew ran Singapore without British administration. Sir Percy Cradock suggested that the Japanese might be able to help though it was observed that we should need to be sure that they would convey

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any message accurately.

In conclusion, it was agreed that, on his return to Hong Kong, Sir Edward Youde might say to the Unofficials that he had conveyed to the Prime Minister the observations they had made to him before his departure and that he had had a thorough discussion of the question of the future with the Prime Minister, the Foreign and Commonwealth Secretary and others.

The meeting ended at 1030 hours.

A.Y.C.

28 July 1982

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10 DOWNING STREET

Prime Minister

To be attended by :-

Foreign Secretary

Lord Selkirk

Sir Antony Auld

Mr. Alan Donald

Sir Edward (Teddy) Young

Sir Perry Crookall.

2. I suggest that we use the  
Cabinet Room.

A.J.C.  $\frac{27}{7}$





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Foreign and Commonwealth Office

London SW1A 2AH

26 July 1982

Dear Sir,

Future of Hong Kong

/  
/ In preparation for the Prime Minister's meeting on 28 July, I attach a background note on the future of Hong Kong [and one on the handling of press enquiries in the run-up to the Prime Minister's visit.]

— to be handled separately  
by David byham.  
A.J.C. 27/7

Yours ever,

J.P.F.

(B J P Fall)  
Private Secretary

A J Coles Esq  
10 Downing Street


SECRET

## FUTURE OF HONG KONG

CHINESE ATTITUDE

1. Chinese in the past reluctant to tackle problem. To be solved peacefully when the time was right. Mr Atkins' visit in January 1982 revealed Chinese leaders much more aware of urgency. Chinese Premier Zhao Ziyang said would study and consult local Hong Kong opinion. Emphasised:

- a) safeguarding Chinese Sovereignty over whole Territory; and
- b) importance of Hong Kong's continuance as free port and commercial centre and maintenance of prosperity and stability. He also pointed to relevance of proposals on Taiwan and their new specific<sup>al</sup> economic zones in South China.

2. More recent opinion \*  \* (eg Deng Xiaoping to Mr Heath in April, and Chinese Ambassador to Prime Minister on 12 July) indicates Chinese thinking increasingly of Hong Kong as autonomous zone - 'a special administrative region' - as a part of China under the new Constitution. They apparently envisage that some existing institutions could continue, primarily locally manned, though with some expatriate

\* ~ \* Passage deleted and retained under Section 3(4). /participation  
 O'Wayland. 9 October 2012

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participation. But control from London as it is now would probably cease. The Chinese have either not grasped or find it impossible to admit that British administration is essential to confidence. Chinese are currently sounding out selected Hong Kong Chinese on possible solutions to this problem: about a dozen leading personalities have been received by Deng or the Premier. They are also sounding opinion in London to get some clue to initial British reaction to Chinese ideas.

BRITISH INTERESTS

3. UK receives no revenue from Hong Kong (contrary to Chinese belief). Overall economic balance about even. But Hong Kong important:

- a) as commercial and financial centre for UK (and the West) in the Far East;
- b) as positive factor in UK relations with US and China;
- c) as communications, intelligence and air services centre;
- d) as inexpensive training ground for elements of British forces, especially Gurkhas.

4. Unilateral withdrawal by UK from Hong Kong (or failure to reach settlement with China) would create following serious problems for HMG:

- a) abandonment of 5 million people after 140 years of responsibility and HMG's repeated statements of commitment;

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/ b)

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- b) possible large scale exodus, including demands for admission to UK; pensions and compensation commitment to Hong Kong Civil Servants;
- c) loss of British and other Western investment (US, FRG, Australian, Japanese, etc) (Hong Kong is world's third largest financial centre);
- d) the difficulty of governing Hong Kong during an interim period of rapid decline.

#### CONSTITUTIONAL POSITION

5. Hong Kong Island and Kowloon Peninsula ceded to HMG in perpetuity by Treaties in 1842 and 1860. New Territories leased to HMG for 99 years in 1898. Expires 1997 when the Governor's right to administer the New Territories ceases under terms of Order in Council of 1898 (copies of Treaties and Order in Council attached).

6. Successive Chinese governments have consistently regarded these Treaties as unequal (ie forced upon a weak China in the 19th Century) and whole of Hong Kong as Chinese territory.


#### CHINA'S INTERESTS

7. China draws economic advantage from status quo as follows:

- a) 35-40% of foreign exchange (estimated US\$6,000 million in 1981);
- b) investment;
- c) use of port, air and financial facilities;

S E C R E T

/ d)

  
S E C R E T

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d) training and import of technology.

CHINESE OBJECTIVES

8. Chinese will be seeking acknowledgement of their sovereignty over whole Territory. They may, however, be prepared to agree that serious talks on the future should now commence on the basis of a formula which makes no reference to sovereignty, but provides that the positions of both sides would be discussed.

HONG KONG'S POSITION

9. Increasing concern as end of New Territories lease drawing near. Slide in confidence could happen suddenly and lead to withdrawal of capital and rapid decline. Intense interest in and great expectations from Prime Minister's visit.

10. 98% of Hong Kong's population Chinese, many recent immigrants from China or their children. No wish to be ruled by Chinese communists. But in the main do not have emotional or other ties to British sovereignty. Welcome British administration as protection for private enterprise economy. The Unofficial Members of the Executive and Legislative Councils have expressed a strong interest in being kept informed <sup>and</sup> ~~or~~ consulted on the future.

/11.

S E C R E T

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HONG KONG AS AN ENTITY

11. British have sovereignty over Hong Kong Island and Kowloon Peninsula. But these are not viable on their own. New Territories account for more than half the population and seven eighths of land. Airport, which is on reclaimed land, would be outside ceded area; city of Kowloon would be divided. Much of industry and generating capacity, all major reservoirs, container port and New Towns are in New Territories. Moreover, all Chinese statements show they regard Territory as a whole and would not agree to separation. Kowloon and Hong Kong militarily indefensible but in any case China could throttle economically. Experiences of 1962 and 1967 show how vulnerable Hong Kong is to hostile action from over the border.

CONFIDENCE IN HONG KONG

12. Confidence is holding now but could be fragile. There is a general belief that some agreement with China must be reached in next year or two. As seen from Hong Kong, the choice will appear to be one between our reaching some acceptable arrangement enabling us to administer the whole Territory and to uphold the interests of all the population; or finding ourselves left with an unviable part of the Territory and facing the problems outlined in paragraph 4 above.

/13.

S E C R E T



S E C R E T

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13. The Prime Minister's visit to China will be regarded in Hong Kong as a unique opportunity to begin search for such an agreement - although, given the Chinese attitude, it will be recognised that this will be extremely difficult. It will be hoped that the form of the arrangement will provide for as much as possible of the existing political, economic and social system as at present: some changes of nomenclature (eg title of Governor) and other face-saving concessions to China might be possible, but confidence in Hong Kong would demand that governing authority over domestic and external affairs should remain in London.

14. The public presentation of the results of the Prime Minister's visit will also be important in this context. To maintain confidence, we should seek:

- a) to avoid any public impression of a clash with the Chinese;
- b) to emphasise that we and the Chinese share a common objective in maintaining the prosperity and stability of Hong Kong;
- c) to provide evidence of a step forward (eg serious talks will now begin).

/ACTION IN SHORT TERM

S E C R E T



S E C R E T

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ACTION IN SHORT TERM

15. Preparations for the Prime Minister's visit will now become more active. We need to decide:

- a) what HM Ambassador should say to the Chinese Government on his return to Peking;
- b) what should be said to the Unofficial Members in Hong Kong before the Prime Minister's visit.

Foreign and Commonwealth Office

26 July 1982

S E C R E T





ARTICLE I.

There shall henceforward be Peace and Friendship between Her Majesty the Queen of the United Kingdom of Great Britain and Ireland, and His Majesty the Emperor of China, and between their respective Subjects, who shall enjoy full security and protection for their persons and property within the Dominions of the other.

一嗣後  
大清  
大皇帝  
大英  
君主永存平和所屬  
華人民彼此友  
睦各住他國者  
必受該國保祐  
身家全安

ARTICLE II.

His Majesty the Emperor of China agrees, that British Subjects, with their families and establishments, shall be allowed to reside, for the purpose of carrying on their Mercantile pursuits, without molestation or restraint at the Cities and Towns of Canton, Amoy, Foochow-fu, Ningpo, and Shanghai, and Her Majesty the Queen of Great Britain, etc., will appoint Superintendents or Consular Officers, to reside at each of the above-named Cities or Towns, to be the medium of communication between the Chinese Authorities and the said Merchants, and to see that the just Duties and other Dues of the Chinese Government as hereafter provided for, are duly discharged by Her Britannic Majesty's Subjects.

一自今以後  
大皇帝恩准大英國人民帶同所屬  
家眷寄居  
大清沿海之廣州福州廈門甯波上海等五處港口貿易通商無礙  
且  
大英  
君主派設領事管事等官住該五處  
城邑專理商賈事宜與各該地方官公文往來令英人按照下條開敘之例清楚交納貨稅鈔餉等費

ARTICLE III.

It being obviously necessary and desirable, that British Subjects should have some Port whereat they may careen and refit their Ships, when required, and keep Stores for that purpose, His Majesty the Emperor of China cedes to Her Majesty the Queen of Great Britain, etc., the Island of Hongkong, to be possessed in perpetuity by Her Britannic Majesty, Her Heirs and Successors, and to be governed by such Laws and Regulations as Her Majesty the Queen of Great Britain, etc., shall see fit to direct.

一因  
大英商船遠路涉洋往往有損壞須修補者自應給予沿海一處以便修船及存守所用物料今  
大皇帝准將香港一島給  
大英  
君主暨嗣後世襲主位者  
常遠據守主掌任便  
立法治理

ARTICLE IV.

The Emperor of China agrees to pay the sum of Six Millions of Dollars as the value of Opium which was delivered up at Canton in the month of March 1839, as a Ransom for the lives of Her Britannic Majesty's Superintendent and Subjects, who had been imprisoned and threatened with death by the Chinese High Officers.

一因  
大清  
欽差大憲等於道光十九年二月間經將  
大英國領事官及民人等強留粵省嚇以死罪索出鴉片以為贖命今  
大皇帝准以洋銀六百萬員償補原價

ARTICLE V.

The Government of China having compelled the British Merchants trading at Canton to deal exclusively with certain Chinese Merchants called Hong Merchants (or Cohong) who had been licensed by the Chinese Government for that purpose, the Emperor of China agrees to abolish that practice in future at all Ports where British Merchants may reside, and to permit them to carry on their mercantile transactions with whatever persons they please, and His Imperial Majesty further agrees to pay to the British Government the sum of Three Millions of Dollars, on account of Debts due to British Subjects by some of the said Hong Merchants (or Cohong), who have become insolvent, and who owe very large sums of money to Subjects of Her Britannic Majesty.

一凡  
大英商民在粵貿易向例全歸額設行商亦稱公行者承辦今  
大皇帝准以嗣後不必仍照向例乃凡有英商等赴各該口貿易者勿論與何商交易均聽其便且向例額設行商等內有累欠英商甚多無措清還者今酌定洋銀三百萬員作為商欠之數准明由中國官為償還

ARTICLE VI.

The Government of Her Britannic Majesty having been obliged to send out an Expedition to demand and obtain redress for the violent and unjust Proceedings of the Chinese High Authorities towards Her Britannic Majesty's Officer and Subjects, the Emperor of China agrees to pay the sum of Twelve Millions of Dollars on account of the Expenses incurred, and Her Britannic Majesty's Plenipotentiary voluntarily agrees, on behalf of Her Majesty, to deduct from the said amount of Twelve Millions of Dollars, any sums which may have been received by Her Majesty's combined Forces as Ransom for Cities and Towns in China, subsequent to the 1st day of August 1841.

一因  
大清  
欽命大臣等向  
大英官民人等不公強辦致須撥發軍士討求仲理今酌定  
水陸軍費洋銀壹千貳百萬員  
大皇帝准為償補惟自道光二十一年六月十五日後英國因贖各城收過銀兩之數  
大英全權公使大臣為  
君主准可按數扣除

ARTICLE VII.

It is agreed that the Total amount of Twenty-one Millions of Dollars, described in the three preceding Articles, shall be paid as follows:—

Six Millions immediately.

Six Millions in 1843. That is:—Three Millions on or before the 30th of the month of June, and Three Millions on or before the 31st of December.

Five Millions in 1844. That is:—Two Millions and a Half on or before the 30th of June, and Two Millions and a Half on or before the 31st of December.

Four Millions in 1845. That is:—Two Millions on or before the 30th of June, and Two Millions on or before the 31st of December; and it is further stipulated, that Interest at the rate of 5 per cent. per annum, shall be paid by the Government of China on any portions of the above sums that are not punctually discharged at the periods fixed.

一以上三條酌定銀數共貳千壹百萬員應如何分期交清開列於左  
此時交銀六百萬員  
癸卯年六月間交銀三百萬元十二月間交銀三百萬員共銀六百萬員  
甲辰年六月間交銀二百五十萬員十二月間交銀二百五十萬員共銀五百萬員  
乙巳年六月間交銀二百萬員十二月間交銀二百萬員共銀四百萬員  
自壬寅年起至乙巳年止四年共交銀二千一百萬員倘有按期未能交足之數則酌定每年每百員加息五員

ARTICLE VIII.

The Emperor of China agrees to release unconditionally all Subjects of Her Britannic Majesty (whether Natives of Europe or India) who may be in confinement at this moment, in any part of the Chinese Empire.

一凡係大英國人無論本國屬國軍民等今在中國所管轄各地方被禁者大清大皇帝准即釋放

ARTICLE IX.

The Emperor of China agrees to publish and promulgate, under His Imperial Sign Manual and Seal, a full and entire amnesty and act of indemnity, to all Subjects of China on account of their having resided under, or having had dealings and intercourse with, or having entered the Service of Her Britannic Majesty, or of Her Majesty's Officers, and His Imperial Majesty further engages to release all Chinese Subjects who may be at this moment in confinement for similar reasons.

一凡係中國人前在英人所據之邑居住者或與英人有來往者或有跟隨及俟候英國官人者均由大皇帝俯降御旨謄錄天下恩准全然免罪且凡係中國人為英國事被拿監禁受難者亦加恩釋放

ARTICLE X.

His Majesty the Emperor of China agrees to establish at all the Ports which are by the 2nd Article of this Treaty to be thrown open for the resort of British Merchants, a fair and regular Tariff of Export and Import Customs and other Dues, which Tariff shall be publicly notified and promulgated for general information, and the Emperor further engages, that when British Merchandise shall have once paid at any of the said Ports the regulated Customs and Dues agreeable to the Tariff, to be hereafter fixed, such Merchandise may be conveyed by Chinese Merchants, to any Province or City in the interior of the Empire of China on paying a further amount as Transit Duties which shall not exceed per cent. on the tariff value of such goods.

一前第二條內言明開關俾英國商民居住通商之廣州等五處應納進口出口貨稅餉費均宜秉公議定則例由部頒發曉示以便英商按例交納今又議定英國貨物自在某港按例納稅後即准由中國商人遍運天下而路所經過稅關不得加重稅例只可按估價則例若干每兩加稅不過分

ARTICLE XI.

It is agreed that Her Britannic Majesty's Chief High Officer in China shall correspond with the Chinese High Officers, both at the Capital and in the Provinces, under the term "Communication" 照會. The Subordinate British Officers and Chinese High Officers in the Provinces under the terms "Statement" 申陳 on the part of the former, and on the part of the latter "Declaration" 劄行, and the Subordinates of both Countries on a footing of perfect equality. Merchants and others not holding official situations and, therefore, not included in the above, on both sides, to use the term "Representation" 稟明 in all Papers addressed to, or intended for the notice of the respective Governments.

一議定英國在中國之總管大員與大清大臣無論京內京外者有文書來往用照會字樣英國屬員用申陳字樣大臣批覆用劄行字樣兩國屬員往來必當平行照會若兩國商賈上達官憲不在議內仍用稟明字樣為著

ARTICLE XII.

On the assent of the Emperor of China to this Treaty being received and the discharge of the first instalment of money, Her Britannic Majesty's Forces will retire from Nanking and the Grand Canal, and will no longer molest or stop the Trade of China. The Military Post at Chinghai will also be withdrawn, but the Islands of Koolangsoo and that of Chusan will continue to be held by Her Majesty's Forces until the money payments, and the arrangements for opening the Ports to British Merchants be completed.

大清一俟奉大皇帝准和約各條施行並以此時准交之六百萬員大英陸軍士當即退出江甯京口等處江面不再行攔阻中國各省商賈貿易至鎮江之海關亦將退讓惟定海縣之舟山島仍歸英兵暫為駐守及所議英兵全數交清而前議各海口均已開關俾英人通商後即不復佔據軍士退出

ARTICLE XIII.

The Ratification of this Treaty by Her Majesty the Queen of Great Britain, etc., and His Majesty the Emperor of China shall be exchanged as soon as the great distance which separates England from China will admit; but in the meantime counterpart copies of it, signed and sealed by the Plenipotentiaries on behalf of their respective Sovereigns, shall be mutually delivered, and all its provisions and arrangements shall take effect.

Done at Nanking and Signed and Sealed by the Plenipotentiaries on board Her Britannic Majesty's ship *Cornwallis*, this twenty-ninth day of August, 1842, corresponding with the Chinese date, twenty-fourth day of the seventh month in the twenty-second Year of TAOU KWANG.

(L.S.) HENRY POTTINGER,  
*Her Majesty's Plenipotentiary.*

Chinese Signatures (3).\*



大英皇帝  
大清皇帝  
以上各條均屬議和要約應俟大  
臣等分別奏明

君主各用親筆批准後即速行相交俾兩  
國分執一冊以昭信守惟兩國相離  
遙遠不得一且而到是以另繕二冊  
先由欽使全權公使大臣等  
大清欽差使臣等  
大英欽差使臣等  
君上大事定無礙至和約開載之條施行妥  
辦即照辦要至和約開載之條施行妥  
道無礙至和約開載之條施行妥  
國記之二要至和約開載之條施行妥  
二國之光輝二要至和約開載之條施行妥  
大英君主汗華曬船省關防

(L.S.) HENRY POTTINGER,  
*Her Majesty's Plenipotentiary.*

Chinese Signatures (3).\*

We, having seen and considered the Treaty aforesaid, have approved, accepted, and confirmed the same in all and every one of its Articles and Clauses, as We do by these Presents approve, accept, confirm, and ratify it for Ourselves, Our Heirs, and Successors:— Engaging and Promising upon Our Royal Word, that We will sincerely and faithfully perform and observe all and singular the things which are contained and expressed in the Treaty aforesaid, and that We will never suffer the same to be violated by any one, or transgressed in any manner, as far as it lies in Our Power.

For the greater Testimony and Validity of all which, We have caused the Great Seal of Our United Kingdom of Great Britain and Ireland to be affixed to these Presents, which We have signed with Our Royal Hand.

Given at Our Court at Windsor Castle, the Twenty-eighth day of December, in the Year of Our Lord One Thousand Eight Hundred and Forty-two, and in the Sixth Year of Our Reign.

(Signed) VICTORIA R.

\* The preamble mentions two Chinese negotiators only, KEYING and ELLEBOO. The third signature was that of NIUKIEN, Liang Kiang Viceroy.

CONVENTION OF PEKING (1860).

PREAMBLE OF CONVENTION.

Her Majesty the Queen of Great Britain and Ireland, and His Imperial Majesty the Emperor of China, being alike desirous to bring to an end the misunderstanding at present existing between their respective Governments, and to secure their relations against further interruption, have for this purpose appointed Plenipotentiaries; that is to say, Her Majesty the Queen of Great Britain and Ireland, the Earl of ELGIN AND KINCARDINE, and His Imperial Majesty the Emperor of China, His Imperial Highness the Prince of KUXU, who having met, and communicated to each other their full powers, and finding these to be in proper form, have agreed upon the following Convention in Nine Articles:--

續增條約  
茲以兩國有所不愜  
大清大皇帝與  
大英大君主合意修好保其嗣後不至失和為此  
大清大皇帝特派和碩恭親王奕訢  
大英大君主特派  
內廷建儲坊賜似帶頭等寶星  
會同會議各將本國恭奉  
欽差全權大臣便宜行事之  
上諭等件互相較閱均臻妥善現將商定續增條  
約開列於左

ARTICLE 1.

A breach of friendly relations having been occasioned by the act of the garrison of Taku, which obstructed Her Britannic Majesty's Representative when on his way to Peking for the purpose of exchanging the Ratifications of the Treaty of Peace concluded at Tientsin in the month of June, one thousand eight hundred and fifty-eight, His Imperial Majesty the Emperor of China expresses his deep regret at the misunderstanding so occasioned.

第一款  
一前於戊午年五月  
在天津所定原約本  
為兩國敦睦之設後  
於己未年五月  
大英欽差大臣進京換約  
行抵大沽砲臺該處  
守弁阻塞前路以致  
有隙  
大清大皇帝視此失好甚  
為惋惜

ARTICLE II.

It is further expressly declared, that the arrangement entered into at Shanghai, in the month of October, one thousand eight hundred and fifty-eight, between Her Britannic Majesty's Ambassador the Earl of ELOIN AND KINCARDINE, and His Imperial Majesty's Commissioners KWEILIANG and Hwashana, regarding the residence of Her Britannic Majesty's Representative in China is hereby cancelled, and that, in accordance with Article III of the Treaty of one thousand eight hundred and fifty-eight, Her Britannic Majesty's Representative will henceforward reside permanently, or occasionally, at Peking, as Her Britannic Majesty shall be pleased to decide.

第二款  
一再前於戊午年九月  
大清欽差大臣 桂 花 沙 納 將  
大英欽差大臣 額 爾 金  
大英欽差駐華大臣嗣在何處居  
住一節在滬會商所定之議  
茲特申明作為罷論將來  
大英欽差大員應否在京長住抑  
或隨時往來仍照原約第三  
款明文總候本國  
諭旨遵行

ARTICLE III.

It is agreed that the Separate Article of the Treaty of one thousand eight hundred and fifty-eight is hereby annulled, and that in lieu of the amount of Indemnity therein specified, His Imperial Majesty the Emperor of China shall pay the sum of Eight Millions of Taels, in the following proportions, or instalments, namely:—At Tientsin on or before the thirtieth day of November the sum of five hundred thousand Taels; at Canton, and on or before the first day of December one thousand eight hundred and sixty, three hundred and thirty-three Taels, less the sum which shall have been advanced by the Canton authorities towards the completion of the British Factory Site at Shameen; and the remainder at the ports open to Foreign trade, in quarterly payments, which shall consist of one-fifth of the gross revenue from Customs there collected. The first of the said payments being due on the thirty-first day of December, one thousand eight hundred and sixty, for the quarter terminating on that day.

第三款  
一戊午年原約後附專條作為廢紙所賠  
價各項  
大清大皇帝允以八百萬兩相易其應如何分繳  
即於十月十九日在於津郡先將銀伍拾萬  
兩繳楚以本年十月二十日即英國十二月  
初二日以前應在於粵省分繳三十三萬三  
千三百三十三兩內將查明該日以前粵省  
大吏經支填築沙面地方英商行基之費若  
干扣除入算其餘銀兩應於通商各關所納  
總數內分結扣繳二成以英月三個月為一  
結即行算清自本年英十月初一日即庚申  
年八月十七日至英十二月三十一日即庚  
申年十一月二十日為第一結如此陸續扣



It is further agreed that these moneys shall be paid into the hands of an officer whom Her Britannic Majesty's Representative shall specially appoint to receive them, and that the accuracy of the amounts shall, before payment, be duly ascertained by British and Chinese officers appointed to discharge this duty.

In order to prevent future discussion, it is moreover declared, that of the Eight Millions of Taels herein guaranteed, Two Millions will be appropriated to the indemnification of the British Mercantile community at Canton for losses sustained by them, and the remaining Six Millions to the liquidation of war expenses.

ARTICLE IV.

It is agreed that on the day on which this Convention is signed, His Imperial Majesty the Emperor of China shall open the port of Tientsin to trade, and that it shall be thereafter competent to British subjects to reside, and trade, there under the same conditions as at any other port of China by Treaty open to trade.

ARTICLE V.

As soon as the Ratifications of the Treaty of one thousand eight hundred and fifty-eight shall have been exchanged, His Imperial Majesty the Emperor of China, will, by decree, command the high authorities of every province to proclaim throughout their jurisdictions, that Chinese, choosing to take service in the British Colonies or other parts beyond sea, are at perfect liberty to enter into engagements with British Subjects for that purpose, and to ship themselves and their families on board any British vessel at any of the open ports of China. Also that the high authorities aforesaid, shall, in concert with Her Britannic Majesty's Representative in China, frame such regulations for the protection of Chinese emigrating as above, as the circumstances of the different open ports may demand.

繳八百萬總數完結均當隨

結清交

大英欽差大臣專派委員監收外

兩國彼此各應先期添派數

員稽查數目清單等件以昭

慎重再今所定取價八百萬

兩內二百萬兩仍為住粵英

商補虧之款其六百萬兩少

裨軍需之費載此明文庶免

禁糾

第四款

一續增條約畫

押之日

大清大皇帝允以天

津那城海口作

為通商之埠凡

有英民人等至

此居住貿易均

照經准各條所

開各口章程比

例畫一無別

第五款

一戊午年定約互換以後

大清大皇帝允於即日除諭各省督撫

大吏以凡有華民情甘出口或在

英國所屬各處或在海外別地承

工俱准與英民立約為憑無論單

身或願攜帶家屬一并赴通商各

口下英國船隻等無禁阻該省大

吏亦宜時與

大英欽差大臣查照各口地方情形會定章程為保全前項華工之意

ARTICLE VI.

With a view to the maintenance of law and order in and about the harbour of Hongkong, His Imperial Majesty the Emperor of China agrees to cede to Her Majesty the Queen of Great Britain and Ireland, and to Her Heirs and Successors, to have and to hold as a dependency of Her Britannic Majesty's Colony of Hongkong, that portion of the township of Cowloon, in the province of Kwangtung, of which a lease was granted in perpetuity to HARRY SMITH PARKES, Esquire, Companion of the Bath, a Member of the Allied Commission at Canton, on behalf of Her Britannic Majesty's Government, by LAU TSUNG KWANG, Governor General of the Two Kwang.

It is further declared that the lease in question is hereby cancelled, that the claims of any Chinese to property on the said portion of Cowloon shall be duly investigated by a mixed Commission of British and Chinese Officers and that compensation shall be awarded by the British Government to any Chinese whose claim shall be by the said Commission established, should his removal be deemed necessary by the British Government.

ARTICLE VII.

It is agreed that the provisions of the Treaty of one thousand eight hundred and fifty-eight, except in so far as these are modified by the present Convention, shall, without delay, come into operation as soon as the Ratifications of the Treaty aforesaid shall have been exchanged. It is further agreed that no separate Ratification of the present Convention shall be necessary, but that it shall take effect from the date of its Signature, and be equally binding with the Treaty above mentioned on the High Contracting Powers.

ARTICLE VIII.

It is agreed that, as soon as the Ratifications of the Treaty of the year one thousand eight hundred and fifty-eight shall have been exchanged, His Imperial Majesty the Emperor of China shall, by decree, command the high authorities in the Capital and in the provinces to print and publish the aforesaid Treaty and the present Convention for general information.

第六款

一前據本年二月二十八日

大清兩廣總督勞崇光將粵東九龍司地方一區交與

大英駐紮粵省暫充英法總局正使功賜三等寶星巴夏

禮代國立批承租在案茲

大清大皇帝定即將該地界付與

大英大君主並歷後嗣并歸英屬香港界內以期該港

埠面管轄所及庶保無事其批作為廢紙外其有

該地華民自稱業戶應由彼此兩國各派委員會

勘查明果為該戶本業嗣後倘遇勢必令遷別地

大英國無不公當賠補

第七款

一戊午年所定原約

除現定續約或有更

張外其餘各節俟互

換之後無不尅日盡

行毫無出入今定續

約均應自書押之日

為始即行照辦兩國

毋須另行

御筆批准惟當視與原約

無異一體遵守

第八款

一戊午年原約

在京互換之日

大清大皇帝允於即

日降諭京外各

省督撫大吏將

此原約及續約

各條發鈔給閱

并令刊刻懸布

通衢咸使知悉

ARTICLE IX.

It is agreed that as soon as this Convention shall have been signed, the Ratifications of the Treaty of the year one thousand eight hundred and fifty-eight shall have been exchanged, and an Imperial Decree respecting the publication of the said Convention and Treaty shall have been promulgated, as provided for by Article VIII of this Convention, Chusan shall be evacuated by Her Britannic Majesty's troops there stationed, and Her Britannic Majesty's force now before Peking, shall commence its march towards the city of Tientsin, the forts of Taku, the north coast of Shantung, and the city of Canton, at each and all of which places it shall be at the option of Her Majesty the Queen of Great Britain and Ireland to retain a force until the indemnity of Eight Millions of Taels guaranteed in Article III shall have been paid.

Done at Peking in the Court of the Board of Ceremonies on the twenty-fourth day of October in the year of Our Lord one thousand eight hundred and sixty.

(L.S.) (Signed) ELGIN AND KINCARDINE.

Chinese Signature.



第九款  
 一續增條約一經蓋印畫押戊午年和約亦  
 已互換須俟續約第八款內載  
 大清大皇帝允降諭旨奉到業皆宣布所有英國  
 舟由屯兵立當出境京外大軍即應啟程前  
 赴津城並大沽砲臺登州北海廣東省城等  
 處俟續約第三款所載賠項八百萬兩總數  
 交完方能回國抑或早退總候  
 大英大君主諭旨施行  
 以上各條又續增條約現下  
 大清各大臣同在京都禮部衙門蓋印畫押以昭  
 信守  
 大清咸豐十年九月十一日  
 大英一千八百六十年十月二十四日

(L.S.) (Signed) ELGIN AND KINCARDINE.

Chinese Signature.



CONVENTION FOR THE EXTENSION OF HONGKONG, 1898.

(Signed at Peking, 9th June 1898.)

*Changed under the Republic  
to 寶安縣。*

WHEREAS it has for many years past been recognised that an extension of Hongkong territory is necessary for the proper defence and protection of the Colony:

It has now been agreed between the Governments of Great Britain and China that the limits of British territory shall be enlarged under lease to the extent indicated generally on the annexed map. The exact boundaries shall be hereafter fixed when proper surveys have been made by officials appointed by the two Governments. The term of this lease shall be ninety-nine years. It is at the same time agreed that within the city of Kowloon the Chinese officials now stationed there shall continue to exercise jurisdiction except so far as may be inconsistent with the military requirements for the defence of Hongkong. Within the remainder of the newly-leased territory Great Britain shall have sole jurisdiction. Chinese officials and people shall be allowed as heretofore to use the road from Kowloon to Hsinan.

It is further agreed that the existing landing place near Kowloon city shall be reserved for the convenience of Chinese men-of-war, merchant and passenger vessels, which may come and go and lie there at their pleasure; and for the convenience of movement of the officials and people within the city.

When hereafter China constructs a railway to the boundary of the Kowloon territory under British control, arrangements shall be discussed.

It is further understood that there will be no expropriation or expulsion of the inhabitants of the district included within the extension, and that if land is required for public offices, fortifications, or the like official purposes, it shall be bought at a fair price.

If cases of extradition of criminals occur, they shall be dealt with in accordance with the existing Treaties between Great Britain and China and the Hongkong Regulations.

展拓香港界址專條  
 溯查多年以來素悉香港一處非展拓界址不足以資保衛今中英兩國政府議定大畧  
 按照粘附地圖展擴英界作為新租之地其所定詳細界線應俟兩國派員勘明後再行  
 畫定以九十九年為限期又議定所有現在九龍城內駐紮之中國官員仍可在城內各  
 司其事惟不得與保衛香港之武備有所妨礙其餘新租之地專歸英國管轄至九龍向  
 通新安陸路中國官民照常行走又議定仍留附近九龍城原舊馬頭一區以便中國兵  
 商各船渡艇任便往來停泊且便城內官民任便行走將來中國建造鐵路至九龍英國  
 管轄之界臨時商辦又議定在所展界內不可將居民迫令遷移產業入官若因修建衙  
 署築造礮台等官工需用地段皆應從公給價自開辦後遇有兩國交犯之事仍照中英

The area leased to Great Britain as shown on the annexed map includes the waters of Mirs Bay and Deep Bay, but it is agreed that Chinese vessels of war, whether neutral or otherwise, shall retain the right to use those waters.

This Convention shall come into force on the first day of July, eighteen hundred and ninety-eight, being the thirteenth day of the fifth moon of the twenty-fourth year of KUANG Hsü. It shall be ratified by the Sovereigns of the two countries, and the ratifications shall be exchanged in London as soon as possible.

In witness whereof the undersigned, duly authorized thereto by their respective Governments, have signed the present Agreement.

Done at Peking in quadruplicate (four copies in English and four in Chinese) the ninth day of June in the year of Our Lord eighteen hundred and ninety-eight, being the twenty-first day of the fourth moon of the twenty-fourth year of KUANG Hsü.

(Signed)

CLAUDE M. MACDONALD.

LI HUNG-CHANG.

HSÜ TING-K'UEI.

L.S.

L.S.

大清國  
大英國欽差駐劄中華便宜行事大臣寶

太子太傅文華殿大學士一等肅毅伯李  
經筵講官禮部尚書許

光緒二十四年四月二十一日  
西歷一千八百九十八年六月初九日

四分英文四分共八分

批准文據應在英國京城速行互換爲此兩國大臣將此專條  
畫押蓋印以昭信守此專條在中國京城繕立漢文  
三日即西歷七月初一號開辦施行其  
原約香港章程辦理查按照粘附地圖所租與英國之地  
內有大鵬灣深圳灣水面惟議定該兩灣中國兵船無論  
在局內局外仍可享用此約應於畫押後自中國五月十

Oct. 20, 1898.]

GREAT BRITAIN.

[No. 141.]

[Jurisdiction. Hong Kong Extension.]

(No. 141.) *ORDER IN COUNCIL* providing for the Government of the Territories adjacent to Hong Kong leased under the Convention of June 9, 1898. Balmoral, October 20, 1898.

At the Court at Balmoral, the 20th day of October, 1898.

PRESENT: THE QUEEN'S MOST EXCELLENT MAJESTY IN COUNCIL.

WHEREAS by a Convention dated the 9th day of June, 1898 (No. 24), between Her Majesty and His Imperial Majesty the Emperor of China, it is provided that the limits of British territory in the regions adjacent to the Colony of Hong Kong shall be enlarged under lease to Her Majesty in the manner described in the said Convention;

And whereas it is expedient to make provision for the government of the territories acquired by Her Majesty under the said Convention, during the continuance of the said lease:

It is hereby ordered by the Queen's Most Excellent Majesty, by and with the advice of Her Majesty's Privy Council, as follows:—

1. The territories within the limits and for the term described in the said Convention shall be, and the same are hereby declared to be, part and parcel of Her Majesty's Colony of Hong Kong in like manner and for all intents and purposes as if they had originally formed part of the said Colony.

2. It shall be competent for the Governor of Hong Kong, by and with the advice and consent of the Legislative Council of the said Colony, to make laws for the peace, order, and good government of said territories as part of the Colony.

3. From a date to be fixed by Proclamation of the Governor of Hong Kong, all laws and ordinances which shall at such date be in force in the Colony of Hong Kong shall take effect in the said territories and shall remain in force therein until the same shall have been altered or repealed by Her Majesty or by the Governor of Hong Kong, by and with the advice and consent of the Legislative Council.

4.\* Notwithstanding anything herein contained, the Chinese officials now stationed within the city of Kowloon shall continue to exercise jurisdiction therein except in so far as may be inconsistent with the military requirements for the defence of Hong Kong.

And the Right Honourable Joseph Chamberlain, one of Her Majesty's Principal Secretaries of State, is to give the necessary directions herein accordingly.

A. W. FITZROY.

\* This Article revoked by Order in Council of 27th December, 1899 (No. 144).

Original filed on Japan July 1982  
Sent to Japan, *Princess*



10 DOWNING STREET

THE PRIME MINISTER

26 July 1982

*Mr & Mrs Michael*

Thank you very much indeed for your full and interesting letter of 22 July about defence sales and other commercial opportunities in Japan, Hong Kong and China. We shall be looking at all your ideas, together with the various Ministers involved. Thank you so much for writing.

*Yours ever*

*Raymond*

Michael Marshall, Esq., M.P.

original filed on Japan July 22  
visit to Japan Brief

file 16



10 DOWNING STREET

From the Private Secretary

26 July 1982

VISIT BY THE PRIME MINISTER TO THE FAR EAST

I enclose a copy of a letter which the Prime Minister has received from Mr. Michael Marshall, M.P. As you will see, it outlines a number of defence sales and other commercial opportunities which Mr. Marshall believes might be pursued during the Prime Minister's visit to the Far East in September.

Mrs. Thatcher has replied, thanking Mr. Marshall for his letter and saying that we shall be looking at all his ideas.

Unless you or other recipients consider that the Prime Minister should receive advice on any of these matters now, perhaps you could ensure that they are covered to the extent necessary in the briefing which is prepared for the visit.

I am copying this letter and enclosure to Francis Richards (Foreign and Commonwealth Office), John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry) and David Wright (Cabinet Office).

D. B. Omand, Esq.,  
Ministry of Defence.

28



From: Michael Marshall, M.P.

*Original filed on Japan July 1982  
Visit to Japan, Blue*

22nd July 1982

*Dear Mr. [unclear],*

Earlier this week I returned from a visit to Japan, Hong Kong and the People's Republic of China, which I undertook both as a member of the Select Committee on Defence and as Parliamentary Adviser to British Aerospace and Cable and Wireless. Having declared my interest in defence sales generally, specifically on behalf of British Aerospace and in wider telecommunication opportunities for Cable and Wireless, I hope that the following comments may be of interest to you in the light of your proposed visit to the Far East in September.

1. Japan.

By way of background, I should mention that the Select Committee had had full discussions in Washington before arriving in Japan where, apart from a real, intense interest in and appreciation of our success in the Falklands, the main thrust of the discussions both with the administration and the Senate Armed Services Committee had been to enlist our support for increased Japanese defence expenditure.

Within the last few days, Prime Minister Suzuki has made it plain that Japan will exceed its current limit of defence expenditure of 1 per cent of GNP this year and there are obvious opportunities for British defence sales in Japan. The Foreign Minister, the Minister for Justice as well as Members of the Diet with special defence interests, all showed a willingness to consider British plans for the sale of equipment such as the Harrier, Rapier, Blow-pipe, Sea Wolf etc.

However, such sales are inhibited by two factors. First, there is the long-standing Japanese inhibition about "going public" on defence procurement and, second, the virtual monopoly of U.S. defence supplies to Japan at the present time. As against this, Japan is clearly sensitive to its trade imbalance with Europe and its special relationship with the United Kingdom as the principal source for its foreign investment designed to capture a share of the European market. Under these circumstances and given the somewhat strident tone adopted by the U.S. administration and Congress in pressing for increased defence expenditure, I believe that there are reasonable prospects in looking for increased Japanese defence expenditure from the United Kingdom, and in meetings with British Aerospace and the SRAC during the next few days I shall be pressing for a concerted effort to provide the maximum industrial impetus to



coincide with your own visit.

## 2. People's Republic of China.

My views after a four-day visit are necessarily limited. Nevertheless, it seems clear that the Chinese Government wish to have some kind of contract which can be agreed in time for your visit. On the other hand, on sales one cannot be over optimistic even with the prior claims for modernisation of industry, agriculture and science and technology. Moreover, Xu Xin, Assistant Chief of General Staff (and very much regarded as the coming Defence man) gave clear indication that his priorities were directed towards the modernisation of the Army first and the Navy second (and no mention was made of the Air Force). He went on to emphasise that the United Kingdom should regard itself as well placed in the league of defence suppliers in relation to its major competitors.

Looking more widely at the prospects for British exports to China, it is hard to see where the grand gesture will come from given the current shortage of foreign exchange. On that score, it may be that some prospects currently lie in the joint venture and increased scope for trading at provincial level. I have particularly in mind the Hong Kong - Guangzhou micro-wave system which is to become operational by early 1983. This is part of a determined effort by Cable and Wireless to build up a direct communications commitment between Hong Kong, the Province of Guangdong and through its other interests in Singapore and Manila, to cover the whole of the Far East.

There are substantial political implications in a joint commitment of this kind so far as the whole future of Hong Kong is concerned.

## 3. Hong Kong

Apart from what might be termed conventional communication links of this kind, there are a number of other opportunities for Hong Kong to strengthen its commercial and industrial links with mainland China. The chief concern remains the uncertainty over the future of the New Territories and its impact on such desirable projects as the possible replacement airport on Lantau Island. Meanwhile, Mr. Bremridge, the Financial Secretary, believes that the Colony must make a firm decision regarding this and other competing claims for the new towns, the house building programme etc. in about 18 months time. Incidentally, he expressed himself well satisfied with the Hong Kong Government's equity stake in Cable and Wireless and the new vigour and drive in the management of that Company.



One other possible Hong Kong project is worthy of mention, particularly as it would seek to draw on substantial private capital and the China connection. This is the proposal for a regional satellite which might provide television and business services along the pattern evolved by British Aerospace, Marconi and BT in this country. In Hong Kong a partnership made up of Cable and Wireless, British Aerospace and other owner/users such as the Hong Kong Shanghai Bank (who have already indicated their initial interest) would certainly strengthen Hong Kong's claim as the communications centre for the Far East as well as strengthening the U.K. space industry.

I have obviously used a good deal of shorthand in this letter and I would only be too pleased to amplify any of the points raised. However, in view of the importance of a number of these Cable & Wireless, British Aerospace projects as they affect your Far Eastern tour, I hope you will not take exception to the provision of further detailed briefing material from both Companies and the S.B.A.C. via the M.O.D. and D.of I.

*Yours ever,*

*David*

The Rt. Hon. Margaret Thatcher P.C., M.P.,  
Prime Minister,  
10 Downing Street,  
London S.W.1.

CONFIDENTIAL



Handwritten initials 'JFB' and the name 'C. Cardone' in cursive.

10 DOWNING STREET

*From the Private Secretary*

23 July 1982

FUTURE OF HONG KONG:  
MEETING ON 28 JULY

We discussed the composition of the informal meeting which the Prime Minister is holding on 28 July to discuss the problem of the future of Hong Kong.

I suggest that, in addition to the Foreign and Commonwealth Secretary, the meeting is attended by Lord Belstead, Sir Antony Acland, Sir Edward Youde, Sir Percy Cradock, Mr. Donald and an FCO legal adviser.

A.J. COLES

Brian Fall, Esq.,  
Foreign and Commonwealth Office

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10 DOWNING STREET

From the Private Secretary

23 July 1982

CALL ON THE PRIME MINISTER BY LORD MACLEHOSE

The above called on the Prime Minister this morning. The main subject of discussion was the future of Hong Kong.

The Prime Minister recalled her recent conversation with the Chinese Ambassador and said that she remained seriously disturbed by the Chinese insistence on securing sovereignty over Hong Kong in 1997. She had since had a brief discussion of the problem with the Prime Minister of Singapore who had advised her not to give way to Chinese demands. Lord Maclehorse said that he knew Lee Kuan Yew well; he was rather simplistic. It would be folly to think that the Chinese would abandon their claim to sovereignty for economic reasons. Their history showed that they frequently cut off their noses to spite their faces. The encouraging thing was that China had accepted that confidence in Hong Kong would fail unless satisfactory arrangements for its future were made without too much delay. The Chinese were now engaged in trying to establish what the Prime Minister's position would be when she arrived in Peking. This was the significance of the recent remarks by the Chinese Ambassador. It was quite clear that for the Chinese, any change in the status of Hong Kong must involve the abrogation of treaties and the passage of sovereignty. But they were prepared to negotiate about future arrangements. It was conceivable that the cession of sovereignty might be of a purely symbolic character.

The Prime Minister said that she doubted whether it could be merely symbolic. The trouble was that as soon as sovereignty was conceded, control was lost. Communist governments could not be relied upon to respect agreements. Lord Maclehorse advised that our initial position should be that we would not contemplate any transfer of sovereignty unless we had cast-iron guarantees about future arrangements. The Prime Minister said that she found it difficult to envisage cast-iron guarantees without sovereignty.

/ Lord Maclehorse

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Lord Macle hose explained that the subject of Hong Kong was now a very emotive one in China. The Chinese Government could not possibly abandon its aim of recovering sovereignty. But there was scope for the discussion of formulae. The Prime Minister expressed the view that we would have to do most of the preparatory work. We could not rely on the Chinese to produce original ideas. Lord Macle hose observed that the Chinese situation provided for the creation of special administrative regions which could be administered very flexibly. He agreed that it would be extremely difficult to secure reliable guarantees for the future but we had to recognise that we should lose sovereignty over a large part of the area anyway. He did not believe that the Chinese would consider a further lease of the new territories. Leasing was a discredited notion and was regarded as the kind of thing that could happen in the 19th century but not nowadays. He believed that the Chinese envisaged a completely new device which would leave the character of Hong Kong as British as possible but which would allow China to say that it had recovered sovereignty. The Prime Minister said that this might involve a kind of management contract. Lord Macle hose thought this a rather good term. It might be what was required to maintain confidence. The important thing was that Hong Kong should remain insulated from the developments which periodically disturbed China.

In response to a question from the Prime Minister, Lord Macle hose explained that, while we were not certain, it seemed possible that Portugal had confidentially informed China that it recognised Chinese sovereignty over Macao. The former administration of Macao remained unchanged.

Lord Macle hose then expressed the view that Deng Xiaoping would have a sensible approach to the problem. The question was whether he could be used in time, given his advanced years. If we were able to find a formula for the future, there would be great opportunities for British involvement in the commercial development of South West China. Hong Kong could provide much of the necessary investment capital. Thus, Y K Pao's earlier idea of a soft loan should not be totally disregarded. It could come from Hong Kong rather than the United Kingdom and could serve as a sweetener towards the end of the negotiations.

The Prime Minister said that she was still unable to envisage what kind of document could provide for the satisfactory future administration of Hong Kong. A change of sovereignty could only be considered against the background of absolutely cast-iron arrangements. But she did not like abrogating treaties. Lord Macle hose pointed out that one of the treaties would lapse whatever we did. The new territories were essential to the future of Hong Kong. They contained the airport, the new container port, a large part of the work force and important supplies of electricity and water. The people of Hong Kong were concerned not so much about sovereignty as about the conditions under which they would be governed in future. If we could ensure the prolongation of present conditions, they would be perfectly satisfied. The Prime Minister questioned whether this was possible. It was not so much a matter of legal documents but of customs and conventions which had been built up over the years and which could not be incorporated in documents. Lord Macle hose said that the important aspect of any document was the definition of the controlling authority. He thought it would be reasonable to say to the Chinese,

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during the Prime Minister's visit, that the first step was to discuss the modalities of the future administration. Then, without prejudice, we might consider a transfer of sovereignty on condition that British administration continued for a considerable period. The aim should be an announcement that we and the Chinese had agreed to commence serious talks.

It was agreed that when Lord Macle hose saw the Chinese Ambassador next week he should convey the impression that the Prime Minister saw great difficulty in the idea of a transfer of sovereignty. Lord Macle hose could go on to say that he did not know whether it would be possible for that subject to be further discussed but that he was sure it could not be unless full agreement could be reached on the future administration of Hong Kong.

One further point. Lord Macle hose said that, subject to Sir Percy Cradock's views, he advised that the Prime Minister should try to see Deng Xiaoping twice during her visit, with the object of outlining her views on the problem at the first encounter and then allowing a pause for reflection before the second meeting. The Prime Minister was attracted by this idea and I should be grateful if it could be considered further.

AJC

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

SECRET

Hong Kong  
PRIME MINISTER

Call by Lord Maclehorse

You will wish to have his views on the problem of the future of Hong Kong.

I attach two letters from the Foreign Office:-

- a) The first reporting a recent discussion between Mr. Pym and Mr. Heath on the latter's conversations in Peking about this subject.
- b) Secondly, a note about the attitudes of people in Hong Kong to a possible transfer of sovereignty.

A.J.C.

22 July 1982





Foreign and Commonwealth Office

London SW1A 2AH

21 July 1982

*Prime Minister**To note.**A.F.C. 23/7**Dear John,*Future of Hong Kong

You asked if we could let you have some information on the probable views of people in Hong Kong on the question of future sovereignty over the Territory.

It is not possible to gauge the full range of public opinion on this subject. There has been nothing approaching a major opinion poll although a survey carried out earlier this year by the Reform Club of Hong Kong claimed 75% support for a scheme which would involve British recognition of Chinese sovereignty in return for continuing British administration. As public debate on the subject has increased in Hong Kong, however, editorials in the press have considered a number of schemes in which the main emphasis has been on the importance of the maintenance of the status quo so far as administration is concerned, rather than sovereignty.

The view of Lord MacLehose is certainly that no-one in Hong Kong seriously expects that a solution which ensures continued British administration in Hong Kong can be achieved without a British shift on sovereignty. Sir E Youde, the present Governor, shares this view. It is borne out by opinions expressed during a recent informal meeting which the Governor held with Unofficials Members of the Executive and Legislative Councils. The Governor reported that Members expressed themselves as in no doubt that in discussions with the Chinese it would be impossible to make any real progress towards the continuation of British administration on satisfactory terms unless HMG was prepared to concede Chinese sovereignty over the whole Territory.

/Such a view



Such a view probably fits the attitudes of most Hong Kong Chinese (98% of the population). The majority are either fairly recent immigrants from China or their children. They are likely to see themselves as still primarily Chinese, although they do not wish to live under the Communist system. Thus the British connection is mainly of value to them in providing an umbrella under which they can carry on their profitable economic activity in Hong Kong. They are less likely to feel an emotional attachment to the UK. But they would need to be fully assured that British administration would continue with sufficient guarantees to safeguard their freedom and livelihood.

Yours ever,

Francis Pickles

for (J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

SECRET

ZIA



Foreign and Commonwealth Office

London SW1A 2AH

21 July, 1982

Prime Minister

To note.

A.S.C. 23/7.

mf

Dear John,

Future of Hong Kong: Discussion between the Secretary of State and the Rt Hon Edward Heath MP

The Prime Minister has seen Peking telegrams numbers 202 and 209 reporting on the conversation between Mr Heath and Deng Xiaoping in Peking on 6 April. As a follow up, Mr Heath called on the Secretary of State on 30 June to give his personal impressions.

Mr Heath said that when he saw Vice Premier Deng it was quite clear that Deng expected his remarks to be passed on to HMG. Mr Heath took the view that it would be the wrong tactics to suggest to the Chinese that the treaties governing Hong Kong should be extended or that Hong Kong Island and Kowloon would be administered on their own. The Chinese accepted the economic value to them of Hong Kong and were offering in exchange for sovereignty a free port with no governor but some form of as yet undefined administration. There was pressure on the Chinese not to wait until 1997 and something had to be done now given the amount of talk in Hong Kong. A transitional period might be required. Mr Heath said it would be difficult to persuade the Chinese to accept British administration after 1997. Nor did he believe that the people in Hong Kong really expected this. Many were now investing in China and believed that Deng had established an economically stable society. Mr Heath suggested that it would be important to keep the debate open on sovereignty matters during the Prime Minister's visit. Mr Heath concluded by offering his services if he could be of further use in the future.

Mr Pym said that we recognised the seriousness of the issue, and the problem caused by the talk in Hong Kong. We considered that continued British administration in Hong Kong would be needed to maintain confidence. Mr Pym did not respond to Mr Heath's offer of services.

Yours ever,

(B J P Fall)  
Private Secretary

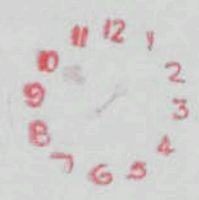
A J Coles Esq  
Private Secretary  
10 Downing Street

SECRET

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21 JUL 1982



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INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR).

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MR HEATH'S CALL ON DENG XIAOPING: HONG KONG

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See 1974  
198  
200  
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See 267

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4. MR HEATH SAID THAT HE SUPPOSED THAT IN SUCH CIRCUMSTANCES BRITAIN WOULD STILL BE ABLE TO MAKE ITS CONTRIBUTION TO HONG KONG'S PROSPERITY, WHICH WAS ALSO SO MUCH TO THE ADVANTAGE OF CHINA. DENG REPLIED THAT THERE COULD BE A LOCAL GOVERNMENT IN HONG KONG. THE NEW CHINESE STATE CONSTITUTION WOULD SPECIFICALLY ALLOW FOR THE CREATION OF SPECIAL ADMINISTRATIVE ZONES. THE LOCAL GOVERNMENT WOULD BE FORMED BY THE INHABITANTS, WHETHER CHINESE, BRITISH OR OF OTHER NATIONALITY. SUCH PEOPLE COULD EITHER BE EMPLOYED BY THE LOCAL GOVERNMENT OR THEMSELVES BE MEMBERS OF THE LOCAL GOVERNMENT. THE "VARIOUS SYSTEMS" OF HONG KONG WOULD REMAIN UNCHANGED. IT COULD USE THE NAME "HONG KONG: CHINA" AND COULD MANAGE ITS OWN NON-GOVERNMENTAL TRADE AND COMMERCIAL RELATIONS WITH OTHER COUNTRIES.

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6. MR HEATH SAID THAT BRITAIN RECEIVED NOTHING FROM HONG KONG AND SUGGESTED THAT BRITAIN MANAGED HONG KONG FOR THE BENEFIT OF CHINA AND OF MANKIND. DENG REPLIED THAT IN THAT CASE THE MATTER WOULD BE EVEN EASIER TO SETTLE. AS A FRIEND OF LONG STANDING HE COULD TELL MR HEATH THAT IF CHINA DID NOT RECOVER HER SOVEREIGNTY OVER HONG KONG SHE COULD NOT BE ACCOUNTABLE TO HER OWN PEOPLE. MR HEATH SAID THAT THE QUESTION OF SOVEREIGNTY WAS VERY CLEAR IN THE TREATIES. DENG SAID THAT HE WAS REFERRING TO SOVEREIGNTY OVER THE WHOLE AREA OF HONG KONG AND NOT JUST THE NEW TERRITORIES. IT WOULD INVOLVE ABROGATING THE PAST UNEQUAL TREATIES.

7. MR HEATH CONCLUDED BY SAYING THAT THESE WERE INTERESTING IDEAS WHICH HE WOULD CONSIDER. HE HOPED THAT THE CHINESE SIDE WOULD SHOW FLEXIBILITY IN NEGOTIATIONS.

8. I SHALL SEND CONSIDERED COMMENT TOMORROW AFTER MR HEATH HAS LEFT. MR HEATH AND HIS PARTY REALISE THE SENSITIVITY OF THE ABOVE, AND HAVE AGREED TO SAY NOTHING PUBLICLY. AT THIS MORNING'S PRESS CONFERENCE HE RECALLED THE 1977 MEETING WITH MAO, AND SAID THAT HE HAD REMINDED THE CHINESE OF THE URGENCY OF SUPPORTING CONFIDENCE IN HONG KONG. HE REFUSED TO BE DRAWN ON DENG'S REPLY.

CRADOCK

LIMITED  
HK v GD  
FE D  
PS  
PS/PUS  
MR GIFFARD  
MR DONALD  
MR URE

THIS TELEGRAM  
WAS NOT  
ADVANCED

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SECRET

FILE

Hong Kong file

21



10 DOWNING STREET

*From the Private Secretary*

13 July 1982

Call by Sir Y.K. Pao

The above called on the Prime Minister this morning. He said that when the Chinese Prime Minister had recently visited Japan, he had been invited to call on him there. At a reception given during the visit, Huang Hua had taken him aside and said that the Chinese Government had worked out its terms in relation to the Hong Kong problem. These were that (a) sovereignty must pass to China; (b) Article 30 or 31 (Pao was not sure which) of the new constitution, giving the Government discretion to establish special administrative zones, would be relevant; (c) it would also be possible to apply the principles of China's policy towards Taiwan.

Huang Hua had said that he hoped that the future administration of Hong Kong could include friends of China who were there at present. In this connection, he mentioned Mr. Dick Lee. Sir Y.K. Pao thought it no coincidence that a week later an article by Lee had appeared in the Financial Times. He had referred to the possibility of alternating Chinese and British chairmanship of a future administration and also to the need for the present provision for recourse to English courts to be abandoned.

The Prime Minister said that after her dinner with the Chinese Ambassador the previous evening, the latter had said to her privately that sovereignty over Hong Kong must pass to China. The Prime Minister had enquired whether the Ambassador was referring to Hong Kong and Kowloon or to the New Territories. The reply had been that sovereignty over the whole area must be transferred. Mr. Ke Hua had then said that China did not wish to disturb the present arrangements. The Prime Minister replied that a statement of that kind would not be sufficient to give the people of Hong Kong confidence in the future. Something more precise would be needed. The Ambassador's last point was that Hong Kong could be administered as a special region. There could be a role for Britons or Hong Kong citizens in the administration alongside Chinese. The Prime Minister said that the well-being of Hong Kong rested on a unique co-operation between the United Kingdom and China. But unless British administration continued, confidence would not survive. Mrs. Thatcher told Sir Y.K. Pao that she had been rather alarmed by this conversation.

SECRET

/ Sir Y.K. Pao

15 July 1982

Prime Minister's visit to Japan, China and Hong Kong

Thank you for your letter of 9 July. I owe you a reply to paragraph 2.

6/17  
I agree that it would be useful for the meeting on 28 July to be attended by Sir Percy Cradock and by Sir Edward Youde - though I assume that the latter would not be returning to London exclusively for the purposes of this meeting but for consultations more generally. I believe it will be desirable not to have too large a meeting on 28 July. Perhaps we could therefore consult further about which other officials will attend.

JOHN COLES

Brian Fall, Esq.,  
Foreign and Commonwealth Office.



SECRET.

Sir Y.K. Pao then said he had mentioned to Deng the idea of extending the lease of the New Territories. The reply had been that one billion people would refuse to agree to such a move. It was an emotional matter. Asked whether the existing position could be frozen, Deng had replied that it was very important that such a solution was not discussed. Sir Y.K. Pao said that the Chinese Government clearly wanted to retain the existing economic advantages of Hong Kong but it was not clear how they could achieve this unless the Administration was left in British hands. The Prime Minister agreed. Continued British administration was essential. She was worried by the attitude adopted by the Chinese Ambassador. She had said to him that she understood the sensitivity of the problem for the Chinese Government. It might be necessary to find a suitable form of words to help them but there must be no doubt as to the meaning of any formula. She had tentatively suggested to the Ambassador that there should be some further discussion between us and the Chinese about the problem before her visit to China. But we were not yet clear as to the solution we should go for. Our sovereignty over Hong Kong and Kowloon was clear. The question was whether we should retain the New Territories. She had been inclined to think in terms of extending the lease. Sir Y.K. Pao said that the Chinese Government could not accept that solution. But they must see the advantages of continued British administration. His advice was that we should be patient. The problem had to be settled but we could take two or three years to settle it.

Sir Y.K. Pao then described a recent talk he had had with Mr. Ku Mu, a former Vice-Premier. He was now in charge of a special economic zone abutting on to Hong Kong. He had apologised because he had not been able to take up the invitation to him to visit the United Kingdom. He was now not very popular with the Chinese leadership who questioned the need for special economic zones. Sir Y.K. Pao described in some detail the arrangements which now applied inside the zones. He said that, without Hong Kong's prosperity, the zones would become meaningless.

Reverting to the problem of Hong Kong, the Prime Minister said that she found this very worrying, given the Chinese attitude. She did not see how we could concede sovereignty over Hong Kong and Kowloon. Clearly, the problem was not going to be solved by the device of a soft loan which Sir Y.K. Pao had referred to on an earlier visit. Nor could a solution be worked out during the course of her visit to the Far East. It might be important to dampen down expectations, especially in Hong Kong.

AJC

John Holmes, Esq.,  
Foreign and Commonwealth Office

SECRET.



10 DOWNING STREET

Prime Minister

As you know, we have arranged meetings towards the end of July when policy on the future of Hong Kong will be discussed. It will be better to keep off the subject at the Chinese Embassy on Sunday night.

2. For the meeting on 28 July may I say that the Foreign Secretary plus 2 F.I.C.O. officials and Sir Perry Crookall may attend - but that Sir E. Tonde should only come if he has other official reasons for being in the U.K. than (it is a long and expensive journey to make to just one meeting).

A.S.C.  $\frac{9}{7}$



Foreign and Commonwealth Office

London SW1A 2AH

9 July 1982

Dear John

Prime Minister's Visit to Japan, China and Hong Kong

Thank you for your letter of 5 July to John Holmes. We have noted the Prime Minister's wishes on the programme and on the meetings about Hong Kong. We agree that it would be useful for Sir Percy Cradock and Sir Hugh Cortazzi to have separate meetings with the Prime Minister on 28 July.

In addition, it would be helpful to know the Prime Minister's views on which officials should attend the briefing meeting on the future of Hong Kong on 28 July. We suggest that, in addition to the Secretary of State and his FCO advisers, the Prime Minister might find it useful to have the advice of Sir Percy Cradock (who will be in England at the time) and Sir Edward Youde (who could usefully return for consultations at this stage). There should be no undue speculation about this and it would seem perfectly normal for the Prime Minister to get the views of the Governor before such an important visit.


The Prime Minister's dinner with the Chinese Ambassador on 12 July is a gesture of courtesy and is now the custom whenever particularly distinguished British visitors go to China. On such occasions it is not usually the Chinese practice to discuss substantive bilateral business, especially if the issues are contentious. Nor does Mr Pym think that there would be advantage in raising the question of the future of Hong Kong on this occasion. If, rather against the odds, the Ambassador seemed to want to probe our position, the Prime Minister might take the line that she was looking forward to discussing the question, which is obviously complicated, during her visit to Peking and that she hoped to make progress towards an eventual solution which would take account of both Governments' interests and the continuing prosperity of Hong Kong. There would of course be no harm in commenting on the existing helpful cooperation between China and Hong Kong and the excellent state of Sino-British relations.

At the dinner, the Chinese Ambassador is likely to make a short and general speech after the first or second course, in which he will call for a toast to the success of the Prime

/Minister's



Minister's visit (or, just conceivably, to The Queen).  
The Prime Minister will be expected to say a few words in  
reply, although as this is a formal exercise of goodwill  
the Chinese will not expect anything of substance. I  
enclose a note giving some points on which Mrs Thatcher  
may like to draw.

*Yours ever,*  


(B J P Fall)  
Private Secretary

A J Coles Esq  
10 Downing Street



NOTES FOR SPEECH BY PRIME MINISTER AT DINNER BY CHINESE  
AMBASSADOR

1. Ambassador Ke [pron. Kur] a distinguished member of London Diplomatic Corps. Notable contribution over past four years to Sino-British relations. Generous host.
2. Long history of friendship between British and Chinese peoples: relations never better than today. Close understanding important to both countries and world peace.
3. Looking forward to September visit and to talks with Premier Zhao [Jow, rhymes with 'cow'], Vice-Chairman Deng [Dung] and Chairman Hu Yaobang [Hu Yow Barng].
4. Glad to be able to see China again. Warm memories of visit in April 1977: beautiful country and friendly people. China then just beginning to recover from 'Gang of Four'. Have read of much progress in last five years, now opportunity to see for myself: Chinese proverb 'One Looking is worth 10,000 Hearings'.
5. Propose toast to health of Ambassador and Mme Ke and to continued development of Sino-British friendship. [Toast to Chinese Head of State not necessary as no formal appointment has yet been made.]



10 DOWNING STREET

The Private Secretary

5 July 1982

PRIME MINISTER'S VISIT TO JAPAN, CHINA AND HONG KONG

I put to the Prime Minister over the weekend the questions raised in your letters of 24 June and 2 July, together with the programme suggested in Hong Kong telegram No. 663 for the Hong Kong part of the tour.

As I explained to you on the telephone earlier today, the Prime Minister would like to postpone decisions on the programme until she has had the opportunity to discuss her visit with Sir Percy Cradock and Sir Hugh Cortazzi. For various reasons, I do not think it will be possible to arrange these calls until towards the end of this month. Unless it causes you difficulty, therefore, I shall aim to let you have the Prime Minister's firm views on the programme for the whole visit before she leaves for her summer holidays.

The Prime Minister has noted that it will be necessary to decide in the next few weeks how the difficult question of the future of Hong Kong should be handled during her Far Eastern tour. The matter will doubtless arise when Sir Murray McLehose pays his farewell call on Mrs. Thatcher on 23 July. Thereafter, we have arranged an informal meeting to discuss the question on 28 July (at 9.30 a.m.). I have it in mind, subject to any comments you may have, to ask Sir Percy Cradock and Sir Hugh Cortazzi to call on the Prime Minister at 1500 and 1530 hours respectively on that day. Perhaps you would kindly consult Brian Fall, with whom I discussed these matters the other day, and let me know if you see any difficulty in these arrangements.

John Holmes, Esq.,  
Foreign and Commonwealth Office.

276 JE  
cc to, Policy for China, China Sec  
" " Japan; Japan Sec  
Future of Hong Kong

Original in PM Tour Admin  
for Far East Tour.

cc PM Tour  
Admin for Far  
East Tour

Hong Kong  
GR 500

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FM PEKING 070840Z APR 82

TO PRIORITY F C O

TELNO 209 OF 7 APRIL

INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR).

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(14) MY TELNO 202: MR HEATH'S CALL ON DENG XIAOPING: FUTURE OF HONG KONG

1. THIS IS MUCH THE MOST IMPORTANT AND REVEALING STATEMENT WE HAVE HAD FROM THE CHINESE SIDE ABOUT HONG KONG. DENG HAS CLEARLY BEEN GIVING SOME THOUGHT TO THE ISSUE AND IN OBLIQUE CHINESE FASHION WAS USING THE VISIT OF A DISTINGUISHED, BUT NON-GOVERNMENT, VISITOR, TO PUT FORWARD WHAT IS IN EFFECT A TENTATIVE OFFER IN ADVANCE OF THE PRIME MINISTER'S VISIT.
2. AS MIGHT BE EXPECTED, IT HAS GOOD AND BAD PARTS. THE GOOD IS THAT, AS WE GUESSED, THE CHINESE LEADERS ARE READY TO PUT HONG KONG IN THE FRAMEWORK OF THEIR LIBERAL TAIWAN PROPOSALS, NO DOUBT HOPING THIS MAY BE AN INDUCEMENT TO TAIWAN. THIS HAS ADVANTAGES FOR US IN THAT THE CHINESE WILL HAVE AN INTEREST IN SHOWING THEMSELVES GENEROUS.
3. THE BAD IS THAT, ALTHOUGH DENG'S PROPOSALS DO NOT ENTIRELY PRECLUDE THE POSSIBILITY OF CONTINUED BRITISH ADMINISTRATION, THEY SHOW CONTINUED MISUNDERSTANDING OF THE WAY THE HONG KONG ECONOMY WORKS AND WHAT INVESTORS WILL ACCEPT. THERE IS ALSO THE DELUSION THAT THE UK TREASURY RECEIVES TAXATION REVENUE FROM HONG KONG. WE MUST CORRECT CHINESE MISCONCEPTIONS AND TRY TO EXPLAIN TO THEM HOW TO AVOID KILLING THE GOOSE THAT LAYS THE GOLDEN EGGS.
4. DENG'S REMARKS ON SOVEREIGNTY FURTHER UNDERLINE THAT THIS WILL BE FOR THE CHINESE AN ESSENTIAL CONDITION OF PROGRESS.
5. MR HEATH UNDERTOOK TO CONSIDER DENG'S IDEAS AND MAY BE IN TOUCH WITH YOU. BUT IN ANY CASE WE CANNOT IGNORE WHAT IS IN EFFECT AN OFFER MADE AT THE HIGHEST LEVEL. FORTUNATELY THE IDEAS IN IT STILL LOOK TENTATIVE AND WE SHOULD GET BACK AND FEED IN OUR OWN THOUGHTS BEFORE THE CHINESE IDEAS CONGEAL. AS A FIRST STEP I RECOMMEND THAT I SPEAK TO HUANG HUA SOON, SAYING THAT WE HAVE NOTED WITH INTEREST DENG'S WORDS TO MR HEATH WHICH WE THINK MIGHT PROVIDE A BASIS FOR DISCUSSION. AS A FIRST STEP WE SHOULD LIKE TO GIVE THE CHINESE SIDE A FULLER PICTURE OF HOW HONG KONG'S FINANCES WORK. HERE I SHOULD LIKE TO HAND OVER A PAPER WHICH NO DOUBT YOU AND HONG KONG COULD PREPARE SETTING DOWN THE ESSENTIALS AND IMPLYING, THOUGH NOT NECESSARILY STATING, THE CRUCIAL VALUE OF BRITISH ADMINISTRATION IF PROSPERITY IS TO BE MAINTAINED. SOMETHING IN WRITING ON THE FINANCIAL SCENE IS, I THINK, NEEDED TO AVOID THE HAZARDS OF ORAL TRANSMISSION.

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6. AS A SECOND LINE WE SHOULD MAKE MAXIMUM USE OF CHINESE VISITS TO HONG KONG TO EDUCATE THE CHINESE FURTHER IN THE REALITIES. A BANK OF CHINA VISIT, IN RETURN FOR MR BREMRIDGE'S VISIT, MIGHT BE ONE POSSIBILITY. WE SHOULD ALSO CONSIDER AN INVITATION TO A MEMBER OF WESTERN EUROPEAN DEPARTMENT OF THE MINISTRY OF FOREIGN AFFAIRS, WHO ARE SHORTLY TO LOSE THEIR ONLY HONG KONG EXPERT.

7. BUT THE MAIN THING IS TO RESPOND TO DENG BEFORE CHINESE IDEAS HARDEN.

CRADOCK

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TO PRIORITY F C O

TELNO 202 OF 6 APRIL

INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR).

MR HEATH'S CALL ON DENG XIAOPING: HONG KONG

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5. DENG WENT ON TO SAY THAT THE PROBLEM OF THE EXODUS OF CHINESE FROM THE MAINLAND TO HONG KONG WOULD BE EASIER TO SOLVE UNDER SUCH A REGIME. THERE WERE NOW QUOTAS AND MANY PEOPLE WISHED TO SETTLE IN HONG KONG. UNDER SUCH AN ARRANGEMENT THE UK MIGHT SUFFER A LOSS OF TAXATION REVENUE FROM HONG KONG, BUT TRADE AND COMMERCE WOULD NOT SUFFER.

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CRADOCK

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HK v GD  
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PS  
PS/PUS  
MR GIFFARD  
MR DONALD  
MR URE

THIS TELEGRAM  
WAS NOT  
ADVANCED

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MR. COLES

Cancelled

Do you wish the Foreign Secretary to attend the meeting to discuss the future of Hong Kong on 12 May? You will remember that we have Sir Edward Youde and Sir Murray Macle hose coming in.

C.S.

Caroline

We shall certainly want the Foreign Secretary - and others, but perhaps we can leave the others until nearer the time.

29 March 1982

A.F.C.  $\frac{16}{4}$

Arranged.  
Ch. 19/4.

SECRET

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Many Many

10 DOWNING STREET

From the Private Secretary

15 March 1982

Future of Hong Kong

The Prime Minister read over the weekend the Foreign and Commonwealth Secretary's minute of 9 March.

B/E  
11/3

She made no comment on the substance of the minute but would like to discuss the problem with Lord Carrington and officials in the next two or three weeks (we shall be in touch separately about a date). She would also like to take advantage of the presence of Sir Murray MacLehose and Sir Edward Youde in London in May for a further discussion with the Foreign and Commonwealth Secretary, which they could attend (we have provisionally earmarked 12 May for this).

A. J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Secretary.

SECRET

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PM/82/17

PRIME MINISTER

SECRET

Prime Minister

19

①

No decision is needed now. If you agree

I shall arrange for :-

- (a) a discussion of the problem with Lord Carrington and officials in the next few weeks ✓
- (b) a further discussion when Sir N. DeLakota and Sir E. Youde are here in May. ✓
- (c) a discussion in OD in due course.

*Yes*

Agree?

A.J.C.  $\frac{12}{3}$

on attached PM Tours Abroad file

Future of Hong Kong

1. When you agreed to the ideas in my minute of 15 December 1981 about your visit to China, Hong Kong and Japan and about Hong Kong's future, you asked for further thoughts after Humphrey Atkins' visit to Peking.
2. One of the purposes of this visit was to establish whether there had been any shifts in Chinese thinking since we last tackled them. From the conversations Humphrey Atkins had with Premier Zhao and Vice Premier Ji, it is clear that while the Chinese have not moved on essentials, they recognise the existence of the problem as well as the need for it to be solved before 1997. They have said they want to see Hong Kong remain a free port and a commercial and financial centre. They have also said that in due course they would discuss with us taking local Hong Kong opinion into account.
3. In many ways the line taken by the Chinese is encouraging. They are clearly thinking about the problem more urgently than before. They have hoisted aboard the need to preserve confidence and the importance of Hong Kong's economic autonomy. However, I do not myself believe that they have yet fully grasped the ways in which confidence could be threatened or maintained. The emphasis by the Chinese Premier, Zhao Ziyang, on the importance of the Taiwan analogy (Peking telno 18) is encouraging in that the Chinese (in their '9-point proposals' issued in the autumn) clearly recognise that Taiwan would need to be accorded a great deal of economic and political independence. However, it is possible that the Chinese have in mind a solution for Hong Kong which excludes continuing British administration.

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4. If this is in the minds of the Chinese, they have clearly misunderstood the basis of Hong Kong's prosperity. Confidence in the Territory, particularly among investors, is likely only to be maintained if autonomy is guaranteed by the administration continuing on the same lines, ie through the British.
5. In my view, our own interests point to the need to keep Hong Kong going on that basis. The option of unilateral withdrawal is not really open to us. From the most negative viewpoint, a British pull-out would create enormous problems for us. Our political and economic interests in the Far East would suffer and we would be faced with demands from Hong Kong people for guarantees of protection and, more than likely, for the right of admission of fairly large numbers to this country.
6. We therefore need to try to bring the Chinese to agree to continuing British administration, not indefinitely but for a sufficient period of time to maintain confidence. They will not of course agree to this without a price; that is likely to focus on the question of sovereignty, on which their recent remarks put much stress. Here I think it would be in our interests to be flexible. We can only maintain sovereign powers in the New Territories up to 1997 in any case and the rest of the Territory is not viable on its own. The fact that we entered into a lease on the New Territories in 1898 was a recognition that ultimate sovereignty in these areas rested with China. If we could come to an arrangement whereby we made some sort of recognition of Chinese sovereignty over the rest of the Territory (ie Hong Kong Island and Kowloon) while still retaining the right to administer



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the Territory beyond 1997, we should get a very good deal and achieve a real foreign policy success. Without it we would have little effective bargaining power beyond China's own perception of its economic interest in the Territory. I therefore think that it would be sensible for us to clear our minds on this issue of sovereignty in order to be ready with a flexible response if the Chinese show themselves ready for realistic negotiations. At the same time we should of course avoid making any premature offers on the subject of which they could take advantage, and we should only agree to consider a transfer of sovereignty in return for a satisfactory undertaking from them on continuing British administration, including the length of time for which this would be guaranteed.

7. There is of course the idea put to you by Sir Y K Pao of a possible linkage between loans to China and a solution on Hong Kong. I do not know whether this represents firm Chinese Government thinking and I am sceptical of our getting a deal on Hong Kong on this basis. But we are looking at the Pao ideas in order to get a clear view of the advantages and disadvantages of a loan to China both from the Hong Kong angle and on its own merits.

8. The next step will be to form a clear view of our own aims before your visit in September. I doubt if the Chinese will be prepared for full scale negotiations then but you will not be able to avoid raising the subject. There is a reasonable chance that you would be able to get agreement at least on continuing

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discussions. It would therefore be helpful now to clarify our ideas on our bargaining position, including the question of sovereignty. You may find it useful to see the enclosed paper which discusses a number of possible options. None of these is definitive but the paper gives some idea of the limits within which we might work. You may wish to discuss this further with the experts in due course.

C

(CARRINGTON)

Foreign and Commonwealth Office

9 March 1982

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HONG KONG: OPTIONS FOR ACTION TO DEAL WITH A SLIDE OF  
CONFIDENCE OR A CHINESE INITIATIVE ON THE FUTURE OF HONG KONG

Introduction

1. This paper considers possible action by HMG to meet two contingencies:

- a) a collapse of public and business confidence in Hong Kong;
- b) readiness by the Chinese to discuss more concrete ways of bolstering confidence.

It starts by looking at the Chinese attitude to the problem and the actions which they might be prepared to take. It then considers joint actions and unilateral actions on the British side with tacit Chinese concurrence. In each case the likelihood of the action being taken, its effects and residual problems are considered briefly.

2. The Prime Minister's visit to Peking in September 1982 will in itself be an important factor. We can expect confidence in Hong Kong to be maintained until then. There will be strong expectations that Hong Kong's future will be discussed, if not decided. Definite agreement is in fact most unlikely but there might be an undertaking by both sides to start serious discussions. Public knowledge of this would keep confidence up but there would be two problems. Once embarked upon, talks must succeed. A collapse (or public believe that they were failing) would hit confidence badly. On the other hand, the Chinese are unlikely to be ready to hurry; therefore it would be equally risky to set a time limit for conclusion of the talks. Opinion in Hong Kong would need to be prepared for a long haul during which strictly confidential contacts might continue.

The Chinese View

3. The full picture of Chinese attitudes and long-term policy on Hong Kong remains conjectural. There is considerable evidence of ignorance and misunderstanding of the Hong Kong problem among the Chinese, particularly the question of investor confidence, and even among those officials who might be expected to be well informed. Certain elements, however, seem clear. The Chinese see Hong Kong in its present form as useful to them now and in the immediate future. But there are serious political inhibitions on their accepting indefinite continuance of the status quo. They neither accept nor have they abrogated the 19th Century Treaties on Hong Kong. Technically, it is open to them to disregard 1997, but to do so would be politically difficult as it would expose the leaders involved to the accusation of 'selling out' China to foreigners. In practice, and because of the public attention focussed on 1997, they could not risk acquiescing in any formal or legal action that would prolong British administration without a major political concession on our part.

4. Any initiative on Hong Kong might also have consequences for their policy on unification with Taiwan: they will do nothing over Hong Kong that would make this more difficult. Increasingly, the Chinese see a connection between policy towards Taiwan and Hong Kong. When Lord Carrington was in Peking in April 1981, Deng Xiaoping said that we should study Chinese policy towards Taiwan when considering Hong Kong. The essentials of present Chinese policy (see Annex A for details) are that Taiwan must give up its claim to statehood and its flag but will then be allowed a large degree of local autonomy, including its own armed forces. The parallel for Hong Kong would be, as a minimum, the relinquishing of sovereignty in return for a negotiable degree of autonomy.

5. Current pressures on the Chinese leadership are such that they are likely to do the minimum necessary to preserve the advantages they gain from Hong Kong. They will avoid specific agreements if they can. They may even be prepared to suffer severe economic loss rather than take political risks. Moreover, we clearly cannot rely on the leadership in Peking remaining constant. We cannot exclude the emergence of a more ideologically and less pragmatically inclined power group.

6. The Chinese apparently believed in 1979 that Deng's general assurances about the interests of investors being safeguarded would be sufficient to deal with the problem of confidence for some time to come. This formula allowed for what were, to them, significant guarantees about the Hong Kong economic system and its probable continuity (capitalism well into the next century) without giving away anything on political control. They probably still think this type of general assurance should be sufficient, although there are some indications that they are beginning to realise that this is not so. Their initial remedy for a slide in confidence is likely to be to repeat the assurances more forcefully and more directly to leading investors in Hong Kong.

#### The Chinese View and Problems for HMG

7. Chinese assurances were sufficient to boost confidence when they were first made. But this was only because they were seen as a first step towards more concrete measures. They take no account of the legal problems of a finite and diminishing period in the New Territories as regards the future administration of land leases. Leases of Crown land cannot be granted there for any period terminating beyond 1997 without an unacceptable risk of legal challenge. Measures that would circumvent this problem would need at least tacit approval from the Chinese. A way of dealing with this problem was put to the Chinese in 1979 but rejected.

8. Chinese assurances appear to be based on the assumption that the difficult question of political control after 1997 can be avoided for many years to come. They also imply that continuing prosperity of the economic system can be divorced from the problem of political control. Neither is true; Hong Kong's prosperity, and its value to China, depends on it having:

/a) a

- a) a different currency from China and one that is readily convertible;
- b) a legal system which gives confidence to investors, ie at present, a non-Chinese legal system; and
- c) access to world markets based, at present, on international agreements to which Hong Kong is a party as a British dependency.

The currency and legal points might possibly be covered without British administration but the benefits of British dependency status could not. In any case, until Chinese policy had been seen to be consistent and stable over a considerable period investors would have no faith that any of these conditions would be met under Chinese rule.

9. A solution to the Crown land leases problem might in the short term boost confidence in Hong Kong's future, but it will be insufficient as a confidence-builder. Although business confidence is reasonably high at present, it is brittle, and already under pressure, largely as a result of world economic uncertainty. In addition, there are other, non-commercial political causes of strain (eg worry over nationality status). Without clear evidence of Chinese acquiescence in continuing British administration after 1997, disinvestment will start probably by 1985 and possibly at any time from 1982 onwards.

10. An obvious slide in confidence and in particular a collapse of the Hong Kong dollar, might shock the Chinese leadership sufficiently to make them ready to discuss practical ways of bolstering confidence (although we have to accept the possibility that they might be prepared to lose most or even all of their present economic advantages from the Territory if they found the question politically too hot to handle). An alternative possibility is that the Chinese may be ready to enter a dialogue without such a threatening incentive. There have been some signs of this, ie during the visit of the Lord Privy Seal in January 1982.

Actions to halt a slide in confidence or to respond to a Chinese initiative

11. The following possible actions are graded in a rough order of ascending difficulty for the Chinese. An important feature of most of the proposals is that any action to extend British administration would require amendment or replacement of the 1898 Order in Council providing for and defining the length of jurisdiction in the New Territories (Annex B) (which in turn is directly related to the Convention of Peking 1898 (Annex C)). This would almost certainly need Chinese agreement or at least their readiness not to object to the legislation if challenged. The Attorney-General shares the opinion of our departmental Legal Adviser that any amendment would

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need explicitly to make clear the intention of HMG to administer the New Territories beyond 1997. A number of the proposals also include the notion of a relinquishment of sovereignty by HMG. We do not know that the Chinese would in fact demand this but it is a logical move for which we must be prepared.

A) Reinforcement of existing assurances

The Chinese would talk at a high level to major local investors in Hong Kong to encourage them to retain and increase their investments. They would do the same with selected foreign investors, banks, industrialists and developers. They would reinforce assurances about capitalism continuing in Hong Kong well into the next century and imply that a change of status in 1997 was unlikely.

- i) Likelihood. Easiest option for Chinese. Harder as the assurances about no change become firmer.
- ii) Problems for HMG. None, except:
- iii) Effect. At best temporary. Such encouragement and assurances would cause some local Chinese investors to maintain investments. Little effect on foreign investors unless coupled with action on land leases. Not sufficient to halt a serious slide of confidence for long, if at all, because unsupported by either firm and 'bankable' description of conditions under Chinese law, or assurance of continuance of British jurisdiction.

B) Declaration by the Chinese that, because Treaties unequal 1997 irrelevant; Hong Kong would revert to China when the time was ripe, with the clear understanding that British administration would continue beyond 1997

- i) Likelihood. If as a formal statement a slight but significant change in present Chinese position. More difficult than (A) for Chinese, however, as it implies continuing British administration beyond 1997. Becomes progressively more difficult for them the more that is said about time not being ripe for many years to come.
- ii) Problems for HMG. None: the Chinese already claim sovereignty. A statement from them that the lease should be ignored would, however, open the way for us to take legal measures that would align the practical reality in Hong Kong with Chinese stated views.
- iii) Effect. Would be too vague to have significant effect, even if coupled with (A) above, unless coupled with agreement to action by HMG to take continuing powers of administration beyond 1997.

/ C) Joint

- C) Joint or parallel statements by Chinese and HMG that Treaties no longer applicable; Hong Kong Chinese territory temporarily under British administration but this would continue beyond 1997
- i) Likelihood. Not easy, as it requires public approval by the Chinese of British administration. Nevertheless, generally accords with their present tacit position, and involves significant public renunciation by HMG.
  - ii) Problems for HMG. Recognition of Chinese sovereignty over Hong Kong requires an Act of Parliament divesting the United Kingdom of sovereignty. Implications of abrogation. Legal status of Hong Kong, particularly in international agreements, would need to be clarified. Need for legislation on land leases and continuing powers of administration which would have to be of indeterminate length. (Automatically renewable periodic leases possible.) Might be coupled with demand for use of Chinese flag (cf stated policy towards Taiwan).
  - iii) Effect. Impact would depend on assumptions about how long the arrangement was expected to last. Initial effect might be to produce uncertainty, unless Chinese made it clear that they expected the arrangement to last at least 15 years. But confidence would grow over time as it would be up to the Chinese to foster it if they wished their benefits from Hong Kong to continue. It should eventually produce a Macao-like reliance on traditional tenure.
- D) Declaration by the Chinese that change would only occur with adequate warning; a possible minimum period would be 15 years
- i) Likelihood. Slightly more difficult than (C), as Chinese would be tying themselves to a specific period. Becomes harder if selected period stretches beyond 1997. But Zhou Enlai did say to Sir Alec Douglas-Home in 1972 that Chinese would take no surprise action over Hong Kong. Might be possible to build on this. Private hints on length of warning easier for the Chinese than public statements.
  - ii) Problems for HMG. Almost certainly would be combined with Chinese demand that HMG concede Chinese sovereignty. Still, better than (C), as it guarantees length of tenure. Powers of continuing administration could be tied to Chinese declaration. So could land leases. Both require Chinese assurances about the period of warning to be made public in some firms. Base for continued British administration would have to be negotiated with Chinese. Chief drawback lies in the fact that the assurance is only effective so long as the Chinese do not institute a period of warning. As soon as that happened we would face weakening confidence in Hong Kong, although certainly firms and others would have as much time as they have now to make their plans.

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- iii) Effect. Major boost to confidence. Sufficient to halt slide of confidence. But only provided it was quickly followed by UK legislation to bring British jurisdiction and powers of administration into line with new concept of validity of 15 years constantly rolled forward until notice given by the Chinese People's Government (CPG). The legal mechanics would need to be worked out.
- E) Unilateral action by HMG to take powers to issue land leases beyond 1997; assurance of tacit Chinese approval
- i) Likelihood. Possible, particularly if done in form of automatically renewable periodic leases and with no mention of 1997. Chinese might see it as a necessary way of preserving investor confidence. Has advantage requiring little action on their part.
- ii) Problems for HMG. Only a temporary palliative unless coupled with power of continuing administration.
- iii) Effect. If done now, a short-term beneficial effect. But lacks long-term credibility unless coupled with arrangements for administration after 1997. Not sufficient to halt slide of confidence.
- F) Unilateral action by HMG to remove the limit in the 1898 Order in Council on powers of administration in the New Territories; Chinese acquiescence
- i) Likelihood. Part of the rejected 1979 proposals. Chinese acquiescence would need to be obvious. They are not likely to acquiesce if (as seems possible) they think that any such change should be coupled with concessions on sovereignty. Would therefore lead to solution similar to (C).
- ii) Problems for HMG. As in (C)(ii) above.
- iii) Effect. As in (C) (iii) above.

### CONCLUSION

12. Stronger verbal assurances from the Chinese (option A) would not by themselves have a significant effect on confidence in Hong Kong; and neither would a statement that 1997 had no relevance (B), unless it opened the way to action by HMG on the continuation of administrative powers. Measures to solve the land lease problem with Chinese consent (E), would be only of short-term effect. Option (D), providing a period of warning before any change were made in the status of Hong Kong, is marginally the most attractive from the UK point of view.

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A public agreement that the Treaties on Hong Kong were not applicable but that British administration could continue beyond 1997 (C) would be satisfactory. A third possibility is (F) removal, with Chinese agreement, of the limit in the 1898 Order in Council to our administration in the New Territories beyond 1997. These three would almost certainly involve the concession of recognition of Chinese sovereignty over Hong Kong and thus a major change in its status that would have to be reflected in UK law.

13. Both in monitoring Hong Kong and Chinese opinion, and even, in certain circumstances, in discussing solutions, the option of using non-official intermediaries with Peking needs to be borne in mind. There are a number of potential 'messengers', mainly senior Hong Kong Chinese businessmen with close contacts in Peking, who might be used. But in so delicate a matter the question of control is very important. A message loosely delivered could give a totally false impression and defeat its own object. Probably therefore, such intermediaries should only be used, and that very sparingly, as one means of keeping our lines open to Peking and estimating the direction of movement of thinking there.

Hong Kong and General Department  
Foreign and Commonwealth Office

1 March 1982

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## IMPLICATIONS FOR HONG KONG OF CHINA'S POLICY ON TAIWAN

1. The leaders of the People's Republic of China have set their sights on achieving the take-over of Taiwan in such a way as to ensure the maximum benefit and the least possible damage to China's interests. While they do not rule out the use of force as a last resort they express hope that reunification can be achieved peacefully through negotiations between themselves and the leaders of ruling Kuomintang (Nationalist) Party on Taiwan.
2. The essence of China's proposals on Taiwan (put forward on several occasions in the last 3 years) is that in return for acceptance by the Taiwan authorities of unification, China would 'respect the status quo' on Taiwan ... and adopt reasonable policies and measures so as not to cause any losses to the people on Taiwan'. China says that it would allow Taiwan to retain its own armed forces, would abstain from interference in the local affairs of the island, would leave Taiwan's 'socio-economic system' unchanged, with 'no encroachment' on the investments and rights of inheritance enjoyed by the inhabitants, and would permit Taiwan businessmen to invest on the mainland. These points were reaffirmed in a 9-Point Proposal on 30 September 1981 by Ye Jianying (China's equivalent to Head of State), who added that under the arrangements envisaged by Peking 'people in authority' from Taiwan could assume national leadership posts and 'participate in running the state'.
3. On some previous occasions, Chinese officials had said that authorities on Taiwan would have to give up the use of such attributes of national status as the 'Republic of China' flag, but China has not explicitly repeated this in its latest statements. On the question of further arms supplies for Taiwan after a settlement there have been conflicting reports on China's attitudes. Some officials have suggested that these would be 'negotiable' but others have said that they would not be permitted. In any case the issue has been recently subsumed in China's strong opposition to continued US arms sales to Taiwan.
4. The comparison between China's position on Taiwan and that on Hong Kong was originally drawn by Deng Xiaoping in conversation with the Governor in March 1979. He said that the UK would be aware of China's policy on Taiwan; that on its return to China there would be 'no change in the social system, nor would living standards be affected. Taiwan could still enjoy a special status and local autonomy and even her own armed forces, even though she would be part of China. There could never be two Chinas or one and a half Chinas. This was the Chinese position on Hong Kong and Macao as well as on Taiwan. This was a long-standing policy. They had adopted it because they needed Hong Kong'.



5. In his talk with Lord Carrington in April 1981, Deng repeated these observations on Taiwan, adding that 'it would be necessary for Taiwan to abandon the name by which it called itself (ie 'Republic of China') as well as its flag. This was a long-term policy and not a matter of expediency. It also reflected China's policy towards problems of a similar nature'. In his talk with the Lord Privy Seal in January 1982 Premier Zhao Ziyang recalled China's 9-Point Proposal for Taiwan; 'from this, circles in Hong Kong and the British Government could get some idea of China's thinking'. In an interview with Reuters in mid-January the MFA Vice-Minister Zhong Xidong was asked to compare the Hong Kong and Taiwan problems. He replied: 'The Taiwan problem has already been solved legally. It is internationally agreed that it is a Chinese province. But the Hong Kong question has not been legally solved. China is ready to negotiate with Britain at an appropriate time to resolve this question'.

6. The Chinese are probably not drawing a precise analogy between Taiwan and Hong Kong. The circumstances are different, particularly over nomenclature. In Taiwan's case the Chinese require the renunciation of the title 'Republic of China' to remove the claim by the KMT to be the alternative government to China. Hong Kong presents no similar threat to the Chinese Government's legitimacy. Moreover, HMG have been careful to avoid moves which might be construed as steps towards independence for the territory. On the other hand, Hong Kong presents a problem for Peking of a different sort. While the Taiwan government is an indigenous Chinese body, Hong Kong is governed by an outside power. There are thus issues affecting sovereignty in both territories. Moreover, the question of the flag (and other symbols of authority) which would be used in Taiwan is clearly of great importance to Peking. The Chinese are likely also to set store on this in discussing Hong Kong.

Oct. 20, 1898.]

GREAT BRITAIN.

[No. 141.]

[Jurisdiction. Hong Kong Extension.]

(No. 141.) *ORDER IN COUNCIL* providing for the Government of the Territories adjacent to Hong Kong leased under the Convention of June 9, 1898. Balmoral, October 20, 1898.

At the Court at Balmoral, the 20th day of October, 1898.

PRESENT: THE QUEEN'S MOST EXCELLENT MAJESTY IN COUNCIL.

WHEREAS by a Convention dated the 9th day of June, 1898 (No. 24), between Her Majesty and His Imperial Majesty the Emperor of China, it is provided that the limits of British territory in the regions adjacent to the Colony of Hong Kong shall be enlarged under lease to Her Majesty in the manner described in the said Convention;

And whereas it is expedient to make provision for the government of the territories acquired by Her Majesty under the said Convention, during the continuance of the said lease:

It is hereby ordered by the Queen's Most Excellent Majesty, by and with the advice of Her Majesty's Privy Council, as follows:—

1. The territories within the limits and for the term described in the said Convention shall be, and the same are hereby declared to be, part and parcel of Her Majesty's Colony of Hong Kong in like manner and for all intents and purposes as if they had originally formed part of the said Colony.

2. It shall be competent for the Governor of Hong Kong, by and with the advice and consent of the Legislative Council of the said Colony, to make laws for the peace, order, and good government of said territories as part of the Colony.

3. From a date to be fixed by Proclamation of the Governor of Hong Kong, all laws and ordinances which shall at such date be in force in the Colony of Hong Kong shall take effect in the said territories and shall remain in force therein until the same shall have been altered or repealed by Her Majesty or by the Governor of Hong Kong, by and with the advice and consent of the Legislative Council.

4.\* Notwithstanding anything herein contained, the Chinese officials now stationed within the city of Kowloon shall continue to exercise jurisdiction therein except in so far as may be inconsistent with the military requirements for the defence of Hong Kong.

And the Right Honourable Joseph Chamberlain, one of Her Majesty's Principal Secretaries of State, is to give the necessary directions herein accordingly.

A. W. FITZROY.

\* This Article revoked by Order in Council of 27th December, 1899 (No. 144).

## CONVENTION FOR THE EXTENSION OF HONGKONG, 1898.

(Signed at Peking, 9th June 1898.)

changed under the  
 長拓香港界址專條

Whereas it has for many years past been recognised that the extension of Hongkong territory is necessary for the proper defence and protection of the Colony:

It has now been agreed between the Governments of Great Britain and China that the limits of British territory shall be enlarged under lease to the extent indicated generally on the annexed map. The exact boundaries shall be hereafter fixed when proper surveys have been made by officials appointed by the two Governments. The term of this lease shall be ninety-nine years. It is at the same time agreed that within the city of Kowloon the Chinese officials now stationed there shall continue to exercise jurisdiction except so far as may be inconsistent with the military requirements for the defence of Hongkong. Within the remainder of the newly-leased territory Great Britain shall have sole jurisdiction. Chinese officials and people shall be allowed as heretofore to use the road from Kowloon to Hsianan.

It is further agreed that the existing landing place near Kowloon city shall be reserved for the convenience of Chinese men-of-war, merchant and passenger vessels, which may come and go and lie there at their pleasure and for the convenience of movement of the officials and people within the city.

When hereafter China constructs a railway to the boundary of the Kowloon territory under British control, arrangements shall be discussed.

It is further understood that there will be no appropriation or expulsion of the inhabitants of the district included within the extension, and that if land is required for public offices, fortification, or the like official purposes, it shall be bought at a fair price.

If cases of extradition of criminals occur, they shall be dealt with in accordance with the existing Treaties between Great Britain and China and the Hongkong Regulations.

展拓香港界址專條  
 溯查多年以來素悉香港一處非展拓界址不足以資保衛今中英兩國政府議定大畧  
 按照精附地圖展擴英界作為新租之地其所定詳細界線俟兩國派員勘明後再行  
 畫定以九十九年為限期又議定所有現在九龍城內駐紮之中國官員仍可在城內各  
 司其事惟不得與保衛香港之武備有所妨礙其餘新租之地專歸英國管轄至九龍向  
 通新安陸路中國官民照常行走又議定仍留附近九龍城原舊馬頭一區以便中國兵  
 商各船渡艇任便往來停泊且便城內官民任便行走將來中國建造鐵路至九龍英國  
 管轄之界臨時商辦又議定在所展界內不可將居民迫令遷移產業入官若因修建衙  
 署築造礮台等官工需用地段皆應從公給價自開辦後遇有兩國交犯之事仍照中英

The area leased to Great Britain as shown on the annexed map includes the waters of Mirs Bay and Deep Bay, but it is agreed that Chinese vessels of war, whether neutral or otherwise, shall retain the right to use those waters.

This Convention shall come into force on the first day of July, eighteen hundred and ninety-eight, being the thirteenth day of the fifth moon of the twenty-fourth year of Kwang Hsi. It shall be ratified by the Sovereigns of the two countries, and the ratifications shall be exchanged in London as soon as possible.

In witness whereof the undersigned, duly authorized thereto by their respective Governments, have signed the present Agreement.

Done at Peking in quadruplicate (two copies in English and two in Chinese) the ninth day of June in the year of Our Lord eighteen hundred and ninety-eight, being the twenty-first day of the fourth moon of the twenty-fourth year of Kwang Hsi.

(Signed)

CLAUDE M. MACDONALD.

LI HUNG-CHANG.

HSE TING-K'UEI.

L.S.

L.S.

大英國欽差駐劄中使官行事大臣寶

大清國太子太傅文華殿大學士一等肅毅伯李

光緒二十四年四月二十一日  
西歷一千八百九十八年六月初九日

四分英文四分共八分

書押蓋印以昭信守此專條在中國京城繕立漢文

批准文據應在英國京城速行互換為此兩國大臣將此專條

三日即西歷七月初一號開辦施行其

在局內局外仍可享用此約應於書押後自中國五月十

原約香港章程辦理查接照結附地圖所租與英國之地

內有大觀灣深州灣水面惟議定該兩灣中國兵船無論

-9 MAR 1982



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GR 270

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TO PRIORITY F C O

TELNO 30 OF 14/1

INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR).

Hong Kong 18  
Ps/NO 10 Downing St  
ms.

HONG KONG TELNO 3: PAO AND THE FUTURE OF HONG KONG

1. THIS IS AN INTERESTING TELEGRAM. I AGREE WITH THE GOVERNOR'S COMMENTS IN PARAS 7 AND 8.

2. I NOTE GU MU'S REFERENCE TO SOVEREIGNTY, WHICH CONFIRMS OUR OWN ASSESSMENT. HUANG HUA'S COMMENT IS A FORETASTE OF CHINESE NEGOTIATING TACTICS, WITH THE CHINESE TAKING AND NOT GIVING. NEVERTHELESS, IT IS AN ADVANCE ON DENG'S POSITION LAST APRIL, IN ACCEPTING THAT THERE SHOULD BE SOME JOINT EFFORT AT A SOLUTION.

3. A LOAN WOULD CERTAINLY NOT GET US OFF THE SOVEREIGNTY HOOK, AND ANY PREFERENTIAL ECONOMIC AID WOULD HAVE TO BE CAREFULLY PRESENTED, TO AVOID SUGGESTIONS THAT WE WERE TRYING TO "BUY OFF" THE CHINESE. YET AN INDICATION THAT A LARGE SUM MIGHT BE AVAILABLE AT PREFERENTIAL RATES WOULD ASSIST THE ATMOSPHERE AND MIGHT ASSIST THE SUBSTANCE OF TALKS ON HONG KONG. I WOULD NOT ONCE MORE ENTIRELY RULE THIS OUT AS A MEANS OF INFLUENCING A SOLUTION AND WE SHOULD PARTICULARLY GIVE IT THOUGHT IN THE CONTEXT OF THE PRIME MINISTER'S VISIT.

FOR HONG KONG

4. I SHOULD BE GRATEFUL IF AN INVITATION COULD BE PASSED TO SIR Y K KAN TO HAVE LUNCH WITH ME DURING HIS VISIT HERE AT THE END OF APRIL. ALSO FOR INDICATION OF THE LIKELY DATES. I SHOULD ALSO BE GRATEFUL IF SIR Y K PAO COULD BE ENCOURAGED TO CALL ON ME WHEN IN PEKING.

CRADOCK

[THIS TELEGRAM WAS NOT ADVANCED]

LIMITED

HEAD/HK & GD  
HEAD/FED  
PS  
PS/LPS  
PS/PUS

MR GOODISON  
MR DONALD

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DEDIP  
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FM PEKING 080748Z JAN 82  
TO PRIORITY FCO  
TELEGRAM NUMBER 18 OF 8 JANUARY  
INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

FOR CLIFT

NIPT: LPS MEETING WITH ZHAO ZIYANG: FUTURE OF HONG KONG

*Land Joint Deal*

1. WHEN THE LPS MET PREMIER ZHAO ON 6 JANUARY HE RAISED THE QUESTION OF RELATIONS BETWEEN CHINA AND HONG KONG, REFERRING TO AREAS OF PRACTICAL COOPERATION E.G. SHENZHEN. PREMIER ZHAO SAID THAT THERE WERE NOW NO DEEP PROBLEMS BETWEEN HONG KONG AND CHINA AND AGREED THERE WAS MUCH GOOD COOPERATION. HE (ZHAO) THEN RAISED THE SPECIFIC QUESTION OF THE FUTURE. HE SAID THAT MANY LANDOWNERS IN HONG KONG WERE CONCERNED ABOUT THE FUTURE. YOU HAD RAISED THE MATTER WHEN YOU MET DENG IN APRIL 1981. THE CHINESE HAD NOT STUDIED THIS QUESTION IN "A VERY CONCRETE WAY". BUT HE BELIEVED THE BRITISH SIDE WAS WELL AWARE OF THE CHINESE SIDE'S GENERAL STAND, NAMELY THAT:
  - (A) CHINA WOULD SAFEGUARD HER SOVEREIGNTY.,
  - (B) THE PROSPERITY OF HONG KONG WOULD BE MAINTAINED.
2. HONG KONG WAS A FREE PORT AND A COMMERCIAL AND FINANCIAL CENTRE. THIS WOULD NOT BE CHANGED. HONG KONG'S PROSPERITY COULD ONLY BE MAINTAINED IF IT WAS A COMMERCIAL CENTRE AND A FREE PORT. AS TO THE APPROACH TO A SETTLEMENT OF THE ISSUE AND ITS POSSIBLE FORMS, VERY CAREFUL STUDIES WOULD BE UNDERTAKEN. AT THE APPROPRIATE TIME CHINA WOULD DISCUSS THE PROBLEM WITH "THE VARIOUS CIRCLES" IN HONG KONG AND ALL THE PARTIES CONCERNED, AND WOULD TAKE HEED OF THEIR VIEWS.
3. ZHAO RECALLED YE JIANYING'S NINE POINT PROPOSAL FOR TAIWAN. FROM THIS, CIRCLES IN HONG KONG AND THE BRITISH GOVERNMENT COULD GET SOME IDEA OF CHINA'S THINKING. THE POLICIES NOW BEING IMPLEMENTED IN THE SPECIAL ECONOMIC ZONES WERE ALSO RELEVANT. WITH REFERENCE TO AN EVENTUAL SETTLEMENT, CHINA'S POLICIES WOULD BE "VERY REASONABLE".
4. ZHAO SAID THAT WHAT HE AND VICE PREMIER JI HAD TOLD THE LPS REPRESENTED CHINA'S GENERAL STAND. THERE WAS AS YET NO SPECIFIC FORMULA. BUT THE PROBLEM WOULD NOT BE PUT ON THE SHELF UNTIL 1997. AT AN APPROPRIATE TIME THE CHINESE SIDE WOULD DISCUSS WITH THE VARIOUS CIRCLES IN HONG KONG AND WITH THE BRITISH SIDE. THAT WAS ALL HE COULD SAY AT PRESENT.
5. THE LPS THANKED PREMIER ZHAO. HE SAID THAT THE PROBLEM WAS NOT AN IMMEDIATE ONE, BUT THE YEARS WERE PASSING AND THE SUBJECT HAD COME UNDER DISCUSSION IN HONG KONG, ESPECIALLY AMONG THE BUSINESS COMMUNITY. IT WAS IN EVERYONE'S INTERESTS THAT PROSPERITY

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/SHOULD BE

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SHOULD BE MAINTAINED. AS THINGS STOOD, THERE WAS THE ABSOLUTE CERTAINTY THAT IN 1997 THE LEGAL BASIS WOULD COME TO AN ABRUPT END. THIS WAS WHAT THE TWO SIDES NEEDED TO STUDY.

6. ZHAO ZIYANG AGREED THAT THE MATTER WAS VERY IMPORTANT. HE SUGGESTED THAT, BEFORE WORKING OUT A CONCRETE FORMULA, NEITHER SIDE SHOULD DO ANYTHING WHICH COULD HARM THE PROSPERITY OF HONG KONG. THE LPS AGREED AND SAID THAT IN FACT THE ACTIONS OF THE TWO SIDES SHOULD BE SUCH AS TO BOLSTER CONFIDENCE. BOTH HAD A COMMON INTEREST IN PROMOTING CONFIDENCE IN HONG KONG AND HELPING TO INCREASE IT.

7. PREMIER ZHAO SAID THAT HE HAD NOT YET HAD A DETAILED REPORT OF THE GOVERNOR'S VISIT TO SHENZHEN BUT HE HAD HEARD THAT THE GOVERNOR HAD SAID THAT HE WOULD ENCOURAGE MORE HONG KONG CAPITAL INVESTMENT IN SHENZHEN. HE APPRECIATED THE GOVERNOR'S APPROACH. THE LPS REMARKED THAT THE GOVERNOR HAD HMG'S SUPPORT ON THIS.

8. BEFORE THE MEETING ENDED PREMIER ZHAO AGREED THAT IN TALKING TO THE PRESS THE LPS COULD USE WORDS TO THE EFFECT THAT THE LPS'S UNDERSTANDING OF THE CHINESE GOVERNMENT'S POSITION WAS THAT, WHEN THEY CAME TO ADDRESS THEMSELVES TO THE QUESTION OF THE FUTURE OF HONG KONG THEY WOULD TAKE INTO CONSIDERATION THE PROSPERITY OF HONG KONG AS A FREE PORT AND A COMMERCIAL AND FINANCIAL CENTRE.

9. AGREED RECORDS OF THIS AND THE MEETING WITH JI PENGFEI ARE WITH THE LPS'S PARTY IN HONG KONG AND WILL BE DISTRIBUTED FROM THERE.

10. COMMENTS FOLLOW.

CRADOCK

LIMITED  
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PS/PUS  
MR GOODISON



S E C R E T

GR 900

S E C R E T

AFM PEKING 120730Z JAN 82

TO PRIORITY F C O

TELNO 22 OF 12 JANUARY

INFO HONG KONG (PERSONAL FOR GOVERNOR).

*ms*

MY TELNOS 17 AND 18

LPS VISIT: FUTURE OF HONG KONG

1. THESE WERE TWO USEFUL DISCUSSIONS AND REVEAL THAT SOME FRESH THINKING HAS BEEN DONE BY THE CHINESE SINCE YOUR VISIT LAST YEAR AND SINCE OUR LAST EXCHANGE WITH THE CHINESE ON THIS SUBJECT IN AUGUST 1981, WHEN ASSISTANT FOREIGN MINISTER SONG ZHIGUANG TOLD THE THEN POLITICAL ADVISER THAT THE CHINESE WERE NOT THINKING ABOUT THE PROBLEM (WILSON'S LETTER OF 27 AUGUST TO MCLAREN FED). NEITHER ZHAO NOR JI QUOTED DENG'S EARLIER "HEARTS AT EASE" STATEMENTS AND THEIR REMARKS APPEAR TO REFLECT A REALISATION THAT DENG'S ASSURANCES ARE NOT ENOUGH BY THEMSELVES.

2. JI SAID THAT THE CHINESE WOULD BE THINKING ABOUT THE QUESTION OF THE FUTURE SOON. BOTH HE AND ZHAO SAID THAT THE MATTER COULD NOT WAIT UNTIL 1997. BOTH MEN SPOKE OF TALKS BETWEEN THE TWO SIDES (THOUGH SEE PARA 5 BELOW). ZHAO VOLUNTEERED A REFERENCE TO THE CONCERN OF LAND-OWNERS IN HONG KONG AND SAID THAT, PENDING A SOLUTION OF THE PROBLEM, NEITHER SIDE SHOULD DO ANYTHING TO DAMAGE PROSPERITY THERE. HE ADDED THAT HONG KONG'S PROSPERITY DEPENDED UPON ITS STATUS AS A FREE PORT AND A COMMERCIAL AND FINANCIAL CENTRE.

3. THE POINTS IN PARAGRAPHS 1-2 ABOVE ARE POSITIVE AND, AS FAR AS THEY GO, ENCOURAGING. BUT, THE CHINESE HAVE CLEARLY NOT FULLY UNDERSTOOD THE CONCEPT, OR THE BASIS, OF INVESTOR CONFIDENCE. FOR EXAMPLE, JI SPOKE OF CHINESE LIBERAL POLICIES IN THE SPECIAL ECONOMIC ZONES (WHICH ZHAO ALSO REFERRED TO AS "RELEVANT" TO THE HONG KONG PROBLEM) AS A FACTOR WHICH SHOULD GIVE REASSURANCE TO HONG KONG INVESTORS. THE CHINESE MAY STILL HARBOUR THE HOPE THAT THE DEVELOPMENT OF THE SHUMCHUN ZONE MAY IN SOME WAY GET THEM ROUND THE PROBLEM. BUT HONG KONG INVESTORS WILL NEED MUCH GREATER REASSURANCE THAN THIS. ZHAO CAME CLOSER TO AN UNDERSTANDING OF THE CONFIDENCE ISSUE WHEN HE SPOKE OF THE IMPORTANCE OF HONG KONG'S STATUS AS A FREE PORT. BUT ALL THE EVIDENCE SO FAR SUGGESTS THAT THE CHINESE HAVE NOT GRASPED THE ESSENTIAL FACT THAT IT IS CONTINUED BRITISH ADMINISTRATION THAT IS NEEDED TO MAINTAIN CONFIDENCE. BOTH JI AND ZHAO USED WORDS WHICH SUGGESTED THAT ASSURANCES TO INVESTORS WITHIN A FRAMEWORK OF RESUMED CHINESE ADMINISTRATIVE CONTROL OUGHT TO SUFFICE.

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*(Handwritten mark)*

S E C R E T

4. THE SECOND WORRYING ELEMENT IS, THAT ALTHOUGH THERE HAS BEEN SOME MOVEMENT THANKS TO OUR PRESSURE, THE CHINESE ARE STILL APPROACHING THE HONG KONG QUESTION IN A SOMEWHAT LEISURELY FASHION. THEY REPEATEDLY SAID THAT THERE WERE STILL MORE THAN 15 YEARS TO GO. THE FACT THAT CONFIDENCE COULD SLIDE, AND SLIDE SUDDENLY, WITHIN A FEW YEARS, AND THAT BOTH SIDES SHOULD THEREFORE PREPARE FOR SUCH AN EVENTUALITY AS SOON AS POSSIBLE, HAS NOT YET STRUCK HOME.

5. I AM ALSO NOT ENTIRELY HAPPY WITH ZHAO'S REFERENCE TO CONSULTING "VARIOUS CIRCLES" IN HONG KONG AND THE BRITISH SIDE ABOUT THE FUTURE, AND TAKING HEED OF THEIR VIEWS. THE LANGUAGE USED DOES NOT PRECLUDE THE POSSIBILITY THAT CHINA WOULD MERELY NOTE THE OPINIONS OF OTHERS BEFORE DECIDING WHAT TO DO, RATHER THAN NEGOTIATE A SETTLEMENT.

6. THE FIRST OF THE TWO ELEMENTS OF CHINA'S "GENERAL STAND" AS SPELLED OUT BY ZHAO (PARA 1 OF SECOND TUR), REAFFIRMS WHAT WE ALREADY KNOW, I.E. THAT THE KEY ISSUE, IF AND WHEN WE DO GET DOWN TO RESOLVING THE PROBLEM WITH THE CHINESE, WILL BE SOVEREIGNTY. ZHAO'S EXPLICIT REFERENCE TO THE NINE-POINT PROPOSAL ON TAIWAN, WHICH ECHOED DENG'S REMARK TO YOU IN APRIL 1981 THAT "WHEN BRITAIN CONSIDERS THE QUESTION (OF HONG KONG) IT SHOULD STUDY CHINA'S POLICIES TOWARDS TAIWAN", REINFORCES THE POINT. WHATEVER ARRANGEMENTS EVENTUALLY PROVE ACCEPTABLE TO THE CHINESE, A CESSION OF SOVEREIGNTY ON OUR PART WILL BE REQUIRED SEMICOLON THOUGH WITHIN THAT FRAMEWORK THE CHINESE MIGHT PROVE THEMSELVES, AS ZHOU HAS CLAIMED, "VERY REASONABLE".

7. AS FAR AS FUTURE POLICY IS CONCERNED, AS SEEN FROM HERE, FOUR MAIN POINTS EMERGE:

- A. A WILLINGNESS TO CEDE SOVEREIGNTY OVER KOWLOON AND HONG KONG ISLAND (ON SUITABLE TERMS) WILL BE ESSENTIAL TO AN SATISFACTORY SETTLEMENT SEMICOLON
- B. WE MUST MAKE EVERY EFFORT TO EDUCATE THE CHINESE AS TO WHAT THE CONCEPT OF "INVESTOR CONFIDENCE" INVOLVES SEMICOLON
- C. WE SHOULD IMPRESS UPON THEM THAT, ALTHOUGH 1997 IS STILL 15 YEARS AWAY, ITS EFFECTS WILL BE FELT MUCH SOONER, PROBABLY WITHIN THREE YEARS FROM NOW, UNLESS WE TAKE STEPS TO AVERT THEM SEMICOLON
- D. BUILDING ON CHINESE REFERENCES, WE SHOULD DURING THE PRIME MINISTER'S VISIT WELCOME THE SUGGESTION OF BILATERAL TALKS AND SEEK TO HAVE THEM SOON. OTHERWISE THE RISK IS THAT WE SHALL EITHER BE REDUCED TO A CONSULTATIVE ROLE AND THE PRESENTED WITH CUT AND DRIED SOLUTION, OR THAT WE SHALL HAVE TO TRY TO NEGOTIATE IN EMERGENCY CONDITIONS CREATED BY A SUDDEN SLIDE IN CONFIDENCE.

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PS/LPS  
PS/FUS

MR GOODISON  
MR DONALD

2  
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GPS 300

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*m/10 Ding St.*

17

SECRET

FM HONG KONG 120245Z JAN 82

TO PRIORITY FCO

TELEGRAM NUMBER 30 OF 12 JANUARY

INFO PRIORITY PEKING

*mf*  
DISTRIBUTION SELF  
FILE

MYTELNO 1130 PARA 12: PAO AND THE FUTURE OF HONGKONG.

1. PAO HAS NOW TOLD ME THAT HE SAW GU MU AND HUANG HUA TOGETHER IN TOKYO. THEY REPEATED COMMENTS MADE IN PEKING ABOUT SINO/US RELATIONS ( 'A BOMB THAT COULD GO OFF' -HUANG), AND CHINESE WILLINGNESS TO EXPAND ORDERS FROM THE UK IN RETURN FOR A LOAN ( 1 BILLION US DOLLARS - GU MU)
2. GU MU SAID HE HAD BEEN THINKING OVER PAO'S REMARKS ABOUT HONG KONG AND AGREED THAT SOME SOLUTION MUST BE FOUND BUT THE QUESTION OF SOVEREIGNTY WAS ALL IMPORTANT. HUANG HUA SAID 'IT IS FOR THE BRITISH NOT US TO SUGGEST A SOLUTION , BUT LET THEM MAKE SEVERAL SUGGESTIONS NOT JUST ONE'
3. PAO STILL THINKS THE REFERENCES TO THE FUTURE OF HONG KONG ARE RELATED TO PROPOSALS FOR TRADE AND A LOAN, AND TO DISENCHANTMENT WITH THE U S
4. HE CLAIMED THEY ASKED HIM TO ACT AS INTERMEDIARY, TO SPEAK TO THE P.M., AND LET THEM HAVE SUGGESTIONS. HE COMMENTED THAT DENG'S POSITION WAS FAR SHORT OF SECURE AND SO ANY SUGGESTIONS MUST TAKE ACCOUNT OF THIS.
5. I DID NOT COMMENT, BUT IT WOULD BE HELPFUL TO KNOW HOW MUCH THE ABOVE COINCIDES WITH WHAT HE SAID TO THE P.M.
6. HE WILL PROBABLY BE VISITING PEKING AGAIN IN MID FEBRUARY.
7. PEOPLE LIKE PAO WHO HAVE ACCESS TO THE LEADERSHIP AND CAN SPEAK DIRECTLY AND INFORMALLY WITHOUT ANYONE BEING COMMITTED HAVE A USEFUL PART TO PLAY. CERTAINLY TTHEY HAVE HELPED TO BRING HOME TO THE CHINESE THE REALITY OF THE PROBLEM DESCRIBED THROUGH OFFICIAL CHANNELS, AND I HAVE ENCOURAGED THEM TO DO SO. THEY MAY EVEN BE ABLE TO THROW SOME LIGHT ON CHINESE VIEWS ON A SOLUTION IF THESE DEVELOP. SO WE MUST KEEP IN CLOSE TOUCH WITH THEM
8. BUT I SUGGEST WE MUST BE CAREFUL NOT TO GIVE THE IMPRESSION THAT ONE OF THEM IS A CHOSEN VESSEL (PAO WILL CLAIM TO BE IN ANY CASE). SIR Y K KAN WILL BE PAYING ANOTHER PRIVATE VISIT TO PEKING AT THE END OF APRIL, AND NEARER THE TIME WE SHALL CONSIDER HOW TO MAKE SURE HE CAN CROSS CHECK ON PAO'S INFORMATION.

MACLEHOSE  
LIMITED  
HK89D  
FED  
MRDAY  
MRDONALD

THIS TELEGRAM  
WAS NOT  
ADVANCED

*Copy sent to m/10 Ding St.*

PS  
PS/PS  
PS/PS  
*Mr Goodison*

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Handwritten notes: "Part 1-6 a", "particulars", "T.S.N."

HKKO91/1

Current Hong Kong - China Economic Developments: Monthly Notes:  
August 1981

Handwritten: HKK 091/1 CHINA/HK

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Visit to Shenzhen by the Chinese Prime Minister

Between 15 and 18 August the left-wing Hong Kong newspaper "Wen Wei Po" gave exclusive coverage (with photographs) of a visit by the Chinese Prime Minister, Zhao Ziyang, to the Special Economic Zone (SEZ) at Shenzhen.

2. Zhao arrived in Guangzhou from Singapore on the evening of 13 August and the next morning took the train south for a two-day inspection tour of Shenzhen. He travelled the length of the SEZ from Shatoujiao (Sha Tau Kok) in the east, to Shekou Special Industrial Zone (a "zone within a zone") on Deep Bay. Apart from visits to two holiday resorts at the Xili Reservoir and at Xiaomeisha, he also went to the border crossing points at Wenjindu (Man Kam To) and Luohu (Lo Wu). He left Shekou by sea on the morning of 16 August for a similar inspection tour of Zhuhai SEZ (north of Macau). He was accompanied throughout by Provincial Party First Secretary Ren Zhongyi, Governor Liu Tianfu, Vice-Governor Wang Quanguo and the Head of the Provincial Commission of Special Economic Zones, Wu Nansheng, Wang Kuang, First Director of the Hong Kong Branch of NCNA also joined the Premier's party.

3. The visit comes at a time of apparently heightened interest by the central leadership in the SEZ experiment. A high-level conference was held in Peking at the end of June which discussed current policies towards the zones. This meeting considered a number of policy initiatives aimed at accelerating the pace of development according to the dictum ascribed to Deng Xiaoping that the SEZs "should be really special." It also considered a list of new regulations affecting the SEZs.

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4. It is interesting that Zhao chose to inspect the two SEZs on his way home from the visit to Singapore - a part of the world where similar experiments with "export processing zones" seem to have met with some success. According to Wen Wei Po's reports of the inspection tour, Zhao impressed upon officials in Shenzhen the importance of the division of labour between officialdom and the business world. The latter he said should be encouraged to run more undertakings themselves. He also urged wage reforms for workers in the zones, according to "economic laws" rather than an "iron rice bowl" mentality.

5. It seems, therefore, that Zhao sought to shake up the local bureaucracy by explicitly suggesting that factory managers and traders should be given greater freedom to make decisions free of official interference. Similarly, wage reform, together with a greater freedom for factory managers to hire and fire their own workers, will be welcomed by Hong Kong and overseas Chinese investors in the zone. In any event, a visit by the Premier will have provided a tremendous fillip for those responsible for the zone and it seems clear that whatever Zhao said during his inspection tour his word will be acted upon both swiftly and thoroughly.

New 10-point programme for the SEZs

6. A major policy statement regarding the future development of Guangdong and Fujian's Special Economic Zones has been widely predicted since the central leadership meeting on the subject at the end of June (see Monthly Notes: June and July). At the conclusion of Prime Minister Zhao Ziyang's visit to Shenzhen, such a statement was published in the Hong Kong communist press in the form of a 10-point programme. The following points of interest emerge from the 10 policy objectives:

/(a) ...

- 3 -

- (a) a distinction has now been drawn between the status given to Shenzhen and Zhuhai (as "multi-purpose" special zones) and Xiamen and Shantou (export processing and tourism);
- (b) the demarkation of the boundaries of the SEZs (specially the northern boundary of Shenzhen) seems certain now to be implemented. The aim will be to check not only the movement of people but also the movement of goods which have been imported into the SEZs tax free;
- (c) simplified immigration procedures represent part of the effort to attract foreign and overseas Chinese businessmen to visit the SEZs more frequently. Relaxation, however, will be limited to the granting of multiple entry visas valid for one year;
- (d) changes in the terms and conditions of employment in the SEZs will give enterprises the right to hire and fire labour and to introduce competitive wage rates;
- (e) Generally speaking, production should remain in the hands of state enterprises, whether or not in partnership with foreign investors. At the same time partnerships between the SEZ authorities and foreign investors will also be permitted. Although most of the funds for investment will come from abroad, the state seems prepared to continue to fund development through the controlled allocation of loans. In any event, enterprises (including public utilities) will be solely responsible for their own profits or losses;

/ (P)

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- 4 -

(f) although it is noted that foreign currency (i.e. the Hong Kong dollar) has already started to circulate in the zones, the Chinese are apparently studying the possibility of a special currency for Shenzhen. However, it seems likely that the Hong Kong dollar will continue to circulate whether the official currency is the Renminbi or a special one. The projected opening of Hong Kong registered banks in the zones can only contribute to this tendency.

7. The detailed laws and regulations based on these policy objectives have still to be drafted. Nevertheless, the heightened interest in SEZs demonstrated by all levels of the Chinese leadership - the meeting in Peking in June, Zhao Ziyang's inspection tour and the attention paid to this new 10-point programme - suggests that these will be interesting and innovative times for the SEZs.

Nanyang Commercial Bank to open branch office in Shenzhen

8. The first of the Hong Kong banks to establish an office in Shenzhen (see above paragraph (f)) will be the Nanyang Commercial Bank, according to its general manager Yeung Wah-on on 18 August. The Nanyang is a PRC state-controlled foreign exchange bank incorporated in Hong Kong and a natural choice by the Shenzhen authorities to lead the way for other Hong Kong-registered banks. The Nanyang is expected to open its branch in the SEZ before the end of this year. However, the bank has yet to find accommodation in the commercial area of Shenzhen. The bank will initially transfer staff from Hong Kong to work in Shenzhen, although plans ultimately to recruit locally.

## Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES.

Reference:

CC (81) 15th Conclusions, Minute 2 (extract)

Date:

9 April 1981

Signed

Wayland

Date

9 October 2012

**PREM Records Team**



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MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~836 7022~~ 218 2111/3

MO 5/14

8th October 1980

*h.s.*  
The Defence Secretary's  
Office was informed of the  
P.A.'s agreement on Friday.  
The new arrangements have now  
been announced.

*Prime Minister*

*Hope that the Defence Secretary  
may go ahead as he proposes? It  
would seem sensible to do so.*

Dear Michael, *And*

HONG KONG GARRISON

*Yes Mr.*

*And 8/x*

In his minute of 22nd September my Secretary of State set out the objectives for the negotiations which Mr Hayhoe is now conducting with the Governor of Hong Kong.

The Defence Secretary has now received the attached telegram from Mr Hayhoe reporting complete success in securing our negotiating objectives. You will see that he has persuaded the Governor to drop the Hong Kong Government's proposal that their increased contribution to the costs of our Garrison should be staged over several years. He has therefore avoided the difficulty to which the Chief Secretary drew attention in his letter of 29th September to my Secretary of State.

My Secretary of State believes that excellent progress has been made by Mr Hayhoe and his team, and further detailed work is now going ahead on the text of the Memorandum of Understanding and relating documents embodying the new agreements. My Secretary of State would now like to authorize Mr Hayhoe at his meeting with the Governor on Friday morning to signify formally HMG's acceptance of the terms of the new Defence Costs Agreement, as set out in the attached telegram. Depending on the Governor's views, it may also be appropriate for us to make an announcement about the successful completion of this agreement and of HMG's intention in the light of this agreement to enlarge the permanent Garrison.

M O'D B Alexander Esq

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I am sorry that time is so short, but in the interests of reaching agreement on terms advantageous to us, (and also in our view fair to Hong Kong) we would propose, unless we hear to the contrary by 1600 tomorrow, Thursday, to give the go-ahead to Mr Hayhoe.

I am copying this letter to Stephen Gomersall (Lord Privy Seal's Office), Terry Mathews (Chief Secretary's Office) and to David Wright (Cabinet Office).

*Yours ever,*

*David Omand*

(D B OMAND)

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1-8 OCT 1988



(-3000)

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TEXT OF TELEGRAM FROM US OF S (ARMY) BARNEY HAYHOE MP  
TO THE SECRETARY OF STATE FOR DEFENCE, 8 OCTOBER 1980

1 PD WE HAVE NOW COMPLETED TWO DAYS OF INTENSIVE NEGOTIATIONS WITH THE HONG KONG GOVERNMENT (HKG) PD MUCH WORK REMAINS TO BE DONE IN DRAFTING DETAILED ANNEXES TO THE MOU AND ON SIDE LETTERS BETWEEN OFFICIALS TO DEAL WITH THE QUOTE BUYING-IN UNQUOTE CMM INTERIM FINANCIAL ARRANGEMENTS FOR 1980/81 AND A NUMBER OF MINOR ISSUES PD HOWEVER CMM THE GOVERNOR AND EYE HAVE NOW AGREED AN APPROACH WHICH WOULD RESOLVE THE ISSUES STILL OUTSTANDING BETWEEN US PD HE PROPOSES CMM THEREFORE CMM TO DISCUSS WITH UMELCO THIS PM THE MAIN FEATURES OF THE PROPOSED NEW DEFENCE COSTS AGREEMENT (DCA) CMM AND ITS CONSEQUENCES PD PROVIDED THEY RAISE NO MAJOR OBJECTION CMM AND THEY ARE NOT EXPECTED TO CMM AND PROVIDED NO UNFORESEEN DIFFICULTIES ARISE IN THE DETAILED DRAFTING WORK CMM EYE SHOULD BE IN A POSITION TO SIGN AN MOU CMM SETTING OUT THE NEW DCA CMM ON FRIDAY BEFORE EYE LEAVE FOR LONDON

2 PD THE GOVERNOR AND EYE PROPOSE TO RESOLVE THE ISSUES SET OUT IN YOUR MINUTE TO THE PRIME MINISTER ON 22 SEP AS FOLLOWS  
A PD HKG AGREE THAT IN FUTURE THEIR CONTRIBUTION SHOULD BE CALCULATED FROM ANNUAL TARGET COSTINGS CMM AND THAT THERE SHOULD BE RETROSPECTIVE ADJUSTMENTS TO CORRECT ANY DIFFERENCE BETWEEN ESTIMATE AND OUTTURN PD THEY DO NOT ANTICIPATE THAT OPERATING THIS NEW SYSTEM WILL GIVE RISE TO UNMANAGEABLE DIFFICULTIES WITH THEIR UNOFFICIALS PD THE SYSTEM WILL ENSURE THAT IN FUTURE WE RECOVER FROM HKG ON THE BASIS OF OUR ACTUAL FULL COSTS  
B PD HKG ALSO AGREE THAT UNDER THIS ARRANGEMENT THEIR CONTRIBUTION TO THE COST OF EQUIPMENT AND STORES SHOULD BE CALCULATED FROM A RECORD OF ISSUES FROM UK AND PURCHASES IN HONG KONG AT TARGET OR INVOICE PRICES RESPECTIVELY PD TO LAUNCH THIS SYSTEM HKG WILL QUOTE BUY-IN UNQUOTE TO THE EQUIPMENT AND STORES ALREADY IN HONG KONG CMM AND THEY WOULD PREFER TO DO THIS WITH A SINGLE PAYMENT BEFORE THE END OF THIS FINANCIAL YEAR PD EYE UNDERSTAND THIS WILL BE CREDITED

to MOD as an appropriation-in-aid, and will therefore help with our cash limit difficulty. As a modest concession to the Hong Kong Government, who do not accept the accounting conventions adopted in our valuation of the stocks and assets, I have agreed that we should reassess

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THE RESIDUAL LIFE OF THESE ITEMS SO AS TO REDUCE THE TOTAL VALUATION FROM POUNDS 77M TO POUNDS 70M PD THIS COMPARES WITH MODS VALUATION OF POUNDS 65M

C PD HKG NO LONGER INSIST THAT THEY SHOULD BE ALLOWED TO STAGE THE LARGER CONTRIBUTIONS WHICH WILL BE DUE UNDER THE NEW ARRANGEMENTS PD THE GOVERNOR RECOGNISES THE SERIOUSNESS OF MODS BUDGETARY POSITION CMM AND HAS RESERVATIONS ABOUT THE POSSIBLE TRADE-OFFS FOR STAGING WHICH WE MIGHT HAVE CONTEMPLATED EG HKGS AGREEMENT TO PAY IN FUTURE 100 PERCENT OF THE COST OF WORKS PD FURTHERMORE CMM EYE THINK HE BELIEVES THAT THE PRESENT PREOCCUPATION IN HONG KONG WITH ILLEGAL IMMIGRATION AND ITS CONSEQUENCES WILL SPIKE CRITICISM OF THE SHARP INCREASE IN HKGS CONTRIBUTION TO GARRISON COSTS PD HE ACCEPTS THAT THE AGREEMENT WE HAVE REACHED IS A FAIR ONE CMM TAKING ACCOUNT OF THE WAY IN WHICH THE 1975 DCA HAS OPERATED

D PD HKG HAVE AGREED TO INTERIM FINANCIAL ARRANGEMENTS FOR 1980/81 CMM WHICH WILL MAXIMISE MODS RECEIPTS UNDER THE EXISTING DCA AND AGAIN WILL HELP WITH THIS YEARS CASH LIMIT PD THEY HAVE NOW CONCEDED OUR VIEW ON THE ALLOWANCE TO BE MADE FOR INFLATION OF EQUIPMENT AND STORES COSTS CMM AND AGREED OUR FIGURE OF POUNDS 9M FOR THIS ITEM WHICH COMPARES WITH THEIR FIGURE OF POUNDS 3M

3 PD TAKING ACCOUNT OF THE COST OF TEMPORARY REINFORCEMENTS AND THE ONE OFF PAYMENT FOR BUYING-IN CMM THIS SETTLEMENT WOULD PRODUCE RECEIPTS TO THE DEFENCE BUDGET OF APPROX POUNDS 120M IN 1980/81 CMM AND POUNDS 125M IN 1981/82 AT 1980 PRICE LEVELS PD THIS COMPARES WITH RECEIPTS OF POUNDS 45M IN 1979/80

4 PD THE GOVERNOR AND EYE HAVE YET TO AGREE THE TERMS OF THE MAIN MOU CMM BUT OFFICIALS ARE CLOSE TO AGREEMENT ON A TEXT WHICH THEY ARE SIGNALLING SEPARATELY TO MOD ASKING FOR ANY MAJOR COMMENTS BY 9 AM HONG KONG TIME ON FRI 10 OCT PD THE DETAILED ANNEXES ON FINANCIAL PROCEDURES AND WORKS WE PROPOSE TO SETTLE WITHOUT REFERENCE TO LONDON CMM BUT IT WILL BE POSSIBLE TO TIDY THEM UP BY CORRESPONDENCE BETWEEN HKG AND MOD OFFICIALS AFTER OUR RETURN

5 PD EYE THINK THIS WILL BE AN EXCELLENT AGREEMENT FOR MOD CMM AND ALSO FAIR TO HONG KONG GOVERNMENT PD IF YOU AND OUR COLLEAGUES IN LONDON AGREE CMM EYE SHOULD BE GRATEFUL FOR YOUR APPROVAL TO SIGN THE MAIN MOU ON FRI CMM AND TO ANNOUNCE YOUR AGREEMENT TO THE ENLARGEMENT OF THE PERMANENT GARRISON BY ONE INFANTRY BATTALION AND OTHER SMALLER UNITS AS RECOMMENDED BY THE CHIEFS OF STAFF PD IT WOULD BE MOST HELPFUL TO HAVE YOUR REPLY BY 9 AM HONG KONG TIME ON FRI 10 OCT 6 PD EYE SHALL BE DISCUSSING WITH THE GOVERNOR THE TERMS OF A PUBLIC

STATEMENT OF OUR AGREEMENT WHICH WILL REITERATE HER MAJESTYS GOVERNMENTS CONTINUED COMMITMENT TO THE SECURITY AND INTEGRITY OF HONG KONG CMM ANNOUNCE OUR INTENTION TO ENLARGE THE PERMANENT GARRISON CMM ACKNOWLEDGE OUR WILLINGNESS IN THE FUTURE TO PROVIDE TEMPORARY REINFORCEMENTS TO THE GARRISON WHERE NECESSARY CMM APPROPRIATE AND POSSIBLE CMM AND ANNOUNCE THE AGREEMENT ON NEW FINANCIAL ARRANGEMENTS FOR THE FUTURE CMM WHICH WILL ENSURE HKG CONTRIBUTES TO GARRISON COSTS ON A MORE REALISTIC BASIS THAN BEFORE PD THE GOVERNOR

HAS NOT YET DECIDED WHETHER HE WOULD PREFER TO ISSUE THIS STATEMENT ON FRI CMM OR TO WAIT UNTIL SOME TIME NEXT WEEK PD EYE THINK WE CAN AGREE TO EITHER CMM AND THAT SINCE PARLIAMENT IS IN RECESS WE SHOULD ISSUE THE STATEMENT SIMULTANEOUSLY IN LONDON PD OFFICIALS WILL BE SIGNALLING DRAFT TEXTS OF THE STATEMENT TO MOD FOR YOUR APPROVAL WHEN THE GOVERNOR AND EYE HAVE AGREED ITS TERMS

# CONFIDENTIAL

CONFIDENTIAL



*Hong Kong*

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALING 01-218 2111/3

M: 5/14

1st October 1980

*Baroness*

*MBRA*

*Paul*

THE HONG KONG GARRISON

Thank you for your letter of 29th September.

I note what you say about the possible consequences for the Defence Budget in 1981/82 of a concession to the Hong Kong Government on staging, and I agree with you that our objective should be to negotiate an agreement without staging. I have passed on your views to Barney Hayhoe who is already in Hong Kong. We must not, however, lose sight of the potential advantages to us of a new Defence Costs Agreement of the kind in prospect, and I suggest, therefore, that we should wait until Barney reports on the progress of negotiations before we decide finally, what we can accept on the details of a new agreement.

I am copying this letter to the Prime Minister and the Lord Privy Seal, and to Sir Robert Armstrong.

*Paul*

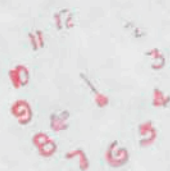
*John*

Francis Pym

The Rt Hon John Biffen MP

CONFIDENTIAL

-2 OCT 1988



*Hong Kong*

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP  
 Secretary of State  
 Ministry of Defence  
 Main Building  
 Whitehall  
 London SW1A 2HB

29 September 1980

*NBPN yet**Paul 29/9**Dear Francis*

THE HONG KONG GARRISON

You sent Geoffrey Howe a copy of your minute of 22 September to the Prime Minister about Barney Hayhoe's forthcoming negotiation in Hong Kong on the new Defence Costs Agreement. I have since seen Ian Gilmour's minute of 23 September.

I am sure you are right to plan to continue to resist Hong Kong pressure to stage the larger payments which will be due under the new Agreement. They can certainly afford to pay on the new basis from the outset, and while I appreciate that the increase may cause them some political difficulty, it is a function solely of the degree to which they have been under-paying because the existing Agreement failed to reflect the true costs of the garrison. Moreover, our negotiating hand is a strong one, given that they have sought the stationing of a fifth battalion.

I have some difficulty with the compromise on which you suggest that Barney Hayhoe might in the last resort fall back if it were to become clear that an Agreement without staging was unattainable. As I understand it, the suggestion is that he would accept a reduced Hong Kong contribution in 1981-82, and perhaps 1982-83, provided that the reductions did not exceed the benefits, suitably discounted, which would accrue from an agreement that Hong Kong should meet full works programme costs in future years.

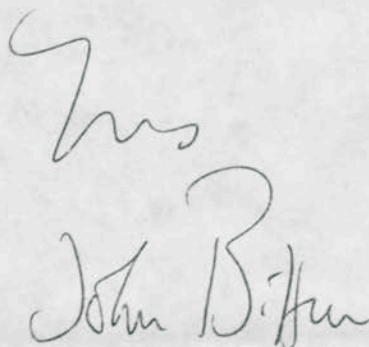
In normal circumstances, I would be content with such an elegant solution. But we have yet to agree on the Defence Budget total for 1981-82, a year in which the public expenditure position will be particularly difficult. We are discussing the proposals for reductions which I have had to put to you, and you have warned me



that they would cause difficulty (and that you may in fact wish to seek a substantial increase). If Barney Hayhoe were to concede staging at 50% in 1981-82 (which is I understand what the Hong Kong Government have sought) the loss to the Defence Budget - net of the saving on works - would be some £30 million, which you would presumably plan to cover by adjustments to the Defence programme. In present circumstances, I have to say that the benefit of such adjustments ought to accrue to the UK, rather than the Hong Kong, taxpayer.

It follows that I believe Barney Hayhoe should continue to insist that the Hong Kong contribution should remain at the established level of 75%.

Copies of this letter go to the Prime Minister and the Lord Privy Seal.

A handwritten signature in cursive script, appearing to read 'John Biffen', is written in dark ink. The signature is fluid and somewhat stylized, with a large initial 'J' and a long, sweeping underline.

JOHN BIFFEN

SECRET



14

10 DOWNING STREET

*From the Private Secretary*

29 September, 1980.

The Hong Kong Garrison

The Prime Minister has seen the Defence Secretary's minute to her of 22 September on this subject. She agrees that Mr. Hayhoe may negotiate with the Governor of Hong Kong on the basis set out in paragraph 6 of that minute.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office) and John Wiggins (HM Treasury).

M. O'D. B. ALEXANDER

B.M. Norbury, Esq.,  
Ministry of Defence.

SECRET

ARB





Prime Minister

HONG KONG GARRISON

I have seen the minute from the Secretary of State for Defence to you of 22 September. I am generally content with what he proposes.

2. I am grateful for what he says about the possibility of staging the increase in the Hong Kong contribution to the cost of the garrison. The suggested compromise could well be helpful to the Governor in persuading the Unofficial Members of the Executive and Legislative Councils (UMELCO) to agree to the very large increase in the defence budget.

3. I know that the Parliamentary Under Secretary of State for Defence is fully aware of Hong Kong's other difficulties, particularly over the method to be used to update the cost of the garrison. There would be real difficulties for the Governor in an arrangement which opened the territory's defence contributions and its component parts to annual scrutiny by the Finance Committee of the Legislative Council. I hope that any new scheme can avoid this.

4. I am copying this minute to the Secretary of State for Defence and to the Chancellor of the Exchequer.

*I.H.S.*

23 September 1980



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MO 5/14

PRIME MINISTERTHE HONG KONG GARRISON

In my minute of 30th July I undertook to report on our discussions with the Hong Kong Government (HKG) in August and to propose objectives for the negotiations which Barney Hayhoe will conduct with the Governor in Hong Kong during the week beginning 6th October.

2. We have now given the HKG illustrative estimates of the cost of the garrison which should form the basis for negotiation of a new Defence Costs Agreement (DCA): £136m (including £14.5m on works) in 1981/82 rising to £155m (including £21m on works) in 1985/86. We do not propose to enshrine such estimates in the new DCA as a baseline for calculating the HKG's annual contribution because adopting such a device in the 1975 Agreement has led to the HKG's share being underestimated. Instead the HKG's contribution should be calculated from annual target costings, with retrospective adjustment to correct any difference between estimate and outturn. Naturally this approach is not favoured by the HKG, but I believe that it is saleable, and that it should be our essential objective to secure it.

3. I believe that we can also reach agreement with the HKG on realistic provision for expenditure on equipment and stores. The HKG have already proposed that such items for the Garrison should be logged as they are issued from the UK or purchased locally and this seems to us a simple and satisfactory way to ensure that we recover each year 75% of our actual expenditure. To start with we shall have to negotiate suitable terms under which the HKG 'buys into' the existing stocks and assets at 75% of their assessed value, either with an initial lump sum or by spreading payment including interest over several years.

4. The major issue for negotiation will be over the HKG's wish to stage the very much larger contributions due under the new DCA, as they were permitted to do under the 1975 agreement when their contribution rose from 50% in the first year to 62%



in the second and 75% thereafter. They argue that this will be essential to persuade the Unofficials that the new financial arrangements are fair, and that Hong Kong can afford them. We have so far resisted these arguments, pointing out that we must satisfy Parliament the HKG is making the contribution which it contracted to make in 1975. For their part, the HKG have understandably reminded us that their agreement to the 75%/25% apportionment was given on the basis of different assumptions about the cost of the Garrison to those we are adopting now.

5. I recognise that, as the Lord Privy Seal has pointed out in his minute of 5th August, the effect of the new DCA on the Hong Kong defence budget will be considerable, and that we should not entirely rule out some form of staging. We do have some room for manoeuvre given the HKG's willingness in recent discussions to consider paying for expenditure on works, without seeking any contribution from us, if this was likely to secure a concession from us which is important to them. They could justify this publicly in Hong Kong on the grounds that property occupied by the Garrison would be surrendered to the HKG when it was no longer required, as has been the case in the past.

6. What I propose therefore is that Barney Hayhoe should try to negotiate an agreement without staging as I have outlined, unless it becomes clear that refusal to agree to staging is preventing agreement. If that should happen I suggest that he should be authorised to concede a measure of staging as long as concessions of the same value can be obtained from the HKG, for example an undertaking by them to bear the works costs.

7. I am copying this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and I should be glad to know that they and you are content with the approach I propose. If you are I shall so instruct Barney Hayhoe, and ask him to report by telegram from Hong Kong, when the shape of an achievable deal becomes clear.

78  
:-

Ministry of Defence

22nd September 1980



22 SEP 1980

9 10 11 12 1  
8 7 6 5 4 3 2





*Hagley*  
*MAP*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Francis Pym MP  
Secretary of State for Defence  
Main Building  
Whitehall  
London SW1

6 August 1980

*Dear Francis,*

THE HONG KONG GARRISON

I have seen a copy of your minute of 30 July to the Prime Minister about the discussions you are having with the Hong Kong Government on the size and cost of the Hong Kong garrison.

I am content with the line you propose to take on future financial arrangements.

I am sending copies of this letter to the Prime Minister, to other members of OD, and to Sir Robert Armstrong.

*John Biffen*

JOHN BIFFEN

- 7 AUG 1980





Prime Minister

LPS does not want Mr Pym  
to mess too hard a  
bargain in Hong Kong.

mb

MA  
6/8

Secretary of State for Defence

HONG KONG GARRISON

I have seen your minute of 30 July to the Prime Minister and her Private Secretary's reply of 4 August. I do not dissent on the procedure you propose.

I know that in the talks you will be taking full account of Hong Kong's problems. The defence costs issue has to be seen against the absorption by Hong Kong of about a quarter of a million immigrants from China in 2 years, with the additional problem of a large-scale influx of refugees from Vietnam, of whom nearly 40,000 remain in the territory. Hong Kong accept that they must pay a major share of the defence costs which at present are largely devoted to tackling the problem of immigration. But they also rightly maintain that HMG, as the metropolitan power with responsibility for defence of the colony must still contribute a significant proportion. Hong Kong are now being asked to increase their share more than twofold.

The increase is in fact mainly caused by the revised costing which your officials have produced for the present garrison. When the existing Defence Costs Agreement was negotiated in 1975, the Governor of Hong Kong was able to convince the Unofficial Members of the Executive and Legislative Councils that the figures then used were correct. He is now being asked in effect to go back on this and to argue that the new costing is accurate and fair. This will not be an easy task. It is therefore essential that the new figures should be as accurate as possible. The Hong Kong  
/Government

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Government have queried a number of major items in the figures which have been produced so far. There needs to be an agreed new costing before a fair share-out of contributions can be made.

In any event the effect on the Hong Kong defence budget will be considerable. I believe therefore that it is important at this stage not entirely to rule out some form of staging of the increased payments along the lines of the system which was agreed in 1975.

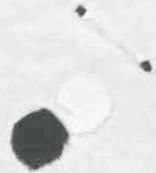
I am copying this minute to the Prime Minister, other members of OD and to Sir Robert Armstrong.

*l. 119.*

5 August 1980

CONFIDENTIAL

76 AUG 1980



CONFIDENTIAL

TMP



cc Ho  
LCO  
FLO  
HM  
WPO  
WPS  
DOT  
CO

10 DOWNING STREET

*From the Private Secretary*

4 August 1980

The Prime Minister has seen the Secretary of State for Defence's minute (MO 5/14) of 30 July, about the Hong Kong Garrison.

She is content that discussions should be carried forward on the basis summarised in paragraph 4 of the Secretary of State's minute.

I am sending copies of this letter to the Private Secretaries to the other Members of OD and to David Wright (Cabinet Office).

M. A. PATTISON

B.M. Norbury, Esq.,  
Ministry of Defence.

CONFIDENTIAL

ls



Prime Minister

①

MO 5/14

Yes - it is reasonable not.

Agree that discussions should be carried forward on the basis summarised in para 4 below?

Print 1/8

PRIME MINISTER

THE HONG KONG GARRISON

The Foreign Secretary and I have been in touch about the provision of short-term reinforcements for the garrison in Hong Kong. Although the Governor expects the garrison to be able to cope throughout the summer without further reinforcements, we have agreed that if the security situation so demands then we can provide a further infantry battalion for the autumn. I intend that we should reach agreement with the Hong Kong Government in the autumn on the size of the long term resident garrison, and on the associated problem of the workings of the Defence Costs Agreement negotiated by our predecessors with the Hong Kong Government in 1975.

Size of the Garrison

2. When we agreed to send reinforcements last year we set in hand a joint review with the Hong Kong Government (HKG) of the longer term force level required to cope with the growing internal security task ensuing from population growth and to reduce the burden of anti-illegal immigration operations. The conclusion is that, in addition to continued strengthening of the police and other local forces, it is necessary to increase the military garrison by one battalion (plus supporting elements) to a new total of five. The Chiefs of Staff endorsed the military case for such an increase but I explained to the Governor earlier this year that, while I accepted this military case, I could not make any commitment until satisfactory financial arrangements had been made.



### Financial Arrangements

3. The Defence Costs Agreement (DCA) now provides for Hong Kong to bear 75% of the assessed cost of a specific garrison fixed in 1975 (four battalions plus supporting elements of all three Services). Revision of the DCA would be needed in any event for an enlarged garrison and it is the Governor's preference to have a new agreement rather than a separate arrangement to cover additional units. We too believe the DCA needs revision because its financial provisions do not now reflect the true cost of the garrison. We believe that cost to be about £100 million at 1979-80 prices (but excluding works expenditure which is handled separately and which is not a problem in this context). The equivalent total arrived at under the terms of the present DCA is some £50 million. We are still seeking agreement with the HKG over some of the figures but it is clear that the 75% HKG contribution is now being calculated by reference to too low a figure; the difference is partly due to insufficient provision for inflation, but more importantly to the fact that the estimate made in 1975 for expenditure on the supply of equipment and stores proved to be too low. The progressive reduction of the garrison post-1975 to the level set in the DCA was a complicating factor.

4. We have had exploratory talks with the HKG and the next round of discussions is planned for 6th-8th August. The aim will be to reach agreement on figures and on the outline of a new DCA. As regards the latter, I believe that Hong Kong must bear 75% of the full costs of the future garrison, whether enlargement proceeds or not, and that adequate arrangements must be made for the periodic updating of these costs. With enlargement, the HKG will face a contribution in 1981-82 of some £91 million (excluding works) compared with £37.5 million in 1979-80 (plus £7.5 million which they have paid under a separate arrangement for reinforcements). On the assumption that a new DCA will not take effect until 1st April 1981, it will also be necessary to agree improved financial arrangements for 1980-81. We will therefore be asking the Hong Kong Government to accept a sharp increase in their contribution for the cost of the garrison, and we will doubtless come under pressure to consider staging it. I believe that we must resist this pressure.





5. I should be grateful to know that you are content for discussions to continue along these lines. I shall report further after the talks next month when I hope to be able to propose firm objectives to be secured in the next and, I hope, final round of discussions scheduled for October.

6. I am sending copies of this minute to the other members of OD and to Sir Robert Armstrong.

*FD*

Ministry of Defence

30th July 1980

FILE

6K



CF to note



Hong Kong

cc FCO

10 DOWNING STREET

THE PRIME MINISTER

Original in G.R.

9 November 1979

Dear Chris,

Thank you for your letter of 29 October about the interest shown in Hong Kong in the Far Eastern Economic Review article suggesting that I should raise the question of Hong Kong's future during the Chinese Prime Minister's visit to London.

It is understandable that people in Hong Kong should be wondering whether the time has yet come for us to start discussions with the Chinese authorities over the territory's future. The Chinese Government, however, have made it clear on more than one occasion that they believe it is still too soon to consider Hong Kong's future in any detail. This was clearly implied by the Chinese Foreign Minister during his press conference here in London last Friday.

At the same time, the Chinese authorities are aware of the need to reassure investors that their interest will be fully taken into account when the time does come to consider Hong Kong's future. They have made a number of statements to this effect this year, and Premier Hua Guofeng touched on the subject during our discussions last week. The important thing at this stage is that Britain and China have a mutual interest in maintaining Hong Kong's current prosperity and stability.

Yours sincerely

*[Handwritten signature]*

Chris Patten, Esq., M.P.

MS

CONFIDENTIAL

*Hong Kong*  
Extract from Discussion  
between PM and Hua Guofeng  
on 1/11/1979.

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND  
PREMIER HUA GUOFENG AT 10 DOWNING STREET ON 1 NOVEMBER 1979  
AT 1600 HOURS

Present:

- |  |                            |
|--|----------------------------|
| The Prime Minister                     | Premier Hua Guofeng        |
| The Foreign and Commonwealth Secretary | Vice-Premier Yu Qiuli      |
| The Secretary of State for Industry    | Foreign Minister Huang Hua |
| The Secretary of State for Defence     | Ambassador Ke Hua          |
| The Secretary of State for Trade       | Vice-Minister Zhang Wenjin |
| Mr. Peter Blaker, MP                   | Vice-Minister Gan Ziyu     |
| Sir Robert Armstrong                   | Vice-Minister Cui Qun      |
| Sir Michael Palliser                   | Mr. Pu Shouchang           |
| Mr. Percy Cradock                      | Mr. Wei Yongqing           |
| Mr. Hugh Cortazzi                      | Mr. Qian Qichen            |
| Mr. Michael Alexander                  | Mr. Wang Benzuo            |
| Mr. Christopher Roberts                | Interpreter                |
| Mr. Richard Samuel                     | Notetaker                  |
| Mr. Richard Fursland                   |                            |
| Mr. James Richards                     |                            |

\* \* \* \* \*

The Prime Minister welcomed Premier Hua to their second session of talks, and expressed the hope that he had enjoyed his programme the previous day in Derby. Their present session of talks would cover bilateral issues. The Prime Minister was keen to do everything possible to ensure that Premier Hua should get everything he could out of his visit to Britain.

Hong Kong

On Hong Kong, the British Government wished to work as closely as possible with the Chinese Government. She was pleased our relations over Hong Kong were now so good. There were two particular points she wanted to raise.

The first, which was of immediate concern, was the very high rate of immigration across the border. About 250,000 immigrants from China had entered Hong Kong in the past 18 months and the

CONFIDENTIAL

/ rate had at

rate had at one point reached 1,000 a day. The British Government had increased the Hong Kong garrison to deal with the situation. She would also be grateful for maximum cooperation on the Chinese side of the border. There had been some improvement in the situation earlier in the year, following reinforcement of the forces on the Chinese side. But the British Government were not sure if this had been maintained. The situation had suddenly got worse. The British Government did not understand the reasons for this.

Premier Hua first expressed his thanks for the excellent arrangements made by the Prime Minister for his visit to Derby. He had spent a very pleasant time there. Vice-Premier Yu had visited Manchester. In both places, the Chinese delegation had had very good talks on ways of expanding Sino-British economic cooperation. The Chinese Government were very pleased with the development of their bilateral relations with Britain and attached great importance to their further improvement.

The Prime Minister had raised some particular questions with regard to Hong Kong. Premier Hua had just received news from Peking about the increased rate of immigration over the past few days. There had been some speculation that he might sign some agreement on the subject during his visit to Britain. Perhaps some people had been afraid that it might not be possible thereafter to leave China for Hong Kong.

The problem of immigration had come up when the Governor of Hong Kong visited Peking earlier in the year. In the first half of the year the rate had risen. The State Council had then ordered the Guangdong Authorities to take effective measures against this, and the rate had dropped. But it had risen again in the last few days. Premier Hua wished to assure the Prime Minister that the Chinese Government had taken note of this, and would take measures to deal with it.

The Prime Minister thanked Premier Hua for this assurance. Too much movement across the border would cause difficulties for both sides. The British Government would do what they could, and knew that the Chinese would do the same.

Premier Hua said that he wished the Prime Minister to know that the Chinese Government had decided to treat Guangdong Province in a special way, to allow its economy to develop quicker. Several counties bordering on Hong Kong had been designated special areas, in the hope that this would cause production and incomes to increase and the differentials with Hong Kong to narrow. Two counties, Baoan and Zhuhai, had already been designated, and Chaozhou would follow. These counties would have powers to develop their own foreign trade.

The Secretary of State for Foreign and Commonwealth Affairs said that when he had seen the Governor of Hong Kong in London, and in Hong Kong, the Governor had been full of gratitude for the reception he had received on his visit to China, and the extent of Chinese economic collaboration with Hong Kong. Lord Carrington had seen for himself some of the problems caused by the illegal immigrants in Hong Kong. The numbers were very large by Hong Kong standards, if not by the standards of China, especially when added to the nearly 70,000 boat people in Hong Kong. Only the Chinese in Hong Kong could have coped as well as they had.

#### Sino-British Trade

The Prime Minister asked what assistance the British Government could give the Chinese Government in the commercial field. The British Government were ready to supply China with a wide range of defence equipment, including Harrier. At Prime Minister's Questions in the House of Commons, she had just been accused of causing trouble between China and the Soviet Union. When she had responded by affirming her readiness to supply Harriers to China, to further the expansion of Sino-British commercial relations, great cheers had gone up. Pravda had apparently yesterday warned her against this. She understood that a Chinese delegation would shortly be visiting Britain. In this field the Chinese Government would be given every facility and help possible. She wished Premier Hua to know that this policy came from the top.

/ Premier Hua

Sino-British Trade (continued)

At the Prime Minister's invitation, the Secretary of State for Industry resumed the discussion of industrial cooperation. On the previous day, Premier Hua had seen the British Rail Centre, and the Chinese Minister of Railways would be visiting Britain soon. The British Government hoped to cooperate with the Chinese in this field. Premier Hua said that, as he had made clear when he had been shown an advanced passenger train in Derby, China's principal transport requirement was for freight, particularly coal, which comprised a third of the freight carried. The Chinese Minister of Railways would be able to have detailed discussions during his visit. The Secretary of State for Industry observed that British Rail's technology enabled the best possible use to be made of already existing track, and therefore could speed up transport on China's present railway system.

Sir Keith Joseph went on to note that China had huge mineral wealth, eg in tin, lead, tungsten and cobalt. Proposals had been made by a number of British companies, particularly John Brown Constructors, which were so arranged that the Chinese would have to pay out nothing, as the interest would be deferred. The Secretary of State for Trade commented that the Chairman of John Brown Constructors had been one of the businessmen who had accompanied him on his call on Premier Hua on Tuesday. The Secretary of State for Industry noted that there was a lot of tin in Yunnan, lead and zinc in Qinghai and Gansu, tungsten in Hunan, cobalt in Hainan Island and copper in Jiangxi. Premier Hua said that the Chinese Government would look at these proposals. A joint venture with the British at Yangzhou in Shandong, were work by the Chinese side was already half-way to completion, could be considered.

Hong Kong

The Prime Minister then invited the Secretary of State for Foreign and Commonwealth Affairs to make a further point about Hong Kong. Lord Carrington said that Premier Hua would remember, or (if he did not), Minister of Foreign Affairs Huang Hua would remember, that when the Governor of Hong Kong had visited China, he had raised the question of the New Territories leases. The

/ problem was that,

problem was that, as 1997 approached, uncertainty about new leases grew. The Governor had later made some proposals which the Chinese Government had found unacceptable. The British Government would not pursue these, since any proposals had to be acceptable to both sides. But he would be grateful if Premier Hua could give thought, or cause thought to be given, to the problem of maintaining confidence in Hong Kong's future. It was not in the interests of China, or of Hong Kong, that uncertainties about this should put the future of Hong Kong into jeopardy, and affect investment confidence there. The Prime Minister said that the British Government did not expect an answer on the spot, but were asking the Chinese Government to give thought to the question.

Premier Hua replied that the Chinese Government had given serious thought to this question, and had given their reply to the British Government. They had to be very careful about what was said about Chinese territory. On the other hand, the Chinese Government had very good relations with the British Government, and with the British authorities in Hong Kong. At his press conference before his departure from China for Western Europe, he had answered questions on Hong Kong, and, so far as he was aware, the reaction had been favourable. It had been noted that the Chinese Government would keep in touch with the British Government and would take account of the anxieties of investors even after the problem had been resolved.

The talks concluded at 1710. In the presence of the Prime Minister and Premier Hua, the Cultural Agreement was then signed by the Secretary of State for Foreign and Commonwealth Affairs and the Chinese Minister of Foreign Affairs; and the Air Services Agreement by the Secretary of State for Trade and Vice-Premier Yu Qiuli.

SECRET



Hong Kong II  
filed to

10 DOWNING STREET

*From the Private Secretary*

18 October 1979

HONG KONG:  
NEW TERRITORIES LEASES

Please add  
to file title

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute to her of 9 October on this subject. She has taken note of its contents.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

G. G. H. Walden, Esq.,  
Foreign and Commonwealth Office.

SECRET

*L. Chin*





PM/79/86

PRIME MINISTER

②

*Prime Minister*

*[Signature]*

Hong Kong: New Territories Leases

1. In my minute of 2 July I said that I had authorised the Ambassador in Peking to approach the Chinese on the question of land leases in the New Territories of Hong Kong, and undertook to keep you informed of developments.

2. The Ambassador took action on 5 July; on 24 September the Chinese gave him their reply. While friendly in tone it referred to the legal steps which we had in mind as "unnecessary and inappropriate" and warned of adverse repercussions should we persist. The reply recalled the remarks made to the Governor by Vice-Premier Deng Xiaoping in March, when he said that China regarded Hong Kong as Chinese territory but that when the time came to deal with this question in the future, the Chinese would take account of the special circumstances of Hong Kong and would not harm the interests of the investors. It suggested that these remarks should serve to stabilise the confidence of investors. I attach

/// copies of Peking telegrams Nos 825-827 containing, respectively, the Ambassador's report on his call at the Foreign Ministry, the text of the Chinese memorandum, and Mr Cradock's comments; / and of Hong Kong telegram No 1343 which records the Governor's views.

3. The Chinese response is disappointing, and the reasons for it are not altogether clear. It may be that they regard our proposal as premature, or that they consider the future of Hong Kong as a matter for their decision alone, and that they are unwilling to allow us to appear to be taking the lead in any way. They may also have in mind the implications for their relations with Taiwan. Whatever their reasons, the message is plain enough and there can be no question of going ahead with our original plans. However, the problem of the land leases will have to be solved sooner or later if confidence in Hong



Kong is to be maintained, and we will need to consider alternative ways of dealing with it in due course.

4. I am considering what, if any, response should be made to the Chinese, and in particular, how we should handle the question during Premier Hua Guofeng's visit. In the meantime, it is essential to maintain secrecy: a leak could be very damaging as well as embarrassing.

5. I am sending copies of this minute to our OD colleagues, to the Attorney-General and to Sir John Hunt.

(CARRINGTON)

Foreign and Commonwealth Office

9 October 1979

9 OCT 1979



SECRET

AMENDED DISTRIBUTION: 24/9/79

196

GR 658

SECRET

DESKBY HONG KONG 241100Z  
FM PEKING 240935Z SEP 79  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 825 OF 24 SEPT 79  
AND TO IMMEDIATE HONG KONG

TOP COPY.

HKIA 20/1		
RECEIVED IN THE FCO NO. 51		
25 SEP 1979		
LESA	INDEX	PA
No	7259	2

NEW TERRITORIES LEASES

See 196

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1. I WAS SUMMONED TO THE FOREIGN MINISTRY ON 24 SEPTEMBER BY ASSISTANT FOREIGN MINISTER SONG, WHO READ OUT TO ME THE REPLY TO OUR PROPOSAL OF 5 JULY AND THEN HANDED ME A MEMORANDUM GIVING THE TEXT (SEE MIFT)

2. I UNDERTOOK TO TRANSMIT THIS. GIVING MY PRELIMINARY AND PERSONAL REACTION I SAID THAT, WHILE THE FRANKNESS OF THE CHINESE COMMENTS WOULD BE APPRECIATED, I FOUND IT A DISAPPOINTING REPLY. AS HAD EARLIER BEEN MADE PLAIN, WE APPRECIATED THE STATEMENT BY VICE-PREMIER DENG IN MARCH AND THIS HAD HAD A GOOD EFFECT. BUT, THERE WAS A SHORT TERM PROBLEM ABOUT LAID LEASES WHICH COULD NOT BE DEALT WITH BY GENERAL ASSURANCES. IT WAS IN ORDER TO MEET THIS PROBLEM AND THE NEED FOR SOME LEGAL TIDYING UP ON OUR SIDE THAT WE PUT FORWARD OUR PROPOSALS. WE WERE STILL FACING A PROBLEM WHICH WOULD BECOME MORE ACUTE AS TIME WENT ON. BOTH SIDES HAD AN INTEREST IN THE CONTINUING PROSPERITY OF HONG KONG. DID THE CHINESE GOVERNMENT CONSIDER THAT ANY OTHER MEASURES MIGHT BE TAKEN THAT WERE NOT "UNNECESSARY AND INAPPROPRIATE" AND COULD MR SONG EXPAND ON THE REASONS FOR THE CHINESE GOVERNMENT'S OBJECTIONS?

3. SONG REPLIED THAT THE GIST OF THE CHINESE POSITION WAS IN THE MEMORANDUM. CHINA AND BRITAIN BOTH SUPPORTED THE PROSPERITY AND FURTHER DEVELOPMENT OF HONG KONG. THE CHINESE GOVERNMENT HAD GIVEN CONSIDERATION TO THE MEASURES THAT WE PROPOSED TO MAINTAIN CONFIDENCE, BUT TOOK THE VIEW THAT, SO LONG AS BOTH SIDES COOPERATED, CONFIDENCE COULD BE MAINTAINED.

# SECRET

THE HONG KONG QUESTION WAS COMPLEX, NOT ONLY A QUESTION OF SINO-BRITISH RELATIONS, BUT ONE IN WHICH THE OUTSIDE WORLD WAS INTERESTED. ANY MEASURES WHICH PREJUDICED CHINA'S POSITION ON HONG KONG WOULD HAVE REPERCUSSIONS IN THE WORLD. THE BRITISH SIDE HAD PROBABLY GUESSED THE LIKELY CHINESE RESPONSE WHEN THEY PUT THE PROPOSALS FORWARD. IF THE BRITISH SIDE DID NOT FOLLOW CHINESE ADVICE THEY COULD GUESS WHAT CHINESE REACTION WOULD BE AND THAT WOULD NOT ASSIST CONFIDENCE. BOTH SIDES SHOULD TRY TO ENCOURAGE THE FURTHER DEVELOPMENT OF HONG KONG, ON THE BASIS THAT CHINA'S POSITION WAS NOT PREJUDICED.

4. I EXPLAINED THAT THIS WAS PRECISELY WHAT WE HAD TRIED TO DO. INVESTORS IN HONG KONG LOOKED NOT ONLY AT CHINESE STATEMENTS BUT ALSO AT THE HARD LEGAL POSITION AND NATURALLY ASKED WHAT THEIR ASSETS WERE WORTH AS THE TIME FRAME SHORTENED. I FEARED THAT IF WE DID NOTHING NOW, CONFIDENCE WOULD BEGIN TO WANE, NOT PERHAPS TOMORROW BUT VERY SOON, AND ONCE THAT BEGAN TO HAPPEN, IT WOULD BE VERY DIFFICULT TO RESTORE. THAT WAS AND REMAINED OUR PROBLEM. I HOPED THAT BOTH SIDES COULD KEEP IN TOUCH ON THIS AND ANY OTHER PROBLEMS AFFECTING HONG KONG AND ASKED WHETHER THERE WOULD BE ANY PARALLEL MESSAGE VIA THE NCHA IN HONG KONG.

5. SONG SAID THAT THEY WOULD BE INFORMING NCHA IN HONG KONG BUT THE FORMAL REPLY WAS THE ONE HE WAS DELIVERING. HE AGREED THAT WE SHOULD MAINTAIN CLOSE CONTACT. IF WE HAD ANY VIEWS OR SUGGESTIONS WE SHOULD PUT THEM FORWARD. HE AGAIN DREW OUR ATTENTION TO DENG'S REMARKS IN MARCH AND SAID SPECIAL WEIGHT SHOULD BE ATTACHED TO THEM.

6. I SAID THAT WE NOTED AND GREATLY APPRECIATED THOSE REMARKS BUT THE FACT WAS WE STILL HAD A PROBLEM.

CRADOCK

FILES:  
HEAD OF HKGD  
HEAD OF FED  
FS  
FS/LFS  
FS/MR BLAKER  
FS/PUS  
SIR A. DUFF  
SIR E. YOUDE (PERSONAL)  
MR CORTAZZI

S E C R E T  
(AMENDED DISTRIBUTION 24 SEPTEMBER)

(K10)

CR 400

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SECRET  
DESKBY HONG KONG 241100Z  
FM PEKING 240050Z SEP 79  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 826 OF 24 SEPT 79  
AND TO IMMEDIATE HONG KONG

HKK 040/1		NO. 51
25 SEP 1979		
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No	929	&

Set 124

(K14)

MIPT: NEW TERRITORIES LEASES

ON JULY 5, 1979 YOUR EXCELLENCY TOLD THE CHINESE GOVERNMENT OF SOME LEGAL STEPS WHICH THE BRITISH SIDE INTENDED TO TAKE IN OCTOBER FOR SOLVING THE QUESTION OF LEASES FOR LAND IN THE NEW TERRITORIES. ON THE INSTRUCTIONS OF THE CHINESE GOVERNMENT HERE IS OUR REPLY:

THE CHINESE GOVERNMENT'S POSITION ON THE QUESTION OF HONG KONG IS CONSISTENT AND CLEAR, AND IT IS WELL KNOWN TO THE BRITISH GOVERNMENT. IN A CONVERSATION WITH SIR CRAWFORD MURRAY MACLEHOSE, THE GOVERNOR OF HONG KONG, IN MARCH, VICE-PREMIER DENG XIAOPING REAFFIRMED THAT HONG KONG IS PART OF CHINA'S TERRITORY AND ALSO POINTED OUT THAT, WHEN THE TIME COMES TO DEAL WITH THIS PROBLEM IN FUTURE, WE WOULD TAKE INTO ACCOUNT THE SPECIAL CIRCUMSTANCES IN HONG KONG AND WOULD NOT HARM THE INTERESTS OF THE INVESTORS. VICE-PREMIER DENG'S REMARKS WERE A STATEMENT OF THE CHINESE GOVERNMENT'S POSITION SINCE THEY WERE OF GREAT WEIGHT AND SHOULD SERVE TO STABILIZE THE CONFIDENCE OF THE INVESTORS. THE CHINESE GOVERNMENT CONSIDERS AS UNNECESSARY AND INAPPROPRIATE THE LEGAL STEPS THAT THE BRITISH SIDE NOW PROPOSES TO TAKE REGARDING THE TERM OF ADMINISTRATION OF THE NEW TERRITORIES BY THE GOVERNOR OF HONG KONG AND THE QUESTION OF LEASES FOR LAND IN THE NEW TERRITORIES. THEREFORE, THE CHINESE GOVERNMENT URGES THE BRITISH SIDE TO DESIST FROM TAKING THE PROPOSED ACTIONS, FOR THE REPERCUSSIONS THEREFROM WOULD ADVERSELY AFFECT THE INTERESTS OF BOTH THE CHINESE AND BRITISH SIDES.

S E C R E T

WE APPRECIATE YOUR EXCELLENCY'S COMMUNICATING TO THE CHINESE GOVERNMENT THE IDEAS AND INTENDED STEPS OF THE BRITISH SIDE AND SOLICITING OUR OPINION. NOW WE HAVE SINCERELY AND FRANKLY STATED THE OPINION OF THE CHINESE GOVERNMENT. THIS WILL AVOID MISUNDERSTANDING AND SERVE TO STRENGTHEN OUR COOPERATION. THE CHINESE SIDE HOPES THAT OUR TWO SIDES WILL CONTINUE TO MAKE EFFORTS TO FURTHER IMPORVE OUR ALREADY GOOD RELATIONS. YOUR EXCELLENCY IS REQUESTED TO CONVEY TO THE BRITISH GOVERNMENT THE ABOVE POSITION OF THE CHINESE GOVERNMENT.

CRADOCK

F I L E S

HD/TK & GD



SECRET

No 10

GPS 375  
SECRET

DESKBY HONG KONG 241233Z  
FM PEKING 241145Z SEP 79  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 827 OF 24 SEPT 79  
AND TO IMMEDIATE HONG KONG

MY TWO IPTS: NEW TERRITORIES LEASES

1. THIS IS A DISAPPOINTING REPLY AND A MORE THOROUGH REJECTION THAN I PERSONALLY HAD ENVISAGED. I FEARED THAT THE PASSAGE ON CONTINUING ADMINISTRATIVE POWERS MIGHT WELL STICK IN THE CHINESE GULLETS BUT THE WHOLE PROPOSAL IS HERE REBUFFED AS "UNNECESSARY AND INAPPROPRIATE" AND A FIRM WARNING ADDED OF THE EFFECTS IF WE PERSIST.

2. THE CHINESE APPEAR TO BE UNWILLING TO UNDERSTAND THE NEED FOR BRITISH LEGISLATIVE MEASURES (AS OPPOSED TO GENERAL CHINESE STATEMENTS) IN ORDER TO REASSURE INVESTORS. THEY APPEAR TO WISH TO KEEP THEIR OPTIONS OPEN AND TO AVOID A SITUATION IN WHICH THE BRITISH SEEM TO BE TAKING THE LEAD ON THE FUTURE OF THE COLONY AND CHINA ACQUIESCES. THEY SEEM PARTICULARLY NERVOUS ABOUT THE EFFECT OF THIS ABROAD. HERE THEY MAY BE THINKING OF THEIR IMAGE IN NON-ALIGNED COUNTRIES, BUT THEY WILL ALSO HAVE IN MIND THE EFFECT ON THEIR RELATIONS WITH TAIWAN.

3. WE SHALL NEED TO THINK CAREFULLY ABOUT OUR FORMAL RESPONSE. GIVEN THE FIRMLINESS OF THE CHINESE LINE, IT WOULD, I THINK, BE UNWISE TO TRY AT ONCE TO ARGUE THROUGH THE WHOLE ISSUE AGAIN. BUT OUR IMMEDIATE AIM, I SUGGEST, SHOULD BE AT LEAST TO KEEP A DIALOGUE GOING AND KEEP THIS REBUFF SECRET. WE SHALL ALSO NEED TO CONSIDER WHAT REFERENCES WE MAKE TO THE SUBJECT IN THE TALKS WITH EITHER HUA GUOFENG OR HUANG HUA IN LONDON. I DOUBT IF WE CAN AVOID IT. WE MIGHT CONSIDER A RESPONSE WHICH INCLUDED THE FOLLOWING POINTS:

- A. WE APPRECIATE THE FRANKNESS WITH WHICH THE CHINESE HAVE GIVEN US THEIR VIEWS ON HONG KONG.
- B. THE PROSPERITY OF HONG KONG IS OF DIRECT CONCERN TO BOTH SIDES.

/C. DESPINE



SECRET

C. DESPITE HELPFUL WORDS BY DENG, WE STILL FACE A PROBLEM. OUR PROPOSALS FOR SOLVING IT HAVE NOT SO FAR MET WITH CHINESE APPROVAL. THEY NEED NOT FEAR THAT WE WOULD ACT IN DISREGARD OF THEIR OPPOSITION. BUT WE SHOULD CONTINUE TO EXCHANGE VIEWS ON WHAT OUGHT TO BE DONE.

D. IN THE MEANTIME IT IS OF GREAT IMPORTANCE THAT THIS FACT OF OUR DIFFERENCES OF VIEW DOES NOT LEAK IN ANY WAY.

CRADOCK

FIKRS

HARGD (HD)

FRD ( " )

PS

PS/LPS

PS/MRBLAKER

PS/PUS

SIR A DUFF

MR CORTAZZI

SIR E YOUDE (PERSONAL)

2

SECRET

HCFO 014/27

PP - F C O

PP - PEKING

GR 600

ADVANCE COPY

Hd/HK/GD  
Ad/FED

S E C R E T

FM HONG KONG 270645Z SEP

TO PRIORITY FOREIGN AND COMMONWEALTH OFFICE  
TELEGRAM NUMBER 1343 OF 27 SEPTEMBER, 1979.  
INFO PRIORITY PEKING.

PEKING TELNOS 825, 826 AND 827: NEW TERRITORIES LEASES.

1. THE CHINESE ARE ENTITLED TO THEIR VIEW THAT THE LEGAL MEASURES WE PROPOSED TO MEET THE PROBLEM OF THE LEASES ARE "INAPPROPRIATE" AND, AT ANY RATE FOR THE MOMENT "UNNECESSARY". BUT IT IS NONSENSE TO CLAIM OR IMPLY THAT THIS IS BECAUSE THE PROBLEM HAS ALREADY BEEN COVERED BY DENG'S STATEMENT. THE LATTER, WITH ITS ASSURANCE TO INVESTORS, APPEARED TO REFER TO THE CONSEQUENCES OF POLITICAL CHANGE IN THE DISTANT FUTURE (HE DID NOT KNOW WHETHER IT WOULD BE BEFORE OR AFTER 1997 OR EVEN IN THE NEXT CENTURY). BUT THE LENGTH OF LEASE WE CAN ISSUE IS NOW LESS THAN 18 YEARS AND BY THE TIME IT IS REDUCED TO 15 WILL PROGRESSIVELY DETER NEW INDUSTRY AND DRIVE EXISTING INDUSTRY ELSEWHERE. UNLESS THE CHINESE ARE CONTENT TO SEE INVESTMENT AND PRODUCTION IN HONG KONG FALL OFF (AND THIS WAS NOT DENG'S VIEW), THE PROBLEM CAN BE LEFT FOR A YEAR OR TWO BUT NOT MUCH MORE BECAUSE ONCE THE PROCESS OF DECLINE IS STARTED IT WILL BE HARD TO REVERSE, AND SINGAPORE OR MANILA, NOT CHINA, WILL BE THE GAINERS. SO IF THE SOLUTION WE HAVE SUGGESTED IS UNACCEPTABLE ANOTHER MUST BE FOUND FAIRLY SOON.

2. IT IS HARD TO BELIEVE THAT THE MFA DID NOT UNDERSTAND ALL THIS. SO I PRESUME THAT APART FROM AN UNWILLINGNESS TO TAKE A DIFFICULT DECISION BEFORE IT IS ABSOLUTELY UNAVOIDABLE, THIS RATHER UNGRACIOUS AND CERTAINLY IRRELEVANT REPLY TO A REASONABLE PROPOSAL IS TO GAIN TIME, ON THE PRINCIPLE THAT THE LATER THE PROBLEM IS DEALT WITH, THE EASIER IT WILL BE TO DO SO ON THEIR TERMS - PROBABLY WITHOUT ANY VERY CLEAR IDEA AT THE MOMENT WHAT THESE MIGHT BE:

13

3. BUT WHATEVER THEIR REASONS FOR REJECTING OUR PROPOSAL TO ACT NOW, THEY WILL FIND THAT AS TIME PASSES PRESSURE WILL MOUNT ON THEM FROM THEIR OWN TRADING ORGANISATIONS AND BUSINESS CONTACTS IN HONG KONG TO SOLVE THE PROBLEM. AS AN EXTENSIVE MORTGAGE HOLDER THE BANK OF CHINA WILL HAVE A SPECIAL INTEREST. OF COURSE PARALLEL PRESSURES WILL MOUNT ON US.

4. THERE COULD BE OTHER AND LESS OBTRUSIVE WAYS OF HANDLING THIS PROBLEM IF THE CHINESE WISH TO TAKE THE INITIATIVE (OUR PROPOSAL WAS DESIGNED TO ENABLE THEM TO KEEP OUT OF IT) AND I SHOULD BE SURPRISED IF SOONER OR LATER AND THROUGH ONE CHANNEL OR ANOTHER WE DO NOT GET HINTS OF WHAT POSSIBILITIES THE CHINESE HAVE IN MIND. SO I SUGGEST THAT THERE IS NO NEED TO TAKE THIS REPLY TOO TRAGICALLY, MARKET FORCES ARE ON OUR SIDE. THE IMPORTANT THING IS THAT THE PROBLEM HAS BEEN SQUARELY PUT TO THE CHINESE. I AGREE WITH THE AMBASSADOR THAT WE SHOULD NOT ARGUE ABOUT THEIR REPLY, AND I SUGGEST NO FORMAL OR INFORMAL REPLY IN PEKING IS NECESSARY.

5. HOWEVER, WE MUST PUT ON RECORD AGAIN WITH THE CHINESE THE REALITY AND IMPORTANCE OF THIS PROBLEM AND THAT SOLUTION WILL NOT WAIT INDEFINITELY. I THEREFORE SUGGEST THAT HUA SHOULD BE TACKLED DURING HIS VISIT RATHER ALONG THE LINES OF MY PARA 1 AND THAT THIS SHOULD BE AT S OF S LEVEL. SO AS NOT TO GIVE IT UNDUE PROMINENCE IT COULD BE INCLUDED IN A GENERAL TALK ABOUT HONG KONG AND MENTIONED WITH IMMIGRATION AS AN UNRESOLVED PROBLEM.

6. IN VIEW OF THE IMPORTANCE OF SECRECY I DO SUGGEST THAT APART FROM THE APPROACH SUGGESTED ABOVE, NEITHER IN PEKING NOR IN LONDON SHOULD DISCUSSION OF THIS SUBJECT BE INITIATED WITH THE CHINESE OR ANYONE ELSE. IF THE CHINESE RAISE IT, WE SHOULD REPLY ALONG THE LINES OF MY PARAGRAPH 1.

7. I WOULD PREFER NOT TO ASK THE CHINESE TO MAINTAIN SECRECY (PEKING TELNO 827 PARA 3(D)). IT WOULD LOOK WEAK AND THEY ARE GOOD AT KEEPING SECRETS. ON THE OTHER HAND WE SHOULD TAKE SPECIAL STEPS TO GUARD OUR OWN SECURITY.

MACLEHOSE

Hong Kong

FCS/79/146H. Carrington  
- 29/8SECRETARY OF STATE FOR DEFENCEHong Kong Reinforcements

1. Thank you for your minute MO 5/14 of ~~23~~ August about the phasing-out of the Hong Kong reinforcements. I confirm that I am content for the run-down to proceed on the timetable you propose.
2. I am copying this minute to the recipients of yours.

(CARRINGTON)

Foreign and Commonwealth Office

29 August 1979

RESTRICTED



*Hong Kong* 2

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111

RESTRICTED

MO 5/14

*[Handwritten initials]*

*Prime Minister*

*for information*

*6/21  
23/8*

FOREIGN AND COMMONWEALTH SECRETARY

HONG KONG REINFORCEMENTS

As the flow of illegal immigrants from China into Hong Kong has recently shown a marked reduction, the Commander British Forces Hong Kong has obtained the agreement of the Governor that reinforcements could be phased out and the Garrison returned to its previous force level by early 1980. Specifically they agree that:

- a. Two companies of Gurkhas should return to Brunei in September.
- b. The Infantry battalion reinforcements should end in November.
- c. The fast patrol boat and two hovercraft should remain until January 1980 because the main threat of illegal immigrants now appears to be from the sea. However, the two Sea King helicopters should be able to return in the middle of October.

2. We shall of course continue to watch the situation closely and the timetable could be adjusted if required. We shall need also to ensure that any publicity which may be given to the rundown is carefully handled, particularly in Hong Kong, so as to avoid any impression that we are lowering our guard, and to this end our PR staffs will need to keep in close touch with their counterparts in Hong Kong.

3. These proposals would provide the Services with much needed relief, particularly in respect of Infantry, and, if you agree them, I would propose to implement the timetable outlined above.

4. I am copying this minute to the Prime Minister and our OD colleagues, and to Sir John Hunt.

23rd August 1979

RESTRICTED

Hong Kong



Foreign and Commonwealth Office

London SW1A 2AH

12 July 1979

Dear Roger,

N/S/M  
B/MReinforcement of Hong Kong

13/7

The Foreign and Commonwealth Secretary has seen the Defence Secretary's minute of 6 July to the Prime Minister. He is concerned that while the costs of the UK infantry battalion may fall within the terms of the Defence Costs Agreement, the costs of the rest of the package do not. The costs, including movement costs, of the UK battalion amount to only about half of the revised total of some £25m over 12 months.

It remains Lord Carrington's view that the Hong Kong Government should be asked to contribute their full 75% share of the costs - including pay and allowances - of the reinforcements. In indicating (my letter of 26 June to Bryan Cartledge) that a higher contribution might be appropriate for some individual items, he had in mind the possibility that heavy-lift helicopters might have to be hired commercially. As these helicopters have been omitted from the final package, Lord Carrington sees no reason why the whole of the reinforcements should not be dealt with under the Defence Costs Agreement.

As I mentioned in my letter of 26 June, the influx of Vietnamese refugees has imposed a heavy financial burden on the Hong Kong Government. The identifiable additional costs for the first half of this year were at least £5.8m, and expenditure in the second half of this year is expected to be of the order of £18.3m. In these circumstances, Lord Carrington believes that a dispute about the apportionment of the costs of the reinforcements - which would be bound to become public in Hong Kong - could damage the confidence created in Hong Kong by the rapid arrival of the reinforcements and would inevitably affect official UK/Hong Kong relations.

I am sending copies of this letter to Bryan Cartledge (No 10), John Chilcot (Home Office), Martin Hall (HM Treasury), Joe Pilling (Northern Ireland Office), Alastair Pirie (Chief Secretary's Office) and Martin Vile (Cabinet Office).

Yours ever,  
Stephe

J S Wall  
Private Secretary

Roger Facer Esq  
Private Secretary to the Secretary  
of State for Defence

MOD

13 JUL 1979

12 1 2 3  
4 5 6 7 8 9 10

CONFIDENTIAL

Hong Kong <sup>DSG</sup>



File

10 DOWNING STREET

From the Private Secretary

9 July 1979

REINFORCEMENTS FOR HONG KONG

The Prime Minister has seen the Defence Secretary's minute (MO 5/14) of 6 July about the arrangements for the reinforcing of Hong Kong. The Prime Minister has taken note of the considerations set out in Mr. Pym's minute.

I am sending copies of this letter to John Chilcot (Home Office), Stephen Wall (FCO), Martin Hall (HM Treasury), Joe Pilling (Northern Ireland Office) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

Roger Facer, Esq.,  
Ministry of Defence.

*Allyn*

CONFIDENTIAL



CONFIDENTIAL

2



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

*Prime Minister*  
*Mr. Pym's response*  
*to the points you*  
*raised. GWS*  
*6/7*

CONFIDENTIAL

*ms.*

MO 5/14

PRIME MINISTER

REINFORCEMENTS FOR HONG KONG

I have seen your Private Secretary's letter to the Northern Ireland Secretary's Private Secretary of 25th June, asking for my advice about how the one and a half infantry battalions needed for the reinforcement of Hong Kong are in fact being found; and the letter from the Foreign and Commonwealth Secretary's Private Secretary of 26th June concerning costs.

*[initials]*

2. As I explained in my letter of 25th June, finding the infantry reinforcements to meet this new emergency commitment has entailed a considerable readjustment of Army plans and a significant additional burden on infantry battalions. Nevertheless, our aim has been to reduce the impact on the Army's 'overstretch' to the greatest possible extent and to minimise the repercussions on our NATO Allies. We have, therefore, found the half battalion by taking two companies from the Gurkha battalion in Brunei, under the terms of the Defence Agreement reached with the Sultan of Brunei in 1978, whereby the battalion or elements of it may be withdrawn if it is needed elsewhere in an emergency. The balance of the infantry reinforcement of one battalion is being found on rotation from among infantry battalions and a Royal Marines Commando based in the United Kingdom.

/ 3. ...

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3. The views expressed by the Foreign and Commonwealth Secretary about the reimbursement of costs of the reinforcement package are not unreasonable. I believe that the costs of the UK infantry battalion would probably fall under the terms of the Defence Costs Agreement, but the other special additions do not. As Lord Carrington points out, there are alternative ways of assessing the cost of some elements of the reinforcement package on which a higher contribution than that laid down in the Defence Costs Agreement would be appropriate. These will, of course, be matters for discussion between officials of the Hong Kong Government and ourselves.

4. On the question of personnel costs, raised in your Private Secretary's letter of 3rd July, payment under the Defence Costs Agreement is based on an apportionment between HMG and the Hong Kong Government of the total costs of the Garrison in Hong Kong, including the pay and allowances of all British and Gurkha personnel serving there. If, in the light of our negotiations with the Hong Kong Government over the reimbursement of the reinforcement costs, it is agreed, as seems likely, that certain elements of the package - in particular the UK battalion - will be paid for in the proportions laid down in the Agreement, this would be on no different a basis and the Hong Kong Government will only stand to pay 75% of the costs. It is important to remember that by deploying these extra troops and the other equipment to Hong Kong, we have foregone the use of both elsewhere and it is therefore reasonable that the Hong Kong Government should pay the bulk of the costs involved.

5. I am sending copies of this minute to the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, and the Secretary of State for Northern Ireland; and to Sir John Hunt.

6th July 1979

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Hong Kong



Treasury Chambers, Parliament Street, SW1P 3AG

B J Cartledge Esq  
Private Secretary to the Prime Minister  
No 10 Downing Street  
London SW1

6 July 1979

Alban  
6/7/79

REINFORCEMENT OF HONG KONG

The Chief Secretary has been following the correspondence on this subject resting at present with your letter of 3 July to Roger Facer.

2. He has asked me to point out that under the Defence Agreement the Hong Kong Government are required to pay 75% of the full cost of our forces there. If we were just to charge on the basis of extra costs for these reinforcements he fears that this might prejudice the full cost principle as it applies to the garrison. There is no reason to suppose that the Hong Kong Government cannot afford to pay 75% of full costs.

I am sending copies of this letter to the recipients of the earlier correspondence.

A C PIRIE  
6 July 1979

SECRET

Hong Kong HS  
9



10 DOWNING STREET

*From the Private Secretary*

5 July 1979

Hong Kong: New Territories Leases

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute (PM/79/61) of 2 July about the land leases in the new territories of Hong Kong.

The Prime Minister has taken note of the further action which Lord Carrington proposes to take in this matter.

I am sending copies of this letter to the Private Secretaries to the other members of OD, to Bill Beckett (Law Officers' Department) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

J.S. Wall, Esq.,  
Foreign and Commonwealth Office.

WB

SECRET



cc FCO  
HO  
TSY  
NIO  
Ch. Sec.  
CO

JA

Hong Kong

10 DOWNING STREET

From the Private Secretary

~~B/F 10-7-79~~

3 July, 1979.

Reinforcements for Hong Kong

Thank you for sending, with your letter of 29 June, to Mike Pattison, the detailed breakdown for which the Prime Minister had asked of the cost of reinforcing Hong Kong by 1½ battalions.

The Prime Minister has seen your letter, and has noted that the cost is now estimated at just under £25 million, rather than the £60 million originally envisaged. The Prime Minister has commented that the costing appears to include the pay of the personnel involved: since the troops concerned would presumably have to be paid anyway, the Prime Minister doubts whether this element can legitimately be included in the cost of the actual reinforcements, or whether it would, in any circumstances, be a legitimate charge on the Government of Hong Kong.

I should be grateful for your comments.

I am sending copies of this letter to the recipients of yours.

BGC

R.L.L. Facer, Esq.,  
Ministry of Defence.

CONFIDENTIAL

BB



PRIME MINISTER

PM/79/61

2<sup>8</sup>  
*prime Minister*  
To note.

*24  
3/7*

Hong Kong: New Territories Leases

1. When you saw the Governor of Hong Kong on 15 June, we discussed briefly the question of land leases in the New Territories.
2. Most of the territory of Hong Kong (the new Territories) was leased from China for 99 years under an agreement signed in 1898. The Chinese consider all the treaties concerning Hong Kong, including that one, as "unequal" and do not recognise their validity. However, because of the 1898 Agreement, the many thousand land leases granted by the Crown in the New Territories are all written to end in 1997.
3. The ever shortening period of these leases is beginning to affect investment decisions. Unless something is done within the next few years, investment and confidence will be seriously affected. The problem is not yet acute. Nevertheless now is a particularly good time to tackle it. Our current relations with China are good. Leaders such as Deng have made it clear that they need Hong Kong's contribution to China's modernisation and want to preserve investment confidence. Both the Governor himself and our Ambassador in Peking strongly believe that such a favourable combination of circumstances may not recur.
4. The proposed solution to the land leases problem is that the Hong Kong Government should grant leases without a fixed term and alter existing leases to the same effect. At the same time, any legal obstacle on the British side to the Governor continuing to administer the New Territories after 1997 would be removed by an Order in Council. The Order would not have to be laid before Parliament. These moves would make it possible for British administration to continue beyond 1997 if the Chinese so wish. But they do not contradict the Chinese position on Hong Kong. Nor do they call for any response from the Chinese or any action by them. Nevertheless, we need to know that the Chinese are not going to give a public rebuff before going ahead.



5. With the agreement of the previous Government, the Governor took the first step in telling the Chinese what we were thinking of doing during his visit to Peking in March. He deliberately put the matter in general terms and treated it in a low key. The indications are that the Chinese may not have fully understood what we are intending to do. I have, therefore, agreed that we should follow up the Governor's exploratory move by telling the Chinese in more detail what we propose to do. Clearly we cannot go ahead with the Order in Council unless we are satisfied that the Chinese have understood what we propose to do, have had time to consider it, and to object if they wish. The Ambassador in Peking hopes to take action in the next week. The Chinese reaction to this further approach by the Ambassador should make this clear.

6. If the Chinese do not object to what is proposed, we should make the Order in September so that something can be said about the future of the leases in the Governor's Legislative Council statement in Hong Kong in October. If the Chinese do react unfavourably, our approach will have been made in private and no harm to our relations will have been done.

7. I shall keep you and our colleagues in OD, to whom I am sending copies of this minute, informed. I am also sending a copy to the Attorney-General and to Sir John Hunt.

(CARRINGTON)

Foreign and Commonwealth Office

2 July 1979

2 JUL 1974

123  
456  
789





CONFIDENTIAL

PRIME MINISTER 2.

*You asked for a breakdown of the Defence figure for reinforcement costs*

MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~8307022X~~ 218 2111/3

*NAP  
29/6*

CONFIDENTIAL

*Surely we don't*

MO 5/14

*attempt to charge*

29th June 1979

*Hong Kong for the pay*

*of the extra battalion. We*

*should have to pay them anyway*

*Dear Mike,*

*Assembly  
commentary for  
PM to make  
10/7/79  
etc.*

REINFORCEMENTS FOR HONG KONG

Thank you for your letter of 27th June in which you asked for a detailed breakdown of the costs of reinforcing Hong Kong.

In his letter of 18th June, my Secretary of State said that the costs of the reinforcement could amount to as much as some £60m over 12 months. These costs, however, included a very substantial sum for the use of Wessex helicopters in the transport role. We are unable to provide Wessex helicopters except at the expense of BAOR and we had assumed that commercial arrangements would have to be made; but Commander British Forces Hong Kong has now said that he can manage without them, certainly in the early stages of the reinforcement.

In addition, we have now had the chance of refining the very preliminary costings which had to be produced at the beginning of the exercise and, after further consultation with CBF Hong Kong, it seems likely that the intensity of the operational use of the other helicopters being provided and of the hovercraft will be such as to reduce the previously assessed cost. This revised estimate of costs, which I must emphasise is still subject to adjustment in the light of experience of operating the helicopters and hovercraft, now amounts to some £25m over 12 months. A detailed breakdown of this total is

/ shown ...

Mike Pattison Esq.,  
10 Downing Street

CONFIDENTIAL  
CONFIDENTIAL

CONFIDENTIAL



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/ shown in the attachment to this letter. There may of course be other variations in these figures if, for example, additional support personnel or equipment are needed, or if the assumptions underlying movement costs should change. Finally, I should emphasise that this is the full cost figure and the actual amount to be reimbursed by the Hong Kong Government will be subject to negotiation between officials.

I am sending copies of this letter to those who received yours.

Yours sincerely,  
David Owen

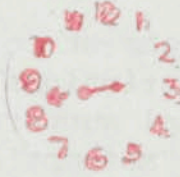
PR  
R L L FAGER)  
(PR 8)

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29 JUN 1954



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CONFIDENTIAL

HONG KONG REINFORCEMENT

ANNEX TO

MO 5/14

DATED: 29th JUNE 1979

BROAD ORDER OF COSTS FOR ONE YEAR

Serial	Item	Cost (£m)
1.	<u>One UK Infantry Battalion</u>	
	a. Personnel	6.800
	b. Equipment	0.500
	c. Accommodation	0.100
2.	<u>Two Gurkha Companies</u>	
	a. Personnel	0.960
	b. Equipment	0.100
	c. Accommodation	0.050
3.	<u>Extra HQ and Administrative Staff</u> [including locally engaged civilians]	0.795
4.	<u>Helicopters (Note 1)</u>	
	a. Three SCOUTs	1.175
	b. Two SEA KINGS	2.587
5.	<u>Two SRN6 Hovercraft (Note 1)</u>	0.785
6.	<u>One Fast Target Boat</u>	0.510
7.	<u>Miscellaneous Equipment</u>	0.210
8.	<u>Movement Costs</u>	
	a. UK Battalion, Gurkha Companies and SCOUTs	7.419
	b. Hovercraft and SEA KINGS	2.670
	c. Fast Target Boat	0.120
	<u>Note 1</u> : The costs are based on an assumed intensity of use as advised by CEF Hong Kong. The figures would be subject to variation if actual usage is different.	
	TOTAL	24.781

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10 DOWNING STREET

From the Private Secretary

*B/F 6.7.79*

28 June 1979

*Dear Roger,*

Reinforcement of Hong Kong

The Prime Minister has seen the Defence Secretary's minute (MO 5/14) about the arrangements and financial aspects of the reinforcement of the Hong Kong garrison by 1½ battalions.

The Prime Minister has taken note of the considerations set out in Mr. Pym's minute. The Prime Minister would like to know precisely how the total cost of the reinforcement, which Mr. Pym suggested in an earlier minute should be borne by the Hong Kong Government, is in fact made up. I should be grateful for advice.

I am sending copies of this letter to John Chilcot (Home Office), George Walden (Foreign and Commonwealth Office), Martin Hall (HM Treasury), Joe Pilling (Northern Ireland Office), Alistair Pirie (Chief Secretary's Office) and Martin Vile (Cabinet Office).

*Yours sincerely,  
Bryan Cartledge.*

Roger Facer, Esq.,  
Ministry of Defence.

SECRET

Hong Kong 7/18



BF 29/6/79

10 DOWNING STREET

From the Private Secretary

27 June 1979

The Prime Minister has seen (in Tokyo) the Secretary of State for Defence's minute No. 5/14 of 25 June about the reinforcement of Hong Kong.

She would like to see in detail how the costs in the Secretary of State's previous letter are made up. Could you please let me have this information by Friday 29 June.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), John Chilcot (Home Office), Martin Hall (H.M. Treasury), Joe Pilling (Northern Ireland Office), Alistair Pirie (Chief Secretary's Office), and Martin Vile (Cabinet Office).

M. A. PATTISON

ORB

Roger Facer, Esq.,  
Ministry of Defence.

SECRET

21



Foreign and Commonwealth Office

London SW1A 2AH

26 June 1979

*Dear Bryan,*Reinforcement of Hong Kong

The Foreign and Commonwealth Secretary has seen the Defence Secretary's minute MO 5/14 of 18 June to the Prime Minister, and your letter of 20 June to Roger Facer.

The Prime Minister asked for Lord Carrington's views on Mr Pym's proposal that the Hong Kong Government should be asked to bear the whole cost of the reinforcements now being sent to Hong Kong. The 1975 Defence Costs Agreement provided for the reinforcement of the garrison "should circumstances so require". It is therefore reasonable that the Hong Kong Government should be asked to pay their full 75% share of the costs of the reinforcements under the terms of that Agreement. A higher contribution may be appropriate for some individual items, but Lord Carrington would be reluctant to press the Hong Kong Government to pay the full cost of the reinforcements. The 1975 Agreement is clear; the Hong Kong Financial Secretary has had to impose a strict cash limits regime as a result of the overheating of the economy; and the care of 57,000 Vietnamese refugees involves a considerable financial burden (the UN High Commissioner for Refugees has so far accepted financial responsibility for only a quarter of them). Lord Carrington has also noted the Chancellor's view in his letter to the Defence Secretary of 15 June, that there should be some savings in the defence budget if the Hong Kong Government meet 75% of the costs of the reinforcements.

I am sending copies of this letter to Roger Facer (MOD), John Chilcot (Home Office), Martin Hall (HM Treasury), Joe Pilling (Northern Ireland Office), Alastair Pirie (Chief Secretary's Office) and Martin Vile (Cabinet Office).

*Yours ever,*  
*Stephen*  
(J S Wall)

B G Cartledge Esq  
10 Downing Street

26 JUN 1979







MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

*Prime Minister*

CONFIDENTIAL

MO 5/14

*The please detail how costs in person with are made up*

PRIME MINISTER

REINFORCEMENT OF HONG KONG

*no. 10 informed. p-a. 27/6*

Your Private Secretary's letter of 20th June asked my advice on a number of points relating to the reinforcing of the Hong Kong garrison.

2. There are several reasons why it makes sense to 'rotate' the battalion deployed from the United Kingdom every two months. We did in fact look very carefully at longer intervals, including six months and four months. The main reason for choosing two months is that the battalions on which we have to draw to meet this new commitment are earmarked to go to Northern Ireland and units must have time for specialist training for this task before they go. A two-month tour in Hong Kong, apart from involving less family separation, has the operational advantage that the men can be deployed continuously on the border: the Commander British Forces Hong Kong supports our plan on these grounds. A posting to Hong Kong for a normal accompanied tour is indeed popular with the troops; but the disruption involved in frequent unaccompanied tours is certainly not, especially among the older and more experienced men of whom we are particularly short at present. The present level of family separation is the biggest single cause of these people leaving the Army prematurely. While a spell away in Hong Kong might not itself add to the numbers resigning, if it comes on top of a series of unaccompanied tours in Northern Ireland it probably will.

3. You also asked what the financial saving would be if the Northern Ireland garrison were reduced by one battalion; and if one company in four in BAOR battalions were reduced to cadre form. Neither produces any saving; both measures are

/made ...

CONFIDENTIAL



made necessary by the manpower shortage we inherited, which I am seeking to put right as soon as I can, in line with our policy to build up the Forces to enable them to meet their commitments.

4. I am copying this minute to the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Northern Ireland Secretary, and the Chief Secretary; and to Sir John Hunt.

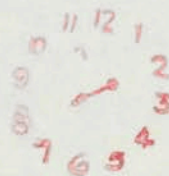
A handwritten signature in dark ink, appearing to be "M. J. G.", with a horizontal line underneath.

25th June 1979

CONQUEROR

# CONFIDENTIAL

25 JUN 1979



SECRET



10 DOWNING STREET

From the Private Secretary

25 June 1979

*B/F 4.7.79.  
for MOD advice*

*ce to  
fuo  
HM  
MOD  
CO  
Hong Kong*

Reinforcement of Hong Kong

The Prime Minister has seen your Secretary of State's minute of 22 June about the reinforcement of Hong Kong, recording his inability to accept the Defence Secretary's suggestion that there should be a reduction of one battalion in Northern Ireland from September of this year.

The Prime Minister has taken note of the background to Mr. Atkins' decision. She would like to know precisely how the one and a half battalions needed for the reinforcement of Hong Kong are in fact being found. I should be grateful for advice from the Ministry of Defence.

I am sending copies of this letter to John Chilcot (Home Office), Stephen Wall (Foreign and Commonwealth Office), Martin Hall (HM Treasury), Roger Facer (Ministry of Defence) and Martin Vile (Cabinet Office).

E. G. CARTLEDGE

J.G. Pilling, Esq.,  
Northern Ireland Office.

SECRET

*MB*

SECRET



copy no 1 of 20 **2**

**4**  
Prime Minister

PRIME MINISTER

GM  
22/6

REINFORCEMENT OF HONG KONG

Francis Pym minuted you on 18 June about the additional 1½ battalions needed for Hong Kong. In the course of his minute he referred to his proposals for the reduction of 1 battalion in Northern Ireland, and indicated that, while I am opposed to this suggestion, I have agreed that the problem should be studied.

I have seen your Private Secretary's letter of 20 June (which asks about the financial savings which would follow this reduction) and I should just like to make it clear that, while I appreciate the considerable difficulties which British forces face world-wide, and realize that the reduction of 1 battalion in Northern Ireland would offer significant relief, I have not found myself able to agree to Francis Pym's specific proposal, which was that there should be a reduction of 1 battalion in Northern Ireland from September of this year. In reaching a judgment on this, I am bound to take serious account of the views of both the Chief Constable and the GOC Northern Ireland, both of whom would be opposed to the proposition on operational grounds.

This does not mean that I have set my face against any reductions in force levels at any time. Obviously, the army presence in Northern Ireland must be related to our assessment of the threat from the terrorists. I have therefore suggested to Francis Pym that the possibilities of troop reductions should continue to be reviewed in Belfast, with the police and the Army, and that he and I should receive quickly from officials a clear picture of the dates at which we need to take a decision to withdraw a battalion on dates at the end of this year and at the beginning of next year.

I am sending copies of this minute to the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence and the Chief Secretary to the Treasury; and to Sir John Hunt.

*Troop numbers  
new to West Coast.  
Can they go for  
1980? not*

*Joseph's*

PP H A  
(Signed on behalf of the  
Secretary of State in his absence)

22 June 1979

SECRET

RE

22 JUN 1979



SECRET



BF 4/7/79 3 VLR  
for Ho? e MOD Jadhav ✓ cc HO FCO HMT NIO CST CO  
Hong Kong

10 DOWNING STREET

From the Private Secretary

20 June 1979

Reinforcement of Hong Kong

The Prime Minister has seen the Defence Secretary's minute (MO 5/14) of 18 June, recording his agreement to the reinforcement of the Hong Kong garrison to the extent of 1½ battalions and summarising the implications of this move for our defence programme as a whole.

The Prime Minister has asked why the battalion which is to go to Hong Kong from the U.K. needs to "rotate" every two months: the Prime Minister considers that this battalion could surely stay in Hong Kong for four months at a time.

The Prime Minister has also commented, on paragraph 5 of Mr. Pym's minute, that she would have expected a temporary posting to Hong Kong to be popular with the troops, rather than the reverse. The Prime Minister would like to have the views of the Foreign and Commonwealth Secretary on the proposal that the Hong Kong Government should be asked to bear the whole cost of the reinforcement before any final decision is taken on this. The Prime Minister would also like to know the extent of the financial saving if the Northern Ireland garrison were to be reduced by one battalion and if, as Mr. Pym envisages, one company in four in our B.A.O.R. battalions is reduced to skeleton form. I should be grateful for advice.

I am sending copies of this letter to John Chilcot (Home Office), George Walden (F.C.O.), Martin Hall (H.M. Treasury), Joe Pilling (Northern Ireland Office), Alastair Pirie (Chief Secretary's Office) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

Roger Facer, Esq.,  
Ministry of Defence.

SECRET



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~9307622~~ 218 2111/3

MO 5/14

20th June 1979

*P.A. [unclear]  
29/6*

*Dear Bryan,*

REINFORCEMENT OF HONG KONG

/ Further to our telephone conversation last night about the action being taken to send reinforcements to Hong Kong, I attach for your information a copy of the Written Answer being given this afternoon by the Defence Secretary.

A Press announcement in the same terms is being made this afternoon, and defensive Press material has also been prepared in consultation with the Foreign and Commonwealth Office.

A copy of this letter goes to Paul Lever (Foreign and Commonwealth Office).

*Yours sincerely,  
David*

(D B OMAND)

B G Cartledge Esq.,  
10 Downing Street





WEDNESDAY 20TH JUNE 1979

SIR PAUL BRYAN (CONSERVATIVE)(HOWDEN)

Sir Paul Bryan - To ask the Secretary of State for Defence, if he has received any request to reinforce the Hong Kong garrison; and if he will make a statement.

A N S W E R

(Mr Francis Pym)

Yes. This was discussed during the Governor's recent talks in London. The Government has agreed to a request for additional forces to assist the Hong Kong Government more effectively to control illegal immigration from China. Reinforcements, consisting of an infantry battalion from the United Kingdom and two companies from the Gurkha battalion in Brunei, together with helicopters, hovercraft, a fast patrol boat and supporting personnel will start to move to Hong Kong in the next few days.

Ministry of Defence

20th June 1979

20 JUN 1978

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① Why do they need to rotate every 2 months. Surely they can stay here 4 months.



Prime Minister

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

② I should have thought we'd be different location would be popular with the troops -

SECRET

MO 5/14

PRIME MINISTER

③ Please ask Peter Canavan - just from letter news to make a note was sent

REINFORCEMENT OF HONG KONG

These problems are clearly real and disturbing.

Would you like to endorse Mr. Pym's view that Hong Kong should need the full lot of reinforcement?

④ How much does <sup>19/6</sup> ~~it~~ <sup>not</sup> ~~cost~~ <sup>cost</sup> ~~by~~ <sup>by</sup> ~~the~~ <sup>the</sup> ~~Government~~ <sup>Government</sup> ~~to~~ <sup>to</sup> ~~reinforce~~ <sup>reinforce</sup> ~~Hong~~ <sup>Hong</sup> ~~Kong~~ <sup>Kong</sup> ~~with~~ <sup>with</sup> ~~1 1/2~~ <sup>1 1/2</sup> ~~battalions~~ <sup>battalions</sup> ~~more~~ <sup>more</sup> ~~than~~ <sup>than</sup> ~~the~~ <sup>the</sup> ~~present~~ <sup>present</sup> ~~force~~ <sup>force</sup> ~~of~~ <sup>of</sup> ~~100~~ <sup>100</sup> ~~troops~~ <sup>troops</sup> ~~is~~ <sup>is</sup> ~~it~~ <sup>it</sup> ~~not~~ <sup>not</sup> ~~worth~~ <sup>worth</sup> ~~the~~ <sup>the</sup> ~~cost~~ <sup>cost</sup> ~~of~~ <sup>of</sup> ~~reinforcement~~ <sup>reinforcement</sup> ~~at~~ <sup>at</sup> ~~all~~ <sup>all</sup> ~~?~~ <sup>?</sup>

1. Your Private Secretary's letter of 15th June reported your discussions with the Governor of Hong Kong. I accept that Hong Kong should be reinforced by the 1½ battalions for which the Governor has asked but I think it would be helpful if I explained to you the reservations which I expressed to Sir Murray MacLehose when I saw him earlier on 14th June. I assured him however that in principle I wished to be as helpful as possible since I appreciated the real difficulties facing Hong Kong.

2. My reservations were based on my discovery that the situation we have inherited is, in fact, more serious than we had suspected. Our predecessors had based the reductions in the Services on a defence review which assumed that a number of commitments would be reduced. This assumption proved false. We have had to maintain a large increased garrison in Belize; MBFR has made no progress; there is still little prospect of a Cyprus settlement; and we still have a large Northern Ireland commitment. In addition, our predecessors' pay policy led to a progressive worsening of the manpower situation in all three Services.

3. I have put proposals to the Secretary of State for Northern Ireland for the reduction of one battalion in the Northern Ireland garrison. He is opposed to a reduction at present, but has agreed that the problem should be studied.

4. I shall shortly be faced with the need to announce that ships of the Royal Navy, including the cruiser BLAKE, will have to be withdrawn from operational service later this year, and that, in the British Army on the Rhine, not only are 10% of our tanks in mothballs because of manpower shortages but also in many of the infantry battalions one company out of four will have to be reduced to skeleton form. The pilot shortage in the Royal Air Force is already public knowledge, but we shall shortly be faced with having to tell NATO of the operational consequences.

/5. ...

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11  
They are in the Army.  
There are units in H.K.

5. The greater the extent to which we require the forces to undertake commitments beyond their means, the less will be our chances to restoring the manning situation. We cannot expect to recruit, and more particularly to retain, the men and women we need if they are constantly subjected to emergency moves and long periods separated from their families. Already most of our helicopter pilots and crews spend six months in every year away from their families, largely because of the commitments in Northern Ireland and Belize. My aim is to increase the intervals between unaccompanied tours in the Army from the present 13 months to 24 months; reinforcing the garrison of Hong Kong will mean reducing the interval to about nine months with consequences that may prove most unhelpful from our manpower point of view.

1

6. The Hong Kong garrison has never been large enough to prevent illegal immigration altogether, and a solution to the problem will clearly stem only from action by the Chinese Government. It is encouraging to see that Chinese action has already led to a reduction in the flow over the last few days. I accept, however, that the political requirement to take steps to alleviate Hong Kong's present plight is strong. If I am to carry out the commitment on the basis now proposed, one battalion from UK, which would "rotate" every two months, and two Gurkha companies from Brunei would provide the least disruptive solution to the Army and to our NATO commitments in providing the one and a half battalions. I understand the Foreign and Commonwealth Secretary has agreed to the use of troops from Brunei. I have set in hand an urgent examination of whether extra transport helicopters could be provided by commercial means; if this proves a feasible proposition, it would remove one of the major NATO penalties arising from the request for reinforcements.

11

7. There is no provision in the Defence Estimates this year for the cost of reinforcing the garrison, which could amount to some £60M over 12 months. The extra £100M which Cabinet agreed will be wholly taken up in keeping the equipment programme going. The defence budget has also been hard hit by the Budget increase in Value Added Tax and petrol duty; I am taking up this matter urgently with the Chief Secretary. I would expect, therefore, the Hong Kong Government to bear the whole cost of the reinforcement; but since the 1975 Defence Costs Agreement provides for costs to be shared, with 25% of the cost of the garrison falling on the British taxpayer, they will resist this. Hong Kong undoubtedly did well out of the 1975 agreement and their current booming economy could well afford to meet the full cost of the reinforcements. Subject to the Foreign and Commonwealth Secretary's views I intend to press the Governor very strongly on this point.

/8. ...

**SECRET**  
SECRET



8. I am sending copies of this minute to the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Northern Ireland and the Chief Secretary; and to Sir John Hunt.

*J.P.*

18th June 1979

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SECRET

**SECRET**



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19 JUN 1971



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cc: Master Set of Records

Hong Kong

10 DOWNING STREET

From the Private Secretary

15 June 1979

BF 19.6.79

Dear Roger,

Reinforcement of Hong Kong

The Governor of Hong Kong, Sir Murray MacLehose, called on the Prime Minister at her room in the House of Commons on 14 June at 1800. The Foreign and Commonwealth Secretary was present.

Sir Murray MacLehose told the Prime Minister that Hong Kong's greatest problem was the continuing influx of Chinese from mainland China. The Hong Kong garrison were patrolling the border day and night and one battalion had picked up 7,000 illegal immigrants in a month. Sir Murray said that he thought that this phenomenon had been caused by the temporary breakdown of internal authority in the People's Republic of China, as a result of too rapid measures of liberalisation. The mobs which had drifted into the major towns and cities were refusing to return to their farms and communes. Moreover, the Chinese army which had been stationed near the border with Hong Kong had been moved to the Vietnamese border at the time of the hostilities there and this had increased the local loss of control. This army was returning to its original station but was in poor shape and would not be fully effective until the end of the year. In the meantime, the Hong Kong garrison had to stem the flood and every available soldier was now deployed on this task.

Sir Murray told the Prime Minister that he thought that the Chinese leadership was sensitive to the efflux of the population and that, unless the Hong Kong authorities adopted an obviously relaxed attitude towards it, they would seek to reimpose control as soon as possible. But by September, the Hong Kong garrison would be exhausted and replacements would be essential. On the other hand, if the garrison could be reinforced immediately by one battalion and a half, this would enable the enlarged garrison to maintain maximum effort for 12 months. At the end of that time, the situation should be under control. Sir Murray said that his request to the British Government, therefore, was for the despatch of a battalion and a half of troops to Hong Kong to stay there for one year. Lord Carrington told the Prime Minister that he was very conscious of the difficulties which this request posed for the Secretary of State for Defence. He nevertheless considered it imperative on political grounds that Hong Kong should be given the reinforcement for which the Governor had asked.

/The Prime Minister

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The Prime Minister had seen, before her meeting with Sir Murray MacLehose, a copy of the Defence Secretary's minute (MO 5/14) of 12 June to the Foreign and Commonwealth Secretary about the difficulties and implications of reinforcement. She had also been informed by your office of Mr. Pym's conversation with Sir Murray MacLehose earlier in the afternoon. In the light of her own discussion with the Governor, however, the Prime Minister has asked me to say (as I told John Gutteridge on the telephone last night) that she and Lord Carrington are confident that, after further consideration, Mr. Pym will conclude that the Governor of Hong Kong must have the additional battalion and a half for which the Governor had asked, for a 12 month period. I should be grateful if you would let me know as soon as possible whether, and if so how, the Defence Secretary will be able to meet the Governor's request.

I am sending copies of this letter to Stephen Wall (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office) *and M. Hall (HMT)*

Yours sincerely,  
*Roger Facer*

Roger Facer, Esq.,  
Ministry of Defence.

CONFIDENTIAL





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MBF 23679  
File

10 DOWNING STREET

From the Private Secretary

Top Copy on: Vietnam, R2, 15 June 1979  
Refugees.

Dear Sir,

Vietnamese Refugees

When the Governor of Hong Kong, Sir Murray MacLehose, called on the Prime Minister on 14 June at 1800 in the House of Commons, there was some discussion of the problem of Vietnamese refugees. The Foreign and Commonwealth Secretary was present. I have recorded separately the discussion of the need for reinforcement of the Hong Kong garrison.

The Prime Minister asked Sir Murray MacLehose how the Hong Kong Government could deal with the Chinese and Vietnamese refugees who reached the colony by water. Sir Murray said that it was impossible to send them back. Refugees who were put to sea from Thailand could hope to end up eventually on the virtually unadministered islands of the Indonesian archipelago; but from Hong Kong there was no destination which they could hope to reach. Hong Kong could only do its best to accommodate refugees and hope for some form of international solution to the problem. The Prime Minister asked whether she should not send a further message to the UN Secretary General and Lord Carrington mentioned Mr. Blaker's forthcoming meeting with the UN High Commissioner for Refugees, Mr. Hartling. Sir Murray MacLehose said that he would be asking the Americans to increase their settlement quota for refugees from Hong Kong. It was also essential that the office of the UNHCR in Hong Kong should be enlarged; but the UNHCR was desperately short of funds.

In further discussion, it was agreed that something should be done to make world opinion more aware of the scale of the problem. The Prime Minister suggested that some of the large press corps who would be in Tokyo to cover the Economic Summit should be persuaded to accompany Lord Carrington on his visit to Hong Kong after the Summit meeting. Lord Carrington and Sir Murray MacLehose agreed that this would be valuable, particularly if French and non-aligned journalists could be included in the party. I should be grateful if you would arrange for this possibility to be pursued and for a report in due course on the action taken, for the Prime Minister's information.

/Turning to the

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gm

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- 2 -

Turning to the possibility of an international conference on refugees, Sir Murray MacLehose said that its object might be to secure bids from other countries, perhaps spread over a period, on the number of refugees which they would be willing to accept. He hoped that the UK would feel able to make a bid of her own. The Prime Minister explained the difficulties created for the British Government by the pressure of 2 million immigrants on our large cities and by the negative attitude of public opinion. Lord Carrington made the point that if the UK could not offer to take more people, the British Government would at least have to offer to give more money. Any UK offer, either to accept more refugees or to provide more financial help, could of course be made conditional on other countries doing the same. The Prime Minister expressed serious doubt as to whether the UK could offer to take any more refugees; she asked whether ships registered in other countries than the UK picked up large numbers of refugees in the South Pacific. Sir Murray said that they did but that, since it was the policy of the countries concerned to take in refugees so rescued as a matter of policy, less publicity surrounded incidents involving non-UK ships. Lord Carrington commented that a number of UK ships were now changing their usual routes in order to avoid encountering Vietnamese refugees.

Lord Carrington and Sir Murray MacLehose both stressed the difficulties which might arise if the UK, having pressed for an international conference, found herself unable to make a positive contribution to it.

As you know, I have already asked for advice (in my letter to you yesterday) on the position which the Government should adopt towards the next batch of refugees picked up by UK ships (probably those on the Norse Viking) and on whether further action should be taken with the United Nations. <sup>(P)</sup>

I am sending copies of this letter to Tony Butler (Home Office), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

*Yours etc,  
Gordon Campbell*

J.S. Wall, Esq,  
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

15 June 1979

Dear Francis

pa  
Jm  
40

REINFORCEMENT OF HONG KONG

I have seen your minute of 12th June to the Foreign and Commonwealth Secretary. The question of the relative priority of our Hong Kong and NATO commitments is not one for me, though I have considerable sympathy for your views.

I see no objection on financial grounds to your meeting the Governor's request, provided it is understood that the Hong Kong Government will make a financial contribution at least equal to their contribution (75 per cent of full costs) in respect of the normal garrison under the 1975 Agreement. The financial savings which you would achieve by making the units available in Hong Kong on such terms, rather than keeping them in Germany or this country, might go some way to offset the military disadvantages to which you have drawn attention.

I am sending copies of this minute to the Prime Minister, the Home Secretary, the Foreign and Commonwealth Secretary, and to Sir John Hunt.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line above and below the signature.

(GEOFFREY HOWE)

The Rt. Hon. Francis Pym, MC., MP.

CONFIDENTIAL

15 JUN 1979

11 12 1 2 3 4  
5 6 7 8 9 10  
11 12 1 2 3 4  
5 6 7 8 9 10

PRIME MINISTER

Mr. Pym's office have told us that the Governor of Hong Kong had an hour with Mr. Pym this afternoon. Much of the conversation concentrated on the re-inforcement issue. Mr. Pym made the difficulty of finding any extra forces very clear, and gave no undertaking about whether re-inforcement would be provided.

He told the Governor that the decision would need to be a collective one, so that he would need to consult his colleagues. He said that he hoped it would be possible to treat the matter expeditiously.

Mr. Pym also told the Governor that this Government had been elected on the basis that our forces were very weak. In practice we have found the situation was even worse than we had feared. The manning situation in particular was very badly stretched. It was not a question of our willingness to help Hong Kong but our ability.

In particular, diverting our helicopters would affect our NATO commitment at once just when we had made a good impression with NATO.

One last possibility that was raised - and is now being discussed between MOD and FCO - was using our Battalion in Brunei.

MS

14 June 1979



WITH  
THE COMPLIMENTS OF THE  
PRIVATE SECRETARY

MINISTRY OF DEFENCE, WHITEHALL

Telephone: 01-218 9000  
01 218

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MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~508 2022~~ 218 2111/3

CONFIDENTIAL

MO 25/8

RECORD OF A DISCUSSION BETWEEN THE  
SECRETARY OF STATE FOR DEFENCE AND  
AND THE GOVERNOR OF HONG KONG IN  
THE MINISTRY OF DEFENCE ON 14th JUNE 1979  
AT 4 pm

*P.O. M  
18/6*

Present:

The Rt Hon Francis Pym MC MP  
Secretary of State for Defence

Sir Murray Maclehorse  
Governor of Hong Kong

Mr M E Quinlan  
DUS(P)

Dr David Wilson  
Political Adviser

Mr R L L Facer  
PS/Secretary of State

1. Sir Murray Maclehorse said that the Hong Kong Garrison was now at full stretch. In the view of his military advisers, which was supported during a recent visit by Director of Military Operations, General Farndale, the reinforcements requested were the minimum necessary. To restrict illegal immigration it was necessary to guard the whole perimeter of the Colony. In the view of Commander British Forces the present level of activity could not be kept up beyond September without reinforcement. If reinforcements were not sent now, reinforcements on an altogether larger scale would be required in September.

2. The Secretary of State asked whether the problem was made worse by the influx of Vietnam refugees: did they create a climate which encouraged illegal immigration from China? Sir Murray Maclehorse said that the two problems were separate. The cause of the high level of illegal immigration was the uncertain situation in China. The last big wave of immigration had occurred in 1962 after the Great Leap Forward. When the party line changed, Chinese officials were not anxious to take firm decisions and the people were uncertain about the future course of Government actions. In any case increased restrictions /were ...

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were out of line with the new policy of liberalisation. A similar influx from the countryside was happening in Peking and Shanghai. Representations had been made at various levels to the Chinese, who had said that it would take time to correct the situation. A further cause was the departure of the Chinese 42nd Army from Kwangtung Province to the Vietnam border: there seemed little prospect of this formation returning for some time. The peak of illegal immigration occurred in the summer when travel was easier, but he hoped that in the autumn the Chinese would begin to re-establish control, especially if they saw that the Hong Kong Government were taking vigorous steps to deal with it. It was therefore important to intercept as many immigrants as possible. This deterred people from trying. He hoped that the situation could be stabilised during the winter.

3. The Secretary of State did not doubt the seriousness of the problem in Hong Kong but the Government had inherited a situation in which the Forces were seriously undermanned. They intended to put it right, but time was needed. In recent years they had been increasingly concerned at the weakening of the will of NATO and the massive build-up in the Warsaw Pact. The new Government in Britain had taken a totally different view of this problem to that of the previous Government, and its actions and words had already had an effect on NATO. Therefore, he had to weigh most carefully the consequences of any assistance to Hong Kong on NATO. The overstretch in the British Forces arose from their commitments being greater than their resources; for example, the situation in Northern Ireland was in some respects worse than it had been in 1973/4. We were particularly short of helicopters and crews, and there was no way in which we could plug the gap in the short term. Our problems in NATO would be even more serious if it turned out that the Hong Kong problem was not a temporary one. He wondered, therefore, whether a more limited scale of reinforcement might be adequate. He accepted that it was not possible to continue to deploy all four Battalions of the Garrison unless reinforcements were provided: either reinforcements should be provided or the scale of deployment reduced. A possible source of reinforcement was the Gurkha Battalion in Brunei on a temporary basis. Then in six or nine months time it would be possible to add to the number of Gurkhas in Hong Kong by recruiting more, eventually leading to the formation of an additional Battalion.

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/4. ...





4. Sir Murray Maclehorse said that it was necessary to cover all routes by which illegal immigrants entered: if gaps were left, the work of the Garrison would be wasted. He understood that extra helicopters were necessary in order to reduce the numbers of men required. The Secretary of State asked whether Hong Kong could find extra helicopters from commercial sources. We were also in difficulties about finding additional Naval craft, because we were desperately short of sailors.

5. Sir Murray Maclehorse said that the Defence Costs Agreement of 1975 would not have been signed unless it had contained provision for reinforcements. Mr Rodgers and General Bramall had agreed that the reduced size of the Garrison was not militarily sound unless there was provision for reinforcements, and an essential element was the availability at short notice of the Battalion from Brunei. DUS(P) said that it had been understood that the Brunei Battalion could be used if there was a major internal security problem in Hong Kong. Sir Murray Maclehorse asked whether the Sultan had been approached. The Battalion in Brunei would be ideal reinforcement, since it knew the country in Hong Kong and was stronger in numbers than a British Battalion. On the question of an additional Gurkha Battalion, he thought it would be wasteful to increase the permanent Garrison to five major units. The size of the Garrison agreed in the Defence Costs Agreement was right; there had only been two occasions in the past when reinforcements had been necessary, in 1962 and 1967. Hong Kong might not need the additional Battalion when it had been raised in the spring of 1980. He stressed that if we did not give reinforcements to Hong Kong now, greater reinforcements would be needed later.

6. DUS(P) asked whether a smaller deployment of the Garrison would produce a dramatic drop in the rate of arrest. Sir Murray Maclehorse said that the present rate of capture was about one in two, or slightly better. A reduced deployment would result in a dramatic drop in the rate of arrest. He wished to stress also the effect it would have on Chinese action: this was why he had mobilised the Hong Kong Volunteer Battalion. Any reinforcement would help. He was confident of success; it would  
/not ...

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not be until June 1980 that he would know for certain, though it was possible that intelligence might show before then that the rate had dropped. He would be available on the afternoon of 25th June and the morning of 26th June for further discussions if required.

7. The Secretary of State said that he would consider how to help Hong Kong without affecting our NATO objectives. There would be a serious problem if the flood of immigrants did not abate next year and we had not made long-term arrangements to enable the Garrison to deal with it. He would pursue with the Foreign and Commonwealth Secretary the possibility of drawing on the Brunei Battalion.

Secretary of State's Office

15th June 1979

DISTRIBUTION:

B G Cartledge Esq ✓  
PS/Prime Minister

J S Wall Esq  
APS/Foreign & Commonwealth  
Secretary

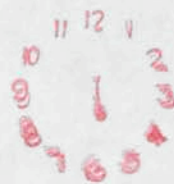
M J Vile Esq  
PS/Secretary to the Cabinet

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CONFIDENTIAL

18 JUN 1979





HOME OFFICE  
QUEEN ANNE'S GATE LONDON SW1H 9AT

13 June 1979

*Prime Minister*

*BM  
13/6*

*Dear Bryan*

11.6.79  
Stephen Wall wrote to you yesterday enclosing briefing for the Prime Minister's meeting with the Governor of Hong Kong tomorrow evening. So far as briefing on the Vietnamese refugees is concerned, we have little to add to what is said in the Foreign Office briefing and the material we provided for the Prime Minister's Questions yesterday. There are, however, two important points of which the Prime Minister will wish to be aware.

- (a) Quite apart from general immigration considerations, this country's capacity to accept more refugees from South East Asia is limited not only by difficulties of finding suitable short-term reception accommodation (difficulties which are capable of solution but only at the price of increased Government involvement) but also by the longer term problems of finding housing and employment for a group of people who have no large established communities with which they can forge links in this country and little or no knowledge of the English language. These difficulties lend further emphasis to the Government's view that long-term solutions need to be sought by international action, particularly in the context of the South East Asia region.
- (b) The Government of Hong Kong expressed concern yesterday to the Foreign Office - and this might be raised with the Prime Minister - that the reception of the Sibonga and Roach Bank refugees would delay the movement of Hong Kong's share (1,000) of the quota of 1,500 which this country has said it will accept. (The commitment itself was dealt with by the Home Secretary in the House on Monday). The arrival of the Sibonga and Roach Bank refugees should not delay the movement of the 400-500 refugees from the Hong Kong share of the quota who have already been selected for settlement. The team of two who made this selection are due to return to Hong Kong in the summer and there is no reason why this arrangement should be delayed. (Any Sibonga refugees left in Hong Kong could be selected within the 1500 quota). I am sending copies of this letter to Stephen Wall (FCO), Roger Facer (MOD) and Martin Vile (Cabinet Office).

*Yours sincerely*

*Tony Butler.*

A. J. BUTLER

Bryan Cartledge, Esq.

13 JUN 1979



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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALING 01-218 2111/3

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MO 5/14

FOREIGN AND COMMONWEALTH SECRETARY

REINFORCEMENT OF HONG KONG

The Governor of Hong Kong is coming to London for discussions this week, and is seeing you, the Prime Minister and the Home Secretary as well as myself. I think it is important that you should be aware of my views beforehand on the requests for reinforcement which have been made. (These are set out at Annex.)

2. The Governor's problems arise from the present juxtaposition of the rapid increase in the flow of illegal immigrants into Hong Kong from China and the arrival of large numbers of Vietnamese refugees. Under these twin pressures, the Governor, recognising the effects on morale in the Colony, clearly wishes to be seen to be taking positive steps and one way of achieving this is the early introduction of more troops. In considering this liability, there is a distinction to be drawn between illegal immigrants and refugees. The latter are a recent phenomenon whereas there have always been large numbers of illegal immigrants. The recent substantial increase in their numbers has probably occurred partly because of a more liberal Chinese regime and partly because of the absence from the border of Chinese regular forces deployed to the China-Vietnam war. The Governor's aim is to reduce the influx of illegal immigrants by deploying an increased level of military presence, although in practice it is doubtful if the flow of immigrants across the border can be effectively stemmed except by action on the part of the Chinese Government. Thus only diplomatic action can attack the kernel of the problem. Military reinforcement will help to reduce the number getting through, though the extent to which this will be achieved is difficult to quantify. What is clear, however, is that reinforcements will, in the Governor's view, have a significant political impact locally.

/3. ...

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3. The cost in military terms is, however, very high, even for a period of 6 months. If, as seems likely, that period were to be extended, the impact would be progressively more severe. The penalties involve a diminution of troops and helicopters committed to NATO, where we are already under strength, and the disruption of national and NATO exercises planned to take place in UK and overseas. In particular, BAOR will have to find up to 3 battalions for SPEARHEAD duties, with consequences for organisation, equipment and training. There will be a reduction of no less than a quarter in WESSEX support for BAOR, where deployment plans and training will be adversely affected; furthermore, the preparatory training in Germany for Northern Ireland will be curtailed. The impact on movement resources would be particularly severe, and this in turn could restrict the opportunities for overseas training very considerably. The general effect will be to increase overstretch, and exacerbate the factors which have had such a damaging effect on retention in the Services. In addition, NATO allies would have to be informed of the reductions in our NATO capability. This is particularly unfortunate since because of the manning situation in all three Services which we have inherited it seems inevitable that I shall shortly have to expose some depressing news to our Allies on this score.

4. Nevertheless, if Commander British Forces Hong Kong is to meet the tasks which the Governor has laid upon him, in the view of the Chiefs of Staff the reinforcements would be necessary. The penalties are, however, so serious that I would be very reluctant indeed to accept them unless the Hong Kong commitment is to be regarded as absolutely overriding. It does not seem to me that Hong Kong should be given that degree of priority over our NATO commitments.

5. If the reinforcement consisted of two companies of Gurkhas and some of the other elements requested, but without an additional UK battalion, the Governor would have material for an announcement which would achieve a political impact on his return, but at less cost in military terms. If you agree, I suggest that our discussions with the Governor should be conducted on this basis. I believe there would be advantage if we were to discuss the problem before we meet the Governor.

/6. ...

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6. I am sending copies of this minute to the Prime Minister, the Home Secretary, the Chancellor of the Exchequer, and to Sir John Hunt.

HP  
—

12th June 1979



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ANNEX TO MINUTE  
MO 5/14 DATED  
12th JUNE 1979

REINFORCEMENTS FOR HONG KONG REQUESTED

Navy

3 WESSEX 3 helicopters, 7 pilots and  
necessary ground staff

3 Patrol Craft or Hovercraft and crews

HQ Staff

Army

1 Battalion plus 2 companies

4 Scout helicopters, 6 pilots and  
necessary ground staff

HQ Staff

Additional personnel for Maritime Troop

Air Force

6 WESSEX 2 helicopters, 9 pilots and  
necessary ground staff

NITESUN equipment

Air Traffic Controllers and Operations Staff.

12 JUN 1979



Mr Murray

GOVERNOR OF HONG KONG'S VISIT TO LONDON

1. As you know, Sir Murray MacLehose will be in London for consultations with Ministers and officials from 13-15 June. He will be going on to Washington (16-20 June) for talks with US officials and to Geneva (24-25 June) to see the UNHCR. He will be available for further consultations in London on the morning of 26 June before returning to Hong Kong.

2. I attach a copy of the programme for the visit to London from 13-15 June.

*R J T McLaren*

12 June 1979

R J T McLaren  
Hong Kong & General Department

Distribution:

PS  
PS/LPS  
PS/Mr Blaker  
PS/PUS  
Sir A Duff  
Mr Cortazzi  
Mr Rushford, Legal Advisers  
FED  
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Defence Department  
ESSD  
OID  
News Department

Mr Cartledge, 10 Downing Street ✓  
PS/Home Secretary  
PS/Secretary of State for Defence  
PS/Mr Raison, Home Office  
PS/Secretary of State for Industry  
PS/Mr Butler, Home Office  
Mr Cousins, DS6, Ministry of Defence (6 copies)  
Mr Bray, Hong Kong Government Office (6 copies)

PROGRAMME FOR VISIT TO LONDON OF SIR MURRAY MACLEHOSE, GOVERNOR OF HONG KONG

13 - 15 JUNE, 1979

	<u>Meeting With</u>	<u>Accompanied By</u>	<u>Also Present</u>	<u>Place</u>
<u>13 JUNE 1979</u>				
1300 hours	Mr R J T McLaren (HKGD) for Lunch	Mr D C Bray (Commissioner, Hong Kong Government, London) Dr D Wilson (Political Adviser, Hong Kong Government) Mr D Ford (Secretary for Information, Hong Kong Government)	-	Oxford and Cambridge University Club, 71 Pall Mall,
1500 hours	Mr H A H Cortazzi (DUS)	Mr Bray Dr Wilson Mr Ford	Mr D F Murray (AUS) Mr A R Rushford (Legal Adviser) Mr McLaren Mr R C Samuel (FED) Mr B Watkins (Defence Department) Mr P J Williamson (HKGD)	Mr Cortazzi's Office Room W88, FCO
1630 hours	Foreign and Commonwealth Secretary	-	-	Lord Carrington's Office, Room W53, FCO
1645 hours	Foreign and Commonwealth Secretary	Mr Bray Dr Wilson Mr Ford	Sir I Gilmour (Lord Privy Seal) Mr P Blaker MP (Minister of State) Sir Michael Palliser (PUS) Mr Cortazzi Mr Murray Mr McLaren	Lord Carrington's Office, Room W53, FCO

	<u>Meeting With</u>	<u>Accompanied By</u>	<u>Also Present</u>	<u>Place</u>
<u>13 JUNE 1979</u> (cont.)				
1800 hours	Sir Anthony Royle MP for Drinks	-	-	47 Cadogan Place, London SW1
1900 hours	Selected Journalists	Mr Bray Dr Wilson Mr Ford	-	Hong Kong Government Office, 6 Grafton Street, London W1
<u>14 JUNE 1979</u>				
1000 hours	Mr Adam Butler MP Minister of State, Department of Industry	-	Mr T L Richardson (ESSD)	Room 1110, Ashdown House, 123 Victoria Street, London SW1
1015 hours	(and possibly the Rt Hon Sir Keith Joseph MP, Secretary of State for Industry)			
1100 hours	PUS	-	-	PUS's Office, Room W16, FCO
1200 hours	Mr Blaker	Mr Bray Dr Wilson Mr Ford	Mr Cortazzi Mr McLaren Mr Munro (PS/Mr Blaker) Mr Williamson	Mr Blaker's Office, Room K195, FCO
1300 hours	Mr Blaker for Lunch	Sir Paul Bryan MP Sir Anthony Royle MP Mr Cortazzi Mr Bray Mr Murray Mr Munro	-	Kettner's Restaurant 29 Romilly Street London W1

	<u>Meeting with</u>	<u>Accompanied By</u>	<u>Also Present</u>	<u>Place</u>
<u>14 JUNE 1979</u> (cont.)				
1600 hours	Rt Hon Francis Pym MP Secretary of State for Defence	-	-	Room 6147, Ministry of Defence, Main Building, Whitehall
1700 hours	Rt Hon William Whitelaw MP Home Secretary	-	-	Room 6, House of Commons
1800 hours	Prime Minister	-	-	House of Commons
1900 hours	Selected Journalists	Mr Bray Dr Wilson Mr Ford	-	Hong Kong Government Office
 <u>15 JUNE 1979</u>				
0930 hours	Mr Dromgoole (AUS) or Maj.Gen. Farndale (Director of Military Operations)	Mr Bray Dr Wilson Mr Ford	Brig. Sinclair (Brig.Gen. Staff Mili- tary Operations) Major General Perkins (Assistant Chief of Defence Staff Operations) Mr McLaren Mr Watkins	Ministry of Defence, Main Building, Whitehall
1100 hours	Mr Timothy Raison MP Minister of State, Home Office	Mr Bray Dr Wilson Mr Ford	-	Home Office, Queen Anne's Gate London SW1

	<u>Meeting With</u>	<u>Accompanied By</u>	<u>Also Present</u>	<u>Place</u>
<u>15 JUNE 1979</u> (cont.)				
1230 hours	Lunch with News Media	Mr Bray Dr Wilson Mr Ford	-	Hong Kong Government Office
1600 hours	Mr Cortazzi	Mr Bray Dr Wilson Mr Ford	Mr Murray Mr McLaren Mr Samuel Mr Watkins Mr Williamson	Mr Cortazzi's Office Room W88, FCO
1800 hours	Interview with "Daily Telegraph"	Mr Bray Dr Wilson Mr Ford	-	Hong Kong Government Office
2000 hours	Dinner with Mr Bray		-	Mr Bray's residence Cowley Street London W1

112 JUN 1983

112 JUN 1983





Foreign and Commonwealth Office

London SW1A 2AH

11 June 1979

Dear Bryan,

Prime Minister  
See also Mr. Byng's  
minutes below.

Call by the Governor of Hong Kong

The Prime Minister has agreed to see the Governor of Hong Kong at 6 pm on Thursday, 14 June, and has asked the Foreign and Commonwealth Secretary to be present.

The Governor is concerned about:

(a) Vietnamese Refugees

There are now over 51,000 refugees in Hong Kong and there could well be 100,000 by the autumn. The inability of the Hong Kong Government to stem the tide is causing widespread concern and the Governor is under pressure to take more drastic measures.

(b) Immigration into Hong Kong from China

Immigration from China is currently running at the highest level for very many years. Depending on the rate for the rest of the year, the total for 1979 could be anywhere between 200,000 and 400,000, mostly illegal. The Chinese, despite promises, have so far made no serious effort to control illegal immigration.

(c) Reinforcement of the garrison

The task of patrolling the border areas and the outlying islands against illegal immigrants has extended the garrison to its limits. The Governor and the Commander, British Forces, have asked for urgent reinforcements to limit the numbers of illegal immigrants and to shock the Chinese into taking action themselves. This request is being urgently considered by the Ministry of Defence.

(d) (If there is time) New Territories Leases

The Governor may mention the problem of maintaining confidence in Hong Kong as 1997 approaches. The bulk of the Colony's territory (the New Territories) is leased from China under an agreement which expires in 1997, and all land leases in the New Territories end in that year.

/This

Bryan Cartledge Esq  
10 Downing Street

CONFIDENTIAL  
COVERING SECRET



This is starting to create practical difficulties, particularly over investment, which will increase as time goes on. The Governor has suggested certain legal action which would deal with this problem provided the Chinese agreed. Proposals will be put to Ministers in due course.

The immigration problem apart, relations between Hong Kong and China are now as good as they have ever been. Sir Murray MacLehose is the first Governor of Hong Kong since the war to pay an official visit to China: he went there in March and saw Deng Xiaoping and other leaders.

/ I enclose a biographical note on Sir Murray MacLehose together with briefing material on the questions mentioned above.

I am sending copies of this letter and enclosures to John Chilcot (Home Office), Roger Facer (Ministry of Defence) and Martin Vile (Cabinet Office).

*James Wall,*  
*Stephan*

J S Wall  
Private Secretary



BRIEF FOR CALL BY THE GOVERNOR OF HONG KONG  
ON THE PRIME MINISTER

ESSENTIAL FACTS

1. VIETNAMESE REFUGEES IN HONG KONG

Hong Kong Government Policy

1. Currently Hong Kong Government policy is:

(i) To accept for permanent settlement:

- (a) those who are spouses, dependent children or dependent elderly parents of people who were already permanent residents of the territory before 1975;
- (b) those who are picked up at sea by Hong Kong registered vessels.

(ii) To provide temporary shelter, pending resettlement elsewhere by UNHCR, to:

- (a) those who arrive in Hong Kong in their own boats;
- (b) those who are rescued at sea by vessels for whom Hong Kong is the next scheduled port of call. However, the Hong Kong Government have now said that they can no longer automatically apply the first port of call principle in view of the present overcrowding in Hong Kong.

Present Situation in Hong Kong

2. Numbers

- (a) 9,200 former residents of Vietnam (plus a further 2,500 Laotians and Cambodians) have been accepted for permanent settlement in Hong Kong since 1975.

/(b)



(b) On 11 June, there were 51,400 Vietnamese refugees temporarily in Hong Kong awaiting resettlement. Over 50,000 have arrived since January; in the same period only 3,400 have left for resettlement. Some 7,000 of the total arrivals came on large vessels (the Huey Fong, Skyluck and Sen On) believed to be engaged in trafficking in refugees for profit.

### 3. Accommodation in Hong Kong

Accommodation for the refugees is desperately short: only 12,000 are in the UNHCR's care. The others are crowded into prisons, temporary camps and the Government dockyard. New arrivals now have to remain on the vessels on which they arrive, though these are often crowded and in poor condition (see photographs attached).

### 4. Public Opinion in Hong Kong

Hong Kong Chinese have little fellow-feeling for the refugees even though most of them are ethnic Chinese. The Hong Kong Government are coming under increasing pressure from the public to turn boats away and, if necessary, to tow them back to sea. There is a feeling of frustration at Hong Kong's impotence to deal with the problem, and a strong belief that Britain should be doing more to help.

### Measures Taken to Deal with the Problem

#### 5. (a) In Hong Kong

The Hong Kong Government have introduced tough new legislation to deter refugee traffickers: the trial of the Captain and others connected with the Huey Fong has just started. Hong Kong is also cooperating with other governments in the region in obtaining and sharing advance

/intelligence



intelligence about suspicious vessels.

(b) By the British Government

We are currently pursuing two main objectives:

- (i) to bring international pressure to bear on the Vietnamese Government to take effective measures to stop the outflow;
- (ii) to drum up more resettlement places for the refugees who have already left.

In pursuit of these objectives, the Prime Minister has urged the Secretary-General of the United Nations to call an early international conference. We have conducted a major lobbying campaign to get other countries to support the idea of a conference; use their influence with the Vietnamese; and take some refugees or more refugees as the case may be.

2. IMMIGRATION INTO HONG KONG FROM CHINA

Hong Kong Government Policy

1. (i) Legal Immigrants: Chinese citizens with valid travel documents are permitted to enter Hong Kong and, if they decline to return to China, to remain in Hong Kong.
- (ii) Illegal Immigrants: Those who leave China without the permission of the Chinese authorities and are detained by the security forces while trying to enter Hong Kong are returned to China within 24 hours. Those who evade capture and go to ground are eventually allowed to stay.

/Background



## Background and Current Position

### 2. Legal Immigration

Until last year, legal immigrants were arriving at a rate that just about balanced normal emigration from Hong Kong - 50 to 70 a day. In 1978, the figures rose sharply, to over 300 a day in December. 70,000 legal immigrants entered Hong Kong from China in the whole of 1978. Since January the rate has been dropping steadily, but at over 150 a day in May is still unacceptably high. 36,000 legal immigrants entered in the first five months of the year.

### 3. Illegal Immigration

The policy of repatriating illegal immigrants was reintroduced (it had also been used before 1967) in 1974. Together with measures taken by the Chinese on their side of the border, it was effective in keeping down the numbers to insignificant levels until 1978. Greater freedom of movement in China then led to a sharp increase: over 8,000 illegal immigrants were repatriated, and probably about 30,000 succeeded in entering Hong Kong. In 1979 the situation has become much worse: 36,000 were repatriated in January to May, with more arrested each month. There is some evidence that the detection ratio has improved, but it is still probable that at least 80,000 have succeeded in entering Hong Kong this year.

## Measures Taken to Deal with the Problem

### 4. Representations to the Chinese Government

Diplomatic representations have been made to the Chinese authorities in London, Hong Kong and Peking. The Chinese have repeatedly promised to take steps to reduce the flow and have claimed credit for the steady decrease in legal immigrants this year. But they have so far failed to take effective measures to deal with illegal departures.

Measures in Hong Kong

5. The security forces in Hong Kong have stepped up patrols on the Hong Kong side of the border, making the maximum possible use of the available garrison, of the Hong Kong police force and of local volunteers. As a result the ratio of those arrested to those who evade capture has improved from 1:3 or 4 to 1:2 in recent months.
6. The Chinese authorities have suggested that the Hong Kong Government ought to repatriate illegals who evade capture and surface later. This would be undesirable because it would drive illegals underground and create enormous problems of corruption, exploitation etc.
7. Consideration has been given to the possibility of imposing controls on legal immigrants. This would be very unwelcome to the Chinese Government, who consider that their nationals have a traditional right of free movement to Hong Kong (which they regard as Chinese territory). The idea has not been pursued while the figures appear to be moving in the right direction.

3. REINFORCEMENT OF HONG KONG

1. Securing the frontiers of Hong Kong is the responsibility of the Royal Hong Kong Police Force, supported by the garrison. The police have now committed 20% of their resources to this task: to do more would endanger internal security. The Governor has asked the Commander, British Forces, Hong Kong, to undertake increased tasks, and the latter has therefore asked for additional land, sea and air forces. The Ministry of Defence have confirmed that to make the necessary resources available would involve penalties to other commitments. In the MOD's judgement, these penalties would



be severe, not only because of the actual cost of withdrawing the units required from other commitments, but also because of the general upheaval that would be caused within the Services. Details of the present garrison, of the reinforcements now requested and of the penalties that would be involved in providing them are at Annex A.

2. HMG have a clear obligation to provide reinforcements for Hong Kong when the situation requires: this was explicitly stated in the 1975 agreement between the Hong Kong and British Governments under which the garrison in Hong Kong was reduced to its present strength.

3. Ministers will need to decide whether the Hong Kong requirement is of sufficient priority to justify providing the necessary resources. The Defence Secretary will be discussing the request for reinforcements with the Governor shortly before the latter's call on the Prime Minister.

#### 4. CHINESE/HONG KONG RELATIONS

1. The present Chinese Government do not recognise the 19th century treaties under which Hong Kong came under British rule. They regard Hong Kong as Chinese territory temporarily under British administration. They have however repeatedly stated that the question of the territory's reversion to China is something to be settled through negotiations "when the time is ripe". They have given no firm indication when they think that time will be.

2. In the meantime they have made it clear that Hong Kong has a key role to play in their modernisation programme. The territory provides about a third of China's foreign exchange earnings and is

/an





an increasingly important source of financial and commercial expertise. The Chinese therefore share our interest in maintaining the stability and prosperity of the territory and have been at pains to reassure local and foreign investors that China is satisfied with the status quo and has no early intention of changing it. Particular emphasis was laid on this point by Vice Premier Deng Xiaoping during an official visit by the Governor to China in March (an unprecedented visit that was in itself a firm indication of the Chinese desire for close cooperation with the present Hong Kong administration).



SECRET

5. NEW TERRITORIES LEASES

1. The bulk of the territory of Hong Kong (the New Territories) was leased from China in 1898 under an agreement which expires in 1997. The many thousands of land leases granted by the Crown in the New Territories also end in 1997. Although there is no immediate problem, the increasingly short span of existing leases, and the inability of the Hong Kong Government to grant new leases extending beyond 1997, will soon begin to deter investment unless something is done.

2. The solution which we have in mind is to issue future leases in the New Territories without a fixed term, and to convert existing leases into indeterminate leases of the same kind. There would be a need for legislation in Hong Kong and a covering Order in Council in the UK would be highly desirable. This solution would be consistent with the Chinese view that Hong Kong is Chinese territory, and with their desire to keep their options open as to its future. But it would be interpreted by public opinion in Hong Kong as an indication that the Chinese did not rule out the possibility that British administration in Hong Kong might continue after 1997, and it would thus provide a boost to confidence as well as dealing with the legal problem posed by the terminal date in the leases.

3. It would, of course, be essential to ensure that there was no Chinese objection before going ahead. With the authority of the previous Government, therefore, the Governor of Hong Kong outlined the proposed solution to Deng Xiaoping and other Chinese leaders when he visited Peking in March. Deng did not specifically endorse the idea but did not react adversely. Ministers will need to decide in due course what action should be taken to follow up the soundings taken by the Governor.

SECRET

I. PRESENT GARRISON IN HONG KONG

- Navy: - 6 Patrol Craft (5 ex-Minesweepers, 1 ex-tug)
- Army: - 4 Infantry Battalions (3 of them Gurkha)  
 2 Gurkha Engineer Field Squadrons  
 6 Scout helicopters  
 Maritime Troop with 3 Ramp Powered Lighters  
 Gurkha Transport Regiment
- Air Force: - 7 WESSEX2 helicopters and 10 pilots

II. REINFORCEMENTS REQUESTED

- Navy: - 3 WESSEX3 helicopters, 7 pilots and necessary ground staff  
 3 Patrol Craft or Hovercraft and crews  
 HQ staff
- Army: - 1 Battalion plus 2 companies  
 4 Scout helicopters, 6 pilots and necessary ground staff  
 HQ staff  
 Additional personnel for Maritime Troop
- Air Force: - 6 WESSEX2 helicopters, 9 pilots and necessary ground staff  
 NITESUN equipment (searchlights)  
 Air Transport Command (ATC) and Operations staff

III. PENALTIES FOR OTHER SERVICE COMMITMENTS IN PROVIDING REQUESTED REINFORCEMENTS FOR HONG KONG

In addition to the general upheaval which this additional commitment will cause for the Services, the provision of the reinforcements requested will incur the following penalties:

(a) Operational

1. Royal Navy: There will be a reduction of two front line Sea King helicopters.
2. Army: It will not be possible to find a UK battalion for a full six-month tour; instead, CBF Hong Kong has agreed

/to



to a UK battalion being rotated every 2 months. However, the provision of a battalion for SPEARHEAD duties will be affected and BAOR will have to find up to 3 battalions for this duty. The balance of 2 companies to meet the requirement would be met from the Gurkha battalion in Brunei (this is in accordance with the terms of our agreement with the Sultan, and the High Commissioner in Brunei has confirmed that he does not expect this to cause any problems).

3. Royal Air Force: There will be a reduction of 25% in the WESSEX support capability available to 1(BR) Corps from No 18 Squadron RAF. BAOR's deployment plans would be affected.

(b) Training

Many national and NATO exercises already planned to take place in the UK or overseas during this period will be seriously curtailed or cancelled. These include one major Naval exercise and 10 Army exercises. Unit training will be disrupted. The training of all RN and NATO warships at Portland will be affected as a result of the reduction in FTBs; and the stoppage of training of specialised personnel for the RN Hovercraft Unit will also lead to inability to complete important hovercraft trials. The reduction of RAF WESSEX in BAOR will also affect training.

(c) Movements

25% of the available RAF VC 10 effort will be absorbed by the rotation programme for the UK battalion during the month in which the change-over occurs. The movement of WESSEX, Sea King and Hovercraft by air would be a lengthy and expensive process. Movement by sea would take about four weeks.

(d) Ceremonial

Disruption will be caused to the 'Public Duties' battalion roster. Planned ceremonial in Brunei to celebrate The Queen's Birthday Parade and the Sultan's Birthday will be curtailed.



## HONG KONG: BASIC FACTS

(1978 figures)

Area: 404 square miles  
Population: Approximately 4.8 million  
98% of Chinese stock  
2% expatriates and others  
Per Capita GDP: £1,455  
Rate of Inflation: 6%

### BUDGET

Government revenue in 1978/79 (estimated): £1,090 million

Income Tax = 15% (maximum)

Government expenditure in 1978/79 (estimated): £1,080 million

46% - social services, including education  
19% - police, defence, administration etc.  
19% - transport, water supplies, amenities  
4% - airport, harbour, external communications  
12% - miscellaneous

### TRADE

Domestic Exports: £4,285 million (textiles and clothing: 45%)

UK share: 9.5%

Imports: £6,635 million

UK share: 4.7%

### SOCIAL SERVICES

#### Education

Primary education and three years of secondary education are compulsory and free

15,400 full-time and 18,500 part-time tertiary students in Hong Kong

/Medical Services



### Medical Services

Comprehensive public health programme to control endemic diseases, e.g. tuberculosis. Infant mortality, the birth and death rates on a par with Western European countries. 4.4 hospital beds per 1,000 population. Estimated 50,000 drug addicts.

### Housing

Subsidised public housing exists for 46% of the population. Current annual rate of housing construction: public sector - 35,000 units; private sector - 30,000 units.

### LABOUR

Unemployment Rate: 2.7%

Average monthly wage: £103

Trade union membership: estimated 400,000, 20% of labour force

Employment of children under the age of 14 universally illegal as of 1980

### DEFENCE AND SECURITY

Garrison consists of four infantry battalions (3 Gurkha, 1 British) with naval and air support

Establishment of Royal Hong Kong Police Force: 19,000 approx.



SIR (CRAWFORD) MURRAY MACLEHOSE GBE KCMG KCVO

Sir Murray MacLehose was born on 16 October 1917 and educated at Rugby and Balliol College, Oxford. After war service in the RNVR (Lieutenant) he joined the Foreign Service in 1947. He served in Hankow until 1950, then, after a short period in the Foreign Office, in Prague, Wellington and Paris. In 1959 he was seconded to Hong Kong as Political Adviser to the Governor. On his return to the Foreign Office in 1963 he became Head of Far Eastern Department and from 1965-67 was Principal Private Secretary to the Secretary of State (first Mr Michael Stewart and later Mr George Brown). In 1967 he was appointed HM Ambassador in Saigon and in 1969 HM Ambassador in Copenhagen. Since November 1971 he has been Governor and Commander-in-Chief of Hong Kong. He is married with two daughters, one of whom is partially paralysed as a result of a riding accident.

MR. CARTLEDGE

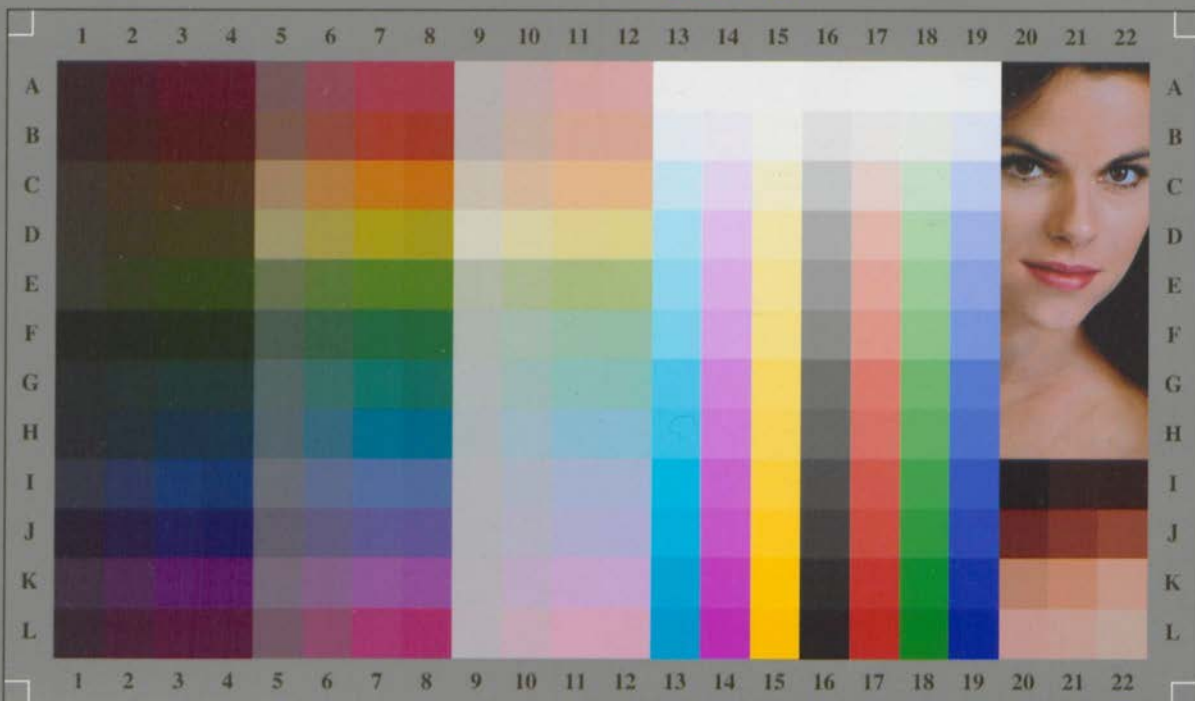
I quite agree that the Prime Minister should see Sir Murray Macle hose if at all possible and have pencilled him into the diary at 1800 hours on Thursday, 14 June. This should be at the House of Commons as I do not know how much of the Budget Debate she will wish to listen to. I have not told the Foreign Office and I have not asked for any briefing. Would you like me to do this?

*ej.*

5 June 1979



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