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PREM 19/790

PART 2

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SECRET

Confidential File

The Future of Hong Kong

HONG KONG

New Territories Leases

PART 1: June 1979

PART 2: Sept 82

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
S-10-82							
PREM 19/1/90							

PART P7 2 ends:-

ASC to PM + att 5/10/82

PART 3 begins:-

FCO to ASC 6/10/82



10 DOWNING STREET

Prime Minister

MS

Another example of negotiations  
with the Chinese, in which Sir  
Edward Gouda was involved as the  
then Ambassador in Peking.

A.J.C.  $\frac{5}{10}$

**THE ROLLS ROYCE SPEY DEAL WITH CHINA**

*Her Majesty's Ambassador at Peking to the  
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

Contracts worth approximately £80 million were signed on 13 December, 1975, for the supply of Rolls Royce military Spey engines and their technology to China (paragraphs 1-2).

2. The course of the negotiations (paragraphs 3-13).

3. The long negotiations and last minute hitches brought out the main concerns on each side (paragraphs 14-17).

4. The decision to rely on co-operation with a foreign firm in an area vital to their defence industries was a difficult one for the Chinese to take, after their experience with the Russians (paragraph 18).

5. The constant Chinese insistence on assurance that the UK would prove a reliable and viable partner in the venture. Significance of the deal for Sino-British relations and future sales to China (paragraphs 19-21).

6. The question now is whether if the Chinese show interest in further purchases from the West of technology for their armed forces, we and our allies can agree. This will require careful calculation of strategic issues and of whether building up Chinese strength in order to offset Soviet power would be in our interests (paragraph 22).

(Confidential—UK Eyes only)  
Sir,

*Peking,*  
*13 January, 1976.*

On 13 December, 1975, Sir Kenneth Keith, the Chairman of Rolls Royce (1971) Ltd, signed contracts with the China National Technical Import Corporation for the supply of 50 Spey Mark 202 aero-engines and for the sale under licence of the technology necessary for their manufacture in China. The value of the contracts will be nearly £80 million; £41½ million for the engine licence; £4½ million for the accessories licence and over £30 million for the sale of the engines depending on the rate of escalation. There are prospects that further contracts, for example, for test facilities, will follow.

2. Rolls Royce are already supplying the civil Mark 512 Spey engine to China in the Tridents sold by Hawker Siddeley. The Spey 202 is the military version used in the Phantom V fighter now in service with the RAF. The significance of this deal is thus considerably greater than that of the Trident

contract, not least because its objective is to assist the Chinese eventually to manufacture military engines on their own.

3. The origin of the deal lay oddly enough in Romania. Dr. (now Sir) Stanley Hooker, the Grand Master of Rolls aero-engine technology, had by early 1972 established an excellent working relationship with the Romanians, and it was Mr. Bodnaras, the Romanian Vice-Premier, who commended him to the Chinese. This was quickly followed by a Chinese invitation to Dr. Hooker to lecture in Peking. During his visit he made a deep impression on Chinese engineers and commercial officials, establishing a confidence which undoubtedly contributed much to the eventual success of the deal.

4. In the discussions which followed Rolls at first got the impression that the requirement was for civil Speys; but when Sir Kenneth Keith visited China in March 1973 the Chinese Vice-Minister of Foreign Trade told him that they wanted the military version. Further visits defined the requirement more precisely and by the autumn of 1973 it appeared that both sides would be able to sign a document recording Heads of Agreement intended to lead to detailed negotiations.

5. These developments had brought Her Majesty's Government into the picture because of the implications for the control of strategic exports. Ministers decided in June 1973 to authorise Rolls to pursue the negotiations further and a first approach was made to COCOM. The result was not encouraging. There were reservations from Japan, France and Germany and an objection from the US. There were nevertheless grounds for hoping that our allies could be brought to look at the balance of advantage in a different light and in September 1973 Ministers confirmed their decision to allow Rolls to continue to pursue their negotiation because of the likely economic advantages of the deal.

6. At this point the Chinese began to back away and 18 months of false starts and delay began. This covered two distinct periods. The uncertainty began with the Chinese having second thoughts about the wisdom of signing Heads of Agreement indicating a declaration of intent to buy. They put off commenting on Rolls Royce's draft for some weeks. Then came the general election of February 1974, following which the Chinese felt the need for a reaffirmation by the Labour Government of the endorsement given by their predecessors. This was given by Ministers, notably by Lord Goronwy-Roberts on 3 April, 1974, and by you, Sir, on 12 June, 1974, to the Chinese Ambassador in London. The Chinese were then ready to reopen discussions. They made clear however that they would not accept the proposal for a preliminary Heads of Agreement. They suggested the start of negotiations leading to the final signature of contracts. These began in September 1974 and continued with interruptions to February 1975, when Rolls Royce submitted a revised draft contract for the licensing agreement.

7. This was followed by another pause of six months in which it appeared that the Chinese had lost interest. It cannot have been coincidence that this period coincided with the run up to the referendum on our membership of the European Community. It was not until after the referendum result was known that they agreed to the resumption of discussions.

8. The Rolls Royce team led by Mr. Dennis Jackson conducted the final negotiation during the four months from August to December 1975. It was a rough and often depressing period for the team of 10 who lived in the grand but soulless Peking Hotel and carried on continuous negotiation day after day, followed by long hours of consultation and work at night and weekends. The Chinese negotiating tactics involved a remarkable combination of high pressure urgency and time consuming stonewalling. This may have had the psychological

aim of wearing down the resistance of the Rolls Royce team; it probably also reflected the simple fact that the negotiators on the Chinese side were themselves under great pressure. If this in many ways pioneering project which they have negotiated does not work it will be their heads that are on the block in the years to come. Nor can it have been easy for them to get decisions taken quickly by the Government on their side.

9. The major concerns on both the Chinese and British sides came out clearly in the negotiations. The first hurdle was a Chinese attempt to get Rolls to accept full responsibility for the success of the manufacturing project. This showed itself in the argument over the penalty to be applied in the event of failure to produce an engine up to the standards required. The Chinese asserted that a penalty for the failure of substantiation tests was normal practice in contracts for complete plant. It took weeks to get them to accept that this project was quite different and that Rolls could not guarantee the success of a process which was so dependent on the facilities in the engine plant provided by the Chinese and on the skill of Chinese engineers working there. In the end a satisfactory formula was agreed which allowed for a proportion of the price to be withheld until substantiation tests were complete but only if it could be shown that the responsibilities for failure lay with Rolls, e.g. through a mistake in plans or documents supplied.

10. The next long haggle was on the price of the engine licence. The final figure of £41½ million was almost exactly half-way between the starting price of each side. It took six weeks of slogging to achieve this result. Here again Rolls had to bring the Chinese to depart from their normal position. Never before have they paid so great a proportion of the total price simply to buy technology as distinct from plant itself.

11. Price was important not only to Rolls but to Her Majesty's Government who wished to be assured that the economic benefit would be commensurate with the risks involved to our relations with our COCOM allies. Another important element in the same context was the need to get from the Chinese some measure of guarantee against transfer of technology or complete engines to third countries. It can be argued that there is no way of stopping them from doing so if they so wish, once the manufacturing facility is established, but it was still important that we should get some undertaking on the basis of which we could reassure allies and friends. The Chinese proved ready to provide it as far as the technology was concerned, regarding that as a commercial matter between themselves and Rolls Royce. They were not willing to see any reference in the contract to a limitation on their right to dispose of complete engines. In the end hard bargaining persuaded them to provide Rolls with a side letter renouncing the intention of selling or lending the engines to third parties for 10 years. This was not without its loop-holes but it was judged acceptable not least because it could well be nearly 10 years in any case before China has engines available for transfer.

12. By 27 November agreement on the price for the licence, on the re-assignment assurances, and on the number of engines to be sold enabled Ministers to decide that the terms were sufficiently satisfactory to justify Rolls signing the contracts. A plan had already been drawn up to provide advance information to our COCOM partners and to other Governments in the Asian and Pacific areas. Because some issues were still outstanding and the date of signature still uncertain this arrangement had to be set up on a contingency basis with the trigger being pulled only when signature was no longer in doubt.

13. In the event another fortnight elapsed before signature and the final stages reflected many of the doubts and delays of the previous three years. On a

number of occasions the bird, apparently safely in the hand, threatened to fly over the nearest bush and out of sight. The main problem at this stage was the price to be paid for the completed engines. This issue had been complicated by the Chinese reducing their requirement from 200 units to 50. The margin of profitability was thus lowered in spite of the satisfactory price for the licence. Inflation in Britain meant that the basic price per unit had had to be raised very sharply from the level first quoted to the Chinese in 1973 and allowance had then still to be made for further escalation up to the delivery dates in 1978-79. The Chinese expressed alarm. By the time of Sir Kenneth Keith's arrival in Peking on 11 December Mr. Jackson had persuaded the Chinese to accept a realistic base price for 1975 but the rate of escalation to be applied was still in dispute. On his arrival Sir Kenneth decided that it would be commercially sensible to go for a quick settlement. Another break over the Christmas and New Year could have left the Chinese with yet another opportunity for second thoughts: even if the break caused no more than delay, the cash-flow loss looked like being greater than the prospective gain from further protracted bargaining. A satisfactory, if modest, escalation formula was thus agreed quickly after his arrival.

14. At this point things seemed settled for signature on December 12 but now problems continued to arise up to the 12th hour. For the civil Speys export licences had been issued with a period of validity long enough to cover the period of actual export. Towards the end of the negotiations the Chinese were told that since the Mark 202 was a military engine the export licences would be valid for only 12 months (the licence would of course be open to renewal to cover in due course the period of export in 1978-79). Strong attempts both by Rolls Royce and myself to convince them that this was normal practice did not succeed in getting them to accept it. I spoke on instructions to the Ministry of Foreign Trade and assured them that a 12 months' licence for equipment of this sort was our normal procedure even with NATO allies. I assured them that they need have no anxiety about the willingness of the British Government to see the delivery of the engines completed. You were, if necessary, prepared to have me confirm this Ministerial declaration of intent in writing. But even this was not enough for them. On the very morning of the day on which signature of the contracts was set for 5 p.m., they revealed their unwillingness to accept anything less than a document authorising export, valid for the whole period of the contract and quotable in the contract. At this point this seemed to be the sole remaining issue. Allies had been informed that signature was imminent, invitations to the celebratory dinner that evening had been issued and the Press were aware of Sir Kenneth's presence in Peking. A decision on how the problem should be overcome had thus to be taken very quickly in order to avoid any impression that the contract was being held up by Her Majesty's Government's unwillingness to give an assurance that the export permit would be valid for the period of the contract. Since the rules affecting validity of Department of Trade export licences could not be broken a solution had to be found in the issue by the Department of Industry of an "export authority" valid for the contract period. In view of the time scale a decision on this solution had to be obtained by telephone from London with unusual urgency.

15. No sooner was this hurdle overcome than a new cause for delay arose. During the checking of the contract the Chinese insisted on a number of insubstantial but time-consuming changes which made it impossible to get the documents prepared for signature in time. We thus had the unusual experience of attending a Chinese dinner that evening for nearly 100 people to celebrate a signing that was yet to take place. Still, all seemed well because both the Chinese and Sir Kenneth Keith in their speeches announced that full agreement on all points had been reached.



16. They spoke too soon, as we assembled on the following afternoon for the signing ceremony yet another melodrama was caused when the negotiators on both sides reported that they could not agree on the exact application of the formula for the escalation of the price for engines and in consequence a vital page of the contract was still incomplete. This difficulty proved in the main to arise from a misunderstanding and poor interpretation but it had still to be resolved by a last-minute bargaining session in Sir Kenneth Keith's hotel room. In consequence the second celebratory banquet at which Rolls Royce were the hosts had, rather incongruously, also to be held, before rather than after the signing ceremony itself. It was with great relief that at 9.00 p.m. that night we saw Sir Kenneth Keith and the General Manager of Techimport write their names on the voluminous contract documents.

17. I have recorded the ups and downs of the negotiations in some detail in part because they illustrate the very difficult task faced by British commercial negotiators here. The rewards are high but the going is hard. The issues raised also reflect fundamental Chinese concerns which we will have to take into account if we are going to continue to be successful in obtaining further major contracts of this kind.

18. The first thing which emerged was the difficulty of the decision for the Chinese. Profoundly conscious of being left in the lurch by the Russians in the earlier '60s they had to decide whether to put the modernisation of a crucial part of their aircraft industry into the hands of a foreign company. This was a much bigger decision than those taken in the early '70s when they recommenced major imports of plant from Japan, the US and Europe. The defence and security of China were at stake.

19. It was almost certainly the realisation that aero-engine technology is among the most difficult to develop and that China could not catch up within the time scale set by her need to improve her defences which led to the decision to seek help abroad. This was only part of the problem. It will be evident from what I have written above that throughout the three years of the negotiation the Chinese looked for constant reassurance that the UK would prove a reliable and viable partner in the venture and that Her Majesty's Government on their side would give full assurance that the export contracts could be fulfilled. After their experience with the Russians reliability of supply is a vital issue for the Chinese and I have no doubt that if at any point Her Majesty's Government had appeared in the least hesitant to come forward with full and immediate assurance the Chinese would even at the last moment, nervously back away and look elsewhere.

20. The significance of the Chinese Government's decision to go ahead goes beyond the field of trade and industry. It indicates that they see no clash of interest with Her Majesty's Government over the next five years. Providing the project succeeds the position of those in China who take a pragmatic view of economic development and the value of good political and trade relations with the West will have been strengthened.

21. Making the Spey deal work will not be an easy task. Rolls engineers have no illusions that their Chinese counterparts are yet qualified to tackle a task of this sophistication. They are nevertheless determined that it shall not fail through any fault of theirs. We too have every interest in their succeeding because, following the example of Hawker Siddeley with their Tridents, Rolls have now won for the UK the inside track in China in the competition of aero-space sales.

22. This brings me to the problem of the future. The decision to sell aero engine technology to China was a logical one. China's position is very different

from that of the Soviet Union: not merely is she geographically remote from Europe but she is well behind the West and the Soviet Union in the development of her air force. The deal thus presents no threat to our strategic interests and given the vast preponderance of Soviet might in no way upsets the military balance there. In consequence it led to no outcry from our allies whose anxieties were more concerned with COCOM procedures than with fears of damage to the strategic interests of the West or of our friends in Asia. The question now is whether we and our Western allies will think it prudent to go further down the same road. If the Chinese, having succeeded in this deal show an interest in further purchases in the West of technology and equipment for their armed forces, we and our allies will have to decide whether to agree. That will call for some careful calculation of the strategic balance in Asia, the effect on the Sino/Soviet dispute, and on whether it would be in our interests, within limits at least, to help China to build up her strength in order to off-set in some degree increasing Soviet power. These questions go wider than this despatch but I have no doubt that we will need to consider them carefully in the coming year.

23. Finally I should pay tribute to the Rolls team who won these contracts and in particular to Sir Stanley Hooker, and to Mr. Dennis Jackson who carried the burden of the negotiations in circumstances where many would have given up in despair. I should also like to pay tribute to my Commercial Department as a whole for the unstinting help which they provided to the Rolls team throughout the long negotiations. And finally, a tribute to my Communicators who willingly took on the handling of almost all of Rolls' highly complex traffic. It will give some idea of the scale of their assistance if I add that 40 per cent of the telegram traffic of this Embassy during the last quarter was carried on behalf of Rolls.

24. I am sending copies of this despatch to the Department of Trade and the Department of Industry, to the Ministry of Defence and to Her Majesty's Representatives at Washington, Moscow, New Delhi, Paris, UKDEL NATO, Tokyo, Kuala Lumpur, Singapore, Canberra, Wellington and to the Governor of Hong Kong and the Senior British Trade Commissioner, Hong Kong.

I have, etc.,

EDWARD YOUDE.

Prime Minister

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interesting - but Macao is notHong Kong.

A.F.C. 6/10

Mr Clift

cc: Mr Elliott  
 Mr Giffard  
 PS/Lord Belstead  
 PS/PUS  
 PS  
 Mr Coles, No 10 ✓

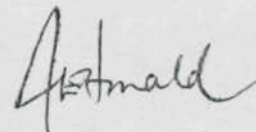
Chanceries: Lisbon  
 Peking  
 Governor, Hong Kong

FUTURE OF HONG KONG: RELEVANCE OF THE STATUS OF MACAO

1. The Portuguese Ambassador, Senhor de Freitas-Cruz, called on me today to enquire about Mrs Thatcher's talks on Hong Kong with Chinese leaders. I told him about the agreement to enter into talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong and that contacts were just beginning in Peking. I stuck closely to the terms of the agreed joint statement and to the points made by the Prime Minister at her press conferences in Peking and Hong Kong.
2. I then asked Senhor de Freitas-Cruz about Macao. He was in a good position to speak because he was Foreign Minister of Portugal between autumn 1978 and the beginning of 1980 when he was posted as Ambassador to London.
3. He asked me to respect his confidence since he knew that we had tried several times in Lisbon to discover what had passed between the Portuguese and Chinese Governments without much success. He said that in 1974 after the revolution of 25 April, the military régime had tried to hand over Macao to China. With their Stalinist views, they had felt that they must get rid of their colonial possessions including Macao, but the Chinese had refused to accept back Macao.
4. The Ambassador said that in early 1976, under the leadership of Mario Soares, the Portuguese Government had begun negotiations to enter into diplomatic relations with China. The contacts had taken place between the Portuguese and Chinese Embassies in Paris. By 1977 the talks had become formalised and texts were exchanged between the two sides. But the negotiations went on until mid-1978 without any concrete results. When Senhor de Freitas-Cruz became Foreign Minister he revived the discussions and an agreement

between China and Portugal was signed about February 1979 under which diplomatic relations between Portugal and China were established. However, the text of the agreement included a secret clause which was carefully drafted to avoid any outright admission by Portugal of Chinese sovereignty over Macao but which enabled the Chinese to claim sovereignty which they chose not to exercise: if they did wish to exercise sovereignty they would give notice and enter into negotiations with the Portuguese. The Ambassador said that in no part of the document was it stated flatly that sovereignty over Macao was Chinese. He promised that he would let me have for my private information a copy of the text on condition that we protected the source and did not let it be known in Lisbon that we had it.

5. The Ambassador added that the Constitution of Portugal which was promulgated in 1976 described Macao as 'a territory under Portuguese administration'. This was a significant change from the previous designation which made clear that Macao was an overseas territory closely linked to metropolitan Portugal.



5 October 1982

A E Donald



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00 HONG KONGB(DESKBY 051200Z)

GRS 60

SECRET

DEDIP

DESKBY BOTH 051200Z

FM PEKING 051100Z OCT 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 621 OF 5/10/82

REPEATED INFO IMMEDIATE HONG KONG (DESKBY 051200Z) (PERSONAL  
FOR GOVERNOR)

*h.a.*

PERSONAL FOR DONALD

*OR 10/6*

MIPT: CALL ON ZHANG WENJIN: HONG KONG TALKS:

PUBLICITY

1. IN VIEW OF PARA 10 OF MY IPT IT SHOULD NOW BE POSSIBLE TO

INCLUDE IN THE GOVERNOR'S LEGCO SPEECH A REFERENCE ON THE  
LINES OF THE AGREED FORMULATION (PARA 4 OF YOUR TEL NO 466)  
AND TO RESPOND TO PRESS ENQUIRIES IN THE SAME SENSE.

CRADOCK

NNNN

CONFIDENTIAL

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PRIME MINISTER

KISSINGER AND CHINA

As you know, Kissinger probably has more experience than any other westerner of negotiating with the Chinese. He has visited Peking on some ten occasions. I thought it might be instructive to look again at his memoirs. The following points struck me.

Familiar Faces

Much has changed in China since Kissinger went there in 1971 but a photograph of his arrival shows him being greeted by, among others, Huang Hua (the present Foreign Minister), the Vice Minister who accompanied you throughout your trip and your interpreter. These people have been studying western behaviour for a very long time. We shall need to match their expertise with expertise of our own.

Subtlety

Kissinger relates how, when he was trying to promote a rapprochement with Peking in 1970, he and all his advisers failed to note a signal conveyed to them by Chou En-Lai and Mao Tse-tung. The relevant passage is as follows:-

"Chou En-lai and Mao Tse-tung quite independently decided that the time had come to send us a signal. Unfortunately, they overestimated our subtlety, for what they conveyed was so oblique that our crude Occidental minds completely missed the point. On October 1, China's National Day, Chou En-lai led the American writer Edgar Snow - an old friend of the Chinese Communists - and his wife to stand at Mao's side on Tien An Men (the Gate of Heavenly Peace) and to be photographed with Mao reviewing the annual anniversary parade. This was unprecedented: no American had ever been so honoured. The inscrutable Chairman was trying to convey something. (As Snow himself later observed of the incident: "Nothing China's leaders do publicly is without purpose.) Eventually, I came to understand that Mao intended to symbolize that American relations now had his personal attention, but it was by then a purely academic insight: we had missed the point when it mattered. Excessive subtlety had produced a failure in communication."

/Another

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Another more well known example of Chinese subtlety was their use of "Ping Pong diplomacy" in 1971. You will recall how an American table tennis team which visited Tokyo was suddenly invited to visit China and were received in the Great Hall of the People by Chou En-lai himself. Kissinger comments: "Like all Chinese moves, it had so many layers of meaning that the brilliantly painted surface was the least significant part.. At its most obvious the invitation to the young Americans symbolized China's commitment to improved relations with the United States: on a deeper level it reassured - more than any diplomatic communication through any channel - that the emissary who would now surely be invited would step on friendly soil. It was a signal to the White House that our initiatives had been noted. The fact that the players could not possibly represent a particular political tendency added to the attractiveness of the manoeuvre from the Chinese perspective. China would be able to make its point without any possibility of a jarring American commentary. Chou En-lai, too, knew how to make gestures that could not be rebuffed. Within China it helped condition the public and party cadres to an impending and revolutionary change of course. But it was also a subtle warning to us: if Chinese overtures were rebuffed, Peking would activate a people-to-people approach and seek to press its case in a public campaign much as Hanoi was doing".

#### Negotiating Tactics

As other papers submitted to you recently show, the Chinese can switch from a harmonious to a confrontational atmosphere very quickly. Kissinger describes a conversation with Chou En-lai one afternoon during which both by tacit agreement did not press controversial issues. When they met again the following afternoon, the mood was completely different. Chou launched into a spate of propaganda, and closed by questioning whether there was any point in Nixon coming to China. After a difficult session, Chou suddenly "suggested the Summer of 1972 for the President's visit as if all that was left was to decide the timing."

/Kissinger

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B.R.

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Kissinger later sums up the Chinese negotiating technique in the following way:-

"It is to determine as well as possible the nature of a responsible solution, get there in one jump, and then stick to that position".

He illustrates this by referring to a conversation with Huang Hua who began by introducing an impossible communique but later presented a draft which was "so close to our needs that we could accept it with a change of only one word". Indeed, it was fortunate that I suggested the Chinese submit their version first; it was better for us than our own."

This is powerfully reminiscent of our own experience with Deng Xiaoping.

Another general comment by Kissinger:

"Everything that was said to me by any Chinese of any station during any visit was part of an intricate design - even when with my Occidental mind it took me a while to catch on. And subjects were carried forward between meetings months apart as if there had never been an interruption."

#### Reliability

Kissinger often states that the Chinese never let him down. He also quotes the view of the then President of Pakistan (Yahya Khan), who was in close touch with the Chinese leadership, that they were "disciplined, pragmatic and reliable once they gave their word".

Would you like us to find out when Kissinger will next be coming to London, so that you can talk to him about China and Hong Kong? If he has no plans to come in the fairly near future, you may want to send someone to see him - but we could consider that later.

A.J.C.

Yes please  
ms

5 October, 1982

CONFIDENTIAL

SECRET



10 DOWNING STREET

From the Private Secretary

5 October 1982

Future of Hong Kong: public comment on Anglo/Chinese talks

I think it would be helpful to the Prime Minister to have advice soon on how Parliamentary Questions and enquiries from the media and others about the Anglo/Chinese talks should be handled. Given that we are bound to receive questions from the press soon, and that Parliament will be reassembling in the near future, we shall need:

- (a) to recommend to the Prime Minister a line to take in Parliament which is sustainable over a considerable period;
- (b) to make clear to the media in London, Peking and Hong Kong from the outset how we propose to handle the talks publicly.

On the Parliamentary aspect, the Prime Minister indicated at her meeting last Friday (my letter of 1 October) how she might handle Parliamentary questioning. But I think it would be helpful if further thought could be given to this, and if a clear line to take, together with supplementaries, could be provided in the near future.

As regards the handling of the media, FCO telegram No. 466 to Peking contains certain guidance, namely that, if publicity becomes essential, we should say that meetings in Peking to follow up Mrs. Thatcher's visit had begun and add an assurance that Hong Kong will participate in the series of meetings, and that the Hong Kong Government, led by the Governor, will be closely involved at all stages. Sir Percy Cradock will also be taking the line with the Chinese that the content of the talks should be secret, and that both sides should avoid statements likely to prejudice their success, though from time to time both sides might agree a short statement on progress. Government spokesmen both here and in our Posts will presumably have to stick to such statements and refuse to be drawn further (otherwise we may get into unnecessary exchanges with the Chinese with a consequent unsettling effect in Hong Kong.

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Given the Prime Minister's involvement in the Hong Kong question, it will be important that No. 10, the FCO, Peking and Hong Kong are entirely at one on the handling of the media. I should therefore be grateful if you could let me have as soon as possible a self-contained note which I can put to the Prime Minister and which, if Mrs. Thatcher approves it, can thereafter constitute the guidance for all concerned.

A. J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.

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GR 100 AMENDED DISTRIBUTION 5 OCT 1982

SECRET  
FM HONG KONG 050940Z OCT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1117 OF 5 OCTOBER

Prime Minister  
See also the bank's  
analysis attached  
A-26-6-10

FOLLOWING FOR DONALD FROM GOVERNOR

YOUR TELNO 809: FUTURE OF HONG KONG

THE FALL IN THE VALUE OF THE HONG KONG DOLLAR OVER THE PAST WEEK IS OF GREATER CONCERN THAN THE FALL IN THE HANG SENG INDEX, THOUGH THE LATTER HAS ALSO BEEN PRONOUNCED. THERE ARE A NUMBER OF FACTORS AT WORK, INCLUDING THE STRENGTH WORLDWIDE OF THE U.S. DOLLAR, THE OUTLOOK FOR WORLD TRADE AND THE DULL STATE OF THE PROPERTY MARKET HERE. BUT THE MOST IMPORTANT INFLUENCE HAS UNDOUBTEDLY BEEN NERVOUSNESS ABOUT THE FUTURE IN THE LIGHT OF THE PRIME MINISTER'S TALKS IN PEKING AND FUELLED BY THE VARIOUS STATEMENTS AND ARTICLES ABOUT SOVEREIGNTY WHICH THE CHINESE HAVE PUT OUT SINCE. I SHALL OF COURSE DO WHAT I CAN TO CALM THE SITUATION AND BOLSTER CONFIDENCE IN MY LEGCO SPEECH TOMORROW.

ML 7/10  
v.c.

YOUDE

LIMITED  
HD/ HK+GD  
HD/ PLANNING STAFF  
HD/ RESID  
HD/ FED  
PS  
PS/ LORD BELSTEAD  
PS/ PUS  
MR GIFFARD  
MR DONALD

COPIES TO:-  
SIR I SINCLAIR LEGAL ADVISER  
MR COLES NO 10 DOWNING ST.

SECRET

27 (52)

GR 250

SECRET

D E D I P

SECRET

DESKBY FCO 051000Z

DESKBY PEKING 051100Z

FM HONG KONG 050940Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1116 OF 5 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

OR  $\frac{5}{10}$   
f-a-

To PEKING

YOUR TELNO 466: FUTURE OF HONG KONG : LEGCO SPEECH.

1. IN THE LIGHT OF YOUR TEL UNDER REFERENCE AND THE FACT THAT THE AMBASSADOR IS CALLING ON ZHANG WENJIN THIS AFTERNOON I PROPOSE TO SAY IN MY LEGCO SPEECH THAT:

'MEETINGS IN PEKING TO FOLLOW UP MRS THATCHER'S VISIT HAVE BEGUN'. THIS IS TO MEET THE NEED FOR THE TEXT OF THE SPEECH TO BE FINALISED TONIGHT FOR PRINTING TOMORROW MORNING (OCT 6).

2. TO KEEP OUR HANDS FREE IN COMMENTING ON THE QUESTION OF PARTICIPATION BY MYSELF OR OTHERS FROM HONG KONG UNTIL THE LAST POSSIBLE MOMENT, I WILL NOT COVER THIS IN MY SPEECH BUT WILL HAVE READY A STATEMENT BY THE GOVERNMENT SPOKESMAN HERE ON THE FOLLOWING LINES FOR ISSUE SOON AFTER I LEAVE THE LEGCO CHAMBER (AT ABOUT 4.30 HONG KONG TIME OCTOBER 6):

'IN ANSWER TO QUESTIONS REGARDING HONG KONG PARTICIPATION IN THE MEETINGS IN PEKING REFERRED TO IN THE GOVERNOR'S SPEECH, A GOVERNMENT SPOKESMAN DREW ATTENTION TO THE PRIME MINISTER'S STATEMENTS AT HER PRESS CONFERENCES TO THE EFFECT THAT THE TALKS WOULD BEGIN THROUGH DIPLOMATIC CHANNELS : WITH ENLARGEMENT AS NECESSARY. THE EXTENT AND LEVEL OF THE HONG KONG PARTICIPATION IN THE BRITISH TEAM WOULD NATURALLY BE DECIDED IN ACCORDANCE WITH THE REQUIREMENTS OF THE TALKS: AND THE GOVERNOR HIMSELF WOULD CERTAINLY BE INVOLVED AS AND WHEN NECESSARY'.

3. HE WOULD BE BRIEFED TO STONEWALL ON ALL FURTHER QUESTIONS ABOUT THE TALKS DRAWING ATTENTION TO THE PRIME MINISTER'S ASSURANCES THAT THEY WOULD REMAIN CONFIDENTIAL.

YOUDE

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HD/FEI

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PS/KORD BEKSTEAD

PS/PUS

MR GIFFARD

MR DONAKI

SECRET

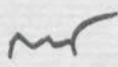
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PRIME MINISTER

Future of Hong Kong

I attach Sir Percy Cradock's account of his discussion with Vice Foreign Minister Zhang Wenjin today. It is not very encouraging but I am sure that we must ~~always~~ remember that the Chinese are still standing on their opening position - they may move later if we adopt the right approach.

Percy Cradock will send his recommendations tomorrow on how we should proceed. We shall then let you have advice. 

The Governor will say in his speech tomorrow that, following your visit, contacts with the Chinese have now begun.

A. & C.

5 October 1982

SECRET

SECRET

Mr Coles 25  
No 10 Downing St

GR 850  
SECRET  
DEDIP

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DESKBY BOTH 051200Z  
FM PEKING 051010Z OCT 82  
TO IMMEDIATE F C O  
TELNO 620 OF 5 OCTOBER  
INFO IMMEDIATE (DESKBY 05126Z) HONG KONG (PERSONAL FOR  
GOVERNOR).

MR 6/10

h.a.

FOR DONALD, AUS

FUTURE OF HONG KONG

1. I SAW VICE-FOREIGN MINISTER ZHANG WENJIN THIS AFTERNOON AND SPOKE AS INSTRUCTED, IE MY PARAS 2, 3 AND 4 OF TELNO 611 AS AMENDED BY THE LAST SENTENCE OF PARA 5 OF HONG KONG TELNO 1105. IN VIEW OF THE ADDITIONAL POINTS IN YOUR TELNO 466, I MADE TWO SMALL VARIATIONS IN THE TEXT:

- (A) SINCE WE ENVISAGED PUBLICITY FOR THE FIRST CONTACT, I TOLD SHANG THAT THE SPECIFIC VENUE IN PEKING ETC WOULD BE KEPT SECRET AND ON VENUE, FOR EXAMPLE, WE WOULD PROPOSE ONLY TO TELL THE PRESS THAT THE TALKS WERE BEING HELD IN PEKING SEMICOLON
- (B) IN VIEW OF THE POSSIBLE ATTENDANCE OF THE GOVERNOR AT THE FIRST TALK ON SUBSTANCE, I ADDED THAT THE BRITISH TEAM MIGHT FROM TIME TO TIME INCLUDE THE GOVERNOR OF HONG KONG.

I ARRANGED FOR MY OPENING STATEMENT TO COVER BOTH MODALITIES AND GUIDELINES. AS EXPLAINED LATER, WE DID NOT GET TO THE QUESTION OF AGENDA OR DATES.

2. ZHANG REHEARSED THE CHINESE POSITION. CHINA WAS GREATLY CONCERNED ABOUT PROSPERITY AND STABILITY IN HONG KONG BUT SOVEREIGNTY CAME FIRST. ON THE PREMISE THAT CHINA WOULD RECOVER SOVEREIGNTY NOT LATER THAN 1997, CHINA WOULD SEEK THE COOPERATION OF THE BRITISH SIDE ON THE QUESTIONS OF HOW TO MAINTAIN STABILITY AND PROSPERITY, ENSURE A GOOD HANDOVER TO CHINA AND MAINTAIN STABILITY AND PROSPERITY DURING THE TRANSITIONAL PERIOD. IF THE TWO SIDES BEGAN TALKS THEY SHOULD FIRST OF ALL DISCUSS THE PREMISE. IF THIS WAS TACKLED FIRST THEN IT WOULD BE EASY TO DISCUSS THE MATTER OF STABILITY AND PROSPERITY. AFTER CHINA HAD RECOVERED SOVEREIGNTY OVER HONG KONG IT WOULD PURSUE SPECIAL POLICIES APPROPRIATE TO LOCAL CONDITIONS. IT WAS NOT POSSIBLE SUBJECTIVELY TO SEPARATE SOVEREIGNTY FROM ADMINISTRATION. ADMINISTRATION WAS ONE FORM OF EXERCISE OF SOVEREIGNTY BY A COUNTRY. IT WAS UNTHINKABLE THAT HONG KONG WOULD BE ADMINISTERED BY ANOTHER COUNTRY AND BY BRITAIN IN PARTICULAR. IF THE PREMISE OF SOVEREIGNTY WAS SOLVED IT WOULD BE EASY TO ACHIEVE POSITIVE RESULTS IN TALKS ABOUT STABILITY AND PROSPERITY.

SECRET

13.

SECRET

3. I REPLIED THAT THE CHINESE POSITION WAS VERY CLEAR BUT SO WAS MY PRIME MINISTER'S . SHE HAD TOLD THE CHINESE LEADERS THAT SHE COULD NOT CONTEMPLATE MAKING RECOMMENDATIONS TO PARLIAMENT ON SOVEREIGNTY UNLESS SHE WAS FULLY SATISFIED ABOUT THE ARRANGEMENTS FOR ADMINISTERING HONG KONG AFTER 1997.

4. ZHANG ELABORATED FURTHER ON THE LINES OF PARA 2 ABOVE, SAYING THAT IF THE TWO SIDES DID NOT SHARE A COMMON VIEW ON SOVEREIGNTY AND IF THE BRITISH SIDE PERSISTED WITH THE IDEA OF BRITISH ADMINISTRATION, THEN DIFFERENCES OF PRINCIPLE WOULD EMERGE AND IT WOULD BE HARD FOR THE TALKS TO PROCEED. I ASKED HIM TO CLARIFY WHETHER HE WAS SAYING THAT IT WAS POSSIBLE TO HAVE TALKS ADMITTING THAT THERE WERE DIFFERENCES BETWEEN THE TWO SIDES, OR WHETHER HE WAS MAKING IT AN ABSOLUTE PRECONDITION FOR TALKS THAT THERE SHOULD BE PRIOR AGREEMENT ON SOVEREIGNTY.

ZHANG REPLIED THAT ALTHOUGH THERE WERE DIFFERENCES WE COULD STILL ENTER INTO TALKS, BUT THE PREMISE PROBLEM MUST BE SOLVED (SEMI-COLON) ONLY BY DOING SO. ONLY COULD DISCUSSIONS ON SPECIFIC QUESTIONS PROCEED: WE WOULD RUN UP AGAINST THE PREMISE AT ONCE IN TALKS.

5. I THEN REFERRED HIM BACK TO THE JOINT STATEMENT WHERE THE REFERENCE TO RESPECTIVE POSITIONS REFLECTED THE FACT THAT THERE WERE DIFFERENCES OF VIEW ON BASIC POINTS. FOR THE CHINESE SIDE NOW TO INSIST THAT WE SHOULD ACCEPT PRECONDITIONS NOT EXPRESSED IN THE JOINT STATEMENT WOULD BE INCONSISTENT WITH THE AIM AGREED BY OUR LEADERS AND WOULD FRUSTRATE THEIR INTENTIONS.

6. ZHANG REPLIED THAT HE DISAGREED TOTALLY WITH MY INTERPRETATION OF THE JOINT STATEMENT. AFTER FURTHER ARGUMENT TO AND FROM HE SAID THAT THE CHINESE SIDE COULD NOT PUT ASIDE SOVEREIGNTY AND DISCUSS STABILITY AND PROSPERITY. THE CHINESE LEADERS WOULD NOT BE ABLE TO ACCOUNT TO THE CHINESE PEOPLE. I SAID THAT I FULLY UNDERSTOOD THIS (SEMI-COLON) MY PRIME MINISTER'S STATEMENT (PARA 3 ABOVE) INDICATED THAT WE DID NOT INTEND TO PUT ASIDE THE SOVEREIGNTY QUESTION ALTOGETHER.

7. ZHANG THEN SLIGHTLY MODIFIED HIS POSITION SAYING THAT IF THE QUESTION OF SOVEREIGNTY WAS NOT TOTALLY SOLVED FIRST AT THE TALKS THERE SHOULD AT LEAST BE A SETTLEMENT IN PRINCIPLE ON THE SOVEREIGNTY QUESTION PROVIDING A FRAMEWORK FOR SPECIFIC DISCUSSIONS ON THE MAINTENANCE OF STABILITY AND PROSPERITY. THIS SETTLEMENT OF PRINCIPLE SHOULD COME FIRST.

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8. AFTER FURTHER DISCUSSION I SAID THAT ZHANG'S STATEMENT WAS VERY DISAPPOINTING. I EXPECTED THE ARGUMENT IN PARA 5 ABOVE AND SAID I MUST SEEK INSTRUCTIONS. I ADDED THAT ON A PERSONAL BASIS I MUST POINT OUT THAT HE WAS ASKING FOR SOMETHING WHICH WAS BEYOND MRS THATCHER'S POWER TO GIVE, EVEN IF SHE WISHED TO.
9. I THEN ASKED IF HE HAD ANY COMMENT ON THE PRACTICAL PROPOSALS I HAD MADE AT THE BEGINNING OF OUR MEETING. HE SAID THESE WERE MINOR MATTERS. IF OUR OPINIONS CONVERGED ON MAJOR ISSUES THEN MINOR ISSUES WERE EASY. BUT THE CHINESE SIDE WOULD CONSIDER OUR PROPOSALS.
10. AS I LEFT, I SAID THAT WE WOULD RESPOND TO PRESS QUESTIONS BY SAYING THAT CONTACTS HAD BEGUN. AFTER A LITTLE HESITATION HE AGREED.
11. I SHALL SEND TOMORROW MY COMMENTS AND RECOMMENDATIONS FOR FURTHER ACTION. MY IFT CONCERNS THE QUESTION OF PUBLICITY FOR THIS MEETING

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HD/ PLANNING STAFF

PS

PS/ LORD BELSTEAD

PS/ PUS

MR GIFFARD

MR DONALD

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MR COLES NO 10 DOWNING ST.

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27272 - 1

OO HONG KONG (DESKBY 060100Z)  
GRS 39  
SECRET  
DESKBY 060100Z  
FM FCO 051500Z OCT 82  
TO IMMEDIATE HONG KONG  
TELEGRAM NUMBER 813 OF 5 OCTOBER  
INFO IMMEDIATE PEKING  
FOR GOVERNOR FROM DONALD  
PEKING TELNO 621: FUTURE OF HONG KONG, PUBLICITY  
1. WE AGREE.

MR 6/10

f-a.

PYM  
NNNN

XXX

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Mr Coles  
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AD 6/10

DESKBY BOTH 051200Z

FM PEKING 051100Z OCT 82

f.a.

TO IMMEDIATE F C O

TELEGRAM NUMBER 621 OF 5/10/82

REPEATED INFO IMMEDIATE HONG KONG (DESKBY 051200Z) (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD

MIPT: CALL ON ZHANG WENJIN: HONG KONG TALKS:

PUBLICITY

1. IN VIEW OF PARA 10 OF MY IPT IT SHOULD NOW BE POSSIBLE TO

INCLUDE IN THE GOVERNOR'S LEGCO SPEECH A REFERENCE ON THE LINES OF THE AGREED FORMULATION (PARA 4 OF YOUR TEL NO 466) AND TO RESPOND TO PRESS ENQUIRIES IN THE SAME SENSE.

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MR GIBBARD

MR DONALD

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# CONFIDENTIAL

GR 520  
CONFIDENTIAL  
FM PEKING 040755Z OCT 82  
TO PRIORITY F C O  
TELNO 616 OF 4 OCTOBER  
INFO PRIORITY HONG KONG (POLITICAL ADVISER).

*Read in file.*  
*MS*

## FUTURE OF HONG KONG: CHINESE PRESS COMMENT

1. THE CHINESE PRESS ON 1 OCTOBER PUBLISHED AN NCNA COMMENTARY IN BOTH CHINESE AND ENGLISH, TAKING ISSUE WITH THE STATEMENT MADE BY THE PRIME MINISTER IN HONG KONG ON 27 SEPTEMBER ABOUT THE CONTINUED VALIDITY OF THE TREATIES.
2. THE COMMENTARY RESTATED THE INEQUALITY OF THE TREATIES, WHICH HAD NEVER BEEN ACCEPTABLE TO THE CHINESE PEOPLE. IT WAS THE SACRED RESPONSIBILITY OF THE CHINESE GOVERNMENT AND PEOPLE TO RECOVER SOVEREIGNTY OVER HONG KONG. IT CONTINUED WITH A STRONG ATTACK ON BRITISH IMPERIALISM IN THE 19TH CENTURY, ADDING THAT QUOTE THE CHINESE PEOPLE HAVE ALWAYS CONSIDERED THESE TREATIES ILLEGAL AND VOID UNQUOTE.
3. ALTHOUGH THE COMMENTARY ABSOLVES THE BRITISH PEOPLE OF BLAME FOR WHAT HAPPENED A CENTURY AGO, IT ADDS THAT QUOTE IF ANYONE TODAY STILL TRIES TO MAINTAIN THESE UNEQUAL TREATIES IT WILL ONLY AWAKEN THE MEMORIES OF THE BRITISH IMPERIALIST INVASION OF CHINA IN THE MINDS OF THE PEOPLE IN CHINA, BRITAIN AND THE WHOLE WORLD UNQUOTE.
4. THE COMMENTARY ALSO TOOK UP THE PRIME MINISTER'S ASSERTION OF BRITAIN'S MORAL RESPONSIBILITY FOR HONG. IT SAID. QUOTE HONG KONG IS AN IMPORTANT MATTER OF STATE SOVEREIGNTY AND NATIONAL INTEREST CONCERNING ONE BILLION CHINESE PEOPLE (INCLUDING CHINESE RESIDENTS OF HONG KONG); ONLY THE CHINESE GOVERNMENT HAS THE RIGHT TO SAY IT HAS THE RESPONSIBILITY OF A SOVEREIGN STATE FOR THE CHINESE RESIDENTS OF HONG KONG UNQUOTE.
5. THE CONCLUSION WAS SOMEWHAT SOFTER. THE COMMENTARY REFERRED TO THE AGREEMENT TO HOLD TALKS WITH THE COMMON AIM OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG AND TO THAT PART OF ZHAO'S WELCOMING BANQUET SPEECH IN WHICH HE SAID THAT SUCH PROBLEMS OF

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/ HISTORY

## CONFIDENTIAL

HISTORY ARE QUOTE NOT DIFFICULT TO SOLVE AS LONG AS BOTH SIDES APPROACH AND DEVELOP SINO-BRITISH RELATIONS IN A LONG-TERM STRATEGIC PERSPECTIVE AND TAKE THE FIVE PRINCIPLES OF PEACEFUL CO-EXISTENCE AS THE BASIS FOR DEALING WITH PROBLEMS EXISTING BETWEEN THE TWO COUNTRIES UNQUOTE.

### COMMENT

THIS WAS A STRONGLY WORDED NATIONALISTIC PIECE, APPEARING ON CHINA'S NATIONAL DAY. IT IS THE MINIMUM RESPONSE WHICH I WOULD HAVE EXPECTED TO THE PRIME MINISTER'S FORTHRIGHT REMARKS IN HONG KONG. WE SHOULD I THINK TAKE SOME COMFORT FROM THE FURTHER REFERENCE TO THE PROSPERITY AND STABILITY OF HONG KONG, AND TO THE AGREEMENT TO HOLD TALKS, THOUGH PARA 3 ABOVE HAS A TOUCH OF MENACE.

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TELEPHONE  
01 - 601 4444

BANK OF ENGLAND  
LONDON EC2R 8AH

4 October 1982

M C Scholar Esq  
Prime Minister's Office  
No 10 Downing Street  
London SW1

*Jean Michel*

You telephoned this evening to ask for further information on how the recent fall in the Hang Seng index has been distributed between sectors. I attach a note which the Governor asked to be prepared following his meeting with the Prime Minister last Friday and which I hope will give you sufficient information. Please do let me know if you need more.

*Yours ever  
T E*

T E Allen  
Private Secretary to  
the Governor

4.10.82

THE GOVERNOR'S PRIVATE SECRETARY

Copies to Mr Loehnis  
Mr Holland  
Mr Hignett o/r  
Group V  
The Deputy Governor's  
Private Secretary

HONG KONG: THE HANG SENG INDEX

The Governor asked whether we had details of how the recent decline in the Hang Seng index had been distributed between sectors. The summary of market activity in Hong Kong which appears weekly in the Financial Times provides the fullest immediate information available to us. It shows movements in share prices of the major companies in Hong Kong and the details for the week just ended are reproduced in the attached table. The classification into groups by activity is our own, and the reservation should be made that many of the companies are widely diversified and their activities are likely to extend into sectors beyond those in which we have classified them.

We do not have figures for the respective weightings in the index of these companies. We know, however, that HSBC and the Hang Seng Bank between them account for some 25% of the index, and it is likely that with the other companies shown in the table a very large proportion of the index is covered. It would appear from the movements shown that the fall has spread widely across different sectors, although it should be noted that no manufacturing companies are included. A further caution which should be made is that the available facts tell us nothing of the fate of the smaller companies who have no part in the index.

*Hong Kong  
Shanghai  
Bank*

4 October 1982

J E W Kirby

# HONG KONG STOCK MARKET

Sectoral movements in period 24.9.82-1.10.82

	<u>Price HK\$</u>		<u>% fall in price</u>
	24.9	1.10	
Property companies			
Cheung Kong	11.0	7.85	29
Cosmos Property	1.33	1.33	-
Hong Kong Land	6.5	5.0	23
New World Developments	3.18	2.45	23
SKH Props	5.85	4.75	19
Average			18.8
Finance			
Hang Seng Bank	64	46	28
HKSB (Hongkong Bankers)	9.85	8.15	17
Overseas Trust Bank	4.6	3.7	20
Average			21.7
Trading companies			
Hutchison Whampoa	13.4	9.2	31
Jardine Matheson	17.2	13.9	19
Wheelock Marden	4.7	3.37	28
Average			26
Transport			
Cross Harbour Ferries	10.6	9.8	7.5
HK Kowloon & Wharf	3.95	2.97	25
Swire Pacific	11.2	8.5	24
Wheelock Maritime	3.8	3.8	-
World International	2.28	1.70	25
Average			16.3
Utilities			
HK Electric	5.75	4.85	16
HK Telephone	32.0	27.1	15
Average			15.5
Hang Seng Index			21.4



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DESKBY 041130Z

FM HONG KONG 041040Z OCTOBER 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1112 OF 04 OCTOBER

INFO IMMEDIATE PEKING

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B./L. 000 Del. Lead.

R/R.

McGillmore.

McDonald.

Hq H&amp;G.

Hq Fey

Hq Poir.

Hq Newt.

No 10 DM(2)

Sic J. Sinclair <sup>Legal</sup>  
Mc Surowt, <sup>Legal</sup> <sup>Adviser</sup>

X12

MY TELNO 1109 FUTURE OF HONG KONG: PRESS COMMENT

1. HONG KONG'S COMMUNIST NEWSPAPERS PUBLISHED A FURTHER SERIES OF ARTICLES ON THE SAME THEME AS THOSE REPORTED IN MY T U R ON 1 OCTOBER. THE WEN WEI PO IN A FRONT PAGE STORY SAID THAT ALL PEKING NEWSPAPERS HAD FEATURED STORIES ON THE HONG KONG QUESTION, NOTABLY THE VARIOUS COMMENTS ON THE PRIME MINISTER'S REMARKS AT HER PRESS CONFERENCES. THE WEN WEI PO AND TA KUN PAO ALSO PUBLISHED EDITORIALS COVERING MUCH OF THE SAME GROUND.
2. THE MAIN THEMES OF BOTH EDITORIALS WERE THE NOTION THAT HONG KONG CHINESE WERE PART OF THE GREATER CHINESE NATION AND THE CONSISTENCY OF THE PRC POSITION ON HONG KONG. THE WEN WEI PO IN ITS EDITORIAL REFERRED TO THE CONCEPT OF HONG KONG AS A GOOSE WHICH LAYS GOLDEN EGGS FOR CHINA, BUT SAID THAT SOVEREIGNTY WAS NOT SOMETHING THAT COULD BE BOUGHT AND SOLD. THE TA KUN PAO EDITORIAL DWELT AT SOME LENGTH ON THE CONSISTENCY OF CHINESE ASSERTIONS OF SOVEREIGNTY OVER HONG KONG AND CHINESE FOREIGN POLICY IN GENERAL. THE EDITORIAL DISTINGUISHED BETWEEN THE MAY CHANGES WHICH HAD OCCURRED IN CHINA'S INTERNAL POLICY SINCE THE DEFEAT OF THE GANG OF FOUR AND THE CONTINUITY OF FOREIGN POLICY BASED ON THE FIVE PRINCIPLES OF PEACEFUL CO-EXISTENCE. IT INCLUDED A QUOTATION FROM HU YAO BANG'S SPEECH TO THE 12TH PARTY CONGRESS: "WE ARE PATRIOTS AND COULD NEVER ACCEPT ANY VIOLATION OF OUR NATION'S DIGNITY OR INTERESTS. WE ARE

PARTY CONGRESS: "WE ARE PATRIOTS AND COULD NEVER ACCEPT ANY VIOLATION OF OUR NATION'S DIGNITY OR INTERESTS. WE ARE INTERNATIONALISTS, AND WE UNDERSTAND CLEARLY THAT THE REALISATION OF CHINA'S NATIONAL INTERESTS CANNOT BE DIVIDED FROM THE INTERESTS OF MANKIND AS A WHOLE". THE IMPLICATION WAS THAT THIS PART OF HU'S SPEECH HAD SPECIAL SIGNIFICANCE FOR HONG KONG.

3. BOTH EDITORIALS SUGGESTED THAT THOSE WHO APPROACHED THE HONG KONG PROBLEM FROM A DIFFERENT POINT OF VIEW DID SO FROM "ULTERIOR MOTIVES". THE TA KUNG PAO SAID THAT WHILST THE BRITISH PEOPLE WERE NOT RESPONSIBLE FOR THE ACTIONS OF 19TH CENTURY BRITISH IMPERIALISM, THE PRIME MINISTER SHOULD NOT HAVE MADE USE OF EVENTS SHAMEFUL TO CHINA: "TIMES HAVE CHANGED, THE OLD CHINA HAS BECOME THE NEW CHINA, THE CHINESE PEOPLE HAVE STOOD UP, BRITAIN HAS LONG SINCE LOST AN EMPIRE ON WHICH THE SUN NEVER SETS".

4. REPORTS IN SATURDAY'S NON-COMMUNIST CHINESE LANGUAGE PRESS INCLUDES REFERENCES TO THE TA KUNG PAO AND WEN WEI PO ARTICLES. EDITORIAL COMMENT WAS NOT SPECIFICALLY DIRECTED AT THESE ASSERTIONS OF THE CHINESE POSITION BUT DWELT ON GENERAL ANXIETY HERE ABOUT THE FUTURE.

5. THERE WERE NO ARTICLES ON THIS SUBJECT IN THE LOCAL COMMUNIST PRESS ON 3 AND 4 OCTOBER.

YOUDE

GGN PARA 2 LINE 10 ..MANY CHANGES ETC...

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10 DOWNING STREET

From the Private Secretary

4 October 1982

Future of Hong Kong

I believe that the Prime Minister would be grateful for advice on three points:

(a) Can our negotiating hand with the Chinese over Hong Kong be strengthened by making, in the right way and at the right time, one or more gestures in the field of Anglo/Chinese relations (for example, an offer to supply advanced civil or military technology), conditional on the satisfactory outcome of the talks. Given the importance of the future of Hong Kong we might need to consider gestures more radical than we would otherwise contemplate.

(b) How is the process of educating the Chinese in the realities of Hong Kong to be conducted? The Prime Minister has seen a number of general references to this process but believes it essential that at a very early stage we should have as detailed a plan of campaign as possible. To what extent shall we rely on the talks themselves to convey information and arguments about the basis of Hong Kong's prosperity? To what extent shall we use less formal methods - emissaries from Hong Kong to Peking, discussions in Hong Kong with "representatives" of the Chinese Government etc? How will this activity be monitored to ensure that the message is getting through?

(c) Are there any gestures which could be made to the people of Hong Kong to sustain confidence during the period of the talks (e.g. help with Hong Kong students in Britain)?

I should be grateful for a note on these questions as soon as possible.

JC

John Holmes, Esq.,

Foreign and Commonwealth Office

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GR 500

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FM HONG KONG 010840Z OCT 82  
TO IMMEDIATE FCO 1109  
TELEGRAM NUMBER 1105 OF 1 OCTOBER  
INFO IMMEDIATE PEKING

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PEKING TELNO 613: FUTURE OF HONG KONG.

THE MFA STATEMENT IS PROMINENTLY REPORTED IN TODAY'S ENGLISH AND CHINESE LANGUAGE PRESS. MANY CHINESE LANGUAGE NEWSPAPERS MAKE IT THEIR FRONT PAGE LEAD. THE LEFT WING TA KUNG PAO AND WEN WEI PO CARRY AN ADDITIONAL REPORT BY AN NCNA 'COMMENTATOR' WHICH EXPANDS UPON THE MFA STATEMENT. THIS IS ALSO REPORTED IN THE NON-COMMUNIST PRESS. THE WEN WEI PO AND TA KUNG PAO ALSO CARRY SHORT HISTORICAL ARTICLES ON THE THREE TREATIES AND THE OPIUM WARS. 2. THE NCNA COMMENTARY REFERS TO THE ACQUISITION OF HONG KONG IN THE 19TH CENTURY AS AN EXAMPLE OF BRITISH IMPERIALISM'S 'GUN-BOAT DIPLOMACY'. THE CHINESE PEOPLE CAN NEVER ACCEPT THAT THE TREATIES HAVE ANY VALIDITY. PICKING UP THE PRIME MINISTER'S REMARKS ABOUT MORAL RESPONSIBILITY TOWARDS HONG KONG, THE COMMENTARY SAYS THAT HONG KONG IS PART OF THE GREAT CHINESE NATION OF ONE BILLION PEOPLE AND THAT 'ONLY THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA HAS THE RIGHT TO SAY THAT IT HAS THE RESPONSIBILITY OF A SOVEREIGN COUNTRY TOWARDS THE CHINESE INHABITANTS OF HONG KONG'. THE COMMENTARY CONCLUDES BY REPEATING ZHAO ZIYANG'S REMARKS IN HIS SPEECH AT THE WELCOME BANQUET FOR THE PRIME MINISTER IN WHICH HE REFERRED TO SOLVING THE PROBLEM LEFT OVER FROM HISTORY ON THE BASIS OF A LONG-TERM STRATEGIC POINT OF VIEW AND IN ACCORDANCE WITH THE FIVE PRINCIPLES OF PEACEFUL COEXISTENCE.

3. ONLY THREE NON-COMMUNIST NEWSPAPERS PUBLISH EDITORIAL COMMENT. THE FINANCIAL DAILY (INDEPENDENT) URGES A MORE FLEXIBLE APPROACH ON BOTH SIDES AND SAYS THAT THE PRESENT EXCHANGES HAVE BEEN INSPIRED BY STUDENT PROTESTS TO WHICH GOVERNMENTS SHOULD NOT PAY TOO MUCH ATTENTION. THE HONG KONG ECONOMIC JOURNAL (INDEPENDENT) RECOGNISES CHINA'S ULTIMATE CLAIM TO SOVEREIGNTY OVER THE WHOLE OF HONG KONG BUT SAYS THAT THE CHINESE GOVERNMENT SHOULD NOT CONFUSE THIS CLAIM WITH HONG KONG'S STATUS IN LAW. THE TIN TIN DAILY NEWS (INDEPENDENT BUT SMALL CIRCULATION) SAYS THAT THE PRESENT TURN OF EVENTS IS WORRYING: THE TWO SIDES HAVE DIAMETRICALLY OPPOSED VIEWS ON THE SOVEREIGNTY ISSUE AND WILL HAVE TO MODIFY THEM BEFORE THE TALKS CAN START.

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mag

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FM FCO 011800Z OCT 82

TO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

TELEGRAM NUMBER 466 OF 1 OCTOBER

INFO IMMEDIATE HONG KONG PERSONAL FOR GOVERNOR

YOUR TELSNOs 610, 611 AND 614 AND HONG KONG TELNO 1105:

FUTURE OF HONG KONG

1. THANK YOU FOR YOUR AND THE GOVERNOR'S HELPFUL COMMENTS. THESE TELEGRAMS WERE DISCUSSED WITH THE PRIME MINISTER TODAY.
2. AGAINST THE BACKGROUND OF CONTINUING NERVOUSNESS IN HONG KONG, THE PRIME MINISTER SEES ADVANTAGE IN YOUR MAKING CONTACT WITH THE CHINESE VERY SOON AND BEFORE THE GOVERNOR MAKES HIS LEGCO SPEECH ON 6 OCTOBER. THIS WOULD ENABLE HIM TO SAY THAT PRELIMINARY TALKS HAD BEGUN. YOU SHOULD THEREFORE TAKE EARLY ACTION WITH THE MFA AS PROPOSED IN YOUR TELNO 611 AS AMENDED BY THE LAST SENTENCE OF PARAGRAPH 5 OF HONG KONG TELNO 1105.
3. AT YOUR FIRST CONTACT WITH ZHANG WENJIN, WE HOPE THAT YOU WILL BE ABLE TO AVOID ACCEPTING ANY OTHER BASIS FOR THE TALKS THAN THE AGREED STATEMENT, TO ENABLE US TO GET INTO TALKS OF SUBSTANCE AS SOON AS POSSIBLE. YOU SHOULD TRY TO COMBINE DISCUSSION OF THE MODALITIES WITH SOME PROPOSALS ON HOW THE SUBSTANCE OF THE ISSUE MIGHT BE HANDLED. YOUR POINT ABOUT THE NEED TO AVOID ACCEPTING ANY CHINESE PRECONDITION ON THE DISCUSSION OF SOVEREIGNTY IS FULLY TAKEN. YOU SHOULD REFER BACK FOR INSTRUCTIONS IF THE CHINESE INSIST ON THIS, BUT IN ARGUING AGAINST THEM YOU COULD TAKE THE LINE THAT THE AGREED STATEMENT HAS ALREADY REFERRED TO THE RESPECTIVE POSITIONS OF BOTH SIDES AND THAT THE PURPOSE OF THE TALKS IS THE COMMON AIM OF MAINTAINING STABILITY AND PROSPERITY. THEREFORE, THE TALKS SHOULD CONCENTRATE ON THE PRACTICAL PROBLEMS OF ADMINISTRATION AND ITS CONTINUITY.
4. AGAINST THE BACKGROUND THE AIM FOR PUBLICITY ON THE FIRST CONTACT SHOULD BE TO FOLLOW THE FORMULATION PROPOSED IN

Prime Minister

This was sent following your meeting on Friday - and after the telegram from Sir Percy Cuddeback which is attached. I think we can now wait to see how he gets on.

A.J.C. 4/10.

mt

/SENTENCES

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SENTENCES 3 AND 4 OF PARAGRAPH 4 OF YOUR TELNO 614.

5. ARISING FROM THE PRIME MINISTER'S MEETING, THE THINKING NOW IS THAT ONCE THE PRELIMINARY TALKS HAVE ESTABLISHED THE FRAMEWORK FOR THE DISCUSSIONS, THE GOVERNOR SHOULD PARTICIPATE AT THE OPENING TALK ON SUBSTANCE AND THAT HE SHOULD TAKE PART FROM TIME TO TIME ACCOMPANIED BY EXPERTS FROM HONG KONG AS NECESSARY (CHINESE AS WELL AS BRITISH). AS THE TALKS PROGRESS IT MAY BE NECESSARY TO INVOLVE A MINISTER OR SPECIAL EMISSARY, BUT WE WILL NEED TO SEE THE OUTCOME OF THE OPENING MOVES WITH THE CHINESE BEFORE DECISIONS ARE TAKEN.

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HD/HK & GD

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PS/LORD BELSTEAD

PS/PUS

MR GIFFARD

MR DONALD

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DESADV FCO 011600Z  
FM PEKING 011315Z OCT  
TO IMMEDIATE F C O  
TELNO 614 OF 1 OCTOBER  
RPTD INFO HONG KONG (PERSONAL FOR GOVERNOR).

ms

PERSONAL FOR DONALD

HONG KONG TELNO 1105: FUTURE OF HONG KONG

1. I ENTIRELY TAKE THE POINT ABOUT THE NEED FOR HONG KONG TO BE SEEN TO BE INVOLVED AND THIS IS I THINK EXPRESSED IN THE AGREED PAPER FROM WHICH I HAVE BEEN DRAWING. IT IS BECAUSE OF THIS THAT I THINK IT WISE TO MAKE IT CLEAR TO THE CHINESE AT THIS STAGE THAT PEOPLE FROM HONG KONG WILL PARTICIPATE; THIS OF COURSE WOULD INCLUDE THE POSSIBILITY OF THE GOVERNOR COMING AT AN APPROPRIATE MOMENT.

at the beginning of the official talks,

2. I HAD ALSO ENVISAGED, THOUGH I THOUGHT IT UNNECESSARY TO MENTION AT THIS STAGE, A CAREFULLY WORDED PRESS STATEMENT WHEN AGREEMENT TO TALKS WAS OBTAINED, WHICH WOULD BRING OUT FULLY THE EXTENT OF HONG KONG INVOLVEMENT.

3. I DO NOT KNOW IF IT WOULD BE POSSIBLE TO MAKE THE FIRST CONTACT APPEAR TO BE THE START OF TALKS. IF WE DID, WOULD IT NOT LEAD TO PEOPLE IN HONG KONG ASKING WHY THERE WAS NO HONG KONG INVOLVEMENT IN THE FIRST MEETING? THERE WOULD ALSO BE THE POSSIBILITY OF THE CHINESE LETTING IT BE KNOWN THAT FORMAL TALKS HAD NOT ACTUALLY BEGUN.

4. I AM ALSO STRONGLY AGAINST STARTING THE HABIT OF ANNOUNCING THE EXACT DATE OR INDEED OTHER DETAILS OF MEETINGS, WHICH WILL PUT THE SPOTLIGHT TOO CLOSELY ON THEM. IT WOULD ALSO BE DETERMINING IF LONG INTERVALS BETWEEN MEETINGS WERE TO OCCUR AND BECOME KNOWN. IF HOWEVER PUBLICITY IS THOUGHT ESSENTIAL AT THIS STAGE, PERHAPS THE BEST THAT COULD BE SAID WOULD BE THAT MEETINGS IN PEKING TO FOLLOW UP MRS THATCHER'S VISIT HAD BEGUN. AN ASSURANCE COULD BE GIVEN THAT HONG KONG WOULD PARTICIPATE IN THE SERIES OF MEETINGS, AND THAT THE HONG KONG GOVERNMENT, LED BY THE GOVERNOR, WOULD BE CLOSELY INVOLVED AT ALL STAGES. BUT IF SUCH AN ANNOUNCEMENT WERE MADE IT WOULD BE DIFFICULT TO AVOID REVEALING THAT THE REAL TALKS HAD NOT YET BEGUN.

We will consider on Monday

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MR DONALD

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## 10 DOWNING STREET

From the Private Secretary

1 October 1982

HONG KONG

The Prime Minister held a meeting this afternoon to discuss the instructions which should be sent to HM Ambassador, Peking, with regard to the opening of talks with the Chinese Government. In the absence of the Foreign and Commonwealth Secretary, the meeting was attended by Sir Antony Acland, Mr. Donald and Sir Ian Sinclair. As Lord Maclehorse was in London, he was also invited to attend.

The content of a telegram of instructions was agreed and this will be despatched by Mr. Donald. The purpose of this letter is to record one or two other points which were made at the meeting.

There was a good deal of discussion of the significance of the recent fall on the Hong Kong Stock Exchange. It was suggested that the major part of the fall was attributable to property shares. These were valued far too highly anyway. The Prime Minister asked whether there was an analysis available of the nature of the recent decline in share values. I should be grateful if such an analysis could be produced.

It was agreed that the talks with the Chinese must be kept confidential. Publicity would be likely to have an unfortunate effect on confidence in Hong Kong. But the need for confidentiality would present particular problems for Prime Minister's Question Time. Mrs. Thatcher will wish to give further thought as to how to handle this, but she is inclined, at the first suitable opportunity, to inform the House that talks are going on but that the livelihood of over five million people is at issue and that therefore the House will not expect her to give details. It will clearly be important for our own Press Office here, as well as the FCO News Department, to adopt a similarly cautious line in response to press enquiries. I shall pursue this separately.

Lord Maclehorse said that he himself had been pursued by the media in recent days. When he was asked further questions, he intended to say that he could understand the nervousness of the people of Hong Kong about the discussion of their future, but they would have much greater cause for nervousness if talks were not now to begin. It was agreed that this would be helpful.

/ Finally,



Finally, the Prime Minister said that we had three immediate objectives:

- (a) To have established preliminary contact with the Chinese before the Governor made his major speech on 6 October;
- (b) To announce at a slightly later stage a date for the opening of talks, which the Governor would attend; and
- (c) The actual opening of talks.

All three events, properly handled, could have a useful effect on confidence.

A. J. COLES

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John Holmes, Esq.,  
Foreign and Commonwealth Office.

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DESKBY 010830Z FCO

DESKBY 011000Z PEKING

FM HONG KONG 010755Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1105 OF 1 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

f.a.  
AD/10.

PERSONAL FOR DONALD FROM GOVERNOR

PEKING TELNOS 610 AND 611: FUTURE OF HONG KONG: PRIME MINISTER'S TALKS

1. AS A CONSEQUENCE OF THE AGREED STATEMENT ISSUED IN PEKING AND OF THE PRIME MINISTER'S MEETINGS AND STATEMENTS HERE THERE IS AN UNDERLYING ACCEPTANCE THAT THE AGREEMENT TO HOLD TALKS AND THE ENDORSEMENT BY BOTH SIDES OF A COMMON OBJECTIVE FOR THEM WERE A SUBSTANTIAL STEP FORWARD. THIS VIEW WAS CLEARLY EXPRESSED IN THE PRIME MINISTER'S MEETING WITH UMELCO AND AGAIN AT EXECUTIVE COUNCIL YESTERDAY, AND IS PROBABLY HELD BY MOST THINKING PEOPLE HERE.
2. THERE IS NEVERTHELESS A VERY CONSIDERABLE STATE OF NERVOUSNESS WHICH HAS BEEN EXACERBATED BY THE COUNTER STATEMENT PUT OUT YESTERDAY BY NCNA ABOUT THE PRIME MINISTER'S COMMENTS ON THE VALIDITY OF THE TREATIES. THIS HAS COINCIDED WITH THE PUBLICATION OF THE FINANCIAL SECRETARY'S HALF-YEARLY REVIEW OF THE STATE OF THE ECONOMY. AS A CONSEQUENCE OF THE CONTINUATION OF THE WORLD RECESSION THE FORECAST FOR GROWTH OF GNP IS DOWN TO 4 PER CENT FROM THE 8 PER CENT IN THE BUDGET SPEECH IN FEBRUARY. OVER THE PAST WEEK THE NOMINAL VALUE OF THE HONG KONG DOLLAR IN U.S. DOLLAR TERMS HAS FALLEN BY 4 PER CENT AND THE EFFECTIVE INDEX BY NEARLY 3 PER CENT. THE HANG SENG INDEX HAS FALLEN BY OVER 22 PER CENT IN THE SAME PERIOD. BOTH THE FOREIGN EXCHANGE AND EQUITY MARKETS LOOK LIKE STAYING IN A HIGHLY NERVOUS AND VOLATILE STATE FOR THE TIME BEING AS DOWNSIDE RISKS ARE EVALUATED.
3. A THIRD ELEMENT IS THE STRONGLY EXPRESSED WISH HERE THAT HONG KONG SHOULD NOT ONLY BE INVOLVED IN THE TALKS IN PEKING ON THE FUTURE BUT SHOULD BE SEEN TO BE INVOLVED THROUGH THE GOVERNOR PERSONALLY. THE SENIOR UNOFFICIAL MEMBER MADE THIS POINT AT THE IMELCO MEETING AND READ THE STATEMENT WHICH HE MADE THEN INTO THE MINUTES OF EXECUTIVE COUNCIL YESTERDAY.
4. IN THE LIGHT OF THE ABOVE, I THINK THE HONG KONG DIMENSION WILL HAVE TO BE GIVEN GREATER WEIGHT IN THE SCENARIO FOR THE TALKS (PEKING TELNO 611). TO BEGIN WITH, WE MUST BE ABLE TO SAY SOON THAT THE TALKS HAVE BEGUN. THERE IS A DANGER THAT IF WE START TALKING ABOUT MODALITIES ONLY WE MAY NEVER GET TO A POINT WHERE WE CAN SAY THAT SUBSTANTIVE

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/ TALKS

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TALKS HAVE COMMENCED. I THEREFORE SUGGEST THAT IN THE AMBASSADOR'S APPROACH TO ZHANG WENJIN, THE DISTINCTION BETWEEN MODALITIES AND GUIDELINES SHOULD BE BLURRED. THIS WOULD ENABLE THE FIRST CONTACT TO BE PRESENTED AS THE COMMENCEMENT OF THE TALKS PROPER.

5. MY SECOND POINT CONCERNS PARAGRAPH 3 OF PEKING TELNO 611. I DO NOT THINK WE SHOULD LEAD THE CHINESE TO BELIEVE THAT THE TALKS CAN BE CONDUCTED QUIETLY AND DISCREETLY WITH ONLY THE PARTICIPATION OF 'OFFICIALS' FROM HONG KONG IN THE TEAM. IF CONFIDENCE IS TO BE MAINTAINED HERE THERE WILL NEED TO BE 'EVENTS' FROM TIME TO TIME OF A KIND WHICH WILL DEMONSTRATE PUBLICLY THAT SOMETHING IS HAPPENING AND THAT HONG KONG IS CLOSELY INVOLVED. DEPENDING ON HOW THINGS GO, THE FIRST SUCH EVENT MIGHT HAVE TO TAKE THE FORM OF A VISIT BY ME TO PEKING AT AN APPROPRIATE POINT IN THE NOT TOO DISTANT FUTURE. FOR THIS REASON I CONSIDER THAT IT WOULD BE BEST IF THE CHINESE WERE SIMPLY TOLD THAT THE COMPOSITION OF THE BRITISH TEAM WOULD VARY IN ACCORDANCE WITH THE REQUIREMENTS OF THE NEGOTIATIONS.

6. IN PARALLEL WITH THE START OF TALKS IN PEKING WE CAN BEGIN IN HONG KONG THE OVERT (BUT NOT PUBLIC) PROCESS OF GETTING OTHERS TO CORROBORATE TO THE CHINESE THE ARGUMENTS WHICH THE PRIME MINISTER PUT TO THEM ABOUT THE NEED FOR CONTINUING BRITISH ADMINISTRATION (AND, ABOVE ALL, THE BRITISH CONSTITUTIONAL LINK AS SUCH) IF CONFIDENCE HERE IS TO BE PRESERVED. IN ADDITION TO CONTACTS WITH CHINESE OFFICIALS, INCLUDING THE BANK OF CHINA, WE WILL ENCOURAGE LOCAL BUSINESSMEN AND COMMUNITY LEADERS TO MAKE THIS POINT IN THEIR CONTACTS WITH CHINESE OFFICIALS STATIONED HERE, AND IN ANY FURTHER VISITS THEY MAY MAKE TO PEKING. THERE ARE ALSO A NUMBER OF CHANNELS THROUGH WHICH PROMINENT AMERICAN AND PERHAPS OTHER FOREIGN VISITORS TO CHINA MIGHT BE BROUGHT TO MAKE THE SAME POINT IN THEIR CONTACTS WITH CHINESE LEADERS. SHULTZ'S OFFER TO HELP (UKMIS TELNO 1485) SHOULD CERTAINLY BE BORNE IN MIND IN THIS CONTEXT.

7. IN THE MEANTIME WE SHALL BE CONSIDERING FURTHER THE OTHER ISSUES RAISED WHILE THE PRIME MINISTER WAS HERE, AND I SHALL BE IN TOUCH SEPARATELY IN DUE COURSE.

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FM HONG KONG 010840Z OCT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1105 OF 1 OCTOBER  
INFO IMMEDIATE PEKING

*ms*

*lead in file.*

PEKING TELNO 613: FUTURE OF HONG KONG.

*on 10.*

THE MFA STATEMENT IS PROMINENTLY REPORTED IN TODAY'S ENGLISH AND CHINESE LANGUAGE PRESS. MANY CHINESE LANGUAGE NEWSPAPERS MAKE IT THEIR FRONT PAGE LEAD. THE LEFT WING TA KUNG PAO AND WEN WEI PO CARRY AN ADDITIONAL REPORT BY AN NCNA 'COMMENTATOR' WHICH EXPANDS UPON THE MFA STATEMENT. THIS IS ALSO REPORTED IN THE NON-COMMUNIST PRESS. THE WEN WEI PO AND TA KUNG PAO ALSO CARRY SHORT HISTORICAL ARTICLES ON THE THREE TREATIES AND THE OPIUM WARS. 2. THE NCNA COMMENTARY REFERS TO THE ACQUISITION OF HONG KONG IN THE 19TH CENTURY AS AN EXAMPLE OF BRITISH IMPERIALISM'S 'GUN-BOAT DIPLOMACY'. THE CHINESE PEOPLE CAN NEVER ACCEPT THAT THE TREATIES HAVE ANY VALIDITY. PICKING UP THE PRIME MINISTER'S REMARKS ABOUT MORAL RESPONSIBILITY TOWARDS HONG KONG, THE COMMENTARY SAYS THAT HONG KONG IS PART OF THE GREAT CHINESE NATION OF ONE BILLION PEOPLE AND THAT 'ONLY THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA HAS THE RIGHT TO SAY THAT IT HAS THE RESPONSIBILITY OF A SOVEREIGN COUNTRY TOWARDS THE CHINESE INHABITANTS OF HONG KONG'. THE COMMENTARY CONCLUDES BY REPEATING ZHAO ZIYANG'S REMARKS IN HIS SPEECH AT THE WELCOME BANQUET FOR THE PRIME MINISTER IN WHICH HE REFERRED TO SOLVING THE PROBLEM LEFT OVER FROM HISTORY ON THE BASIS OF A LONG-TERM STRATEGIC POINT OF VIEW AND IN ACCORDANCE WITH THE FIVE PRINCIPLES OF PEACEFUL COEXISTENCE.

*p.a.*

*on 10*

3. ONLY THREE NON-COMMUNIST NEWSPAPERS PUBLISH EDITORIAL COMMENT. THE FINANCIAL DAILY (INDEPENDENT) URGES A MORE FLEXIBLE APPROACH ON BOTH SIDES AND SAYS THAT THE PRESENT EXCHANGES HAVE BEEN INSPIRED BY STUDENT PROTESTS TO WHICH GOVERNMENTS SHOULD NOT PAY TOO MUCH ATTENTION. THE HONG KONG ECONOMIC JOURNAL (INDEPENDENT) RECOGNISES CHINA'S ULTIMATE CLAIM TO SOVEREIGNTY OVER THE WHOLE OF HONG KONG BUT SAYS THAT THE CHINESE GOVERNMENT SHOULD NOT CONFUSE THIS CLAIM WITH HONG KONG'S STATUS IN LAW. THE TIN TIN DAILY NEWS (INDEPENDENT BUT SMALL CIRCULATION) SAYS THAT THE PRESENT TURN OF EVENTS IS WORRYING: THE TWO SIDES HAVE DIAMETRICALLY OPPOSED VIEWS ON THE SOVEREIGNTY ISSUE AND WILL HAVE TO MODIFY THEM BEFORE THE TALKS CAN START.

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Foreign and Commonwealth Office

London SW1A 2AH

Discussed at

today's meeting with

the Prime Minister.

1 October 1982

Dear John,

AM  $\frac{1}{10}$  p.a.

CONDUCT OF TALKS ON THE FUTURE OF HONG KONG

In preparation for the meeting which the Prime Minister will be holding with Sir A Acland and other officials at 3.00 pm on 1 October, I enclose commentaries and recommendations for action from the Ambassador in Peking and the Governor in Hong Kong. ( Peking telegrams numbers 588 and 596 report the talks in Peking, Peking telegrams 610 and 611, and HongKong telegram number 1105 commenting and proposing the next steps.)

HMA Peking notes that the Chinese leaders took a very tough line in the talks. They are adamant in their insistence on recovering sovereignty over the whole territory by 1997, and sought British cooperation in ensuring a smooth transition to this. They seemed prepared to allow the capitalist system in Hong Kong to continue and to take British interests into account, but showed deep ignorance of the way in which Hong Kong works and did not appear to understand that British administration is crucial for the preservation of confidence. They were, however, ready to agree to talks "to maintain the stability and prosperity of Hong Kong".

HMA Peking's assessment is that this is a predictably tough opening statement of their position. But the Chinese now have for the first time a clear statement of the British position, and will be studying it carefully. Moreover, the Prime Minister achieved our objective in obtaining an agreement to hold talks on these terms. The outlook is therefore not without hope.

The Governor does not dissent from this but paints the scene from the Hong Kong point of view. While the talks should certainly be seen as a step forward he stresses that there is considerable nervousness exacerbated by subsequent counter statements by the Chinese. This has been underlined by the continuing fall in the Hang Seng Index which today dropped a further 65.12 points to 862.06.

Peking's and Hong Kong's comments thus point out both the opportunities and the risks in the months ahead and the need for very delicate handling of the talks with the Chinese.

The Ambassador proposes that he should be authorised to approach Vice Foreign Minister Zhang Wenjin to discuss the opening of talks. He would suggest to Zhang that the talks take place in Peking, initially with a small

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British team headed by HMA, and including officials from Hong Kong, and a corresponding team on the Chinese side. The talks should be confidential but from time to time both sides might agree a short statement on progress. The guidelines for the talks should be the statement agreed by the Prime Minister and Deng Xiaoping. If Zhang insisted on an explicit acceptance of Deng's "premise" on the recovery of sovereignty by China, HMA would refer back for instructions.

If possible, he would also discuss the agenda for the first meeting, which he would suggest might take place a week later. He would ask the Chinese for a more detailed exposition of their proposals for maintaining the capitalist system in Hong Kong and ensuring its prosperity.

From the Hong Kong angle the Governor makes two main points on the handling of the talks. The first is the need to be able to demonstrate as quickly as possible that discussions are under way. He urges that the Ambassador should not make too sharp a distinction between the modalities of the talks and the guidelines and if possible to get on to substance during the first contact. This is clearly a very reasonable aim from Hong Kong's point of view, but a good deal will need to be left to the Ambassador's discretion depending upon the attitude adopted by the Chinese.

The Governor's second point concerns Hong Kong participation in the talks. We agree that it may well be necessary for this to be achieved at varying levels and in different ways. Involvement by the Governor should certainly not be ruled out. Indeed this was a point on which the Prime Minister herself placed some stress when the matter was discussed in Hong Kong. Obviously it is too early to make any hard and fast plans at this stage but we agree that the more general formulation on the composition of the British team which the Governor proposes is the right one.

I enclose a draft telegram of instructions that could be sent to HMA Peking if the Prime Minister wishes to proceed in this way.

While talks are in progress a parallel operation to continue the education of the Chinese leaders about the position of Hong Kong and the importance of British administration will clearly be necessary. The Governor has made a number of comments about this. He mentions the offer by Secretary of State Shultz to the Secretary of State that the Americans might help. This could well be useful. It would probably be best to wait to see how the first talks with the Chinese go. We shall, however, be making separate recommendations on this. In this

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context the Prime Minister asked whether it would be useful to seek the help of Lee Kuan-Yew to get across to the Chinese leaders the message about what inspires confidence in Hong Kong. I enclose a copy of Peking telegram number 607, in which HMA Peking comments on this proposal. He agrees that it might be helpful to be able to make use of trustworthy world leaders, including those in international monetary organisations, in this way, but considers that there would be difficulties in using Lee, who is unlikely to have normal contacts with Chinese leaders in the near future, and who fell out with Zhao Ziyang last year over China's support for South East Asia Communist parties. Moreover, Lee will be fully aware that Singapore would benefit in many ways from an eclipse of Hong Kong, and may therefore have an interest in bringing this about.

I also enclose telegrams from Hong Kong (numbers 1102 and 1103) about the remarks which the Governor proposes to make to the Legislative Council in his annual address on 6 October. These have been cleared with the Ambassador in Peking. They seem on exactly the right lines. If the Prime Minister has any comments, she may wish to make these at the meeting today.

*Yours ever*  
*John Holmes*

J E Holmes

A J Coles Esq  
10 Downing Street

SECRET

File No.....

Department ..... HKGD

Drafted by  
(Block Capitals) .....

Tel. Extn.....

OUTWARD

TELEGRAM

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(Time) .....Z

POSTBY .....Z

PREAMBLE

(Time of Origin) ..... Z (G.M.T.) (Restrictive Prefix).....

(Security Class.) ..... SECRET (Caveat/  
Privacy marking) .....

(Codeword) ..... (Deskby).....Z

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(precedence) (post)

AND TO (precedence/post) .....

AND SAVING TO .....

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[TEXT] PERSONAL FOR AMBASSADOR

YOUR TELNOS 610 AND 611 AND HONG KONG TELNOS 1102, 1103 AND 1105: FUTURE OF HONG KONG

1. Thank you for these helpful comments. Following discussion with the Prime Minister at a meeting on 1 October, it was agreed that you should take action with the MFA as proposed in your telno 611 as amended by the last sentence of paragraph 5 of Hong Kong telno 1105. Because of the continuing nervousness in Hong Kong, there is advantage in making contact with the Chinese soon, and the Prime Minister fully accepts the Governor's points on this.

2. As regards the substance of your first contact, you

/will



will of course have to judge the mood of the Chinese. We hope that this will permit you to move on to a discussion of the guidelines so that we can say that talks of substance have begun. However your point about the need to avoid accepting any Chinese precondition on the discussion of sovereignty is fully taken. You should refer back for instructions if the Chinese insist on this.

3. In practice it will in any case be very difficult to keep your first contact with Zhang Wenjin secret and some announcement to the press is likely to be inevitable. We hope you can agree with the Chinese that both sides should limit this to a simple statement that talks have begun and will be continued soon. It will of course be particularly important to avoid getting into details if there has been disagreement on the lines envisaged above.

4. You should also draw the attention of the Chinese to the ill effect in Hong Kong which public statements on substance have made, and urge that as far as possible during the talks we should limit comment to agreed joint statements at suitable intervals.

NOTHING TO BE WRITTEN IN THIS MARGIN

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*Mr. Hoare*

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CR 1400  
SECRET  
FM PEKING 231500Z SEP 82  
TO IMMEDIATE FCO  
TELNO 589 OF 23 SEP 82.

PERSONAL FOR PS TO SECRETARY OF STATE  
FROM PRIVATE SECRETARY TO PRIME MINISTER.

PRIME MINISTER'S TALKS WITH ZHAO ZIYANG: FUTURE OF HONG KONG.

1. THE PRIME MINISTER BEGAN THE SECOND SESSION WITH ZHAO ZIYANG ON 23 SEPTEMBER WITH A STATEMENT ON HONG KONG. RECALLING WHAT ZHAO HAD TOLD MR ATKINS IN JANUARY AND DENG XIAOPING'S REMARKS TO MR HEATH IN APRIL SHE SAID SHE HAD IDENTIFIED TWO MAIN ELEMENTS IN THE CHINESE THINKING. THE FIRST WAS SOVEREIGNTY WHICH WAS LIKELY TO BE A DELICATE MATTER SEMICOLON SHE WOULD RETURN TO THAT LATER. THE SECOND WAS THE NEED TO MAINTAIN THE PROSPERITY OF HONG KONG.

2. THE PRIME MINISTER DESCRIBED WHAT SHE SAW AS THE FUNDAMENTAL ELEMENTS ON WHICH CONFIDENCE IN HONG KONG DEPENDED. BRITISH ADMINISTRATION HAD PROVIDED THESE. CHANGES SUCH AS THOSE ENVISAGED IN DENG'S REMARKS TO MR HEATH WOULD IF IMPLEMENTED OR EVEN ANNOUNCED AS A DECISION OF THE CHINESE GOVERNMENT HAVE A DISASTROUS EFFECT UPON CONFIDENCE IN HONG KONG. THERE WOULD BE ECONOMIC COLLAPSE, A FLIGHT OF CAPITAL FROM THE TERRITORY, MANY PEOPLE IN HONG KONG WOULD SUFFER FINANCIAL HARDSHIP, MANY WOULD SEEK TO LEAVE, THERE WOULD BE INTERNATIONAL REPERCUSSIONS AND BRITAIN WOULD HAVE FAILED IN ITS DUTY TO HONOUR ITS OBLIGATIONS TO THE PEOPLE OF HONG KONG WHO HAD PLACED THEIR FAITH IN BRITISH ADMINISTRATION FOR MORE THAN A CENTURY. THE PROBLEM WAS NOT WHAT WOULD HAPPEN IN 1997, BUT WHAT PEOPLE BELIEVED NOW IN 1982 WOULD HAPPEN TO THE FUTURE ADMINISTRATION OF HONG KONG. THE COMMON OBJECTIVE OF THE TWO SIDES TO MAINTAIN THE PROSPERITY OF HONG KONG COULD ONLY BE ACHIEVED IF PEOPLE BELIEVED THAT THE PRESENT ARRANGEMENTS FOR ADMINISTERING HONG KONG WOULD CONTINUE FOR A LONG TIME, BEYOND 1997. A CHANGE AWAY FROM BRITISH ADMINISTRATION WOULD HAVE A VERY DESTRUCTIVE EFFECT.

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3. SOMETHING HAD TO BE DONE VERY SOON. THE PRIME MINISTER WAS FAMILIAR WITH THE CHINESE POSITION ON SOVEREIGNTY, BUT SHE COULD ONLY MAKE RECOMMENDATIONS TO HER GOVERNMENT ON THE QUESTION OF SOVEREIGNTY IF THERE WAS AGREEMENT BETWEEN THE TWO SIDES ON CONCRETE ARRANGEMENTS FOR THE ADMINISTRATION AND CONTROL OF HONG KONG AND SHE WAS SATISFIED THAT THEY WOULD COMMAND CONFIDENCE AND WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG. THE PRIME MINISTER PROPOSED THAT OFFICIAL TALKS SHOULD BEGIN SOON TO SEEK AGREEMENT ON SUCH ARRANGEMENTS WHICH WOULD MEET THE WISHES OF CHINA, BRITAIN AND THE PEOPLE OF HONG KONG AND PRESERVE THE PROSPERITY OF HONG KONG. SHE PROPOSED THAT THESE TALKS SHOULD BEGIN VERY EARLY AND THAT THERE SHOULD BE A PUBLIC ANNOUNCEMENT TO THIS EFFECT BEFORE SHE LEFT PEKING.

4. ZHAO ZIYANG SAID THAT THE CHINESE GOVERNMENT HAD ALL ALONG STATED THAT THIS PROBLEM LEFT OVER FROM HISTORY WOULD BE SETTLED IN THE PROPER WAY WHEN CONDITIONS WERE RIPE. IT COULD BE SAID THAT CONDITIONS WERE RIPE NOW. CHINA COULD NOT BUT RECOVER ITS SOVEREIGNTY OVER HONG KONG, NO LATER THAN 1997. CHINA DID NOT ACCEPT THE TREATIES BUT IN ANY CASE BRITAIN WOULD HAVE NO LEGAL BASIS TO ADMINISTER THE NEW TERRITORIES AFTER 1997. HONG KONG ISLAND AND KOWLOON WERE SIMILARLY INSEPERABLE FROM THE TERRITORY OF CHINA, SO THE ONLY WISE AND PRACTICAL COURSE WAS THAT THE WHOLE TERRITORY SHOULD BE RETURNED TO CHINA. THE CHINESE PEOPLE WOULD NOT PERMIT THE CHINESE GOVERNMENT TO FAIL TO RECOVER SOVEREIGNTY OVER HONG KONG BY 1997, 48 YEARS AFTER THE FOUNDING OF THE PEOPLE'S REPUBLIC. ANY CHINESE GOVERNMENT WHICH FAILED TO RECOVER SOVEREIGNTY WOULD NOT BE ABLE TO ACCOUNT TO ITS PEOPLE. ON THIS ISSUE THERE WAS NO ALTERNATIVE AND NO LEEWAY FOR THE CHINESE GOVERNMENT. THE DIFFICULTIES OF BOTH SIDES ON THIS QUESTION WERE DIFFERENT IN NATURE.

5. ZHAO SAID THAT AFTER THE RECOVERY OF SOVEREIGNTY THE CHINESE GOVERNMENT WOULD PURSUE SPECIAL POLICIES DESIGNED TO MAINTAIN STABILITY AND PROSPERITY IN HONG KONG. HONG KONG COULD BECOME A SPECIAL ADMINISTRATIVE ZONE ADMINISTERED BY LOCAL PEOPLE AND ITS EXISTING ECONOMIC AND SOCIAL SYSTEM AND LIFE STYLE COULD REMAIN UNCHANGED. THE CAPITALIST SYSTEM IN HONG KONG WOULD REMAIN AS WOULD THE FREE PORT AND THE INTERNATIONAL FINANCIAL CENTRE.

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THE HONG KONG DOLLAR WOULD CONTINUE TO BE USED AND TO BE CONVERTIBLE. CHINA WOULD TAKE INTO PROPER CONSIDERATION THE ECONOMIC RELATIONSHIP BETWEEN BRITAIN AND HONG KONG, BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN AT THEIR POSTS WHEN THE SPECIAL ADMINISTRATIVE ZONE WAS SET UP.

6. TO SUM UP THE TWO ELEMENTS OF CHINA'S BASIC POLICY ON THE HONG KONG QUESTION - RECOVERY OF SOVEREIGNTY AND MAINTENANCE OF PROSPERITY - WERE INSEPERABLE, BUT RECOVERY OF SOVEREIGNTY WAS THE PREREQUISTIE. ON THE PREMISE OF RECOVERING SOVEREIGNTY, CHINA COULD EXPLORE WAYS OF MAINTAINING AND DEVELOPING THE PROSPERITY OF HONG KONG. ZHAO SAID THAT CHINA WOULD NOT MAINTAIN AND DEVELOP THE PROSPERITY OF HONG KONG AT THE EXPENSE OF THE RECOVERY OF SOVEREIGNTY. CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF, NOR PLACE HONG KONG UNDER OTHERS TRUSTEESHIP.

7. ZHAO THEN MISQUOTED THE PRIME MINISTER AS SAYING THAT IF CHINA RECOVERED SOVEREIGNTY, CONFIDENCE AND PROSPERITY IN HONG KONG WOULD BE DESTROYED. THE PRIME MINISTER CORRECTED THIS, REITERATING THAT THE PRESENT FLOURISHING SYSTEM IN HONG KONG DEPENDED UPON BRITISH ADMINISTRATION. SHE STRESSED AGAIN THAT THE URGENT NEED WAS TO RETAIN CONFIDENCE NOW, IF WHEN SHE REACHED HONG KONG AFTER LEAVING CHINA SHE HAD TO SAY THAT THERE HAD BEEN NO MEETING OF MINDS ABOUT THE FUTURE OF BRITISH ADMINISTRATION, CONFIDENCE WOULD FAIL NOW.

8. ZHAO REPEATED THAT THE CHINESE PUT THE RECOVERY OF SOVEREIGNTY BEFORE THE MAINTENANCE OF PROSPERITY. NO SOVEREIGN STATE COULD DO OTHERWISE. HE COULD NOT AGREE WITH WHAT THE PRIME MINISTER HAD SAID ABOUT THE PROSPERITY OF HONG KONG BEING DESTROYED IF CHINA RECOVERED SOVEREIGNTY. HE THOUGHT THAT AS LONG AS THE TWO SIDES SHOWED FULL COOPERATION, IT WOULD BE POSSIBLE TO AVOID CONFUSION IN HONG KONG DURING THE TRANSITIONAL PERIOD. HE THOUGHT THAT "RECENT DEVELOPMENTS" IN HONG KONG DERIVED FROM MANY REASONS, BUT THE MAIN REASON WAS NOT (UNDERLINED) THE SPREAD OF THE NEWS THAT CHINA WOULD RECOVER SOVEREIGNTY. HE DID NOT BELIEVE THAT CHINESE INVESTORS WOULD FIND BETTER PLACES FOR THEIR MONEY IF CHINA PURSUED POLICIES TO MAINTAIN THE PROSPERITY AND DEVELOPMENT OF HONG KONG. THE PRIME MINISTER INTERJECTED THAT DISINVESTMENT WAS ALREADY IN PROGRESS. ZHAO REJOINED THAT PERHAPS A FEW, BUT NOT MANY WERE DISINVESTING.

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9. ZHAO SAID THAT THE PRIME MINISTER HAD PROPOSED THAT AFTER HER VISIT THE TWO SIDES SHOULD MAINTAIN CONTACT ON HONG KONG. CHINA HELD THE SAME VIEW. BOTH SIDES SHOULD CONTINUE TO DISCUSS THE RECOVERY OF SOVEREIGNTY OVER HONG KONG AND, ON THIS PREMISE, HOW TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG.

10. THE PRIME MINISTER REITERATED THE DIFFICULTIES OF THE SOVEREIGNTY ISSUE FOR BRITAIN. THE TWO SIDES NEEDED TO CONSULT AND AGREE ABOUT HOW TO ACHIEVE A CONTINUATION OF BRITISH ADMINISTRATION IN HONG KONG. SUCH AN AGREEMENT WOULD ENABLE HER TO CONSIDER THE QUESTION OF SOVEREIGNTY. SHE THOUGHT THAT THERE WAS MUCH IN COMMON BETWEEN THE TWO SIDES. SHE HAD NOTED CHINA'S NINE POINT PROPOSALS ON TAIWAN. IF BRITAIN AND CHINA COULD REACH A SATISFACTORY AGREEMENT ON HONG KONG THIS COULD BE AN EXAMPLE. THE PRIME MINISTER SUGGESTED THAT BOTH SIDES SHOULD NOW REFLECT ON WHAT HAD BEEN SAID AND THAT DISCUSSIONS ON HONG KONG SHOULD BE RESUMED WITH DENG XIAOPING ON 24 SEPTEMBER. ZHAO AGREED.

11. THE PRIME MINISTER AND ZHAO AGREED TO ISSUE THE FOLLOWING STATEMENT TO THE PRESS. "THE TWO SIDES BEGAN DISCUSSION OF HONG KONG TODAY IN A FRIENDLY ATMOSPHERE. THE TALKS WERE USEFUL. THEY WILL BE CONTINUED TOMORROW."

12. THE PRIME MINISTER WISHES THE CONTENT OF THIS REPORT TO BE VERY CLOSELY GUARDED. IT SHOULD THEREFORE BE GIVEN EXTREMELY RESTRICTED CIRCULATION.

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AND TO IMMEDIATE HONG KONG (PERSONAL FOR ACTING GOVERNOR)

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TO PS TO SECRETARY OF STATE

FROM PS TO PRIME MINISTER

PRIME MINISTER'S TALKS WITH DENG XIAOPING: HONG KONG

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1. THE PRIME MINISTER MET DENG XIAOPING ON FRIDAY 24 SEPTEMBER. DENG IMMEDIATELY RAISED THE QUESTION OF THE FUTURE OF HONG KONG AND ASKED THE PRIME MINISTER TO SPEAK FIRST.

2. THE PRIME MINISTER REPEATED MUCH OF WHAT SHE HAD SAID TO ZHAO, STRESSING THE FOLLOWING POINTS:

- A) THE TWO SIDES HAD THE COMMON OBJECTIVE OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG.
- B) THAT WHAT WAS SAID OR DONE NOW (UNDERLINED) WOULD HAVE AN IMMEDIATE IMPACT ON CONFIDENCE IN HONG KONG ITSELF AND INTERNATIONALLY:
- C) SHE KNEW HOW IMPORTANT SOVEREIGNTY WAS TO CHINA BUT IT WAS ALSO A DIFFICULT ISSUE FOR HER. HOWEVER, IF THE TWO GOVERNMENTS COULD AGREE DEFINITE ARRANGEMENTS ABOUT THE FUTURE ADMINISTRATION AND CONTROL OF HONG KONG AND IF SHE WERE SATISFIED THAT THEY COULD WORK AND COMMAND CONFIDENCE, AND IF SHE COULD JUSTIFY THEM TO THE BRITISH PARLIAMENT AND IF THEY WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG, THEN SHE COULD CONSIDER THE QUESTION OF SOVEREIGNTY. WITHOUT SUCH AGREEMENT SHE COULD NO MAKE RECOMMENDATIONS TO HER GOVERNMENT ON SOVEREIGNTY.
- D) THE IMMEDIATE ISSUE WAS NOT WHAT WOULD HAPPEN IN 1997 BUT WHAT PEOPLE NOW (UNDERLINED) THOUGHT WOULD HAPPEN IN 1997.
- E) THERE WAS NOT ENOUGH TIME DURING HER VISIT TO RECONCILE THE DIFFERENCES BETWEEN THE TWO SIDES BUT SHE BELIEVED THOSE DIFFERENCES COULD BE RECONCILED THROUGH TALKS AND AND IT WAS ESSENTIAL TO MAINTAIN CONFIDENCE MEANWHILE.

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THE PRIME MINISTER PROPOSED THAT THE TWO SIDES SHOULD ANNOUNCE BEFORE SHE LEFT PEKING THAT SHE SHOULD HAVE FURTHER TALKS, TO BE PURSUED URGENTLY, AND THAT THE COMMON OBJECTIVE OF THOSE TALKS SHOULD BE THE MAINTENANCE OF PROSPERITY AND STABILITY IN HONG KONG.

3. CHAIRMAN DENG XIAOPING SAID THAT ZHAO HAD ALREADY CLEARLY ENUNCIATED CHINA'S BASIC POSITION ON HONG KONG. THERE WERE THREE QUESTIONS - SOVEREIGNTY SEMICOLON THE CONTINUED PROSPERITY OF HONG KONG SEMICOLON AND DISCUSSIONS BETWEEN THE CHINESE AND BRITISH GOVERNMENTS ON HOW TO AVOID TURBULENCE IN HONG KONG IN THE PERIOD BETWEEN NOW AND 1997 AND HOW TO MAINTAIN HONG KONG'S PROSPERITY THEREAFTER.

4. DENG REITERATED THAT CHINA HAD NO LEEWAY ON THE SOVEREIGNTY QUESTION. IT SHOULD BE CLEAR TODAY THAT CHINA WOULD CERTAINLY RECOVER SOVEREIGNTY OVER HONG KONG IN 1997. ON THIS PRECONDITION CHINA AND BRITAIN WOULD HOLD TALKS ON FORMULAE FOR THE FUTURE OF HONG KONG AND ON POLICIES FOR MAINTAINING HONG KONG'S PROSPERITY. IN NO MORE THAN ONE OR TWO YEARS TIME THE CHINESE GOVERNMENT WOULD FORMALLY ANNOUNCE ITS DECISION TO RECOVER HONG KONG. THEY WOULD WAIT ONE OR TWO YEARS IN ORDER THAT THE TWO GOVERNMENTS COULD CONDUCT FRIENDLY CONSULTATIONS SO THAT MAJOR DISTURBANCES SHOULD BE PREVENTED AND SO THAT THE PROSPERITY OF HONG KONG WOULD BE MAINTAINED. TIME WAS NEEDED TO SETTLE THE FUTURE OF HONG KONG. BUT AN ANNOUNCEMENT COULD NOT BE PUT OFF FOR MORE THAN ONE OR TWO YEARS. HE THEN SUGGESTED THAT THE CHINESE RESUMPTION OF SOVEREIGNTY OVER HONG KONG WOULD BENEFIT BRITAIN BY BRINGING TO AN END THE PERIOD OF COLONIALISM.

5. THE PRIME MINISTER REPLIED THAT BRITAIN WAS NOT COLONIALIST SEMICOLON WE SIMPLY WANTED TO CARRY OUT OUR MORAL DUTY TO HONG KONG. WE KNEW THAT IN 1997 SOVEREIGNTY OVER 92 PERCENT OF HONG KONG WOULD PASS TO CHINA. THE BRITISH GOVERNMENT KEPT TO ITS TREATIES AND WAS NOT CONTESTING THE TERMINATION OF THE LEASE. SHE STRESSED AGAIN THE NEED TO BOLSTER INVESTOR CONFIDENCE NOW (UNDERLINED). SHE SUGGESTED THAT WE SHOULD BEGIN TALKS IMMEDIATELY IN ORDER TO OBTAIN AN AGREEMENT ACCEPTABLE TO CHINA, HONG KONG, AND THE BRITISH PARLIAMENT AND WHICH WOULD PRESERVE PROSPERITY, FOR IF WE DESTROYED PROSPERITY IT WOULD NEVER RETURN. SHE RECOGNISED THAT CHINESE HAD ITS OWN POSITION ON SOVEREIGNTY. WE TOO HAD OUR POSITION. BUT THESE POSITIONS WERE RECONCILABLE AND IN THAT SPIRIT WE COULD ENTER TALKS.

6. DENG REPLIED THAT HE HOPED WE WOULD UNDERSTAND THAT CHINA WOULD RECOVER SOVEREIGNTY OVER THE WHOLE OF HONG KONG BY 1997. HE DID NOT THINK HONG KONG'S PROSPERITY COULD ONLY BE MAINTAINED UNDER BRITISH ADMINISTRATION. THE MAINTENANCE OF PROSPERITY WOULD DEPEND FUNDAMENTALLY ON THE POLICY PURSUED BY CHINA TOWARDS HONG KONG AFTER IT HAD RECOVERED SOVEREIGNTY AND WHEN HONG KONG WAS ADMINISTERED BY CHINA. SOME CHANGES WOULD BE MADE BUT HONG KONG WOULD REMAIN A CAPITALIST SOCIETY.

7. DENG CONTINUED THAT IT WAS UNAVOIDABLE THAT THERE WOULD BE SOME QUOTE FLUCTUATIONS UNQUOTE AFTER CHINA ANNOUNCED THAT IT WOULD RECOVER SOVEREIGNTY. CHINA WOULD TRY TO AVOID MAJOR FLUCTUATIONS AND, WITH COOPERATION, THIS COULD BE DONE. MANY PEOPLE SAID THAT IF PROSPERITY IN HONG KONG COULD NOT BE MAINTAINED THIS WOULD EFFECT CHINA'S MODERNISATION DRIVE. THERE WOULD BE SOME EFFECT BUT IT WOULD NOT BE GREAT. WITH REGARD TO THE FLIGHT OF INVESTMENTS FROM HONG KONG, PROVIDED CHINA PURSUED APPROPRIATE POLICIES FOREIGN INVESTMENTS WHICH HAD LEFT WOULD RETURN. WHEN CHINA ANNOUNCED ITS INTENTION TO RESUME SOVEREIGNTY, IT WOULD AT THE SAME TIME ANNOUNCE THE POLICIES AND MEASURES TO BE ADOPTED. IF THERE WERE VERY LARGE AND SERIOUS DISTURBANCES IN THE NEXT FIFTEEN YEARS THE CHINESE GOVERNMENT WOULD BE FORCED TO CONSIDER THE TIME AND FORMULA FOR THE RECOVERY OF ITS SOVEREIGNTY. NOT ONLY SHOULD THE TWO GOVERNMENTS NOT DO ANYTHING TO THE DETRIMENT OF PROSPERITY, BUT THEY SHOULD PREVENT BUSINESSMEN FROM DOING THINGS DETRIMENTAL TO THE PROSPERITY AND STABILITY OF HONG KONG. HE PROPOSED THAT THE TWO SIDES SHOULD AGREE TO START DISCUSSIONS THROUGH DIPLOMATIC CHANNELS ON THE PRECONDITION THAT IN 1997 CHINA WOULD RECOVER SOVEREIGNTY OVER HONG KONG. ON THIS PRECONDITION THEY WOULD DISCUSS HOW TO ENSURE A GOOD TRANSITIONAL PERIOD AND WHAT WOULD BE DONE THEREAFTER.

8. THE PRIME MINISTER REPLIED THAT SHE WAS WORRIED BY DENG'S REFERENCE TO DISTURBANCES. SHE WAS NOT CONTEMPLATING DISTURBANCES SEMICOLON SHE WOULD DO EVERYTHING TO PREVENT THEM. SHE ALSO WANTED TO PREVENT FINANCIAL COLLAPSE. SHE URGED DENG NOT TO MAKE THE KIND OF STATEMENT HE HAD SUGGESTED AND ASKED HIM TO AGREE THAT THE TWO SIDES SHOULD SAY THAT THEY HAD HAD TALKS, THAT THIS HAD BEEN THE FIRST EXCHANGE, IT HAD NOT BEEN POSSIBLE TO SOLVE ALL PROBLEMS IN THIS SESSION, BUT THEY HAD AGREED TO ENTER INTO FURTHER TALKS THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIM OF MAINTAINING PROSPERITY AND STABILITY IN HONG KONG. MR DENG HAD MADE KNOWN HIS POSITION ON SOVEREIGNTY BUT SHE WAS NOT FREE TO ABROGATE TREATIES WITHOUT REFERENCE TO HER CABINET AND PARLIAMENT.

9. THE PRIME MINISTER AND DENG THEN AGREED THE STATEMENT IN MY TELNO 591 OF 24 SEPTEMBER.

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10. THE PRIME MINISTER WISHED THE CONTENT OF THIS REPORT TO BE VERY CLOSELY GUARDED. IT SHOULD THEREFORE BE GIVEN EXTREMELY RESTRICTED CIRCULATION.

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FM PEKING 300745Z SEP 82  
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PERSONAL FOR DONALD, AUS

FUTURE OF HONG KONG: PRIME MINISTER'S TALKS

1. IN THIS TELEGRAM I OFFER SOME PRELIMINARY ANALYSIS AND COMMENTS ON THE CHINESE LEADERS' RESPONSE TO THE PRIME MINISTER ON THE SUBJECT OF HONG KONG. MIFT CONTAINS RECOMMENDATIONS FOR FOLLOW-UP ACTION.
2. THE CHINESE WERE COURTEOUS IN MANNER, BUT, AS FORECAST, VERY TOUGH IN SUBSTANCE. BOTH DENG AND ZHAO APPEARED TO BE SPEAKING FROM AN AGREED BRIEF AND, EXCEPT AT THE END WHEN HE AGREED THE JOINT STATEMENT, DENG SHOWED LITTLE OF THE CASUAL, ALMOST THROW-AWAY DISPLAY OF PERSONAL AUTHORITY USUALLY ASSOCIATED WITH HIM. THE CHINESE WERE ADAMANT IN THEIR INSISTENCE ON RECOVERY OF SOVEREIGNTY OVER THE WHOLE TERRITORY IN, OR IF NEED BE BEFORE, 1997. SOVEREIGNTY WAS TO THEM NON-NEGOTIABLE AND IF A CHOICE HAD TO BE MADE TOOK PRECEDENCE OVER PROSPERITY.
3. SUBJECT TO THE OVERRIDING OBJECTIVE OF RECOVERY OF SOVEREIGNTY, THE CHINESE WERE PREPARED TO PURSUE SPECIAL POLICIES IN HONG KONG AND TO ALLOW THE CAPITALIST SYSTEM TO CONTINUE. BRITISH INTERESTS IN INDUSTRY, COMMERCE, FINANCE, SHIPPING AND AVIATION WOULD BE TAKEN INTO ACCOUNT AND BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN AT CERTAIN POSTS (THE CHINESE TEXT OF ZHAO'S STATEMENT, WHICH THE FOREIGN MINISTRY HAVE NOW PASSED PASSED TO ME, INCLUDES THE WORD 'CERTAIN'). BUT ZHAO EXPLICITLY STATED THAT CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF OR PLACE HONG KONG UNDER THE TRUSTEESHIP OF OTHERS.
4. IN DISCUSSION BOTH LEADERS, DENG IN PARTICULAR, REVEALED DEEP IGNORANCE OF THE WAY THE HONG KONG SYSTEM WORKS, EG DENG SEEMED TO ENVISAGE THAT HMG COULD CONTROL OR DIRECT BRITISH BUSINESSMEN IN THEIR INVESTMENTS. BOTH SAID THEY DID NOT BELIEVE THAT WITHOUT BRITISH ADMINISTRATION AND THE LINK WITH BRITAIN THE HONG KONG ECONOMY WOULD DECLINE AND COLLAPSE. THEY DO NOT UNDERSTAND, OR THEY AFFECT NOT TO UNDERSTAND, THAT THE CRUCIAL ELEMENT FOR CONFIDENCE IS THAT LINK.
5. BOTH LEADERS SOUGHT BRITISH COOPERATION IN ENSURING A SMOOTH TRANSITION TO CHINESE SOVEREIGNTY IN 1997. DENG ADDED A WARNING THAT IF THERE WERE BIG DISTURBANCES THE CHINESE WOULD SEE THEM AS ARTIFICIALLY ENGENDERED AND HINTED THAT IN THE WORST CASE CHINA WOULD BE PREPARED TO RECOVER SOVEREIGNTY OF HONG KONG AT AN EARLIER DATE. ON THE OTHER HAND, BRITISH COOPERATION WOULD MEAN THE

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COLONIALIST ERA FOR BRITAIN AND USHER IN A NEW ERA OF SINO-BRITISH COOPERATION. BUT IN ANY CASE CHINA WOULD ANNOUNCE IN NOT MORE THAN ONE OR TWO YEARS ITS PLANS FOR HONG KONG.

6. ALTOGETHER A VERY TOUGH OPENING STATEMENT, REVEALING THE POLITICAL AND EMOTIONAL IMPERATIVES, THE ECONOMIC IGNORANCE AND THE CALLOUSNESS THAT MARK THIS REGIME.

7. DESPITE THESE CHILLING STATEMENTS, THE CHINESE WERE READY TO AGREE TO TALKS, AND HAD A NEGOTIABLE DRAFT READY. THEY MADE LITTLE DIFFICULTY ABOUT ACCEPTING OUR PROPOSAL THAT THE OBJECT OF THE TALKS WOULD BE TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG. THIS APPARENT PARADOX IS NO DOUBT LARGELY EXPLAINED BY THE CHINESE WISH TO AVOID A ROW, TO ENGAGE US IN TALKS ON THEIR TERMS AND EVENTUALLY TO TAKE OVER 'NOT ONLY THE BUSINESS BUT ALSO THE GOODWILL'. THE DANGER HERE LIES IN DENG'S STATEMENT TOWARDS THE END OF THE TALKS THAT THE PREMISE (A BETTER TRANSLATION THAN 'PRECONDITION' AS IN THE ENGLISH RECORD) FOR DISCUSSIONS WAS THAT IN 1997 CHINA WOULD RECOVER SOVEREIGNTY. FORTUNATELY, THE PRIME MINISTER LATER MADE IT PLAIN THAT SHE WAS NOT FREE TO ABROGATE TREATIES WITHOUT REFERENCE TO HER CABINET AND PARLIAMENT AND, AS EXPLAINED IN MIFT, WE HAVE THE WORDS OF THE AGREED STATEMENT TO USE AS A DEFENCE AGAINST THIS ARGUMENT.

8. WE FACE, THEREFORE, VERY TOUGH AND AS YET OBSCURE TALKS IN WHICH THE CHINESE HAVE A STRONG POSITION AND WILL SEEK TO PUT PRESSURE ON US IN A NUMBER OF WAYS, IN PARTICULAR BY THE THREAT TO ANNOUNCE THEIR PLANS AND AS A RESULT OF HONG KONG'S NEED FOR AN EARLY SATISFACTORY AGREEMENT IF CONFIDENCE IS TO BE MAINTAINED. WE SHOULD ALSO BE PREPARED FOR A PRESS CAMPAIGN BY THE CHINESE WHICH, IF NOT REVEALING THE CONTENT OF THE TALKS, WILL AT LEAST BUILD UP THEIR CASE IN THE PUBLIC FORUM.

9. HOWEVER, IT WOULD BE WRONG TO DRAW TOO DARK CONCLUSIONS FROM THE CHINESE STATEMENTS AT THIS STAGE. HARD THOUGH THEY ARE, THEY ARE OPENING STATEMENTS WHICH WE WOULD EXPECT TO BE MAXIMALIST. ALTHOUGH THEY ARE IMMOVABLE ON SOVEREIGNTY THEY MAYBE READY TO MAKE CONCESSIONS ON ADMINISTRATION, WHICH IT WILL BE OUR OBJECT TO EXPLORE AND ENLARGE. THEY NOW HAVE THE PRIME MINISTER'S STATEMENT BEFORE THEM, WHICH WAS ALSO TOUGH AND IN A SENSE THE MIRROR IMAGE OF THEIR OWN STATEMENT. FOR THE FIRST TIME IN SOME THREE YEARS OF SPORADIC CONTACTS, BRITISH THINKING ON THE FUTURE HAS BEEN CLEARLY STATED. THEY WILL BE STUDYING THE STATEMENT CAREFULLY. THEY DO NOT WANT A ROW OVER HONG KONG, PARTICULARLY WITH ITS EFFECT ON TAIWAN IN MIND, AND THEY NEED HONG KONG'S MONEY, THOUGH HOW FAR THEY WILL BE PREPARED TO GO TO AVOID THE FIRST AND SECURE THE SECOND REMAINS TO BE SEEN. WE SHOULD ALSO RECALL THAT AFTER VERY TOUGH STATEMENTS ON US ARMS SALES TO TAIWAN A MUTUALLY SATISFACTORY AGREEMENT WAS EVENTUALLY REACHED WITH THE AMERICANS, THOUGH OF COURSE THE US HAD MORE CLOUT THAN WE HAVE AND WERE NOT UNDER THE SAME SORT OF PRESSURE.

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10. WE FOR OUR PART HAVE SECURED OUR MINIMUM OBJECTIVE FOR THE VISIT, IE AN AGREEMENT TO HOLD TALKS, AND IF WE CAN GET THEM GOING ON TOLERABLE TERMS OUR OBJECT MUST BE TO INVOLVE THE CHINESE IN DETAIL ON THE INGREDIENTS OF HONG KONG'S SUCCESS WITH THE OBJECT OF EDUCATING THEM IN ECONOMIC REALITIES. WE HAVE CARDS, THOUGH WE SHALL HAVE TO HUSBAND THEM, AND THERE IS STILL EVERYTHING TO PLAY FOR.

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TO IMMEDIATE ECO

TELNO 611 OF 3Q SEPTEMBER

INFO IMMEDIATE DESKBY HONG KONG 300900Z PERSONAL FOR GOVERNOR.

PERSONAL FOR DONALD, AUS

MIPT: FUTURE OF HONG KONG

1. AGAINST THIS BACKGROUND WE NEED TO GET TALKS GOING AS SOON  
AS POSS

IBLE. THE FIRST STEP I SUGGEST IS FOR ME TO APPROACH VICE  
FOREIGN MINISTER ZHANG WENJIN IN ORDER TO ARRANGE THEIR OPENING.  
DISCUSSION WITH ZHANG IS LIKELY TO COVER TWO MAIN ASPECTS -

- (A) MODALITIES.,
- (B) GUIDELINES.

IF ALL GOES WELL ON THIS, IT MIGHT BE POSSIBLE TO MOVE ON TO  
CONSIDERING WITH HIM THE AGENDA AND EVEN THE DATE FOR THE FIRST  
MEETING.

2. ON REFLECTION, I SHOULD LIKE TO BEGIN WITH MODALITIES BY  
REFERRING ZHANG TO THE JOINT STATEMENT, SAYING THAT FOLLOWING  
AGREEMENT BETWEEN DENG AND MRS THATCHER ON THIS STATEMENT I HAD  
BEEN ASKED TO APPROACH HIM TO DISCUSS MODALITIES. WE WISHED THE  
TALKS TO BE CONDUCTED IN THE FIRST INSTANCE AT LEAST BETWEEN A  
SMALL BRITISH TEAM LED BY HMA PEKING AND A CORRESPONDING TEAM  
ON THE CHINESE SIDE. THIS DID NOT EXCLUDE THE POSSIBILITY  
OF COMMUNICATION OR DISCUSSION AT A DIFFERENT AND HIGHER LEVEL  
FROM TIME TO TIME IF NEED AROSE. WE WISHED TO BE FLEXIBLE. THE  
TALKS SHOULD BE HELD IN PEKING. THE FACT THAT THEY WERE BEING HELD  
WOULD BE KNOWN TO THE WORLD SEMIOLON IN FACT THERE WOULD BE  
ADVANTAGE FROM THE POINT OF VIEW OF CONFIDENCE IN HONG KONG IN  
LETTING IT BE KNOWN THAT THEY HAD BEGUN. BUT THEIR SPECIFIC  
VENUE AND TIMING AND, OF COURSE, THEIR CONTENT MUST BE KEPT SECRET.  
BOTH SIDES SHOULD AVOID STATEMENTS LIKELY TO PREJUDICE THEIR  
SUCCESS. FROM TIME TO TIME BOTH SIDES MIGHT AGREE A SHORT STATE-  
MENT ON PROGRESS.

3. THE TEAMS SHOULD BE SMALL BUT IT WOULD BE NECESSARY TO HAVE THE  
BRITISH TEAM CONTAIN OFFICIALS FROM HONG KONG. THESE LAST MIGHT  
VARY ACCORDING TO THE PRECISE SUBJECT UNDER DISCUSSION. WE HOPED  
THE CHINESE WOULD ASSIST IN ENSURING THAT THEIR MOVEMENTS TO AND  
FROM PEKING ATTRACTED AS LITTLE PUBLIC ATTENTION AS POSSIBLE.

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4. I SHOULD PREFER TO MAKE THE QUESTION OF GUIDE-LINES ONLY MY SECOND POINT AND RAISE IT ONLY WITH THE OBJECT OF SMOKING THE CHINESE OUT AND TRYING TO AVOID A STERILE WRANGLE AT THE FIRST SUBSTANTIVE MEETING. PERHAPS THE BEST WAY OF TACKLING THIS WOULD BE TO SAY WE OF COURSE TOOK AS GUIDELINES THE STATEMENT AGREED BY OUR LEADERS. ZHANG CAN BE EXPECTED TO RESTATE DENG'S "PREMISE" THAT THE TALKS ~~BE~~ ON THE BASIS THAT IN 1997 CHINA WOULD RECOVER SOVEREIGNTY. I PROPOSE TO REPLY THAT THE CHINESE POSITION IS CLAR, BUT SO IS MRS THATCHER'S, IE THAT SHE COULD NOT CONTEMPLATE MAKING RECOMMENDATIONS ON SOVEREIGNTY TO PARLIAMENT UNLESS SHE WAS FULLY SATISFIED ABOUT ARRANGEMENTS FOR ADMINISTRATING HONG KONG AFTER 1997. WE MAY GET AWAY WITH A SIMPLE RESTATEMENT OF RESPECTIVE POSITIONS ON THESE LINES.

5. IT IS POSSIBLE HOWEVC<sup>OF DENG</sup>P THAT ZHANG WILL TRY TO INSIST ON EXPLICIT ACCEPTANCE BY US <sup>073</sup> OF DENG'S PREMISE. IN THIS CASE I WOULD INSIST THAT THE TALKS MUST TAKE PLACE ON THE BASIS OF THE JOINT STATEMENT BY THE THE TWO LEADERS, IE THAT HAVING EXPRESSED THEIR RESPECTIVE POSITIONS, THE LEADERS AGREED THAT TALKS SHOULD TAKE PLACE WITH THE COMMON AIM OF ENSURING STABILITY AND PROSPERITY. THE FACT THAT THE STATEMENT REFERRED TO RESPECTIVE POSITIONS REFLECTED THE FACT THAT THERE WERE DIFFERENCES OF VIEW ON BASIC POINTS. FOR THE CHINESE NOW TO INSIST ON OUR ACCEPTANCE OF CONDITIONS NOT EXPRESSED IN THE JOINT STATEMENT WOULD BE INCONSISTENT WITH THE AIM AGREED BY OUR LEADERS AND FRUSTRATE THEIR INTENTIONS.

6. IF ZHANG PROVED OBDURATE I SHOULD HAVE TO REFER BACK FOR INSTRUCTIONS. I THINK THAT OUR BEST LINE IN SUCH A CASE WOULD BE TO SEEK TO CONVINCED THE CHINESE THAT THEY WERE ASKING FOR SOMETHING BEYOND MRS THATCHER'S POWER TO GIVE, EVEN IF SHE WISHED TO. I DOUBT WHETHER THE CHINESE WISH THE TALKS

TO BREAK DOWN AT THIS EARLY STAGE. IF WE COULD GET THIS POINT ACROSS THERE SHOULD BE A GOOD CHANCE THAT THEY WOULD RETREAT.

8. IF ZHANG ACCEPTED THE ARGUMENT WE MIGHT BE ABLE TO MOVE ON TO THE QUESTION OF THE AGENDA FOR THE FIRST MEETING. I COULD REPEAT OUR SINCERELY HELD VIEW THAT PROSPERITY IN HONG KONG DEPENDS ON CONTINUED BRITISH ADMINISTRATION. I COULD THEN SAY THAT WE HAD LISTENED WITH INTEREST TO THE CHINESE PROPOSALS FOR MAINTAINING THE CAPITALIST SYSTEM IN HONG KONG AND ENSURING ITS PROSPERITY: WE WOULD BE GRATEFUL FOR A CHANCE TO LISTEN TO A MORE DETAILED EXPOSITION FROM THEM AT THE FIRST MEETING SO THAT WE WOULD BE ABLE TO OFFER OUR COMMENTS. AS REGARDS A DATE, I WOULD SUGGEST ABOUT A WEEK FROM THE DATE OF MY MEETING WITH ZHANG. THIS MAY WELL BE TOO FAST FOR THE CHINESE BUT IT MAY BE USEFUL TO PUT A LITTLE PRESSURE ON THEM.

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/ 9. THE

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9. THE ABOVE REFLECTS THE DISCUSSIONS WITH THE PRIME MINISTER AND THE GOVERNOR ON THIS SUBJECT IN HONG KONG, THOUGH SINCE IT IS CONCERNED ONLY WITH MY FIRST MEETING WITH ZHANG AND WHAT I MAY SAY TO HIM IT NATURALLY DOES NOT LOOK AS FAR FORWARD OR COVER ALL THE TOPICS IN OUR DISCUSSION IN HONGKONG. IF YOU AND THE GOVERNOR AGREE, I SHOULD BE GRATEFUL FOR INSTRUCTIONS.

CRADOCK

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<sup>3</sup>  
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00 FCO DESKBY 010830Z

00 PEKING DESKBY 011000Z

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D E D I P

SECRET

DESKBY 010830Z FCO

DESKBY 011000Z PEKING

FM HONG KONG 010755Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1105 OF 1 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

PERSONAL FOR DONALD FROM GOVERNOR

PEKING TELNOS 610 AND 611: FUTURE OF HONG KONG: PRIME MINISTER'S TALKS

1. AS A CONSEQUENCE OF THE AGREED STATEMENT ISSUED IN PEKING AND OF THE PRIME MINISTER'S MEETINGS AND STATEMENTS HERE THERE IS AN UNDERLYING ACCEPTANCE THAT THE AGREEMENT TO HOLD TALKS AND THE ENDORSEMENT BY BOTH SIDES OF A COMMON OBJECTIVE FOR THEM WERE A SUBSTANTIAL STEP FORWARD. THIS VIEW WAS CLEARLY EXPRESSED IN THE PRIME MINISTER'S MEETING WITH UMELCO AND AGAIN AT EXECUTIVE COUNCIL YESTERDAY, AND IS PROBABLY HELD BY MOST THINKING PEOPLE HERE.

2. THERE IS NEVERTHELESS A VERY CONSIDERABLE STATE OF NERVOUSNESS WHICH HAS BEEN EXACERBATED BY THE COUNTER STATEMENT PUT OUT YESTERDAY BY NCHA ABOUT THE PRIME MINISTER'S COMMENTS ON THE VALIDITY OF THE TREATIES. THIS HAS COINCIDED WITH THE PUBLICATION OF THE FINANCIAL SECRETARY'S HALF-YEARLY REVIEW OF THE STATE OF THE ECONOMY. AS A CONSEQUENCE OF THE CONTINUATION OF THE WORLD RECESSION THE FORECAST FOR GROWTH OF GNP IS DOWN TO 4 PER CENT FROM THE 8 PER CENT IN THE BUDGET SPEECH IN FEBRUARY. OVER THE PAST WEEK THE NOMINAL VALUE OF THE HONG KONG DOLLAR IN U.S. DOLLAR TERMS HAS FALLEN BY 4 PER CENT AND THE EFFECTIVE INDEX BY NEARLY 3 PER CENT. THE HANG SENG INDEX HAS FALLEN BY OVER 22 PER CENT IN THE SAME PERIOD. BOTH THE FOREIGN EXCHANGE AND EQUITY MARKETS LOOK LIKE STAYING IN A HIGHLY NERVOUS AND VOLATILE STATE FOR THE TIME BEING AS DOWNSIDE RISKS ARE EVALUATED.

3. A THIRD ELEMENT IS THE STRONGLY EXPRESSED WISH HERE THAT HONG KONG SHOULD NOT ONLY BE INVOLVED IN THE TALKS IN PEKING ON THE FUTURE BUT SHOULD BE SEEN TO BE INVOLVED THROUGH THE GOVERNOR PERSONALLY. THE SENIOR UNOFFICIAL MEMBER MADE THIS POINT AT THE UMELCO MEETING AND READ THE STATEMENT WHICH HE MADE THEN INTO THE MINUTES OF EXECUTIVE COUNCIL YESTERDAY.

4. IN THE LIGHT OF THE ABOVE, I THINK THE HONG KONG DIMENSION WILL HAVE TO BE GIVEN GREATER WEIGHT IN THE SCENARIO FOR THE TALKS (PEKING TELNO 611). TO BEGIN WITH, WE MUST BE ABLE TO SAY SOON THAT THE TALKS HAVE BEGUN. THERE IS A DANGER THAT IF WE START TALKING ABOUT MODALITIES ONLY WE MAY NEVER GET TO A POINT WHERE WE CAN SAY THAT SUBSTANTIVE TALKS HAVE COMMENCED. I THEREFORE SUGGEST THAT IN THE AMBASSADOR'S APPROACH TO ZHANG WENJIN, THE DISTINCTION BETWEEN MODALITIES AND GUIDELINES SHOULD BE BLURRED. THIS WOULD ENABLE THE FIRST CONTACT TO BE PRESENTED AS THE COMMENCEMENT OF THE TALKS PROPER. →

5. MY SECOND POINT CONCERNS PARAGRAPH 3 OF PEKING TELNO 611. I DO NOT THINK WE SHOULD LEAD THE CHINESE TO BELIEVE THAT THE TALKS CAN BE CONDUCTED QUIETLY AND DISCREETLY WITH ONLY THE PARTICIPATION OF ''OFFICIALS'' FROM HONG KONG IN THE TEAM. IF CONFIDENCE IS TO BE MAINTAINED HERE THERE WILL NEED TO BE ''EVENTS'' FROM TIME TO TIME OF A KIND WHICH WILL DEMONSTRATE PUBLICLY THAT SOMETHING IS HAPPENING AND THAT HONG KONG IS CLOSELY INVOLVED. DEPENDING ON HOW THINGS GO, THE FIRST SUCH EVENT MIGHT HAVE TO TAKE THE FORM OF A VISIT BY ME TO PEKING AT AN APPROPRIATE POINT IN THE NOT TOO DISTANT FUTURE. FOR THIS REASON I CONSIDER THAT IT WOULD BE BEST IF THE CHINESE WERE SIMPLY TOLD THAT THE COMPOSITION OF THE BRITISH TEAM WOULD VARY IN ACCORDANCE WITH THE REQUIREMENTS OF THE NEGOTIATIONS.



6. IN PARALLEL WITH THE START OF TALKS IN PEKING WE CAN BEGIN IN HONG KONG THE OVERT (BUT NOT PUBLIC) PROCESS OF GETTING OTHERS TO CORROBORATE TO THE CHINESE THE ARGUMENTS WHICH THE PRIME MINISTER PUT TO THEM ABOUT THE NEED FOR CONTINUING BRITISH ADMINISTRATION (AND, ABOVE ALL, THE BRITISH CONSTITUTIONAL LINK AS SUCH) IF CONFIDENCE HERE IS TO BE PRESERVED. IN ADDITION TO CONTACTS WITH CHINESE OFFICIALS, INCLUDING THE BANK OF CHINA, WE WILL ENCOURAGE LOCAL BUSINESSMEN AND COMMUNITY LEADERS TO MAKE THIS POINT IN THEIR CONTACTS WITH CHINESE OFFICIALS STATIONED HERE, AND IN ANY FURTHER VISITS THEY MAY MAKE TO PEKING. THERE ARE ALSO A NUMBER OF CHANNELS THROUGH WHICH PROMINENT AMERICAN AND PERHAPS OTHER FOREIGN VISITORS TO CHINA MIGHT BE BROUGHT TO MAKE THE SAME POINT IN THEIR CONTACTS WITH CHINESE LEADERS. SHULTZ'S OFFER TO HELP (UKMIS TELNO 1485) SHOULD CERTAINLY BE BORNE IN MIND IN THIS CONTEXT.

7. IN THE MEANTIME WE SHALL BE CONSIDERING FURTHER THE OTHER ISSUES RAISED WHILE THE PRIME MINISTER WAS HERE, AND I SHALL BE IN TOUCH SEPARATELY IN DUE COURSE.

YOUDE

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GR 170  
CONFIDENTIAL  
FM UKMIS NEW YORK 282212Z SEP 82  
TO PRIORITY FCO  
TELEGRAM NUMBER 1485 OF 28 SEPTEMBER  
INFO WASHINGTON, HONG KONG, PEKING

HKK 04011

*pa on  
future file*

*4/29/83*

FOLLOWING FROM PRIVATE SECRETARY

*→ P60 2/19 TOP COPY*

UNGA: MEETING WITH US SECRETARY OF STATE: HONG KONG

1. SHULTZ ASKED ABOUT THE PRIME MINISTERS' VISIT AND COMMENTED THAT THE CHINESE HAND WAS STRONG IN ONE RESPECT AND WEAK IN ANOTHER. DID THE CHINESE UNDERSTAND THE WAY THAT PRIVATE INVESTMENT DECISIONS WERE MADE AND ACCEPT THAT THE PROSPERITY OF HONG KONG COULD NOT BE MAINTAINED WITHOUT THE BRITISH? MR PYM REPLIED THAT THE PRIME MINISTER HAD DONE MUCH TO EXPLAIN THE FACTS OF LIFE DURING HER VISIT. BUT, EVEN IF THE CHINESE UNDERSTOOD WHAT WAS NEEDED TO ENSURE PROSPERITY, THEY MIGHT REGARD SOVEREIGNTY AS MORE IMPORTANT. SOME OF THEIR LANGUAGE SUGGESTED THAT THIS WAS INDEED HOW THEY SAW THE MATTER. ON THE OTHER HAND, THE CONTINUING PROSPERITY OF HONG KONG FITTED IN WELL WITH WHAT THE CHINESE WERE TRYING TO DO IN THEIR INTERNAL ECONOMIC POLICIES. THE PROBLEM WAS A DIFFICULT ONE. SHULTZ SAID THAT HE WAS A STRONG SUPPORTER OF HONG KONG AND INDICATED THAT IF HE WERE TO VISIT CHINA HE WOULD BE GLAD TO CONSIDER WHAT HE MIGHT DO TO HELP.

THOMSON

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- MR GIFFARD
- MR DONALD

THIS TELEGRAM  
WAS NOT  
ADVANCED

*Mr. Morris*

*Pl. note as what*

*we have said to Americans*

CONFIDENTIAL

*on the visit*

*4/29/83*

GR 300  
SECRET

SECRET

FM PEKING 300313Z SEP 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 607 OF 30 SEPTEMBER  
INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

TOP COPY

PERSONAL FOR DONALD

YOUR TELNO 483 FROM HONG KONG: FUTURE OF HONG KONG: LEE KUAN YEW

1. THE IDEA HAS SOME ATTRACTIONS BOTH BECAUSE DENG REFERRED TO SINGAPORE IN HIS MEETING WITH THE PRIME MINISTER AND ALSO BECAUSE WE NEED ANY HELP WE CAN GET IN PUTTING THE FACTS OF LIFE ACROSS TO THE CHINESE.
2. BUT THERE ARE DIFFICULTIES ABOUT USING LEE. FIRST HIS PERSONAL RELATIONS WITH CHINESE LEADERS, ESPECIALLY ZHAO ZIYANG, ARE NOT PARTICULARLY GOOD. HE FELL OUT WITH ZHAO DURING THE LATTER'S VISIT TO SINGAPORE LAST YEAR OVER CHINA'S SUPPORT FOR SOUTH EAST ASIAN COMMUNIST PARTIES. SECOND, AS LEE WAS HERE TWO YEARS AGO, HE IS UNLIKELY TO VISIT CHINA AGAIN IN THE NEAR FUTURE. NOR DO WE FORESEE A SUFFICIENTLY HIGH RANKING CHINESE VISITOR TO SINGAPORE FOR SOME TIME. SO LEE IS UNLIKELY TO HAVE AN OPPORTUNITY TO RAISE THE MATTER PERSONALLY WITH THE CHINESE AT A LEVEL LIKELY TO BE EFFECTIVE IN THE NEAR FUTURE. HE COULD DO SO BY LETTER, BUT THIS WOULD DEEPEN CHINESE SUSPICIONS THAT HE HAD BEEN PUT UP TO IT.
3. I SHOULD PERHAPS ADD THE THOUGHT THAT SINGAPORE COULD BENEFIT IN MANY WAYS FROM AN ECLIPSE OF HONG KONG. LOUIS CHA, THE EDITOR OF THE HONG KONG MING BAO, FOR ONE HAS SECURED RIGHT OF ABODE THERE ACCORDING TO A SINGAPORE TRADE OFFICE CONTACT HERE. (PLEASE PROTECT.)
4. IN SPITE OF THE ABOVE, I WOULD NOT WISH ENTIRELY TO RULE OUT THE OPTION OF USING LEE FOR THE REASONS IN MY PARA 1. BUT I SHOULD PREFER TO WAIT AND SEE JUST HOW BADLY WE NEED HIM BEFORE PLAYING THIS CARD. WE SHOULD MEANWHILE BE ON THE WATCH FOR ANY LIKELIHOOD OF LEE MEETING SENIOR CHINESE LEADERS.
5. WE SHOULD AT THE SAME TIME BE THINKING OF OTHER WORLD LEADERS WHOM WE COULD TRUST AND WHO MIGHT BE IN CONTACT WITH TOP CHINESE IN COMING MONTHS. WE SHOULD INCLUDE IN THIS LIST FIGURES IN INTERNATIONAL MONETARY ORGANISATIONS.

CRADOCK

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HD/HK+GD

HD/FED

HD/SEAD

PS

PS/LORD AGLSTEAD

PS/PUS

COPIES TO:-

MR COLES NO 10 DOWNING ST.

MR GIFFARD

MR DONALD

SECRET

CONFIDENTIAL

DESKBY FCO 010830Z

DESKBY PEKING 010530Z

FM HONG KONG 010258Z OCT 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1102 OF 1 OCTOBER

INFO IMMEDIATE PEKING

GOVERNOR'S SPEECH TO THE LEGISLATIVE COUNCIL

IMMEDIATE  
 ADVANCE COPY  
 Mr Giffard  
 Mr Donald  
 Wd/HKG-  
 Wd/FED.  
 RC

(+4)

1. I HAVE TO MAKE THE GOVERNOR'S ANNUAL ADDRESS TO THE LEGISLATIVE COUNCIL ON WEDNESDAY OCTOBER 6. IT WILL ATTRACT MORE ATTENTION THAN USUAL BOTH BECAUSE IT FOLLOWS THE PRIME MINISTER'S VISIT HERE AND BECAUSE IT WILL BE MY FIRST ADDRESS OF ITS KIND.

2. THE LARGEST PART OF THE ADDRESS COVERS THE WORK OF THE GOVERNMENT HERE AND OTHER DOMESTIC ISSUES. BUT IT WILL BE MADE AGAINST THE BACKGROUND OF THE TALKS WITH THE CHINESE ON THE FUTURE AND I SHALL HAVE TO CONCLUDE WITH A SUBSTANTIAL SECTION ON THIS. MY IMMEDIATELY FOLLOWING TELEGRAM SETS OUT WHAT I WOULD PROPOSE TO SAY. MOST OF IT FOLLOWS THE LINE TAKEN BY THE PRIME MINISTER IN HER PRESS CONFERENCES IN PEKING AND HONG KONG. IN DRAFTING IT I HAVE ALSO SOUGHT TO POINT UP THE NOTE OF PROGRESS ('THE SEARCH FOR A SATISFACTORY SOLUTION HAS BEEN GIVEN NEW IMPETUS') AND TO MAINTAIN A NOTE OF CONFIDENCE IN THE FUTURE (THE LAST SECTION OF THE PASSAGE). TO DO LESS OR TO ALLOW ANY IMPRESSION TO BE GIVEN THAT GROUNDS FOR CONFIDENCE HAD BEEN LESSEned SINCE THE TIME OF MY SWEARING-IN WOULD BE QUICKLY DETECTED WITH DAMAGING CONSEQUENCES HERE.

3. YOU WILL NOTE THAT THERE IS NO MENTION OF THE TREATIES IN THE DRAFT. THERE ARE TWO REASONS FOR THIS:-

(A) THE TREATIES ARE TECHNICALLY A MATTER BETWEEN HMG AND THE CHINESE GOVERNMENT,

(B) THE PRIME MINISTER HAS STATED THE POSITION FIRMLY AND UNEQUIVOCABLY. ANYTHING I MIGHT SAY WOULD NOT ADD TO IT BUT COULD LEAD TO FURTHER COUNTER STATEMENTS FROM THE CHINESE.

4. I SHOULD BE GRATEFUL FOR CONFIRMATION THAT THIS TEXT IS ACCEPTABLE TO YOU, BY 10.00 A.M. LONDON TIME ON MONDAY 4 OCTOBER. (WHICH IS MONDAY EVENING HONG KONG TIME).

YOUDE

CONFIDENTIAL

DESKBY FCO 010030Z

DESKBY PEKING 010530Z

FM HONG KONG 010305Z OCTOBER 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1103 OF 01 OCTOBER

INFO IMMEDIATE PEKING

M I P T

GOVERNOR'S SPEECH TO THE LEGISLATIVE COUNCIL

FOLLOWING IS THE DRAFT:

1. THE PRIME MINISTER'S VISITS TO CHINA AND TO HONG KONG THE FIRST BY A BRITISH PRIME MINISTER IN OFFICE ARE STILL VIVID IN OUR MINDS. I SHOULD LIKE AT THE OUTSET TO RECORD THE APPRECIATION OF THE GOVERNMENT AND PEOPLE OF HONG KONG FOR HER CONCERN AND UNDERSTANDING, AND FOR HER REAFFIRMATION OF HER MAJESTY'S GOVERNMENT'S RESPONSIBILITY AND COMMITMENT TO THE PEOPLE OF THIS TERRITORY.
2. IN PEKING MRS THATCHER HELD FAR-REACHING DISCUSSIONS ON THE FUTURE OF HONG KONG WITH CHAIRMAN DENG XIAOPING AND PREMIER ZHAO ZIYANG. IN THE WORDS OF THE JOINT STATEMENT ISSUED AFTER THE PRIME MINISTER'S MEETING WITH CHAIRMAN DENG "BOTH SIDES MADE CLEAR THEIR RESPECTIVE POSITIONS ON THIS SUBJECT. THEY AGREED TO ENTER TALKS THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG". THE AGREEMENT TO START TALKS, AND THE ENDORSEMENT OF THE COMMON OBJECTIVE AT THE HIGHEST LEVEL WERE A SIGNIFICANT ACHIEVEMENT. THE SEARCH FOR A SATISFACTORY SOLUTION HAS BEEN GIVEN NEW IMPETUS.
3. THE PRIME MINISTER GAVE A CLEAR ASSURANCE THAT IN CONDUCTING THE TALKS SHE WOULD SPEAK NOT ONLY FOR BRITAIN BUT FOR BRITAIN'S MORAL RESPONSIBILITY AND DUTY TO THE PEOPLE OF HONG KONG. THAT RESPONSIBILITY AND COMMITMENT HAVE NEVER BEEN IN DOUBT, BUT THE PRIME MINISTER'S FORTHRIGHT REAFFIRMATION OF THEM COULD NOT HAVE BEEN MORE TIMELY. NOR IS THERE ANY DOUBT THAT IN THE SEARCH FOR A SOLUTION H M G WILL TAKE THE VIEWS AND WISHES OF THE PEOPLE OF HONG KONG FULLY INTO ACCOUNT. THE PROCESS OF CONSULTATION HAS ALREADY BEGUN. AN IMPORTANT STAGE IN IT WAS THE VISIT TO LONDON BY THE GROUP OF MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS WHO ACCOMPANIED ME THERE AT THE BEGINNING OF SEPTEMBER.

ADVANCE COPY

IMMEDIATE

Mr Giffard

Mr Donald

Hd/HKGM -

Hd/FET

RC

(14)

BY THE GROUP OF MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS WHO ACCOMPANIED ME THERE AT THE BEGINNING OF SEPTEMBER. THE PROCESS WILL BE A CONTINUOUS ONE AND CAREFUL CONSIDERATION WILL NOW BE GIVEN TO HOW THIS CONSULTATIVE PROCESS CAN BEST BE PURSUED.

4. THE TALKS THROUGH DIPLOMATIC CHANNELS WILL BEGIN SOON. THEIR CONTENT MUST NECESSARILY REMAIN CONFIDENTIAL. THE PURPOSE WILL BE TO COMPLETE THEM AS SOON AS POSSIBLE. I CANNOT MAKE ANY USEFUL FORECAST AS TO WHEN THAT WILL BE: THERE ARE COMPLEX ISSUES TO BE DISCUSSED, AND THERE ARE DIFFERENCES BETWEEN THE TWO SIDES WHICH MUST BE RECONCILED. SO STEADY NERVES WILL BE NEEDED IN THE MONTHS AHEAD. BUT THE PRIME MINISTER HAS MADE PLAIN HER BELIEF THAT, GIVEN THE COMMON OBJECTIVE, THE DIFFERENCES CAN BE RECONCILED AND AN AGREEMENT CAN BE REACHED WHICH WILL BE ACCEPTABLE TO CHINA AND BRITAIN AND WHICH WILL BE WELCOMED BY THE PEOPLE OF HONG KONG. I SHARE THAT BELIEF.

5. HONOURABLE MEMBERS WE HAVE A STATEMENT OF COMMON OBJECTIVE FROM THE BRITISH AND CHINESE GOVERNMENTS. WE HAVE THE COMMITMENT TO THIS TERRITORY OF THE GOVERNMENT OF THE U K. IN THE LIGHT OF THAT COMMON OBJECTIVE, AND THAT COMMITMENT WE SHALL GO FORWARD WITH CONFIDENCE TO PURSUE OUR PROGRAMMES TO THEIR CONCLUSION AND TO PROJECT THEM INTO THE FUTURE.

YOUDE

NNNN

Prime Minister

A.S.C. 4/10.

*Handwritten note:*  
I read on  
very much  
that

Mr Coles ✓

FUTURE OF HONG KONG

1. We spoke on the telephone about material which the Prime Minister might find interesting. I attach notes on the Sino/US negotiations on US arms sales to Taiwan and on the negotiations between Britain and China which led to the exchange of Ambassadors in 1972.

2. Both notes bring out that before agreement was reached concessions had been made on both sides. You will note the Chinese use of calculated leaks to the media.

3. I am having the papers looked out on the negotiation in 1974 between Hong Kong and the Guangdong authorities about the return of illegal immigrants to China. This is not an exact parallel for negotiation between governments, but it may give us some insight into Chinese negotiating techniques.

*Handwritten signature:* A E Donald

1 October 1982

A E Donald

## SINO-US NEGOTIATIONS ON US ARMS SALES TO TAIWAN

Introduction

1. The question of Taiwan has bedevilled relations between the US and PRC since 1949. The Chinese have seen the US as blocking progress towards reunification. In 1972 in the Shanghai Joint Communiqué the US went some way towards accepting Peking's position. In 1978 they went rather further and, in the face of threatening Soviet and Vietnamese policies, the Chinese agreed that relations could be normalised in advance of a full settlement of the issue. (The Carter administration may have hinted that US arms sales to Taiwan would wind down fairly rapidly.) But <sup>reaffirmed their opposition to US arms sales to Taiwan and</sup> the Chinese vigorously protested against the US Taiwan Relations Act of 1979, which succeeded the former US-Taiwan defence treaty and which bound the US to meet Taiwan's legitimate defence needs.

2. The election of President Reagan, an old friend of Taiwan, was alarming to the Chinese leadership. Moreover it seems to have coincided with debates in China about the disappointing fruit of Sino-US normalisation, particularly in <sup>its effect on Taiwan, in</sup> ~~restraining~~ Soviet/Vietnamese expansionism and in transfer of US high technology to China. The nationalistic cause of achieving Taiwan's reunification with the mainland was <sup>perhaps</sup> also being seen as more urgent. Whether voluntarily or as a means of deflecting pressure from their political opponents on this and other issues, the Chinese leadership concluded that they must engage the US in tough negotiations to try to resolve the question.

Course of Negotiations

3. At first it seemed that the Chinese main concern was that the US should not increase the level of its arms transfers to Taiwan,

/particularly



The US decided not to supply the FX but to extend other important <sup>arms supply arrangements</sup> particularly by selling advanced FX fighter aircraft. But their Chinese position hardened (perhaps for domestic political reasons). By early 1982 they were clearly demanding a complete cut-off of all US arms sales. The cut-off need not be immediate but they insisted there must be a definite near date for termination.

They said this involved Chinese national sovereignty, a principle on which there could be no compromise. For the same reason China could not tie its hands to <sup>using</sup> only peaceful means to reunify Taiwan with the mainland. If the US did not respect Chinese sovereignty, relations would inevitably retrogress to their pre-1979 or even pre-1972 level.

4. The US negotiated with the Chinese on the issue mainly through their Ambassador in Washington. Several high-level visitors (Governmental and non-Governmental) also played a part, particularly in explaining US political realities. The US offered a series of politically difficult concessions. There was often no sign of flexibility on the Chinese side. US officials appear on at least one occasion to have believed that a rupture in relations was unavoidable. Despite a sudden breakthrough in July, brinkmanship continued until the very end of the negotiations in early August. The Chinese appear finally to have recognised that no further concession was possible on the US side. They then made a cool judgment of the costs of down-grading relations relative to the costs of a retreat towards the US position. Agreement was reached to issue a Joint Communiqué on 17 August. This represented a considerable US diplomatic victory.

/Nature of ...

Nature of Chinese Compromise

5. The Chinese retreated from publicly-held positions by:
- a. agreeing that their relations with the US could survive, even though the US fixed no time limit for its phasing out arms sales to Taiwan; and
  - b. permitting the US to link even this gradual reduction to Chinese assurances of their fundamental policy of striving for a peaceful solution of the Taiwan question.

The Chinese thus accepted a compromise on an issue of sovereignty. They also recognised that they could not achieve a solution which would put immediate pressure on Taiwan to come to the negotiating table. In trying to camouflage these concessions the Chinese stressed the historical nature of the problem. As 'an issue rooted in history', it was natural that a 'final settlement' could only be brought about 'over a period of time'. (This echoed earlier Chinese statements in different contexts, eg Sino-Indian border negotiations.)

Reasons for Chinese Compromise

6. The US Ambassador in Peking believes that the determining factor for the Chinese was their overriding wish to pursue reunification. They saw a danger of US-Taiwan relations developing independently if ties between Washington and Peking were down-graded. They believed that this could further <sup>boost the regime in Taipei and</sup> entrench Taiwan's de facto independence. Other factors will have been China's need for US cooperation in its economic development, particularly the massive investment for developing energy resources, <sup>and in gathering intelligence on the Soviet Union</sup> and the strategic danger of sending the wrong signal to the Soviet Union. The conclusion of an agreement shortly before the

/Party

Party Congress was taken as a sign of self-confidence on the part of Deng Xiaoping. In this timing however a key element was the existence of definite time limits on the US side. The Chinese were made aware that it was simply impossible for the US further to delay notification to Congress of the next arms sales package for Taiwan; but for this there would have been advantage to the Chinese in letting the negotiations drag on much longer.

#### Chinese Negotiating Style

7. US officials have commented on the abrasive negotiating style of the Chinese. [Intervals of cordiality and aggressiveness appear to have been alternated arbitrarily.] The Chinese began with formal and uncompromising statements of their public position and then sought to draw out US ideas for making progress. Whereas at each round of negotiations the US side tried to introduce an accommodation towards the Chinese position in the hope of winning a reciprocal concession, the Chinese conceded virtually no point until they felt the US could move no further. The Chinese fought separately on a series of points without any attempt to stand back and form a general picture. The resolving of difficult matters was habitually left until well after the 11th hour. High level interventions were sometimes effective in improving the atmosphere (eg Reagan's letters to Chinese leaders, Bush's visit) or in exploring the Chinese bottom line (eg a very restricted private session between Bush and Deng). Informal social meetings in the margins of the negotiations were also useful. But the final breakthrough was revealed at a routine meeting between the US Ambassador and the Chinese Vice Foreign Minister. Leaks to the media, on the Chinese side the result of

/calculated



calculated official policy, tended to have a disruptive influence.

But Chinese media coverage sometimes also gave indications of  
areas of possible flexibility.

Far Eastern Department  
1 October 1982

## SINO/US NEGOTIATIONS ON US ARMS SALES TO TAIWAN:

## OUTLINE CHRONOLOGY

- 1972: Nixon visit to China. Shanghai Joint Communiqué. US open Liaison Office in Peking.
- 1979: Normalisation of relations. US open Embassy in Peking. Taiwan Relations Act: US to maintain unofficial links with Taiwan and meet its defence needs.
- 1980: Substantial US arms supplies to Taiwan after 1979 hiatus.  
US Presidential election campaign: Reagan promises to re-establish official relations with Taiwan.
- 1981:
- January - Reagan takes office: Chinese concerned about future trends of US policy to Taiwan.  
- Sino/Dutch relations downgraded over Dutch sale of submarines to Taiwan.
- June - Haig visits Peking. Reassures Chinese no US re-opening of official relations with Taiwan. Chinese unimpressed by announcement of US relaxation of military sales to PRC. Insist on talks about US arms sales to Taiwan but seem to imply that a certain level of continuing arms supplies would be tolerable.
- September - Chinese publish Nine-Point proposal for Taiwan. Generous terms for Taiwan reunification. Hardening of Chinese line on US arms sales to Taiwan.
- October - In margins of Cancun Summit Zhao Ziyang abrasively lectures Reagan on arms sales.  
- Huang Hua visits US. Takes totally inflexible line with Haig. But FX fighters seem the touchstone.
- December - Further sharpening of Chinese position. Strong reaction to news of US informal notification to Congress of supply of \$97 million spare parts to Taiwan.
- 1982:
- January - US reassessment of risks of rupture with Chinese particularly during Polish crisis. Decision that Taiwan had no military need for FX aircraft.

January (cont'd)

- Assistant Secretary of State Holdridge visits China: Visit complicated by premature US announcement of continued supply to Taiwan of less advanced aircraft. Chinese demand US set date for ending all arms sales. Angry at US unilateral decisions while discussions going on. US refuse to set time limit and ask Chinese to declare only peaceful settlement of Taiwan issue. Deadlock but Chinese willing to continue discussions. US postpones formal notification of spare parts supply.
- February - Hints of greater Chinese flexibility followed by sudden stone-walling.
- March - Reagan and Zhao exchange letters on 10th Anniversary of Shanghai Communiqué.  
- NCNA commentary said relations would retrogress if US insisted on long-term policy of selling arms to Taiwan; weaker than earlier insistence at definite time limit.  
- No progress in talks. US feared formal notification of spare parts supply would lead to recall of Chinese Ambassador from Washington. Warns allies of imminent crisis.
- April - US Administration notifies Congress of spare parts package. Chinese protest but agree to continue talks on grounds that no weapons involved, deal agreed before current Sino/US negotiations and no military transfers while talks underway.
- April/May - Reagan writes letters to Deng, Zhao and Hu Yaobang re-emphasising his commitment to Sino/US relations and support for Chinese Nine-Point Proposal on Taiwan.
- May - Vice President Bush visits Peking. Frank explanations of US political difficulties. Chinese still insisting on cut-off date but some hints of flexibility and apparent reluctance to face downgrading relations. Atmosphere improved.
- July - Resignation of Haig whom Chinese considered sympathetic.
- 17 August - Joint Communiqué published. Chinese reiterated fundamental policy of striving for peaceful reunification with Taiwan. US undertook, bearing this in mind, gradually to reduce arms supplies to Taiwan. No cut-off date specified.

JOINT COMMUNIQUE OF THE UNITED STATES OF AMERICA  
AND THE PEOPLES REPUBLIC OF CHINA

1. IN THE JOINT COMMUNIQUE ON THE ESTABLISHMENT OF DIPLOMATIC RELATIONS ON JANUARY 1, QOQON ISSUED BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA, THE UNITED STATES OF AMERICA RECOGNIZED THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AS THE SOLE LEGAL GOVERNMENT OF CHINA, AND IT ACKNOWLEDGED THE CHINESE POSITION THAT THERE IS BUT ONE CHINA AND TAIWAN IS PART OF CHINA. WITHIN THAT CONTEXT, THE TWO SIDES AGREED THAT THE PEOPLE OF THE UNITED STATES WOULD CONTINUE TO MAINTAIN CULTURAL, COMMERCIAL, AND OTHER UNOFFICIAL RELATIONS WITH THE PEOPLE OF TAIWAN. ON THE BASIS, RELATIONS BETWEEN THE UNITED STATES AND CHINA WERE NORMALIZED.

2. THE QUESTION OF UNITED STATES ARMS SALES TO TAIWAN WAS NOT SETTLED IN THE COURSE OF NEGOTIATIONS BETWEEN THE TWO COUNTRIES ON ESTABLISHING DIPLOMATIC RELATIONS. THE TWO SIDES HELD DIFFERING POSITIONS, AND THE CHINESE SIDE STATED THAT IT WOULD RAISE THE ISSUE AGAIN FOLLOWING NORMALIZATION. RECOGNIZING THAT THIS ISSUE WOULD SERIOUSLY HAMPER THE DEVELOPMENT OF UNITED STATES-CHINA RELATIONS, THEY HAVE HELD FURTHER DISCUSSIONS ON IT, DURING AND SINCE THE MEETINGS BETWEEN PRESIDENT RONALD REAGAN AND PREMIER ZHAO ZIYANG AND BETWEEN SECRETARY OF STATE ALEXANDER M. HAIG, JR., AND VICE PREMIER AND FOREIGN MINISTER HUANG HUA IN OCTOBER, QOIQM

3. RESPECT FOR EACH OTHER'S SOVEREIGNTY AND TERRITORIAL INTEGRITY AND NON-INTERFERENCE IN EACH OTHER'S INTERNAL AFFAIRS CONSTITUTE THE FUNDAMENTAL PRINCIPLES GUIDING UNITED STATES-CHINA RELATIONS. THESE PRINCIPLES WERE CONFIRMED IN THE SHANGHAI COMMUNIQUE OF FEBRUARY 28, QOQON AND REAFFIRMED IN THE JOINT COMMUNIQUE ON THE ESTABLISHMENT OF DIPLOMATIC RELATIONS WHICH CAME INTO EFFECT ON JANUARY 1, QOQON BOTH SIDES EMPHATICALLY STATE THAT THESE PRINCIPLES CONTINUE TO GOVERN ALL ASPECTS OF THEIR RELATIONS.

4. THE CHINESE GOVERNMENT REITERATES THAT THE QUESTION OF TAIWAN IS CHINA'S INTERNAL AFFAIR. THE MESSAGE TO COMPATRIOTS IN TAIWAN ISSUED BY CHINA ON JANUARY 1, QOQON PROBULGATED A FUNDAMENTAL POLICY OF STRIVING FOR PEACEFUL REUNIFICATION OF THE MOTHERLAND. THE NINE-POINT PROPOSAL PUT FORWARD BY CHINA ON SEPTEMBER 30, QOIQM REPRESENTED A FURTHER MAJOR EFFORT UNDER THIS FUNDAMENTAL POLICY TO STRIVE FOR A PEACEFUL SOLUTION TO THE TAIWAN QUESTION.

5. THE UNITED STATES GOVERNMENT ATTACHES GREAT IMPORTANCE TO ITS RELATIONS WITH CHINA, AND REITERATES THAT IT HAS NO INTENTION OF INFRINGING ON CHINESE SOVEREIGNTY AND TERRITORIAL INTEGRITY, OR INTERFERING IN CHINA'S INTERNAL AFFAIRS, OR PURSUING A POLICY OF "TWO CHINAS" OR "ONE CHINA, ONE TAIWAN." THE UNITED STATES GOVERNMENT UNDERSTANDS AND APPRECIATES THE CHINESE POLICY OF STRIVING FOR A PEACEFUL RESOLUTION OF THE TAIWAN QUESTION AS INDICATED IN CHINA'S MESSAGE TO COMPATRIOTS IN TAIWAN ISSUED ON JANUARY 1, QOQON AND THE NINE-POINT PROPOSAL PUT FORWARD BY CHINA ON SEPTEMBER 30, QOIQM THE NEW SITUATION WHICH HAS EMERGED WITH REGARD TO THE TAIWAN QUESTION ALSO PROVIDES FAVORABLE CONDITIONS FOR THE SETTLEMENT OF UNITED STATES-CHINA DIFFERENCES OVER THE QUESTION OF UNITED STATES ARMS SALES TO TAIWAN.

6. HAVING IN MIND THE FOREGOING SETTLEMENTS OF BOTH SIDES, THE UNITED STATES GOVERNMENT STATES THAT IT DOES

NOT SEEK TO CARRY OUT A LONG-TERM POLICY OF ARMS SALES TO TAIWAN, THAT ITS ARMS SALES TO TAIWAN WILL NOT EXCEED, EITHER IN QUALITATIVE OR IN QUANTITATIVE TERMS, THE LEVEL OF THOSE SUPPLIED IN RECENT YEARS SINCE THE ESTABLISHMENT OF DIPLOMATIC RELATIONS BETWEEN THE UNITED STATES AND CHINA, AND THAT IT INTENDS TO REDUCE GRADUALLY ITS SALES OF ARMS TO TAIWAN, LEADING OVER A PERIOD OF TIME TO A FINAL RESOLUTION. IN SO STATING, THE UNITED STATES ACKNOWLEDGES CHINA'S CONSISTENT POSITION REGARDING THE THOROUGH SETTLEMENT OF THIS ISSUE.

7. IN ORDER TO BRING ABOUT, OVER A PERIOD OF TIME, A FINAL SETTLEMENT OF THE QUESTION OF UNITED STATES ARMS SALES TO TAIWAN, WHICH IS AN ISSUE ROOTED IN HISTORY, THE TWO GOVERNMENTS WILL MAKE EVERY EFFORT TO ADOPT MEASURES AND CREATE CONDITIONS CONDUCIVE TO THE THOROUGH SETTLEMENT OF THIS ISSUE.

8. THE DEVELOPMENT OF UNITED STATES-CHINA RELATIONS IS NOT ONLY IN THE INTERESTS OF THE TWO PEOPLES BUT ALSO CONDUCIVE TO PEACE AND STABILITY IN THE WORLD. THE TWO SIDES ARE DETERMINED, ON THE PRINCIPLE OF EQUALITY AND MUTUAL BENEFIT, TO STRENGTHEN THEIR TIES IN THE ECONOMIC, CULTURAL, EDUCATIONAL, SCIENTIFIC, TECHNOLOGICAL AND OTHER FIELDS AND MAKE STRONG, JOINT EFFORTS FOR THE CONTINUED DEVELOPMENT OF RELATIONS BETWEEN THE GOVERNMENTS AND PEOPLES OF THE UNITED STATES AND CHINA.

9. IN ORDER TO BRING ABOUT THE HEALTHY DEVELOPMENT OF UNITED STATES-CHINA RELATIONS, MAINTAIN WORLD PEACE AND OPPOSE AGGRESSION AND EXPANSION, THE TWO GOVERNMENTS REAFFIRM THE PRINCIPLES AGREED ON BY THE TWO SIDES IN THE SHANGHAI COMMUNIQUE AND THE JOINT COMMUNIQUE ON THE ESTABLISHMENT OF DIPLOMATIC RELATIONS. THE TWO SIDES WILL MAINTAIN CONTACT AND HOLD APPROPRIATE CONSULTATIONS ON BILATERAL AND INTERNATIONAL ISSUES OF COMMON INTEREST.  
(END TEXT OF COMMUNIQUE)



CONFIDENTIAL

ANGLO-CHINESE NEGOTIATIONS ON EXCHANGE  
OF AMBASSADORS 1971/2

1. Britain recognised the People's Republic of China in 1950. HMG would have like to exchange Ambassadors at once but the Chinese laid down unacceptable preconditions. In 1954 it was agreed to exchange diplomatic missions headed by Chargés d'Affair~~s~~s
  
2. By 1971 France, Canada and several other Western countries had exchanged Ambassadors with China. The international scene had changed. The US was trying to begin cautious dialogue with Peking, and US reservations about progress in Anglo-Chinese relations were diminishing.
  
3. It seemed likely that there would be two Chinese conditions for an exchange of Ambassadors:
  - a. that HMG should facilitate the PRC's entry to the UN by not supporting the Important Question resolution;
  - b. that HMG should withdraw its remaining Consulate from Taiwan.

Ministers considered that these conditions would be acceptable. China was anyway likely to get into the UN in 1971 (it did). <sup>It was held that</sup> The Consulate in Taiwan had served little real purpose for some time.

/4.

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4. The Chinese <sup>initially</sup> confirmed that these were their only two conditions but <sup>then</sup> asked that HMG's acceptance of them should be put in writing. The only point of serious difficulty <sup>in this</sup> was the Chinese request that HMG should state publicly that it was withdrawing its Consulate from 'China's Province, Taiwan'. This would have shown British acceptance of Peking's claim to sovereignty over Taiwan. But HMG had ~~always~~ maintained that in international law the question of sovereignty over Taiwan was undecided (China had ceded it to Japan in the 19th century; during the War the Allies agreed that it should be returned to China, but the legal transfer of sovereignty had never taken place, because of the Civil War between Communists and Nationalists). <sup>The San Francisco Peace Treaty did not specify to whom Taiwan should be returned.</sup> To accept the Chinese claim would have breached important general principles.

5. Negotiations were opened in Peking, between the Chargé d'Affaires and the Chinese Vice Foreign Minister, to try to devise an acceptable formula. The Chinese, whose international position was strengthening rapidly, said they must stand firm on principle but would consider any alternative wording HMG proposed. Six months of difficult negotiations ensued, with a series of drafts and counter-drafts, before texts of a Joint Communiqué and confidential exchange of letters were agreed in March 1972.

6. The eventual agreement involved concessions on both sides. The Chinese came to understand that HMG would not alter its fundamental legal view of Taiwan's status, but accepted that this need not

/preclude

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preclude normalisation of relations provided HMG:

- a. undertook not to 'propagandise' its view (not in HMG's view a concession of substance); and
- b. made public statements about Taiwan which came some way towards the Chinese position.

To avoid prejudicing HMG's legal position, these statements required careful consideration and tortuous negotiation. Skillful and flexible translation of key phrases was an important factor in the eventual agreement.

7. Although arduous these negotiations were fairly straight-forward. They were conducted in Peking and high-level interventions played virtually no part. The Chinese did not eventually insist on a condition Premier Chou En-lai had told a British visitor would be essential. There were points at which the talks almost broke down and the Chinese sometimes doubted HMG's 'sincerity', but HMG's efforts to achieve compromise were ultimately successful.

Far Eastern Department

1 October 1982

CONFIDENTIAL

Mr. Scholar Done occurred mes 5/10  
Could you ask M. Allen  
whether the Bank could provide an analysis of the ~~state~~ <sup>weight</sup> of the various sectors in the Hang Seng index and of where the fall has been concentrated  
1.10.82  
Copies to Mr Loehnis  
Mr Holland  
The Deputy Governor's  
Private Secretary  
R-RRB  
1.10.

THE GOVERNOR'S PRIVATE SECRETARY

CR 1/10.

HONG KONG

I have considered whether one can point to any particular level of the Hang Seng index which might, effectively, signal a red light for the property companies but, given their differing degrees of strength, I am doubtful about the usefulness of hazarding any such guess.

There is a more indirect point which has relevance, however, and this is the effect which a falling stock market and weakening confidence might have on property prices themselves. I attach an extract from a record of a conversation between DGH and Colin Martin last November. The figure of 30% which Martin quoted was, very broadly, the order of the fall which had taken place between the peak in mid-1981 and the time when Martin saw DGH. Since that time, the market has been fairly flat and taking Martin's words at their face value, I draw the conclusion that if property prices were now to fall by, say, 20%, they would be at his hypothetical danger point. Last November he thought such a further drop was inconceivable. From the viewpoint of today, I am not sure that it is a totally remote contingency in the worst scenario.

The attached table shows the development of the Hang Seng index quarter by quarter from 1976 to mid-1981, and attempts to isolate particularly significant events and their results in the most recent period. The fall of 1973 shown at the head of the table is, perhaps, not so relevant but came out of all our investigations as a particularly dramatic episode in the earlier period.

1 October 1982

J E W Kirby

JW

HANG SENG INDEX (levels at end-quarter) July 1964=100

1973	early March	1,775	All-time peak All factors not clear, but basically pricking of a speculative boom (including discovery of forged share certificates)
	end-March	1,301	
-----			
1976	Q4	447	
1977	Q1	417	
	Q2	440	
	Q3	417	
	Q4	404	
1978	Q1	449	
	Q2	557	
	Q3	633	
	Q4	496	
1979	Q1	538	
	Q2	539	
	Q3	686	
	Q4	879	
1980	Q1	783	
	Q2	1,067	
	Q3	1,214	
	Q4	1,474	
1981	Q1	1,370	
	Q2	1,734	
	17 July	1,810	All-time peak Trough (fall related to economic factors, developments in other international centres etc)
	5 October	1,114	
	Q3	1,280	
	Q4	1,406	
1982	Q1	1,166	
	Q2	1,279	
	29 July	1,233	Fall related to uncertainties about Hong Kong's future. Probably news of statement from Peking source that Hong Kong might become a Special Economic Zone.
	30 July	1,186	
	8 August	1,169	Sale of land to Bank of China announced.
	9 August	1,089	
	16 August	937	Trough
	20 September	1,117	Recent peak
	24 September	1,096	Before news of outcome of Mrs Thatcher's talks
	1 October	862	

NOTE FOR RECORD

Copies to Mr Loehnis  
Mr Cooke  
Mr Kirby  
The Governor's  
Private Secretary  
The Deputy Governor'  
Private Secretary

## POINTS ON SUPERVISION IN HONG KONG

## 1 General

I asked about the potential implications for banks and DTCs of the very sharp fall which had taken place on the Stock Exchange, and the distinct signs of weakness in the property market. I could not find anyone who was seriously concerned. Colin Martin exuded confidence; and it was the generally accepted view that, despite the present softness, the underlying tone of the property market was very firm. Indeed one major American bank, which purported to have made a very detailed examination of all sectors of the property market, told me that it was strongly advising its Head Office that the momentary weakness in prices offered an excellent opportunity to extend its interest in Hong Kong property.

When I pressed the question by asking what order of decline in property prices would cause problems for the banking system, I was assured that a decline of 30% across the board in property values would scarcely cause a ripple on the financial scene; but if property values halved there might be some serious consequences. However, a halving of property prices in general was considered to be a contingency so remote as of the border on the absurd. (A key test of the strength of the property market will be the premium secured for the prime site next to the Connaught Centre. At present, estimates run from HK\$5 bn to 10 bn. It is thought likely that whoever gets the site will pull down the Connaught Centre, which was the tallest building in Hong Kong when it was completed only eight years ago.)

Prime Minister

RESTRICTED

Important to note that the Chinese statement was in response to your press conference in Hong Kong.

2. Also, that the media, in reporting it, left out X.

GR 120  
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FM PEKING 300930Z SEP 82  
TO IMMEDIATE F C O  
TELNO 613 OF 30 SEPTEMBER  
INFO IMMEDIATE HONG KONG (FOR POLITICAL ADVISER).

FUTURE OF HONG KONG

A.S.C. 1/10

1. IN RESPONSE TO PRESS QUESTIONS ABOUT ~~THE~~ PRIME MINISTER'S REMARKS IN HONG KONG, THE MFA TODAY ISSUED THE FOLLOWING STATEMENT:

"HONG KONG IS PART OF CHINESE TERRITORY. THE TREATIES CONCERNING THE HONG KONG AREA SIGNED BETWEEN THE BRITISH GOVERNMENT AND THE GOVERNMENT OF THE QING DYNASTY OF CHINA IN THE PAST ARE UNEQUAL TREATIES WHICH HAVE NEVER BEEN ACCEPTED BY THE CHINESE PEOPLE. THE CONSISTENT POSITION OF THE GOVERNMENT OF THE PRC HAS BEEN THAT CHINA IS NOT BOUND BY THESE UNEQUAL TREATIES AND THAT THE WHOLE HONG KONG AREA WILL BE RECOVERED WHEN CONDITIONS ARE RIPE. BOTH THE CHINESE AND BRITISH SIDES HOPE TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG AND THEREFORE WILL HOLD DISCUSSIONS THROUGH DIPLOMATIC CHANNELS."

h-a,  
M-1/10

X

CRADOCK

LIMITED  
HK & GD  
FED  
PUSD  
NEWS D  
PS  
PS/LORD BELSTEAD  
PS/PUS  
MR GIFFARD  
MR DONALD

COPIES TO  
MR COLES  
NO 10 DOWNING STREET

RESTRICTED

## 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 (82) 4<sup>th</sup> Conclusions, Minute 2

Date: 30 September 1982

Signed Wayland Date 4 September 2012

**PREM Records Team**



Far East Tour - headings for report to Cabinet

Japan

Mainly concerned with trading issues.

Message - growing Japanese surplus (-\$11 b. in 1980, + \$5 b. in 1981, + \$17-20 b. forecast for next year) threat to open trading system.

Pressed them on 3 fronts -

- (1) Inter-industry agreements on import restraint - agreement on immediate machine tool mission.
- (2) Opening market to more British goods, including capital goods and defence equipment.
- (3) More investment in Britain.

Agreed in principle to agreement on technological cooperation, but must be specific.

Opportunity for friendly talk with Chairman of Nissan.

China

Talks with Zhao Ziyang and Deng Xiaoping.

On international issues, China's main preoccupation is still that West should provide a counter-force to Russia.

Also concerned with Taiwan: having compromised with US, want to see US restraining arms sales.

Hong Kong - China stated hard position on regaining sovereignty, over whole area in 1997. We stood firm on treaties, and told them that Hong Kong would only survive as financial centre under British administration.

Terms of communique - both sides stated positions and agreed to talks with common objective of maintaining Hong Kong's prosperity and stability.

/ Talks

Talks will be tough and will take time. Main problem is holding Hong Kong confidence in the meantime.

Hong Kong

Outcome of talks in China main preoccupation. Understandably much concern, and some money has started to move.

One or two bilateral issues in Hong Kong which will take up directly with colleagues; and will discuss with Foreign Secretary how to carry forward talks with Chinese on Hong Kong.

Home Secretary



M 20/9

f-a-

*With the compliments of*  
*J. E. Holmes*  
THE PRIVATE SECRETARY

FOREIGN AND COMMONWEALTH OFFICE  
SW1A 2AH

*L. Cole (no 10)*

Mr Giffard

PRIME MINISTER'S VISIT TO HONG KONG (26-28 SEPTEMBER):  
LOCAL REACTIONS ON HONG KONG'S FUTURE

- /
1. I attach a self-explanatory summary of Chinese press coverage and public reaction sent from Hong Kong on 28 September.
  2. The Prime Minister's remarks in a BBC Interview from Peking that Britain intends to stand by the Treaties on Hong Kong were generally well received in business circles and were seen by many as a declaration of Britain's commitment to Hong Kong. Subsequently, there was some disappointment that at her press conference in Hong Kong Mrs Thatcher did not reveal more detail of her talks in Peking. The 'South China Morning Post' described it as 'a big let-down' because so little was made known. However, it went on to say, in an editorial, that Mrs Thatcher deserved 'a strong vote of thanks for what she had achieved so far'.
  3. The 'Hong Kong Standard' described Mrs Thatcher's negotiating stance as 'more obdurate than many people were expecting..... a tough stand in defence of many of the things vital to the future of Hong Kong'.

Hang Seng Index

4. After a large fall of 83.74 points on 27 September the Index fell by 23.96 points on 28 September and by 2.3 points on 29 September. It closed at 986.36 points, with the US dollar standing at Hong Kong dollars 6.22.

*RD Clift*

30 September 1982

R D Clift  
Hong Kong and General Department

cc  
Private Secretary ✓  
PS/Lord Belstead  
PS/PUS  
Mr Donald  
FED  
News Department

ISFAX 249/82

COMMISSIONER EXDIB (Please copy to Mr Clift, FCO)

SUMMARY OF PRESS COVERAGE AND PUBLIC REACTION

TO PM'S VISIT AND HK'S FUTURE (TUESDAY, 28.9.1982)

COVERAGE

The Prime Minister's press conference and luncheon speech yesterday dominated all major Chinese language newspapers as well as all TV and radio newscasts. The emphasis was placed on Mrs. Thatcher's reassurance of British commitment to HK and the validity of the treaties governing this territory. Both the luncheon speech and the press conference were broadcast live by TV and radio stations while most papers published the verbatim. The two communist papers, Ta Kung Pao and Wen Wei Po in their inside page leads highlighted the PM's remarks that it was the common aim to maintain HK's prosperity and the differences between Britain and China were reconcilable. Extensive pictorial coverage was given to Mrs. Thatcher's other activities during the day. The HK Daily News continued to publish colour photographs of her visit. Most papers also reported that during the press conference, some students and social workers converged outside the Legco Chamber to protest against the PM's remarks on the validity of the treaties and the undesirable housing conditions in HK respectively. In an exclusive report, quoting sources in Beijing, Ming Pao said that the Sino-British talks on HK would begin in November, first at ambassadorial level, then upgraded to ministerial level before a final round between the leaders of the two nations. China had formed a three-men committee comprising a Vice Foreign Minister, Mr. Zhang Wenjin, Director of West European Department of the Foreign Ministry, Mr. Wang Banzuo and a senior Foreign Ministry official, Mr. Li Guang. The Ming Pao claimed that Britain had also set up a three-men committee comprising Mr. Douglas Hurd, the British Ambassador in Beijing, Sir Percy Credock and his first secretary. The British delegation would be responsible to the Prime Minister. The report said the Governor, Sir Edward Youde, would not take part in the talks because his presence would draw a lot of publicity and attention and would give rise to unnecessary speculation. But he would channel HK's views to the delegation.

To D: 0930 Am

28 SEP 1982

## PUBLIC REACTION.

Mrs. Thatcher's luncheon speech and Press conference yesterday received favourable reaction largely from business circles. Chairman of the HK General Chamber of Commerce, Mr. John Marden said the PM's remarks had a positive and strong impact on sustaining investors' confidence, while its executive director, Mr. Jimmy McGregor was satisfied with the promise made by the PM and was deeply impressed by her firm and sincere attitude towards the question. President of Chinese Manufacturers Association, Mr. Ngai Shiu-kit said the assurance given by Mrs. Thatcher as the incumbent PM should be a confidence booster. President of HK Real Estates Developers Association Mr. Fong Yun-wah said people should have faith in leaders of China and Britain in their endeavour to work out a settlement for HK. To boost people's confidence, he suggested the Government launch massive development projects in the New Territories.

Reaction from the academics was mixed. In a panel discussion on Radio 1 (Chinese) immediately after the Press conference, Dr. John Young of Hong Kong University said people became more confused because of the differences between Britain and China over the question of sovereignty which emerged from her visit. A columnist of South China Morning Post, Miss Margaret Ng said Mrs. Thatcher qualified her remarks on the validity of the treaties governing HK by saying those agreements could be varied. This indicated that there was room for compromise. News commentator of TVB-Pearl Mr. Russell Spurr said Mrs. Thatcher was more revealing than she was in Beijing and it now seemed to be a little more hopeful that an acceptable solution to HK's future would be found even though she did not say how. Chairman of Unified Stock Exchange of HK Mr. Woo Hon-fai attributed the shares plunge yesterday to the lack of concrete results in Mrs. Thatcher's talks with Chinese leaders on HK, but the Secretary General of Chinese Manufacturers Association, Mr. J.P. Lee said the stock market was so unpredictable and the fall had nothing to do with Mrs. Thatcher's trip. Miss Margaret Ng and Dr. John Young expressed doubts about Mrs. Thatcher's assertion that the Nationality Act had not changed Britain's commitment to HK. They believed by enacting this legislation, Britain had shut its door to local residents.

## EDITORIALS

The Hong Kong Economic Journal observed today in its editorial that the Prime Minister's insistence on the validity of the treaties governing Hong Kong showed that she was a statesman of strong character who, though holding fast to principles, was not an outstanding negotiator. Assessing her achievements in the Beijing trip, the paper felt that Mrs. Thatcher should have been more tactful on the question of sovereignty over Hong Kong. For instance, she should have agreed with the Chinese leaders that the sovereignty question should be reconsidered and unequal treaties varied. In this way, she would not compromise principles in the lease, but would create a more favourable atmosphere for talks. "We can't believe that her China trip will promote the friendship between the two nations," the paper said. "On the contrary, China and Britain are now seen to have drifted even further apart on the Hong Kong question after the Beijing discussions." But perhaps, the Prime Minister's greatest achievement in her Far East tour was that most Hong Kong people, whose impression of her had been "neutral," would not think badly of her because of her insistence on the treaties and her pledge to accept responsibility towards local residents. Nevertheless, from a more positive angle, Mrs. Thatcher's honest and persistent stand would compel China to reassess the way it handled the unequal treaties. Also, diplomatic talks on the future of Hong Kong question would be more straightforward and an early solution to 1997 could be expected. "While Mrs. Thatcher's personal achievement in her China trip is debatable, the news she has brought us is very precious indeed," the paper concluded.

Ming Pao argued that China's stand on the question of sovereignty over Hong Kong was basically the same as Britain's. The paper held that their differences lay only in the way they expressed themselves and the aspects they emphasized. According to the paper, China had, in effect, always observed the three unequal treaties governing Hong Kong. Otherwise PLA soldiers would have marched right across Lo Wu in 1949. The nation's declaration that "unequal treaties must be abrogated" did not mean that "unequal treaties have been abrogated," the paper noted. As a member of the civilized world, China was still observing treaties which had not yet been nullified. The best way for China to regain sovereignty over Hong Kong was of course to reach a new agreement with the British and to invalidate the old, unequal treaties instead of regaining sovereign right

by force. Therefore, the common principle for Britain and China on the question of sovereignty over Hong Kong was: to maintain the status quo prior to the abolition of the old treaties and to hold negotiations if the status quo was to be changed. Noting that the 1997 question was a very complex issue, the paper said simple and straight forward solutions might not be in the best interests of China and Hong Kong.

Wah Kiu Yat Po believed that the divergence of views between China and Britain on Hong Kong's sovereignty was likely to be reconciled during the forthcoming Sino-British diplomatic talks. The paper was commenting on Mrs. Thatcher's reiteration at yesterday's Press conference that Britain would take up moral responsibility for upholding the territory's prosperity and stability and insistence on the validity of the three treaties governing Hong Kong. While conceding that the two nations were widely different in their views on Hong Kong's sovereignty, the paper urged local residents not to worry. It noted that Mrs. Thatcher had a resolute and clear view on the question of Hong Kong's sovereignty.



CONFIDENTIAL



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despatched  
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10 DOWNING STREET

*From the Principal Private Secretary*

29 September, 1982.

Dear John,

I enclose a record of a meeting between the Prime Minister and officials of the Executive Council of Hong Kong on 26 September at Government House.

I am sending copies of this letter and its enclosure to the Governor of Hong Kong and HM Ambassador, Peking.

Yours ever,

Robin Butler

John Holmes, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

VS

SUBJECT



*all copies destroyed  
3/2/89*

*cc Master Set  
Hong Kong Policy on P.M.'s Visit Sept 1982*

**10 DOWNING STREET**

*From the Private Secretary*

28 September, 1982.

Hong Kong: Sir Y.K. Pao

The Prime Minister saw Y.K. Pao at Government House in Hong Kong today. No one else was present at the meeting, but the Prime Minister gave an account of it afterwards.

Y.K. Pao explained that he had called on Deng Xiaoping during the afternoon of the day when the Prime Minister had held talks with him. Deng had made it clear that China must have sovereignty over the whole of Hong Kong and that there could be no continuation of the Lease. Talks with us would be conducted through diplomatic channels, but they would be limited to discussion of the transitional period. It was not Peking's intention to send anyone to govern Hong Kong; instead the Chinese Government intended to appoint a Hong Kong Chinese to the top post. They also intended to put "low level" Hong Kong Chinese into the future Government. There would be no change in the legal system except that there would be no provision for appeals to the United Kingdom. The free port and the Hong Kong Dollar would continue.

An announcement of these measures would be made in one or two years. The Chinese had already made their preparations for the possibility of financial turmoil. They would hope to buy up investments cheaply. They believed that money which had left Hong Kong would come back. The Chinese could run the administration, as they did in Singapore.

At present, according to Deng, China received \$7 b in foreign currency from Hong Kong each year. But \$2 b were attributable to re-exports. So the net benefit was \$5 b a year. The Chinese believed that they would increase this figure when they took over Hong Kong.

The Prime Minister said that she had told Y.K. Pao, after he had given this account, that he must make it clear to the Chinese that Hong Kong would be unworkable without British administration. We had one or two years to convince the Chinese that their plans could not be applied. If China went ahead with the plans it currently had in mind, it would court international disgrace.

SECRET

- 2 -

In giving the above account, the Prime Minister said that she found it significant that Deng had told Y.K. Pao as much as he had. Clearly, the Chinese were using him to give wider currency to the plan which Deng had announced to her.

I am copying this letter to Sir Edward Youde in Hong Kong and Sir Percy Cradock in Peking. The Governor, Sir Philip Haddon-Cave and Alan Donald were present when the Prime Minister described her talk with Y.K. Pao. There should therefore be limited need for further circulation of this letter. I should be grateful if you would ensure, as with all records on this subject, that this letter is circulated only to those who have a clear need to know.

John Holmes, Esq.,  
Foreign and Commonwealth Office.

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17

Note for the file

Hong Kong

Certain ideas arose during a discussion that the Prime Minister had today about Hong Kong:

- (a) Should we consult George Shultz?
- (b) Would it be useful to involve Kissinger who was thought to be going to Peking at the end of November?
- (c) Should we ask Sir Nicholas Henderson for his views?
- (d) It was possible that international opinion would not generally support our view that the Treaties were valid at international law. In which case, should we not prepare a list of similar Treaties which, by the same criterion would also be invalid?

28 September, 1982.

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

28 September 1982

HL  
original despatched  
30/9

copies despatched  
en route

Dear John,

Prime Minister's visit to Hong Kong

I enclose a copy of the record of the meeting in Hong Kong on 27 September between the Prime Minister and UMELCO.

I am sending copies of this letter and enclosure to Sir Edward Youde in Hong Kong and Sir Percy Cradock in Peking.

I should be grateful if the contents of the record could be closely protected.

Yours ever

John Cole.

John Holmes, Esq.,  
Foreign and Commonwealth Office.

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*of Gooch*

*HU*

10 DOWNING STREET

*From the Private Secretary*

28 September 1982

Visit of the Prime Minister to Hong Kong

I enclose a copy of the record of the Prime Minister's meeting with businessmen in Hong Kong on 27 September.

I am copying this letter and enclosure to Sir Edward Youde.

*JC*

John Holmes, Esq.,  
Foreign and Commonwealth Office.

SUBJECT

cc Mr. Lee

cc Kwong King Pok & Mr. Chan's Clerk 5/27/62

cc Mr. Fung of Hong Kong

RECORD OF THE PRIME MINISTER'S MEETING WITH BUSINESSMEN AT  
1445 ON 27 SEPTEMBER

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(The Prime Minister was accompanied by the Governor, the Financial Secretary, Mr. Gray, Mr Butler and Mr. Ingham. A list of the businessmen attending is attached.)

The Prime Minister said that she wished to take the opportunity to hear the views of those present on the future of Hong Kong; on what was needed to retain business confidence; and on the outcome which they would wish to seek. She also wished to discuss how the Chinese might be brought to understand what made Hong Kong successful, and the nature of confidence in Hong Kong. The Government in Peking was isolated and did not understand things which were second nature to all present. They had no idea of the subtleties of administration in a free society or of the structure of liberty.

Mr. Duncan Black said that business confidence was fragile, and keeping the talks confidential would be a real problem. News would leak out; the important thing would be to ensure that what became known was fact. The Prime Minister said that negotiation in a mass meeting and / through the media was impossible. She accepted that it would be necessary to say something about the negotiations from time to time: the press abhorred a vacuum. But it would be impossible to give full details. Dr. Andrew Chuang said that the problem was that the Chinese might not maintain confidentiality. The Prime Minister remarked that Premier Zhao had spoken to the press before her meeting with him about Hong Kong.

/Mr. Victor Fung

Mr. Victor Fung said that his personal opinion was that the ideal solution would be the continuation of the status quo indefinitely, with 25 or 50 years notice of termination. He realised that might be hard to achieve. A key element in Hong Kong's success was a system which allowed full scope to business enterprise. He hoped that could be preserved even if there should be joint administration. Without the free market system, Hong Kong would not work. As for what Hong Kong businessmen might do to help, most of those present had business contacts with China. They could use those contacts to get across the message of how much Hong Kong depended on the free enterprise system. He added that he was not sure that China and Britain meant the same thing when they talked about maintaining the stability and prosperity of Hong Kong. The Prime Minister said that the Chinese would say that they wished to preserve the capitalist system in Hong Kong but they did not know what it meant. As for the second point, she hoped that those speaking to the Chinese would not stop at the need to preserve the free enterprise system. Other things, including the law, were equally important. Dr. Fung had mentioned joint administration. Britain had had experience of that with the French in the New Hebrides. It had been far from satisfactory. Mr. Philip Kwok asked how the Chinese could be brought to understand what made Hong Kong tick. The Prime Minister said that the Chinese would look to Singapore and see that there a successful community had been built on a combination of Chinese people and the free enterprise system. They would think that they could do the same with Hong Kong, forgetting that Singapore was a sovereign and independent state. They would not be able to achieve their objective if they sought to substitute Chinese for British rule.

/ Mr. Fung King Hey



Mr. Fung King Hey said he accepted that the talks must be confidential. But in order to stabilise the market it would be important to issue a statement making clear the principles which had been agreed as soon as possible.

Mr. Gordon Wu said that confidence was the key point. Chinese leaders might say that they wanted to maintain the status quo in Hong Kong but how good was their word? Their track record was terrible. The Prime Minister thought the Chinese genuinely wished to retain stability and prosperity in Hong Kong. But they did not understand what these things meant. So it would be necessary to stick firmly to the declared objective of maintaining stability and prosperity, and then try to persuade the Chinese about what was required to meet it. Mr. Gordon Wu said that British administration would be essential even after 1997. Laws could change overnight in China. The Prime Minister had referred to Singapore. Even there Mr Lee Kuan Yew had still kept the Privy Council as the final Court of Appeal. Stability required good laws and English law worked. The Prime Minister hoped that Mr Wu would <sup>get</sup> some of these points across to his Chinese contacts.

Mr. Trevor Bedford thought the negotiations were likely to last a long time. Businessmen could demonstrate their confidence by being positive, continuing to invest, trading successfully, and continuing to enter into joint ventures with the Chinese. The Prime Minister's various statements had been very helpful. It was useful to remind people of the British view of the treaties; many had thought the British Government had conceded that they were

/unequal

unequal. The Prime Minister said that her visit to Peking was only the beginning. The diplomatic talks had yet to begin. The handling of those would be extremely important.

Another questioner asked whether, in the Prime Minister's view, the Chinese authorities regarded Hong Kong people as overseas Chinese or as mainland Chinese.

Mr. Paul Myners said that stability and prosperity meant different things to the Chinese than they meant in Hong Kong. It was important to make it clear that they could not be preserved if there was any Chinese involvement in the administration of Hong Kong. The Prime Minister thought that Deng Xiaoping knew what stability meant; he had still been imprisoned when she had last visited China in 1977.

Mr. Philip Kwok said that at the moment Hong Kong was insulated from political trouble. Things would be different if the Chinese were in control. The Prime Minister said that the Chinese would have to be persuaded that Hong Kong had developed into the success it was because of British administration, and that without it it would not continue to be prosperous. When the British said this the Chinese assumed that they had a financial interest. They did not understand the moral responsibility of the British Government. So the help of those present would be necessary to persuade them.

Mr. Newbigging said that in his view considerable progress had been made over the past week. The joint statement had been a far cry from the earlier "hearts at ease" statement by Deng. Future progress was likely to be made step by step. But it would be important to keep investors, outside as well as inside Hong Kong, well informed.

Mr. Sam Osmund thought that people in Hong Kong might lose patience if the statements made about the

talks lacked substance. It would reassure them if the Chinese made substantial investments. Another local Chinese businessman hoped that the Hong Kong Government had a plan to maintain the value of the Hong Kong dollar and stressed the importance of keeping in touch with the thinking of younger people. The Prime Minister said that there would be need for regular consultation throughout the talks.

Mr. Bluck said that the press had speculated that Hong Kong might be a special economic zone of China. So far the Chinese SEZs had not been successful.

Mr. Roger King thought it would be helpful if the Prime Minister could say what she and the British Government intended to do to maintain confidence in Hong Kong. There was a feeling in Hong Kong that the man-in-the-street had little knowledge or understanding of Hong Kong, and that this might be reflected in the government. The Prime Minister said she was in regular contact with the Governor and saw many visitors from Hong Kong. The important thing was to get the crucial message about how Hong Kong worked across to the Chinese. There was a need to find ways of doing this which would save China's face. Mr. King need not worry about lack of British interest. The main reason why the British were engaging in the talks was because of their responsibility for the people of Hong Kong, though British prestige was also involved, and for many other countries the British presence in Hong Kong was very important.

Another local businessman suggested that while the negotiations were proceeding the British Government and the Hong Kong Government should show their confidence by making substantial public works investments e.g. in a replacement airport. The Prime Minister said she would think about that.

The press notice was then agreed.

The meeting ended at 3.30 p.m.

SUBJECT

**CONFIDENTIAL**

cc Mark  
Wing Kong  
Philip on PM's visit

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND UNOFFICIAL MEMBERS OF THE EXECUTIVE COUNCIL HELD AT THE UMELCO CHAMBERS AT 0945 ON MONDAY 27 SEPTEMBER IN HONG KONG

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Present

Prime Minister  
Governor  
H.M. Ambassador  
Mr. R.W. Gray  
Mr. B. Ingham  
Mr. A.E. Donald  
Mr. A.J. Coles

Sir Philip Haddon-Cave,  
Chief Secretary  
Mr. R.J.T. McLaren,  
Political Adviser  
Mr. M.D. Sargent  
UMELCO Secretary General

A list of the UMELCO members present is attached

\* \* \* \* \*

Welcoming the Prime Minister, Sir S.Y. Chung said that while UMELCO had had the honour of a visit by Her Majesty The Queen this was the first visit by a Prime Minister in office. It was not however Mrs. Thatcher's first visit: she had been to UMELCO in 1977 as leader of the Opposition. The Prime Minister's discussions in Peking were of crucial importance for the long term future of Hong Kong. UMELCO hoped that the advice given by those Members who had been received by Mrs. Thatcher in London had been useful. The general reaction to the joint statement issued after her talks with Chinese leaders had been good. UMELCO Members hoped to hear something of the Prime Minister's talks, and how she saw the future course of negotiations.

The Prime Minister thanked Sir S.Y. Chung for his welcome. She had been very pleased to see some UMELCO Members before going to Peking. She attached great importance to knowing the views of people in Hong Kong. She would give an outline of her discussions in Peking, and would try to convey the flavour of them. But what she said must not be revealed to anyone outside UMELCO.

The Prime Minister said she had spent one of her two sessions of talks with Premier Zhao, and the whole of her discussion with Chairman Deng on Hong Kong. That amounted to four a a half hours, but it was not a long time when allowance was made for translation. The Prime Minister had set out British views in detail and the Chinese had set out theirs. It was a first exchange and it was

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/ hardly

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hardly to be expected that either side would shift from its opening position. The Prime Minister had found that the Chinese leaders had a very limited understanding of what a free society was. They could grasp intellectually such concepts as the rule of law but they did not understand or accept that there could be fundamental rights that did not derive from the State. They thought they could run a capitalist society but they did not know what it meant. The Prime Minister had been told many times that Deng Xiaoping was "pragmatic", but his pragmatism counted for little compared with his Marxist-Leninism.

The Prime Minister did not think that the Chinese leaders had heard the truth about what made Hong Kong a success from local personalities who had been invited to Peking. She had told the truth, and it was not surprising that the Chinese had not accepted what she said. They had told her that Singapore worked very well; she had pointed out that Singapore was an independent sovereign state.

Turning to the joint statement, the Prime Minister said that it described the talks as having taken place in a friendly atmosphere. This phrase had been suggested by the Chinese side, but it was perfectly true. (Sir Percy Cradock confirmed this.) The statement also said that "both sides had made clear their respective positions". The Chinese view of sovereignty would be well known to UMELCO Members. The Prime Minister had said that she knew and understood that view, but for Britain the treaties were valid in International Law and could not be unilaterally abrogated. If the Chinese did not like them the right thing to do was to vary them by agreement. But the real difficulty had been, and would continue to be, to get the Chinese to understand that Hong Kong would not have become what it was today without British administration, and could not continue as it was if British administration was not maintained. The point would be difficult to get over because, as the Prime Minister had already explained, the Chinese leaders did not begin to understand the nature of a free society.

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/ The Prime Minister

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The Prime Minister said that she had had two objectives in her talks: to secure Chinese acknowledgement that the stability and prosperity of Hong Kong was a common aim; and to get Chinese agreement to the opening of talks following her visit. Both these objectives had been achieved.

The Prime Minister thought that the joint statement, which she emphasised had been agreed by both sides, was as much as could have been achieved in the time available during her visit. She did not underestimate the complexity and difficulty of the task which lay ahead. She would need the help of people in Hong Kong, including UMELCO Members, in getting across the basic message that British administration was essential for the continuing stability and prosperity of Hong Kong. The talks which had been agreed would start through the diplomatic channel. She was constantly being asked how long they would last. She had said in reply to one questioner that they would take "some months." It might well be longer than that. The process of convincing the Chinese that British administration would be needed if they wished to achieve their objective of preserving the stability and prosperity of Hong Kong would be a slow one, like water dripping onto a stone.

/ Sir S.Y. Chung

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Sir S.Y. Chung then invited questions. Mr. Sandberg said that Hong Kong would be much relieved by the firm line which the Prime Minister had taken in her discussions; there had been some concern beforehand that the UK might not stand up for Hong Kong's interests. But there was some urgency about the negotiations. The time left before 1997 was shrinking and there was concern about the attitude likely to be taken by a future Labour government in Britain. The Prime Minister said that speed was less important than getting the right result. Given the isolation of the Chinese leadership and their lack of understanding about Hong Kong, it was bound to take time. As for Mr. Sandberg's political point, any government which did not stand up for Hong Kong would face strong opposition in Parliament. Mr. Li Fook-wo asked whether the idea of varying the treaties had been discussed in the Prime Minister's talks. The Prime Minister said that both sides had set out their positions in the talks. The Chinese position was that the treaties were not valid. The British position was that they were valid in international law, and could only be varied by agreement.

Mr. Peter C. Wong asked about the prospects for the talks. The Prime Minister said that she could not comment on how the talks would be conducted. But there was a common aim, that of maintaining the prosperity and stability of Hong Kong, and it was her view that it would be possible to reconcile the positions of the two sides.

Dr. Rayson Huang said that he had been much encouraged by the Prime Minister's remarks at her press conference about her responsibility to the people of Hong Kong. There was a need to reach agreement with the Chinese as soon as possible, but he thought it would take a long time to get the Chinese to understand what made Hong Kong work: "some of us" had tried to do so, but had not found the task easy.

The Prime Minister said that she had emphasised Britain's responsibility to the people of Hong Kong, and to those investors who had put their faith in British administration, because she had

/the impression

the impression that some people were concerned that the future of Hong Kong would be settled between the British and Chinese Governments without regard for the views of those in Hong Kong. The negotiations would have to be handled steadily and with great skill. The Chinese had said that they intended to continue their consultations with "the various circles" in Hong Kong. She would look to UMELCO for advice, through the Governor, on how the people of Hong Kong might best be consulted.

Mr. Oswald Cheung said he assumed that the aim of the talks would be to reconcile the positions of the two sides. He wondered whether the Chinese had accepted that the only way to alter the status quo was by agreement. The Prime Minister thought they had. The Chinese did not want a mess in Hong Kong. They had accepted that the common aim was to maintain the stability and prosperity of Hong Kong. Sir Percy Cradock added that the Chinese had consistently said that Hong Kong was a problem left over from history which must be solved through negotiation. Mr. Cheung asked whether decisions would be taken by the most senior levels of the Chinese leadership. The Prime Minister and Sir Percy Cradock confirmed this.

Mr. Newbigging accepted the need for confidentiality. But confidence was a fragile flower. In order to maintain it there would be a need to let it be known from time to time that progress was being made in the talks. The Prime Minister said that that had been the purpose of the joint statement. No negotiations would be possible unless both sides could be sure that confidentiality would be maintained. But she agreed that something would have to be said publicly at intervals. Sir S.Y. Chung said that no-one had any doubt that the British Government would maintain confidentiality, but the Chinese might not. There were already rumours in Hong Kong about what had gone on, based on leaks from the Chinese side about their position. The Prime Minister said that there had been no statement from the Chinese Government other than the agreed joint statement.

/ Sir Percy Cradock



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Sir Percy Cradock said that a distinction should be drawn between stating opening positions in public and revealing the content of confidential discussions.

Miss Lydia Dunn reverted to the dilemma between maintaining confidence on the one hand and confidentiality on the other. The Prime Minister said that confidentiality was essential, but there might be occasions when some of the evidence used in the talks would be published, as had happened in other negotiations. Miss Dunn said that it was important politically in Hong Kong that the Governor should be associated, and be seen to be associated, with the negotiations. The Prime Minister said the point was well taken. This was why the Governor had been present at all her discussions in Peking.

A.J.C.

/ Mr. Roger Lobo

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Mr Roger Lobo appreciated that the Chinese did not want a mess in Hong Kong. But time was on the Chinese side, so the sooner the talks started the better. The Prime Minister said that talks through the diplomatic channel would start soon.

Mr S L Chen asked whether the Chinese had shown any reluctance to talks about the treaties. He thought there would have to be a compromise between the Chinese and British positions eventually. The Prime Minister replied that there had not been time in her discussions to attempt to reconcile the different positions of the two sides over the treaties. But even if the Chinese did accept that the treaties were valid there would still be a problem in 1997. That was why there had to be talks.

Mr. Henry Hu asked whether the Chinese distinguished clearly between sovereignty and administration. The Prime Minister said that they did. Mr Charles Yeung asked what weight the Chinese attached to international law and human rights. There was good support for these concepts among the native population of Hong Kong, including the New Territories. The Prime Minister reiterated that the basic difference between communist and free societies was that in the former the government was in total control and was the source of all rights. But all communist countries were concerned about their international image. China would not wish to be regarded as a country which broke agreements and took no account of the wishes of the people of Hong Kong. So not all the cards were on the Chinese side. Mr Yeung said that the native people of Hong Kong had had British rule imposed upon them many years ago. But now they had become accustomed to it and would not wish to return to Chinese rule.

/The Prime Minister

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The Prime Minister was asked whether a Hong Kong representative would be included in the British team for the talks with the Chinese. The Prime Minister said this was something she would have to consider. The Governor would of course be fully involved; rather than have people in the negotiating team views might have to be expressed through him.

Mr Francis Tien welcomed the remarks the Prime Minister had made in her press conference about HMG's obligations to the people of Hong Kong. He agreed that the right result was more important than a quick result. He asked what consultation with the people of Hong Kong there would be before the negotiations were completed. The Prime Minister said that the negotiating team would be in constant touch with London and Hong Kong. At the end of the day the outcome of the negotiations would have to be put to the British Parliament. They would not accept an outcome which was not a reasonable one for Hong Kong.

Mrs Selina Chow said that many young professional people with whom she was in contact, including journalists, were concerned about the future, but they knew the subject was sensitive and they were reluctant to make their views known. How forthright should they be? Since the Chinese authorities would watch the local press closely it might be useful if the truth were to come out through these people. The Prime Minister expressed approval for the idea of "the truth coming out": an orchestrated campaign would be wrong. She would rely on UMELCO Members to put forward their views on this through the Governor. The Governor said that the process had worked quite well so far. Views had been expressed in speeches, articles and opinion polls without any orchestration; they had been conveyed to the Prime Minister; and had been drawn on by her in her talks in Peking. Dr. Harry Fang asked whether the present Chinese leadership would be prepared to vary the treaties. The Prime Minister said that although the Chinese regarded all three treaties as unequal they were in practice observing them. They would not have agreed to enter talks if they were not prepared to

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contemplate a negotiated solution.

Mr T S Lo said he had seen the advice which the UMELCO Members who had visited London had tendered to the Prime Minister. He agreed with it. After congratulating the Prime Minister on the outcome of her visit, he asked about the modalities for talks. The Prime Minister said that the talks would start through diplomatic channels, but there would be a need for an advisory team to back up the negotiations.

Miss Joyce Bennett pointed out that it was not only the Communists who regarded the treaties as unequal; most Chinese, and more people in Hong Kong took the same view, for nationalist reasons. The Prime Minister said that the important point was not whether the treaties were unequal but what was to be done about them. Even if they were regarded as valid there would still be a problem.

Concluding the meeting, Sir S Y Chung thanked the Prime Minister for the information she had given UMELCO about her discussions. It was the UMELCO view that she had taken a major step towards settling the future, and that her visit to China had been a success. Two months earlier when the Chinese Foreign Minister had been in Portugal he was still saying that the Hong Kong issue was not ready for settlement. It was in the Chinese interest to postpone the issue for as long as possible so it was no mean achievement to persuade the Chinese leadership to enter into talks. As regards the negotiations it was essential that Hong Kong should be represented in the talks by someone who would command confidence; who had access to the consultation process in Hong Kong; and could speak with authority about the likely acceptability of proposals. Only the Governor could fulfil this role. Chinese agreement to enter into official talks might be only the beginning of a long process, but if confidence was to be sustained results would have to be achieved in one or two years at most. In the meantime there

/would

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would be many rumours so it would be necessary to demonstrate from time to time that significant progress had been made.

The Prime Minister reiterated what she had said at the beginning of the meeting about the need for confidentiality: what she had said must not be divulged. She then read out a draft press statement which was agreed.

28 September, 1982

CONFIDENTIAL

UMELCO

Hon. Sir S Y Chung  
Hon. O V Cheung  
Hon. R H Lobo  
Hon. Li Fook-wo  
Dr. Hon. Harry Fang  
Hon. M G R Sandberg  
Hon. T S Lo  
Hon. D.K. Newbigging  
Hon. Lydia Dunn  
Dr. Hon. Francis Tien  
Hon. Alex Wu  
Rev. Hon. Joyce M. Bennett  
Hon. S L Chen  
Dr. Hon. Henry Hu  
Hon. Peter C. Wong  
Hon. Wong Lam  
Dr. Hon. Rayson Huang  
Hon. Charles Yeung  
Dr. Hon. Ho Kam-fai  
Hon. Allen Lee Peng-fei  
Hon. Andrew So Kwok-wing  
Hon. Hu Fa-kuang  
Hon. Wong Po-yan  
Hon. Chan Kam-chuen  
Hon. J J Swaine  
Hon. Stephen Cheong Kam-chuen  
Hon. Cheung Yan-lung  
Hon. Mrs Selina Chow  
Hon. Maria Tam  
Dr. Hon. Henrietta Ip Man-hing

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HONG KONG : TALKS

The attached paper simply contains preliminary ideas put together by Sir Reginald, the Governor and Alan Donald.

2. Decisions are not needed at the meeting. In the light of the discussion Reginald and the Governor will telegraph their considered recommendations so that you can consider the matter in London and decide how you wish to pursue the talks. We would aim at a discussion with Anthony Ireland next week - I think you will find it useful to have his views.

3. After the meeting - and before Y. K. Pao comes - Reginald would be grateful for a few minutes with you to say goodbye. He goes back to Peking tomorrow.

A. J. C.

SECRET

FUTURE OF HONG KONG AND TALKS WITH CHINESE

The following are some preliminary ideas for the Prime Minister's consideration.

1. The First Step

The first step to be taken is to make contact with the Chinese in Peking to set in motion the talks agreed on by the Prime Minister and Chairman Deng. This should be done by H.M. Ambassador to Vice Foreign Minister Zhang Wenjin. At this very first stage Hong Kong officials need not attend, though obviously they would be essential in later stages. The first meeting should cover two broad aspects:

- (a) the guidelines for the talks
- (b) the modalities

2. Guidelines

The question of guidelines could prove difficult since it probably will be the Chinese objective to insist that talks take place on their terms, i.e. acceptance that sovereignty over the whole of Hong Kong must pass to them and that, on that premise, discussions are held simply to ensure stability and prosperity and a smooth transition between now and 1997. This must be resisted. We shall have to insist that the talks take place on the basis of the joint statement by the two leaders, i.e. that having expressed their respective positions the leaders agreed that talks should take place with the common aim of ensuring stability and prosperity. For the Chinese to attempt to add conditions now would be inconsistent with this agreed aim and frustrate the two leaders' intentions.

3. If this argument proves successful it should then be possible to direct talks to analyse the ingredients of Hong Kong's stability and prosperity. We should say that we had made clear our sincerely held belief that only continuing British administration would be able to secure such stability and prosperity, i.e. what obtains here and now. Chairman Deng said he did not

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/ agree.



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George Walden  
David Wilson

agree. We should very much like to hear from the Chinese details of their proposals for the maintenance of stability and prosperity which should obtain in Hong Kong after 1997. We would then examine their proposals and offer our comments.

4. The object here would be to get the Chinese into detail. We must avoid a situation in which we are continually advancing proposals which are continuously rejected by the Chinese. Once work on detail begins we would need Hong Kong official experts to come to Peking to join the team to cover the various technical aspects under discussion. Their movements should be as discreet as possible.
  
5. The above is the bright scenario. We must however be prepared for China's insistence that we agree at once that sovereignty should be conceded or at least discussed. If the Chinese prove obdurate we should have a number of courses open to us:
  - (a) after seeking further instructions we could advance further argument, e.g. pointing out that the Chinese were seeking to depart from the agreed common basis and as a result were imperilling the talks and our relations;
  - (b) we could seek agreement on some variant of the formula agreed between the two leaders e.g. "without prejudice to" or "paying due regard to" the positions of both sides;
  - (c) we could deliberately stall for a while;
  - (d) we could send a message via a high level visitor ostensibly in China on other business;
  - (e) we could launch a concurrent discussion through some disavowable channel covering the question of sovereignty. This would obviously need to be handled with great care. The object would be to reassure the Chinese that sovereignty was not to be entirely put on one side and to allow their education on the ingredients of stability and prosperity to continue. There are probably a number of channels

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/ which could

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which could be used but one would be secret contact via the Governor, ostensibly paying a holiday visit to some nearby part of China where he could discuss matters with a Chinese contact on a purely personal basis.

#### 6. Modalities

As indicated above, discussions should be held in the first instance at least in Peking via H.M. Ambassador and Vice Foreign Minister Zhang Wenjin. The Chinese will want us to propose this and since they themselves have proposed the use of diplomatic channels will almost certainly agree. It will be necessary to emphasise that the talks must be secret. The fact that they were being held would of course be known, but no further details should be divulged. The model would be that used by the Americans in discussing the question of Taiwan with the Chinese. This proved very successful and avoided the scrutiny of reporters. The Peking team would be supplemented as occasion required by Hong Kong experts and there would have to be continuous and close consultation with Hong Kong, and the Governor should be seen to be closely involved at all stages. The arrangements should remain flexible, allowing for an occasional high level visitor e.g. if a Minister were appointed in London to take charge of the whole subject he could pay a visit to the scene to familiarise himself. This would be an "event" which would buy us more time. It might also be possible for an occasional message to be passed by a British visitor in China on other business, though here a problem would arise that the visitor would necessarily be ignorant of the detailed background and unable to engage in worthwhile discussions with the Chinese. A special emissary would be undesirable since his movements would attract maximum publicity and arouse dangerously unreal expectations, with consequent damage to confidence when these were disappointed.

SECRET

27 September 1982

SUBJECT

*cc Mother Sir  
of Hong Kong's Policy on P.M.'s visit*

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND OFFICIALS OF  
OF THE EXECUTIVE COUNCIL OF HONG KONG ON 26 SEPTEMBER 1982 AT  
GOVERNMENT HOUSE IN HONG KONG

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Present:

Prime Minister

Mr. Alan Donald

Mr. F.E.R. Butler

H.E. the Governor

Sir Philip Haddon-Cave, Chief  
Secretary

Major General J.L. Chapple,  
Commander British Forces

Mr. J.H. Bremridge, Financial  
Secretary

Mr. John Griffiths, Q.C., Attorney  
General

Mr. D.C. Bray, Secretary for Home  
Affairs

Mr. David Akers-Jones, Secretary  
for City and New Territories  
Administration

Mr. Robin McLaren, Political  
Adviser

Mr. G.A. Higginson, Private Secretary  
to the Governor

\* \* \* \* \*

The Prime Minister said she wanted to give the officials of  
the Executive Council an outline of her talks in China about the  
future of Hong Kong.

The Prime Minister said that she had had two hours of talks on  
this subject with Zhao Ziyang and two and a half hours of talks  
with Deng Xiaoping. Given the need for interpretation, talks of  
this length gave no opportunity for settling detail and only allowed  
the main thrust of policy to be covered. The Chinese had taken  
their familiar position on sovereignty. The British response had  
been that we stood by the Treaties and, if the Chinese had difficulties  
about the position under the Treaties, these difficulties should be  
dealt with by negotiation not unilateral abrogation. We had wanted  
to stress the aim of maintaining prosperity and stability in Hong  
Kong: these words had the advantage that they were familiar to the  
Chinese. The objective had been to persuade the Chinese to include

in the Communiqué a reference to a common aim of maintaining prosperity and stability, without anything more on sovereignty than that the two sides stated their respective views. The British side therefore came away from the talks with what we wanted.

The Prime Minister said that the main difficulty with the Chinese was in persuading them that the maintenance of prosperity and stability, and of the confidence which was a necessary condition for them, depended on British administration. But she had put this view more frankly to the Chinese than they had ever heard it before, and she had warned Zhao Ziyang that the Chinese people from Hong Kong whom he consulted were too frightened to tell him this. The reaction of the Chinese leaders had to be judged in the light of the fact that they were hearing this plain talk for the first time. There was a world of difference between saying that capitalism would continue and knowing what that term involved. The Chinese had no understanding of international finance and the concept of freedom under an ascertainable system of law. The problem in the talks would be to get across that these things were essential for maintaining confidence in Hong Kong and every possible form of help from Hong Kong would be needed in this.

Summing up, the Prime Minister said that she wanted to convey two main points. The first was that the British side had done well on achieving the Communiqué at the end of the talks and had put the position clearly to the Chinese for the first time. The respective positions of the two Governments had been set out, and it was now a question of going into talks to carry matters forward. The second point was that the talks would be tough, and take time. The British side would have to be steady, patient and persistent. The talks would need to start quickly, but they would take time to complete. Much advice and supporting evidence for the British position would be needed from Hong Kong.

In reply to the Governor's invitation to officials of the Executive Council to comment or raise questions, Mr. Bray said that some elements of the Left Wing press in Hong Kong were suggesting

that it would be easy for the Chinese in Hong Kong to continue to run the Hong Kong system without British administration. It was necessary for this to be countered: otherwise there was a risk that opinion could move in this direction among the Hong Kong people. Sir Philip Haddon-Cave commented that it was, in his view, unlikely that such an opinion would become accepted.

Mr. Akers-Jones said that there was strong support among the people of Hong Kong for the idea that the rule of law, the current economic system and British administration all hung together and rested on the arrangements under the current Treaty. Mr. Bray added that Hong Kong represented a unique combination of juridical government and civil liberties.

Mr. Bemridge said that the key to Hong Kong's success as a financial centre was the strength of the Hong Kong dollar. It was not possible to say that no financial centre could be run without British administration, because this could be countered by pointing to Singapore and Taiwan. But it could be said that confidence would not attach to a financial centre under the Chinese Government, in view of their recent history. If there was not external confidence in the Hong Kong dollar, it would fall and the value of Hong Kong to China would fall with it. The Prime Minister commented that Singapore had been mentioned by the Chinese leaders: she had pointed out that Singapore was a sovereign independent state and Taiwan was separated physically from the Chinese mainland.

Mr. Griffiths said that attention had been paid in the Hong Kong press to the Prime Minister's remark at the Press Conference that the talks would take a matter of months, and this was likely to be raised on the following day. The Prime Minister said that, as she reflected on the talks, she was reaching the conclusion that they would take many months, perhaps as long as two years.

General Chapple said that an important aspect of stability was security. This was at present wholly underwritten by the presence of H.M. Forces and was indivisible with the allegiance to the British Governor. It was difficult to see what alternative arrangements could be effective in the absence of British administration.

In further discussion, the following points were made:

- (i) The extreme Left Wing groups could agitate opinion against the British position in Hong Kong, but would be unlikely to do it unless organised from China. At present their instructions were not to cause such agitation, and indeed prominent Chinese businessmen had been told by the Chinese authorities that they should not remove their investment from Hong Kong. Such people tended to obey because of their ethnic feeling for the Chinese and they also made donations to China, but they never invested in China and, if it came to the point of an economic collapse beginning in Hong Kong, they would take their money out even at the cost of heavy losses to themselves.
- (ii) The Chinese Ambassador to London had been retained in Peking for a month, and this suggested that the Chinese would be considering how to approach the talks during that period. The Governor commented that it was likely that the Ambassador would be sent back to London with instructions to find out from people close to the Prime Minister how her thinking was moving. It was also suggested that the present Ambassador might be replaced before long.
- (iii) In reply to a question from the Prime Minister about the reaction of Hong Kong markets, Mr. Bremridge said that it would be easier to form an assessment in two months or so. The statement that talks were to be undertaken with the common objective of maintaining the stability and prosperity of Hong Kong, was likely to hold the position for the time being, and people would wait to judge how the discussions were going. Confidence could probably be sustained if the talks took as long as two years, although the shortening period of leases would be an unsettling factor: once it was accepted that leases below 15 years had to be accepted, the next point at which people would be likely to be unsettled about the terms of leases was if the period became less than 12 years.

It was suggested that an important influence on Hong Kong opinion would be the extent of Hong Kong input to the talks: the Prime Minister agreed that a strong input from Hong Kong was necessary, and it had to be considered what form that input should take. Mr. Akers-Jones commented that Hong Kong Chinese people were still being invited to Peking, but mainly confined themselves to listening to the Chinese position.

- (iv) In reply to a question from the Prime Minister about the likely reaction to a referendum on reverting to Chinese rule, the point was made that the question came close to being asked in 1967 when opinion rallied behind the Hong Kong Government, although it was recognised that the present situation was a different one. It was suggested that the greatest support for the continuing support of British administration would come from the middle classes, particularly the younger ones whose career depended on the continuance of the British system. But there was some evidence of increased applications of Hong Kong people to move to the United States and Australia.
- (v) In reply to a question from Mr. Bremridge about the time-scale on British administration, the Prime Minister said that this would be a matter for the talks. It would not be possible to reach a new agreement ceding British administration for ever, but one possibility was a rolling period of notice.
- (vi) Mr. Griffiths commented that if the talks were going to take as long as two years, it would be very helpful if at an early stage the lease position could be cleared up. If a single lease could be negotiated going beyond 1997 in the New Territories, this would be a precedent which would do much to restore confidence. People were already asking about premiums on remaining short-term leases, and there was a rule of the United States Accountants Association that accounts had to be qualified in some circumstances if assets had a life of less than

15 years, although this rule had not been enforced. In reply to a question from the Prime Minister whether it would be sufficient for such a lease to be granted with the acquiescence of the Chinese leaders, rather than their positive agreement, Mr. Akers-Jones said that he thought that it would.

Summing up the discussion, the Prime Minister said that careful thought was now needed about the talks with the Chinese Government and the various ways of conveying to them what was needed to maintain prosperity and confidence in Hong Kong. She invited the Executive Council to give further thought to this.

F.R.B.

27 September 1982

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cc Future of Hong Kong  
Original Filed on Chinese Policy  
on PRC's Visit September 1982 PR2 15

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND VICE CHAIRMAN  
DENG XIAOPING AT THE GREAT HALL OF THE PEOPLE ON FRIDAY 24 SEPTEMBER  
AT 1030 A.M.

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Present

Prime Minister	Vice Chairman Deng Xiaoping
H.E. Ambassador	Mr. Huang Hua
Governor of Hong Kong	Mr. Zhang Wenjin
Mr. F.E.R. Butler	Mr. Ke Hua
Mr. A.E. Donald	Mr. Wang Benzao
Mr. A.J. Coles	Mr. Cao Yuanxin
Mr. A. Galsworthy	Mr. Lu Ping
Mr. R. Peirce	Mr. Zheng Yaowen

\* \* \* \* \*

After an exchange of courtesies Mr. Deng Xiaoping said that he had read the minutes of the Prime Minister's discussions with Premier Zhao Ziyang. They had had good talks on international issues, and there were not big differences between Britain and China. Observing that Sir Edward Youde was a member of the Prime Minister's party, he suggested that the present talks should concentrate on Hong Kong, on which Premier Zhao Ziyang had expressed the basic viewpoint of the Chinese Government in the talks on the previous day. Mr. Deng Xiaoping said that he would like to hear the Prime Minister's comments on what Premier Zhao Ziyang had said. The Prime Minister said that she was grateful to Mr. Deng for raising this question. Its importance was evident from the presence in Peking of the Hong Kong press and journalists from all over the world. She believed that Mr. Deng had seen the record of the discussion on Hong Kong on the previous day and the carefully drafted press statement which had been issued afterwards. At present there were some differences between the positions of the two sides which she hoped that it would be possible to resolve through co-operation and consultation. She would start by emphasising one or two points and would then hope to get down to discussion and to agree what the two Governments would do and what they would say to the press.

/ The Prime Minister

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The Prime Minister said that the British and Chinese Governments had a common objective: they shared the aim of maintaining the prosperity and stability of Hong Kong in the interests of the people who lived there. She believed that if the two Government co-operated together they could achieve that objective. She noted that Premier Zhao Ziyang also said that the time was now ripe to settle the question of Hong Kong's future.

The Prime Minister said that she was conscious that the present talks were taking place with the eyes of the world upon them and that anything which was now said or done would have an immediate impact on confidence both in Hong Kong itself and internationally; and confidence was essential to the continued economic well-being of Hong Kong. As she had said to Premier Zhao Ziyang she understood how important the principle of sovereignty was to China; but sovereignty was also a difficult issue for her. She had read the records of the talks between Premier Zhao Ziyang and Mr. Humphrey Atkins and between Mr. Deng Xiaoping and Mr. Edward Heath, <sup>which</sup> had included a similar point about the Chinese position on sovereignty. On this issue she had to convince the British Parliament and Mr. Deng had to convince the Chinese people. So sovereignty was a difficult point for both sides.

The Prime Minister said that she wanted to repeat what she had said to Premier Zhao Ziyang, namely that if the two Governments could agree definite arrangements about the future administration and control <sup>if</sup> of Hong Kong, and the Prime Minister were satisfied that they would work and that they would command confidence, and if she could justify them to the British Parliament, and they were acceptable to the people of Hong Kong, there would be a new situation in which the Prime Minister could consider the question of sovereignty. But without agreement on concrete arrangements on administration and control, she would not be able to make any recommendations to the British Government on the question of sovereignty.

/ Interjecting

Interjecting at this point Mr. Deng Xiaoping asked what the Prime Minister meant by control. The Prime Minister said that Hong Kong owed its prosperity to the system which it had had during 140 years of British administration. This system was compounded of several different elements - a political system which was different from that of China; an assured legal system; and an independent currency.

Mr. Deng Xiaoping asked whether "control" meant rule of a place by a country.

The Prime Minister said that she drew a distinction between sovereignty and administration. There had been examples of one country exercising administration in territory of which another country was sovereign. It could be said that this situation had existed in the New Territories, where Britain had had a lease from China. It was the firm belief of the British Government that unless people believed that the present arrangements for administering Hong Kong would continue for a long time, there would be a most damaging effect on confidence: and if changes in the administrative control of Hong Kong by the United Kingdom were introduced or announced now, the result would be disastrous for Hong Kong confidence.

The Prime Minister emphasised that as she had explained to Premier Zhao Ziyang the immediate issue was not what would happen by 1997 but what people now in 1982 believed would happen: it was that which would determine what they would do with their investments in the coming months and how far they would support the Hong Kong dollar. So the problem was an immediate one. Things would change in China as in the wider world, but people would make their present judgements against the background of recent Chinese history, of a difference / <sup>between</sup> the political systems of China and Hong Kong and of a modernisation programme which had only just begun in China. Against this background, if a change in Hong Kong's future status was announced now on the lines suggested by the Chinese Government, those with money and skill would immediately begin to leave the territory, and this would bring about an economic collapse which could be irreversible, if it went fast.

/ The Prime Minister

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The Prime Minister said that there was no time in the present short visit to reconcile the differences on this issue which existed between the British and the Chinese Governments, but she believed that those differences could be reconciled and that it was essential to maintain confidence while they were reconciled. That was why she proposed that it should be announced, while she was in Peking that further talks were to take place between the two Governments and that those talks would have a common objective to maintain prosperity and stability in Hong Kong. A Press Conference on the whole of her visit to Peking had been arranged for later that day and she would have to say something on this issue then. She would like to discuss before the end of the meeting what she proposed to say with the aim of maintaining confidence while talks went on. But she could not make any statement which misrepresented the genuine views of Mr. Deng Xiaoping and herself. She then invited Mr. Deng to raise any points or details in her statement which he wished to discuss.

Mr. Deng Xiaoping said that Premier Zhao Ziyang had enunciated the Chinese basic position on Hong Kong frankly on the previous day. There were three questions - sovereignty; the continued prosperity of Hong Kong; and discussions between the Chinese and British Governments on how to <sup>avoid</sup> turbulence in Hong Kong between now and 1997 and how to maintain prosperity in Hong Kong thereafter. He said that the Prime Minister had talked about prosperity after 1997 but not in the intervening period. As Premier Zhao Ziyang had said, on sovereignty there was no leeway for China: sovereignty was not a matter which could be discussed. In Premier Zhao Ziyang's words, the time was ripe for settlement of the Hong Kong issue. It should be clear today that in 1997 China would certainly recover sovereignty over Hong Kong. It was under this pre-condition that China and the United Kingdom would hold talks between the two sides on formulae for the future of Hong Kong and on policies for maintaining Hong Kong's prosperity.

Mr. Deng Xiaoping said that if in 1997 the People's Republic of China had not recovered Hong Kong the Chinese leaders and the Chinese Government would not be able to account for it to the Chinese people or to the people of the world. If sovereignty

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were not recovered, it would mean that the new China was like the China of the Ching dynasty and the present leaders were like Li Hongzhang. The Chinese People's Republic had waited for 33 years for the recovery of Hong Kong, and they would have to wait another 15: it was only because the Chinese Government enjoyed the full trust and faith of its people that it could wait such a long time. But if in 15 years they had not recovered Hong Kong, the people would have every reason no longer to put faith in their leaders and the Chinese Government ought to retire voluntarily from the political arena.

Mr. Deng Xiaoping said that this decision need not be announced now; but that in no more than one or two years time the Chinese Government would formally announce their decision to recover Hong Kong. The only reason why they were postponing this decision for a year or two was so that the Chinese and British Governments could conduct friendly consultations so that major disturbances should be prevented and so that the prosperity of Hong Kong would be maintained. Time was needed to settle the future of Hong Kong: during that period the Government would also listen to certain circles in Hong Kong and have discussions with them on the policies and principles to be followed after the 15 year period. The Chinese Government recognised that the policies would need to be acceptable not only to the people of Hong Kong but also to investors including investors from Britain. Time was needed. But an announcement could not be put off for more than one or two years.

Mr. Deng Xiaoping said that he noted from Mrs. Thatcher's statement that there were difficulties on the British side over sovereignty. In his view an announcement of the Chinese resumption of sovereignty over Hong Kong would bring a much bigger benefit because it meant that the period of colonialism would have ended in Britain. In the past Britain had been known as the empire where the sun never set, but Britain had ended her colonial role in very many former colonies e.g. India, Singapore, Malaysia and many others. The Prime Minister interjecting said that there were 45 members of the United Nations which were former colonies brought to independence by Britain. That was Britain's normal policy: the reason why it could not be done in the case of Hong Kong was because of the complications of the lease from China. She wanted to emphasise that the British Government derived

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no revenue from Hong Kong, and Hong Kong received no aid. Her duty, which she felt deeply, was to reach a result acceptable to the people of Hong Kong. Britain was not a colonialist country : we had moved beyond that. Britain simply wanted to carry out her moral duty to Hong Kong. The British Government knew that in 1997 sovereignty over 92% of the territory would pass to China when the lease ended. The British Government kept to its treaties and was not contesting the termination of the lease.

/ Mr. Deng Xiaoping

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Mr. Deng Xiaoping said that previous Governments had already solved bigger and more difficult issues. If the Hong Kong problem were to be solved during the Prime Minister's period in office, it would mean that Britain's colonial era had been brought to an end. This would redound to British credit . The British Government should therefore support China's policy and decisions on this issue. He hoped that both sides would co-operate and handle the issue in such a way as to maintain the prosperity of Hong Kong.

The Prime Minister said that there was still a certain amount of misunderstanding between the two sides. She wished to clarify the position so that comprehension was complete.

As regards sovereignty we understood China's position. She had explained to Mr Zhao Ziyang that it was for that reason that for the last ten years we had not reported to the United Nations on Hong Kong as a colonial territory. Under existing treaty arrangements 92 per cent of the total area i.e. the New Scheduled Territories would return to China in 1997. She was not asking for an extension of the lease. That left the treaty arrangements covering Hong Kong and Kowloon. China did not recognise these treaties but she believed that they were valid in international law. Her aim was that, if those treaties were to be changed, they should be changed by agreement and not abrogated by one side or another. She was striving to come to an agreement that was acceptable to China and the people of Hong Kong and would maintain prosperity and would be accepted by the British Parliament.

Mr. Deng Xiaoping had referred to the maintenance of prosperity between now and 1997. It was not only British investors who were involved but investors from the United States, Japan, Australia and from other parts of the world who invested in the territory. Many had put their whole savings and their whole future in Hong Kong. An investment

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was normally placed for at least 20-25 years. Any investor who saw 1997 approaching would question whether he should put his money in Hong Kong and in reaching his decision would take into account the fact that the situation would change in 1997 and that China would acquire sovereignty over a large part of the area at that time. So he would have to consider how to assess China. He would take into account the recent turbulent past, the very different political system and the fact that the modernisation programme was only just beginning. Those factors would lead him to conclude further investment was too risky. There were already signs that investments were moving out. The process might continue in the coming months and years. At the moment, the investor was bound to see, at best, uncertainty. The atmosphere for investment was very bad. The likelihood was that a good deal more people would move money to other financial centres which offered a more certain prospect of return. This was why she was proposing talks based on a certain formula. She wanted to provide enough assurances for investors to keep their money in Hong Kong so that prosperity could be maintained. To this end, we should agree, in further talks, that after 1997 British administration would continue with the same certain system of law, the same certain political system and the same certain independent currency. She believed that this would provide the certainty after 1997 that investment would continue and prosperity be maintained. This would not only benefit the people of Hong Kong but would continue to benefit China which profited greatly from a prosperous Hong Kong. If we could through talks at a later stage arrive at such an agreement there would be a tremendous upsurge in confidence. She could then go to the British Parliament and say that because there was agreement on the continuation of British administration for a considerable time and because prosperity would thereby be maintained we could consider the whole question of sovereignty, including sovereignty over Hong Kong and Kowloon. China would get what she wanted. Prosperity would be maintained both before and after 1997. The solution would be acceptable to Hong Kong because every survey showed that the people of Hong Kong wished the British system of administration to be maintained.

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Her attitude was not that of a colonial power. She was trying to carry out her duty to the people of Hong Kong just as Mr. Deng did in performance of his duty to the people of China. Her suggestion was, therefore, that we should begin talks immediately in order to obtain an agreement which was acceptable to China, Hong Kong and the British Parliament and would preserve prosperity. For if we destroyed prosperity it would never return. Meanwhile it was necessary to issue a very careful statement today. The aim was to maintain confidence. We wished to be able to say publicly that the two sides had entered into talks with the purpose of maintaining prosperity. She recognised that China had its own position on sovereignty. We too had our own position. But these positions were reconcilable and in that spirit we could enter into talks.

Mr Deng Xiaoping said that he was very sorry. He hoped we would understand that sovereignty over the entire area, including Hong Kong Island and Kowloon, would be recovered by 1997. That was certain. China had no other choice. On the question of maintaining prosperity, China hoped to enjoy the co-operation of Britain. But that did not mean that the prosperity of Hong Kong could be maintained only under British administration. The maintenance of prosperity when sovereignty had been recovered by China, and Hong Kong was administered by China, depended fundamentally on the policy pursued by China towards Hong Kong, including the political, economic and administrative systems which were used. The laws enacted in Hong Kong would also be relevant. Of course, some changes would be made. But Hong Kong would remain a capitalist society. Many systems which were favourable to the maintenance of prosperity would remain in the future. He wished to cite, as an example, Singapore. After the end of colonial rule in Singapore it had managed its own affairs and had done so quite well.

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He thought it unavoidable that some fluctuations would take place after China had announced that it would recover sovereignty. But China would try to avoid major fluctuations and, with co-operation, this could be done. But he could tell the Prime Minister that when the Chinese Government had formulated its policy decisions it had taken various factors and possibilities into consideration. Many people said that if the prosperity of Hong Kong could not be maintained, this would affect China's modernisation drive. There would be some effect but it was incorrect to believe that it would affect this policy to a large extent. If the modernisation programme was based on the maintenance or decline of prosperity of Hong Kong, then the modernisation decision was not a sound one. As regards the flight of foreign investment, provided China pursued appropriate policies the foreign investment which had left would come back.

When China announced its intention to resume sovereignty, it would at the same time announce the policies to be pursued and the measures to be taken <sup>with regard to Hong Kong systems.</sup> In the next year or two, China would solicit widespread views from various circles in Hong Kong about this issue. The Chinese side was pleased that on this matter the British Government had put forward many suggestions. He meant by this the proposals relating to 1997. China hoped that in the intervening period no big fluctuations would take place and that, after the recovery of sovereignty, China would benefit from British suggestions in the spirit of co-operation.

There was one point upon which he did not want to dwell but which he wished to make. If there were very large and serious disturbances in the next fifteen years, the Chinese Government would be forced to consider the time and formula relating to the recovery of its sovereignty over Hong Kong. The Prime Minister had said there might be a disastrous effect. China would have to make its decisions in the face of such a situation. / he hoped that after the current visit the two Governments would hold consultations and discussions. There had been no decision on the level of such talks but they could be conducted through diplomatic channels and the issue discussed with a view to avoiding major

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disturbances. He was sure that, as a result of full consultation, the defined policies to be pursued after 1997 would be acceptable to the people of Hong Kong and to investors from various countries. These would not be adversely affected nor would their interests be affected. That was not the point which worried him. What China worried about was how to ensure a good transitional period in the coming fifteen years so that major disturbances did not occur. If they did occur they would be man-made (artificial), not natural.

The Prime Minister said that all disturbances were created by man. Mr. Deng Xiaoping said that he meant that the disturbances would be created, not by Governments, but by individuals, some Chinese, some British. Take for instance the Hong Kong and Shanghai Bank. No-one knew how many banknotes it had issued. Sir Edward Youde said that we knew. Mr. Deng Xiaoping agreed that we knew but said that the Hong Kong people he talked to did not. In any event, it would be easy for some people to create disturbances. The consultations would be aimed at solving these problems. Not only should the two Governments not do anything which was detrimental to the maintenance of prosperity. They should also prevent some businessmen from doing things which were detrimental to the prosperity and stability of Hong Kong.

Mr. Deng Xiaoping then suggested that the two sides should reach agreement to the effect that the two Governments would start discussions through diplomatic channels. The pre-condition was that in 1997 China would recover sovereignty over Hong Kong. Under this pre-condition, they would discuss how to ensure a good transitional period of fifteen years and what would be done after fifteen years.

/ Mr. Deng Xiaoping

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Mr Deng Xiaoping was at this point handed a piece of paper by his advisers. He read the following text:

"Today leaders of the two countries have had deep ranging discussions on the question of Hong Kong in a friendly atmosphere. Although there existed differences, both sides believe that discussions were useful in order to seek an appropriate settlement of the Hong Kong question. Both sides agreed to maintain contact on the question of Hong Kong through diplomatic channels, following this visit."

The Prime Minister said that she wished to make a number of points. As regards Mr. Deng's reference to Singapore, she had great admiration for that country and for Mr. Lee Kuan Yew but it was a sovereign, independent country, whose position did not equate to that of Hong Kong. Under normal circumstances we would bring Hong Kong similarly to sovereign independence but we could not because China would not accept this and the people of Hong Kong knew that.

What really worried her was Mr. Deng's attitude to disturbances. She was not contemplating disturbances. She would do everything to prevent them. She was however contemplating the possibility of a financial collapse and she also wished to prevent that. The fact was that Hong Kong had been financially prosperous and very well run under British administration. If disturbances occurred, they would not have been caused by British administration in any way. So she urged him not to make the kind of statement that he had suggested. Instead, we might take the first sentence and then record the agreement of the two sides to enter into talks about the future of Hong Kong. We should not disturb the prosperity of the Chinese people of Hong Kong, most of whom had worked extremely hard for it. Reverting to the proposed statement, she suggested that the two sides should say that they had talks, these were a first exchange, all problems

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could not be solved in this session, but there was agreement to enter into further talks through diplomatic channels with a common aim of maintaining prosperity and stability.

Mr. Deng had made his position on sovereignty known. But she was not free to abrogate treaties without reference to her Cabinet and Parliament.

Mr. Deng Xiaoping suggested that we should add to the proposed formula a statement to the effect that the leaders of both countries had clearly expressed their respective positions on the future of Hong Kong.

After some further discussion, it was agreed to issue the following statement:-

"Today the leaders of both countries held far reaching talks in a friendly atmosphere on the future of Hong Kong. Both leaders made clear their respective positions on this subject. They agreed to enter talks through diplomatic channels following the visit with the common aim of maintaining the stability and prosperity of Hong Kong."

The Prime Minister commented to the effect that diplomatic channels might be used to agree upon a framework for the talks. If either side wanted to conduct talks through special emissaries these can be brought in. Mr. Deng Xiaoping agreed.

The discussion ended at 1245.

A.S.C.

24 September 1982

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Foreign and Commonwealth Office

London SW1A 2AH

23 September 1982

*Prue Muntz*

*Dear Tim,*

Visit by the Governor of Hong Kong  
and 5 UMELCO Members: 5-9 September  
1982

You may like to see the attached record of the Governor's comments to the press when the party arrived back in Hong Kong on 10 September.

The party's visit to London, in particular their meeting and lunch with the Prime Minister, was the subject of wide and very favourable reporting in Hong Kong. The announcement that the Governor would accompany Mrs Thatcher during her visit to China was also very well received.

*Yours ever,*

*for* (J E Holmes)  
Private Secretary

*Janie Richard*

T Flesher Esq  
10 Downing Street

GOVERNOR GOING TO PEKING  
\* \* \*

THE GOVERNOR, SIR EDWARD YOUDE, CONFIRMED THIS (FRIDAY) EVENING THAT HE WILL BE JOINING THE PRIME MINISTER, MRS MARGARET THATCHER, ON HER VISIT TO PEKING LATER THIS MONTH.

SIR EDWARD ANNOUNCED THIS WHEN ASKED BY NEWSMEN AT THE AIRPORT ON HIS RETURN WITH FOUR UMELCO MEMBERS FROM LONDON.

SIR EDWARD: THANK YOU ALL FOR COMING TO WELCOME US BACK. WE HAD A VERY GOOD TRIP TO LONDON AND I THINK I CAN SAY THAT IT IS A VERY ENCOURAGING TRIP. WE SAW NOT ONLY THE PRIME MINISTER BUT WE SAW THE SECRETARY OF STATE FOR FOREIGN AFFAIRS AND WE SAW LORD BELSTEAD AND AFTER THAT WE MET WITH QUITE A FEW OTHER PEOPLE WHO ARE INTERESTED IN HONG KONG AND ALL OF THEM WERE VERY KEENLY INTERESTED IN WHAT WE HAD TO SAY, IN PARTICULAR WHAT THE UNOFFICIAL MEMBERS HAD TO SAY.  
I THINK YOU KNOW THAT THE PRIME MINISTER'S OBJECTIVE WAS TO HEAR AT FIRST HAND THE VIEWS OF THE PEOPLE OF HONG KONG ON THE FUTURE, AND FROM THE STATEMENT WHICH WAS ISSUED BY NO. 10 DOWNING STREET AFTER OUR TALK WITH THE PRIME MINISTER SHE SAID THAT SHE HAD ASSURED THE UNOFFICIAL MEMBERS THAT IN HER DISCUSSIONS IN PEKING SHE WOULD FULLY REPRESENT THE VIEWS AND THE INTERESTS OF PEOPLE OF HONG KONG.

SO I THINK ALL IN ALL IT WAS TO US A VERY SUCCESSFUL AND VERY ENCOURAGING TRIP.

REPORTER: SIR EDWARD, CAN YOU NOW TELL US WHETHER YOU WOULD BE AMONG MRS THATCHER'S TEAM?

SIR EDWARD: YES, I SHALL BE JOINING THE PRIME MINISTER IN PEKING.

REPORTER: AND WHAT ABOUT LORD MACLEHOSE ?

SIR EDWARD: I HAVEN'T ANY NEWS TO YOU EXCEPT ME. WHOEVER IS GOING TO PEKING OTHER THAN MYSELF I MUST LEAVE TO NO. 10 TO ANNOUNCE.

REPORTER: THERE HAVE BEEN PERSISTENT REPORTS THAT CHINA HAS RECENTLY INFORMED LONDON THAT IT WILL REGAIN THE SOVEREIGNTY OF HONG KONG.....

SIR EDWARD: WE WERE NOT THERE TO TALK ABOUT WHAT THE CHINESE GOVERNMENT MIGHT HAVE SAID TO LONDON. WE WERE THERE TO TALK ABOUT WHAT THE PEOPLE OF HONG KONG WANTED TO SAY. SO I THINK PERHAPS IT'S JUST AS WELL WE SHOULD CONFINE THE QUESTIONS TO THAT.

/REPORTER: COULD .....

REPORTER: COULD YOU TELL US A LITTLE BIT WHAT WAS, PERHAPS, THE SORT OF VIEWS PUT FORWARD BY YOURSELF AND UNOFFICIALS TO THE PRIME MINISTER.

SIR EDWARD: SIR S.Y. YOU DID MUCH OF THE TALKING....

SIR S.Y. CHUNG:

I THINK WE WERE ABLE TO CONVEY A VERY FULL AND COMPREHENSIVE ACCOUNT OF ALL THE VIEWS AND WISHES THAT WE HAVE SEEN IN THE NEWSPAPERS IN HONG KONG - THE PRESS, THE MEDIA - THROUGH CORRESPONDENCE WRITTEN TO US, PETITIONS MADE TO UMELCO AND STATEMENTS MADE BY A LARGE NUMBER OF ORGANISATIONS IN HONG KONG, AND OF COURSE A NUMBER OF MAJOR OPINION SURVEYS CARRIED OUT IN HONG KONG RECENTLY.

WE WERE ABLE TO REFLECT ALL THE VIEWS AND WISHES AND WE WERE GIVEN A VERY GOOD OPPORTUNITY TO DO THAT.

REPORTER: CAN YOU SINGLE OUT ONE PARTICULAR VERY DEFINITE POINT OF VIEW OF THE HONG KONG PUBLIC THAT YOU HAVE CONVEYED TO THE UK GOVERNMENT?

SIR EDWARD: PERHAPS I SHOULD SAY THAT I DON'T THINK IT'S A GOOD IDEA WHEN YOU HAVE A SUBJECT AS IMPORTANT AS THIS ONE TO TRY TO GO IN FOR SIMPLIFIED PHRASES. I THINK AS SIR S.Y. HAS SAID, THE PEOPLE OF HONG KONG HAVE EXPRESSED THEIR VIEWS IN A VERY WIDE RANGE OF PUBLICATIONS, OPINION POLLS AND ALL THAT KIND OF THING AND WHAT THE UNOFFICIAL MEMBERS DID, AND I CAN CERTAINLY GIVE YOU AN ASSURANCE OF THAT BECAUSE I WAS THERE TO HEAR THEM, WHAT THE UNOFFICIAL MEMBERS DID WAS TO GIVE A FAITHFUL AND VERY COMPREHENSIVE ACCOUNT OF ALL THOSE VIEWS. AND I DON'T THINK IT WOULD BE HELPFUL GIVEN THE STATE WE ARE IN TO TRY AND SUM THEM UP IN A FEW SIMPLE PHRASES.

REPORTER: DO YOU BELIEVE YOU CHANGED ANY OF MRS THATCHER'S IDEAS ON THE PEOPLE OF HONG KONG OR DO YOU FIND YOURSELF MORE OR LESS IN AGREEMENT ON THE POINTS YOU COVERED?

SIR EDWARD: I THINK YOU WOULD HAVE TO ASK MRS THATCHER THAT QUESTION WHEN SHE COMES HERE. BUT I DO KNOW THAT IT WOULD BE VERY OBVIOUS TO YOU IF SHE LISTENED VERY KEENLY TO WHAT WAS BEING SAID TO HER BECAUSE WE WERE THERE FOR A TOTAL OF TWO HOURS AND ALTHOUGH WE WERE IN PART ENJOYING AN EXCELLENT LUNCH WE WERE ALSO TALKING THROUGHOUT THE LUNCH. SO WAIT A COUPLE OF WEEKS AND TRY THE QUESTION AGAIN.

/REPORTER: WAS .....



- REPORTER: WAS THERE ANYTHING IN PARTICULAR THAT SHE WAS INTERESTED TO KNOW ABOUT HONG KONG?
- SIR EDWARD: I WOULDN'T SINGLE OUT A PARTICULAR SUBJECT. I THINK AS YOU KNOW SHE'S BEEN HERE BEFORE SO SHE HAS QUITE A KNOWLEDGE OF HONG KONG ALREADY, AND A GREAT INTEREST IN IT, AND I THINK SHE WAS REALLY SEEKING FOR A VERY WIDE RANGING TALK ABOUT HONG KONG, ABOUT THE CLIMATE OF OPINION HERE, ABOUT THE DEVELOPMENT OF HONG KONG SINCE SHE WAS HERE AND THE VIEWS OF THE PEOPLE ON THE FUTURE.
- REPORTER: DO YOU THINK THE BRITISH GOVERNMENT HAVE ALREADY HAD A STAND ON THE QUESTION OF THE FUTURE OF HONG KONG?
- SIR EDWARD: I THINK THAT THE OBJECT OF OUR VISIT WAS, AND THE REASON WE WERE INVITED, WAS THAT WE COULD CONTRIBUTE TO THE PREPARATIONS WHICH WERE BEING MADE FOR THAT VISIT AND OBVIOUSLY THEY WERE MUCH CONCERNED TO HEAR THE VIEWS OF THE PEOPLE HERE BEFORE THEY DO COME TO CONCLUSIONS.
- REPORTER: WHAT DO YOU EXPECT WILL COME OUT OF MRS THATCHER'S TRIP TO PEKING?
- SIR EDWARD: I THINK I'VE SAID IT SO OFTEN BUT PERHAPS IT WOULD BEAR REPETITION THAT I'M VERY CONFIDENT ABOUT THE FUTURE, BUT I'VE ALWAYS SAID I DO NOT EXPECT IT ALL TO BE SETTLED IN ONE GO; BUT HER VISIT WILL BE A VERY IMPORTANT EVENT AND I DO EXPECT PROGRESS STEP BY STEP.
- REPORTER: DO YOU THINK HONG KONG CAN MAINTAIN ITS FINANCIAL AND PSYCHOLOGICAL CONFIDENCE IF THERE IS NOT A CLEAR-CUT STATEMENT?
- SIR EDWARD: WELL, I THINK HONG KONG IS ABLE TO MAINTAIN ITS FINANCIAL AND GENERAL CONFIDENCE, AND I WOULD EXPECT THAT TO CONTINUE.
- REPORTER: DO YOU KNOW WHOM MRS THATCHER WILL BE MEETING IN PEKING?
- SIR EDWARD: I THINK HER PROGRAMME WILL BE FOR NO. 10 (DOWNING STREET) TO ANNOUNCE RATHER THAN FOR US.
- REPORTER: SIR, ARE YOU GOING TO PEKING BY YOURSELF STARTING FROM HONG KONG OR ARE YOU GOING BACK TO UK FIRST?
- SIR EDWARD: MY PLAN AT THE MOMENT IS TO START FROM HONG KONG.

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PERSONAL FOR PS TO SECRETARY OF STATE  
FROM PRIVATE SECRETARY TO PRIME MINISTER.

PRIME MINISTER'S TALKS WITH ZHAO ZIYANG: FUTURE OF HONG KONG.

1. THE PRIME MINISTER BEGAN THE SECOND SESSION WITH ZHAO ZIYANG ON 23 SEPTEMBER WITH A STATEMENT ON HONG KONG, RECALLING WHAT ZHAO HAD TOLD MR ATKINS IN JANUARY AND DENG XIAOPING'S REMARKS TO MR HEATH IN APRIL SHE SAID SHE HAD IDENTIFIED TWO MAIN ELEMENTS IN THE CHINESE THINKING. THE FIRST WAS SOVEREIGNTY WHICH WAS LIKELY TO BE A DELICATE MATTER SEMICOLON SHE WOULD RETURN TO THAT LATER. THE SECOND WAS THE NEED TO MAINTAIN THE PROSPERITY OF HONG KONG.

2. THE PRIME MINISTER DESCRIBED WHAT SHE SAW AS THE FUNDAMENTAL ELEMENTS ON WHICH CONFIDENCE IN HONG KONG DEPENDED. BRITISH ADMINISTRATION HAD PROVIDED THESE. CHANGES SUCH AS THOSE ENVISAGED IN DENG'S REMARKS TO MR HEATH WOULD IF IMPLEMENTED OR EVEN ANNOUNCED AS A DECISION OF THE CHINESE GOVERNMENT HAVE A DISASTROUS EFFECT UPON CONFIDENCE IN HONG KONG. THERE WOULD BE ECONOMIC COLLAPSE, A FLIGHT OF CAPITAL FROM THE TERRITORY, MANY PEOPLE IN HONG KONG WOULD SUFFER FINANCIAL HARDSHIP, MANY WOULD SEEK TO LEAVE, THERE WOULD BE INTERNATIONAL REPERCUSSIONS AND BRITAIN WOULD HAVE FAILED IN ITS DUTY TO HONOUR ITS OBLIGATIONS TO THE PEOPLE OF HONG KONG WHO HAD LACED THEIR FAITH IN BRITISH ADMINISTRATION FOR MORE THAN A CENTURY. THE PROBLEM WAS NOT WHAT WOULD HAPPEN IN 1997, BUT WHAT PEOPLE BELIEVED NOW IN 1982 WOULD HAPPEN TO THE FUTURE ADMINISTRATION OF HONG KONG. THE COMMON OBJECTIVE OF THE TWO SIDES TO MAINTAIN THE PROSPERITY OF HONG KONG COULD ONLY BE ACHIEVED IF PEOPLE BELIEVED THAT THE PRESENT ARRANGEMENTS FOR ADMINISTERING HONG KONG WOULD CONTINUE FOR A LONG TIME, BEYOND 1997. A CHANGE AWAY FROM BRITISH ADMINISTRATION WOULD HAVE A VERY DESTRUCTIVE EFFECT.

3. SOMETHING HAD TO BE DONE VERY SOON. THE PRIME MINISTER WAS FAMILIAR WITH THE CHINESE POSITION ON SOVEREIGNTY, BUT SHE COULD ONLY MAKE RECOMMENDATIONS TO HER GOVERNMENT ON THE QUESTION OF SOVEREIGNTY IF THERE WAS AGREEMENT BETWEEN THE TWO SIDES ON CONCRETE ARRANGEMENTS FOR THE ADMINISTRATION AND CONTROL OF HONG KONG AND SHE WAS SATISFIED THAT THEY WOULD COMMAND CONFIDENCE AND WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG. THE PRIME MINISTER PROPOSED THAT OFFICIAL TALKS SHOULD BEGIN SOON TO SEEK AGREEMENT ON SUCH ARRANGEMENTS WHICH WOULD MEET THE WISHES OF CHINA, BRITAIN AND THE PEOPLE OF HONG KONG AND PRESERVE THE PROSPERITY OF HONG KONG. SHE PROPOSED THAT THESE TALKS SHOULD BEGIN VERY EARLY AND THAT THERE SHOULD BE A PUBLIC ANNOUNCEMENT TO THIS EFFECT BEFORE SHE LEFT PEKING.

4. ZHAO ZIYANG SAID THAT THE CHINESE GOVERNMENT HAD ALL ALONG STATED THAT THIS PROBLEM LEFT OVER FROM HISTORY WOULD BE SETTLED IN THE PROPER WAY WHEN CONDITIONS WERE RIPE. IT COULD BE SAID THAT CONDITIONS WERE RIPE NOW. CHINA COULD NOT BUT RECOVER ITS SOVEREIGNTY OVER HONG KONG, NO LATER THAN 1997. CHINA DID NOT ACCEPT THE TREATIES BUT IN ANY CASE BRITAIN WOULD HAVE NO LEGAL BASIS TO ADMINISTER THE NEW TERRITORIES AFTER 1997. HONG KONG ISLAND AND KOWLOON WERE SIMILARLY INSEPERABLE FROM THE TERRITORY OF CHINA, SO THE ONLY WISE AND PRACTICAL COURSE WAS THAT THE WHOLE TERRITORY SHOULD BE RETURNED TO CHINA. THE CHINESE PEOPLE WOULD NOT PERMIT THE CHINESE GOVERNMENT TO FAIL TO RECOVER SOVEREIGNTY OVER HONG KONG BY 1997, 48 YEARS AFTER THE FOUNDING OF THE PEOPLE'S REPUBLIC. ANY CHINESE GOVERNMENT WHICH FAILED TO RECOVER SOVEREIGNTY WOULD NOT BE ABLE TO ACCOUNT TO ITS PEOPLE. ON THIS ISSUE THERE WAS NO ALTERNATIVE AND NO LEEWAY FOR THE CHINESE GOVERNMENT. THE DIFFICULTIES OF BOTH SIDES ON THIS QUESTION WERE DIFFERENT IN NATURE.

5. ZHAO SAID THAT AFTER THE RECOVERY OF SOVEREIGNTY THE CHINESE GOVERNMENT WOULD PURSUE SPECIAL POLICIES DESIGNED TO MAINTAIN STABILITY AND PROSPERITY IN HONG KONG. HONG KONG COULD BECOME A SPECIAL ADMINISTRATIVE ZONE ADMINISTERED BY LOCAL PEOPLE AND ITS EXISTING ECONOMIC AND SOCIAL SYSTEM AND LIFE STYLE COULD REMAIN UNCHANGED. THE CAPITALIST SYSTEM IN HONG KONG WOULD REMAIN AS WOULD THE FREE PORT AND THE INTERNATIONAL FINANCIAL CENTRE. THE HONG KONG DOLLAR WOULD CONTINUE TO BE USED AND TO BE CONVERTIBLE. CHINA WOULD TAKE INTO PROPER CONSIDERATION THE ECONOMIC RELATIONSHIP BETWEEN BRITAIN AND HONG KONG, BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN AT THEIR POSTS WHEN THE SPECIAL ADMINISTRATIVE ZONE WAS SET UP.

6. TO SUM UP THE TWO ELEMENTS OF CHINA'S BASIC POLICY ON THE HONG KONG QUESTION - RECOVERY OF SOVEREIGNTY AND MAINTENANCE OF PROSPERITY - WERE INSEPERABLE, BUT RECOVERY OF SOVEREIGNTY WAS THE PREREQUISTIE. ON THE PREMISE OF RECOVERING SOVEREIGNTY, CHINA COULD EXPLORE WAYS OF MAINTAINING AND DEVELOPING THE PROSPERITY OF HONG KONG. ZHAO SAID THAT CHINA WOULD NOT MAINTAIN AND DEVELOP THE PROSPERITY OF HONG KONG AT THE EXPENSE OF THE RECOVERY OF SOVEREIGNTY. CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF, NOR PLACE HONG KONG UNDER OTHERS TRUSTEESHIP.

7. ZHAO THEN MISQUOTED THE PRIME MINISTER AS SAYING THAT IF CHINA RECOVERED SOVEREIGNTY, CONFIDENCE AND PROSPERITY IN HONG KONG WOULD BE DESTROYED. THE PRIME MINISTER CORRECTED THIS, REITERATING THAT THE PRESENT FLOURISHING SYSTEM IN HONG KONG DEPENDED UPON BRITISH ADMINISTRATION. SHE STRESSED AGAIN THAT THE URGENT NEED WAS TO RETAIN CONFIDENCE NOW. IF WHEN SHE REACHED HONG KONG AFTER LEAVING CHINA SHE HAD TO SAY THAT THERE HAD BEEN NO MEETING OF MINDS ABOUT THE FUTURE OF BRITISH ADMINISTRATION, CONFIDENCE WOULD FAIL NOW.

8. ZHAO REPEATED THAT THE CHINESE PUT THE RECOVERY OF SOVEREIGNTY BEFORE THE MAINTENANCE OF PROSPERITY. NO SOVEREIGN STATE COULD DO OTHERWISE. HE COULD NOT AGREE WITH WHAT THE PRIME MINISTER HAD SAID ABOUT THE PROSPERITY OF HONG KONG BEING DESTROYED IF CHINA RECOVERED SOVEREIGNTY. HE THOUGHT THAT AS LONG AS THE TWO SIDES SHOWED FULL COOPERATION, IT WOULD BE POSSIBLE TO AVOID CONFUSION IN HONG KONG DURING THE TRANSITIONAL PERIOD. HE THOUGHT THAT "RECENT DEVELOPMENTS" IN HONG KONG DERIVED FROM MANY REASONS, BUT THE MAIN REASON WAS NOT (UNDERLINED) THE SPREAD OF THE NEWS THAT CHINA WOULD RECOVER SOVEREIGNTY. HE DID NOT BELIEVE THAT CHINESE INVESTORS WOULD FIND BETTER PLACES FOR THEIR MONEY IF CHINA PURSUED POLICIES TO MAINTAIN THE PROSPERITY AND DEVELOPMENT OF HONG KONG. THE PRIME MINISTER INTERJECTED THAT DISINVESTMENT WAS ALREADY IN PROGRESS. ZHAO REJOINED THAT PERHAPS A FEW, BUT NOT MANY WERE DISINVESTING.

9. ZHAO SAID THAT THE PRIME MINISTER HAD PROPOSED THAT AFTER HER VISIT THE TWO SIDES SHOULD MAINTAIN CONTACT ON HONG KONG. CHINA HELD THE SAME VIEW. BOTH SIDES SHOULD CONTINUE TO DISCUSS THE RECOVERY OF SOVEREIGNTY OVER HONG KONG AND, ON THIS PREMISE, HOW TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG.

10. THE PRIME MINISTER REITERATED THE DIFFICULTIES OF THE SOVEREIGNTY ISSUE FOR BRITAIN. THE TWO SIDES NEEDED TO CONSULT AND AGREE ABOUT HOW TO ACHIEVE A CONTINUATION OF BRITISH ADMINISTRATION IN HONG KONG. SUCH AN AGREEMENT WOULD ENABLE HER TO CONSIDER THE QUESTION OF SOVEREIGNTY. SHE THOUGHT THAT THERE WAS MUCH IN COMMON BETWEEN THE TWO SIDES. SHE HAD NOTED CHINA'S NINE POINT PROPOSALS ON TAIWAN. IF BRITAIN AND CHINA COULD REACH A SATISFACTORY AGREEMENT ON HONG KONG THIS COULD BE AN EXAMPLE. THE PRIME MINISTER SUGGESTED THAT BOTH SIDES SHOULD NOW REFLECT ON WHAT HAD BEEN SAID AND THAT DISCUSSIONS ON HONG KONG SHOULD BE RESUMED WITH DENG XIAOPING ON 24 SEPTEMBER. ZHAO AGREED.

11. THE PRIME MINISTER AND ZHAO AGREED TO ISSUE THE FOLLOWING STATEMENT TO THE PRESS. "THE TWO SIDES BEGAN DISCUSSION OF HONG KONG TODAY IN A FRIENDLY ATMOSPHERE. THE TALKS WERE USEFUL. THEY WILL BE CONTINUED TOMORROW."

12. THE PRIME MINISTER WISHES THE CONTENT OF THIS REPORT TO BE VERY CLOSELY GUARDED. IT SHOULD THEREFORE BE GIVEN EXTREMELY RESTRICTED CIRCULATION.

13. PLEASE COPY TO NO. 10 DOWNING STREET.

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND PREMIER  
ZHAO ZIYANG AT THE GREAT HALL OF THE PEOPLE, PEKING ON THURSDAY  
23 SEPTEMBER 1982 AT 0900

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Present:

Prime Minister	H.E. Premier Zhao Ziyang
H.M. Ambassador, Peking	Mr. Huang Hua
Governor of Hong Kong	Mr. Zhang Wenjin
Mr. F.E.R. Butler	Mr. Jia Shi
Mr. A. Donald	Mr. Ke Hua
Mr. A.J. Coles	Mr. Wang Benzhuo
Mr. G. Clark	Mr. Lu Ping
Mr. A. Galsworthy	Mr. Wang Changyi
Mr. R. Peirce	Mr. Cao Yuanxin
	Mr. Zheng Yaowen

\* \* \* \* \*

Invited to open the discussion on bilateral questions, the Prime Minister made the statement at Annex A to this record.

Mr. Zhao Ziyang said that he had listened very carefully to the considerations advanced on the British side. The Hong Kong question was an issue left over from history. China considered that the time had come when the issue must be settled. It was ready in a spirit of friendship to seek the co-operation of the British Government and resolve this problem properly. In order to enhance mutual understanding and arrive at a proper solution, he wished to expound China's views very candidly. The entire Hong Kong area, including Hong Kong Island and Kowloon, were part of Chinese territory. Since the founding of the People's Republic of China, its Government had stated that this problem, left over from history, would be settled in the proper way when conditions were ripe. Pending this, the status quo in Hong Kong was to be maintained. 140 years had elapsed since 1842 and 33 years had gone by since the founding of the People's Republic. By 1997, about 155 years would have elapsed - more than one and a half centuries. So it could be said that conditions were now ripe for settlement of the Hong Kong question.

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At this point he must state formally that China could not but recover its sovereignty over Hong Kong in 1997 - and no later. It had been China's consistent position that the Chinese Government was not bound by treaties signed between the British Government and the Ching dynasty. The Chinese people had never recognised those treaties. By 1997 the legal basis on which Britain administered the New Territories would no longer exist. So the British Government would have no reason not to return the New Territories to China. Hong Kong Island and Kowloon were similarly inseparable from the territory of China. So the only wise and practical course was that the entire area, including Hong Kong Island and Kowloon, should be returned to China. Recovery of sovereignty over Hong Kong was an issue concerning Chinese sovereignty, territorial integrity and the national feelings of the Chinese people. The Chinese people would not permit the Chinese Government to fail to recover sovereignty over the territory by 1997, 48 years after the founding of the People's Republic. Any Chinese Government which failed to recover sovereignty would not be able to account to its people. On this issue there was no alternative and no leeway for the Chinese Government.

The Prime Minister had just said that the British side had difficulties, but it was not a question of greater or lesser difficulties for either side. The difficulties of the two sides were different in nature. He hoped that the Prime Minister and the British Government would understand this and that the two sides would work to solve the issue successfully in a spirit of friendship and co-operation. A settlement of the problem would mean not only the healing of a wound left over from history, but would also promote friendship and co-operation between the two countries.

The Chinese believed that solving the problem in this way would not only be in conformity with the interests of the Chinese people, but would also conform with British interests. From a fundamental and long term point of view, this would not adversely affect the prosperity of Hong Kong.

The Prime Minister had just referred to the need for both sides to maintain the prosperity and development of Hong Kong. China understood that. After the recovery of sovereignty,

the Chinese Government would take into full consideration the actual conditions in Hong Kong and would pursue special policies there designed to maintain stability and prosperity. Thus, in future, Hong Kong could become a special administrative zone administered by local people and its existing economic and social system and style of life could remain unchanged. The capitalist system in Hong Kong would remain, as would its free port, and its function as an international financial centre. The Hong Kong dollar would continue to be used and to be convertible.

China would take into proper consideration the economic relationship which existed between Hong Kong and Britain and would take into account British interests in industry, commerce, finance, shipping and aviation. The British Government functionaries could remain at their posts when the special administrative zone was set up.

To sum up, the basic policy of China on the question of Hong Kong was to recover the sovereignty of Hong Kong and maintain its prosperity. The two elements were inseparable and were a unity. But recovery of sovereignty was the pre-requisite. China could not place the maintenance of prosperity above this consideration. On the premise of recovering sovereignty, China could explore ways of maintaining and developing the prosperity of Hong Kong. He wished to repeat that China would not maintain the prosperity of Hong Kong and develop it at the expense of recovering sovereignty. China would not let others administer Hong Kong on its behalf nor place Hong Kong under the trusteeship of others.

The Prime Minister had said that if China recovered sovereignty, then confidence and prosperity in Hong Kong would be destroyed.

The Prime Minister stated that this was not quite what she had said. She had stated that Hong Kong now flourished to the advantage of the people of Hong Kong, of China and of Sino/British relations. The present flourishing system in Hong Kong was due to British administration - including the predictability of British law and confidence in the Hong Kong currency. Its prosperity depended

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and would continue to depend on British administration. Without a British administration, there would be no confidence. She was not talking about 1997. If when she reached Hong Kong during her current visit she said that there had been no meeting of minds about the future of British administration, what did the Chinese side think the effect would be? The consequences would occur not in 1997 but in 1982. We had to retain confidence now.

Resuming his statement, Premier Zhao Ziyang said that there were two principles - sovereignty and the prosperity and stability of Hong Kong. If it came to a choice between the two, China would put sovereignty above prosperity and stability. Sovereignty was a matter of principle, and no sovereign state would do otherwise. He had to say that he did not agree with the Prime Minister's statement that if China recovered sovereignty, prosperity would be destroyed and that large amounts of capital would leave Hong Kong. He did not think it impossible to maintain the confidence of investors and maintain the interests of the Hong Kong people in stability and prosperity after the Chinese Government had recovered the sovereignty. There were 15 years to go, and it was very important that the British Government should show a spirit of co-operation during that period. So long as both sides showed full co-operation he believed that it was possible to avoid confusion in Hong Kong during the transitional period. China did not want to see a mess in Hong Kong, and he believed that this would not be beneficial to the United Kingdom. The Prime Minister interjected that it would not be beneficial to China either. Continuing, Premier Zhao Ziyang referred to the Prime Minister's remarks about recent developments in Hong Kong markets. There were many reasons for those developments, but in the opinion of the Chinese Government the spread of the news that China would recover sovereignty over Hong Kong was not the main reason. Looking at the matter analytically, he had to say that if China pursued a policy of maintaining prosperity and stability in Hong Kong, there was no reason why Chinese investors should not stay there: where else were they to go? The Prime Minister interjected that they could go to Singapore, the Philippines, or even New York, and indeed were doing so now. She had an obligation to talk frankly to the Chinese Government because the people to whom they talked in Hong Kong would not

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dare to do so. Premier Zhao Ziyang said that a few investors were putting money elsewhere, but not many; he repeated that he believed that if investors got benefits in Hong Kong, they would stay there.

Referring to the Prime Minister's suggestion that the British and Chinese Governments should maintain contact on this issue after the Prime Minister's visit, Premier Zhao Ziyang said that the Chinese Government had the same wish that both sides should continue discussions. These discussions should cover the question of recovery of sovereignty, and, on this premise, of how to maintain the prosperity and stability of Hong Kong. With regard to the Prime Minister's proposal of a public statement, Premier Zhao Ziyang suggested that she should discuss this with Vice Chairman Deng Xiaoping tomorrow.

The Prime Minister, responding to Premier Zhao Ziyang's statement, said that the British Government understood the Chinese Government's position on sovereignty. It was for that reason that the British Government had not for the last 10 years reported Hong Kong to the United Nations under the Colonial Sections of the UN Charter. Hong Kong was the only dependency which the British Government had omitted in this way. The British Government also agreed that by 1997 the legal basis for the British Administration of the new territories would end: the British Government honoured its agreements and accepted that this was the legal position. By the same token, the legal basis for British retention of Hong Kong and Kowloon would continue as a matter of international law. She understood that the Chinese Government wished this Treaty to be abrogated, but the Chinese Government had to recognise that abrogation would have to be achieved through a law passed by the British Parliament. The point which would be made was that, if the Chinese Government abrogated one agreement valid at international law, what assurance could there be that they would keep any other agreement. The British Government therefore preferred not to abrogate agreements, but to reach new ones which superseded them.

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The Prime Minister said that her view was that now and for a long time in the future the prosperity and stability of Hong Kong would depend on confidence that the present administration would continue. Perhaps this would not be for all time, since things changed everywhere and would change in China. But British administration would certainly be needed for a long time beyond 1997. She was proposing that the two Governments should set out to consult and agree on how to achieve that: if they were successful, and she could commend the outcome to Parliament, then the British Government would consider the question of sovereignty. She was convinced that there was not so much difference between herself and Premier Zhao Ziyang as might appear from their opening statements, or, to put it another way, there was much in common between them.

Continuing, the Prime Minister said that she had noted that in the record of the conversation between Mr. Edward Heath and Vice Chairman Deng Xiaoping, Deng Xiaoping had referred to the Nine Point Proposals when referring to Taiwan. If the British and Chinese Governments could reach a satisfactory agreement on Hong Kong, this might act as an example for others in dealing with other problems which China had.

The Prime Minister said that the Chinese Government had a principle about sovereignty: the British Government also had a principle, which ran strongly throughout the British character, about duty to those who for 140 years had put their faith, their future and their investment in Hong Kong under British administration. The British Government owed it to the people of Hong Kong to reach agreement through discussion and consultation with the Chinese Government. Nor was it only a question of Chinese and British investors in Hong Kong: there was much international money invested there because of confidence in British administration, the certainty of the British legal system and the existence of the Hong Kong dollar as an international currency. Did the Chinese Government suppose that a similar financial centre should be established under Chinese rule in, say, Shanghai or Canton?

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Concluding, the Prime Minister said that she hoped to carry forward the discussions in a constructive way. She was conscious that she was going to Hong Kong immediately after China. She wanted to be able to say something which would retain confidence there. For the time being she suggested that they could not carry their discussions any further, but that they should be resumed with Vice Chairman Deng Xiaoping tomorrow. Premier Zhao Ziyang agreed, saying that he would not be present at the talks with Vice Chairman Deng Xiaoping, but that Vice Chairman Deng Xiaoping would be fully informed of what had passed today.

The Prime Minister and Premier Zhao Ziyang agreed that the statement made to the Press today should be: "The two sides began discussions on Hong Kong today in a friendly atmosphere. The talks were useful. They will be continued tomorrow."

#### Guangdong Nuclear Project

Turning to other bilateral issues, the Prime Minister said that the British Government were deeply interested in the Guangdong Nuclear Project. They were ready to work with any nuclear partner of China's choice. She was glad to have been informed that a visit to the United Kingdom by the Guangdong Power Company and the China Light and Power Company had indicated that GEC would be competent to make turbine island.

Premier Zhao Ziyang said that there had been contacts between the Guangdong Power Company and interests in Hong Kong about the nuclear project, and there had also been contact with the British and French. If the prices and agreed terms were favourable, they were planning to use French-made reactor equipment and British generating equipment, although the arrangements had not yet been completed. The Prime Minister asked whether this was a decision: she understood that the Guangdong Power Company had been also considering the Americans as the partner in the project.

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Premier Zhao Ziyang said that he had seen reports of contacts with the Americans, but his enquiries indicated that the Guangdong Power Company were not pursuing **formal contacts with the United States**. The Prime Minister said she was interested in this news. She was aware that Sir Walter Marshall had visited China for discussions with the appropriate Ministry.

Commercial Relations

The Prime Minister said that Britain shared China's wish to maximise trade between the two countries. She suggested that China's Minister for Economic Relations and Trade, Madame Chen Muhua, might visit London. Premier Zhao Ziyang said that China attached importance to developing trade and economic relations as well as an increase in contacts in the scientific and technological field. Although trade between Britain and China was not yet on a large scale, there was a broad prospect for further advances arising from China's determination to pursue a policy of modernisation. The Chinese Government would not change their policy of opening China to foreign trade. In the coming 20 years the Chinese Government wished to exploit their energy resources, to develop transport and communications, and to modernise their existing production capacity in a planned way. He hoped that British businessmen would pay attention to these areas in particular, and try to be competitive, since increases in cooperation on these matters depended not only on Government collaboration but on the **competitiveness** of businessmen. He also hoped that the British Government, like other countries such as Denmark and Belgium, would provide low rate long-term loans in the interests of promoting exports and cooperation in economic and technological matters.

Turning to specific issues, Premier Zhao Ziyang said that the joint venture for a float glass plant in Shanghai, in which Pilkingtons were involved, looked promising. The prospects

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were also good for the involvement of British companies in offshore oil exploration in the Yellow Sea, for which Shell and BP had both made bids: tenders had been opened and were now being assessed. In coal exploitation too, agreements of intent had been reached on joint ventures in Shandong Province and Guizhou. The Prime Minister welcomed these agreements of intent and expressed the hope that they would be carried forward to fruition.

#### Project 051

The Prime Minister referred to the Luda destroyer project, about which she had corresponded with the Chinese Ambassador. Premier Zhao Ziyang said that he knew that the Prime Minister had made efforts to ensure that the negotiations on the Luda destroyer were successful. Success had almost been achieved; there remained a problem about the clause covering fluctuations and costs. He hoped that the Prime Minister could help in finding a way of overcoming this problem. (At this point Premier Zhao Ziyang was handed a telegram indicating that British Aerospace were about to send a delegation to carry negotiations forward.) The Prime Minister said that she hoped that a solution to the problem could be found: Britain wanted to help with this project.

#### Consulates

The Prime Minister welcomed the agreement between the Governments of the United Kingdom and China to open Consulates in Shanghai and Liverpool. The British Government hoped that it would be possible for the Chinese Government to provide premises which fitted the distinction of the Shanghai Consulate. It would not be satisfactory for the Consulate to be placed in a hotel. The British Government had had a nice Consulate building up to the time of the Cultural Revolution in 1967 and it would be a happy solution if that could be restored. Premier Zhao Ziyang said that there would be no difficulty in establishing the Consulate in Shanghai as soon as the preparatory work was finished. As regards the site, he regretted that another use had been found for the former Consulate building and it would not be possible to give it back. But compensation would be provided and the Office of Foreign Affairs in the Shanghai municipality would assist in providing premises.

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Technical Co-operation

Premier Zhao Ziyang said that the Chinese Government valued the arrangements for sending students to Britain but said that the Chinese Government were having to reduce the numbers because of the level of fees. He wondered whether the British Government could provide help with this, and referred to the assistance given by the United States Government in the form of provision of materials and bursaries. The Prime Minister said that if this was the form of technical co-operation which the Chinese Government wanted most she thought that it should be possible to do something about it and she would explore the possibilities.

Conclusion

The Prime Minister expressed her appreciation of the friendly and constructive atmosphere/<sup>of the discussions</sup> with Premier Zhao Ziyang, and referring to their earlier discussion on Hong Kong reiterated her confidence that the two Governments would be able to reach a satisfactory agreement on the basis of consultation and co-operation.

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## ANNEX A

### OPENING STATEMENT BY THE PRIME MINISTER

"I should like to begin by saying how pleased I was with our full and fruitful discussions yesterday on international matters. I was grateful for the information you provided, especially about Chinese relations with the Soviet Union and the United States, and I was pleased to see that there was substantial agreement between us on many issues.

As I indicated to you yesterday, I should like with your permission to speak to you today about Hong Kong. It is a problem which affects us both. Moreover, I understand that you have taken a close personal interest in it.

Hong Kong is a unique example of successful Sino/British co-operation. It flourishes well. Against this background I hope we can solve the problem of how to agree about its future while maintaining its prosperity. I note that on previous occasions you and your colleagues have said that you want to solve the issue by consultation and co-operation. That is our approach too.

I have studied very carefully what you said to Mr. Humphrey Atkins when he came to China in April and Mr. Deng Xiaoping's private remarks to Mr. Heath in April.

If my understanding is correct the two main elements of the Chinese view concern sovereignty and the continued prosperity of Hong Kong. I believe those were your own words when you spoke to Mr. Atkins. The first of these elements - sovereignty - is likely to be a delicate matter for both sides and I should like to return to this point a little later.

First I should like to discuss the second element - prosperity. I note that you think that to maintain Hong Kong's prosperity it should continue as a free port and an international centre of commerce and finance and that there should be a continuity of systems. I agree with those points but general assurances that

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the present local systems will be preserved and that Hong Kong must be maintained as an international centre will not be enough by themselves to maintain confidence. This was seen very vividly recently in financial fluctuations in Hong Kong.

It is quite clear that the prosperity of Hong Kong depends on confidence. Of course this cannot exist unless we have good relations between Britain and China bilaterally and directly over Hong Kong. But confidence also depends on other things as well, such as:

- a stable and internationally respected currency
- a financial and tax regime favouring business enterprise and which is not liable to sudden change. As you know Britain derives no revenue from Hong Kong
- a formal and internationally respected system of law
- the maintenance of public order
- the freedom of its political and economic systems

/ British administration

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British administration has in fact provided efficient and consistent government policies and without them Hong Kong would not have developed the way it has.

Mr. Deng went on to make several points to Mr. Heath. First he said that sovereignty over Hong Kong would have to belong to China. He raised the possibility of Hong Kong becoming a special administrative zone of China with the name "Hong Kong: China" and with a local government formed by the inhabitants (whether Chinese, British or other nationality). He also said that Hong Kong could remain a free port and an international financial centre and expressed the view that foreign investment would not be affected under those new arrangements. And he said that the local government in Hong Kong could manage its own non-governmental trade and commercial relations with other countries.

I have to say that the changes envisaged in Mr. Deng's remarks to Mr. Heath are such that we are convinced that if that plan were to be introduced or even announced as a decision of your government, the effect on confidence in Hong Kong would be disastrous. You will obviously wish to know why we came to that conclusion. If any drastic changes in the administrative control of Hong Kong by the UK were to be introduced or announced now there would certainly be a wholesale flight of capital from Hong Kong. This is not something which Britain would prompt: indeed we should do everything we could to prevent it because the difficulties which it would cause us are nearly as great as those it would cause you. But the simple truth is that we could do nothing to control it.

I am referring not simply to British money, but to very large investments by local Hong Kong residents and to American, Japanese, Australian and many other foreign investments, the great majority of which are controlled by private companies and individuals and are free to move about the world. This money, having left Hong Kong, would not return.

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It would be impossible to revive the Hong Kong economy, should it collapse. We believe that the announcement of your plan would have the effect that what has been built up over years would be destroyed as the inevitable consequence of a single act. We are therefore in the position that we agree with the objective of maintaining prosperity but we do not agree with the means for achieving it. Indeed, we believe that that plan would lead to the collapse of Hong Kong as a financial centre.

I should also add that there would be very considerable financial hardship for many people, and deep alarm among some sections of the population. Many would seek to leave, and some of the skills and expertise which have made Hong Kong what it is today would no longer be there. A collapse of Hong Kong would be to the discredit of both Britain and China. It would have repercussions throughout the Far East and South East Asian region, as well as wider international implications. We feel that our two Governments would be cast in a very bad light if we had failed to reach a workable agreement that would maintain the prosperity of Hong Kong.

I realise that some of these points may be unwelcome. But I must be candid.

The most important point of all is that we should honour a moral obligation to the people of Hong Kong which British Governments have sustained for more than a century. We have long had a flourishing system. Many people went to Hong Kong, putting their faith in British administration. That gives us a moral obligation which we must honour.

Confidence in Hong Kong, and thus its continued prosperity, depend on British administration.

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Any drastic change away from that would destroy confidence. We all admire the way in which the Chinese leaders and people have tackled the huge problems of modernisation: and much will no doubt change in the years to come.

But the problem is not what will happen by 1997 but what people believe now will happen in Hong Kong. We cannot wait until 1997 because investors have to consider investment now. If confidence cannot be sustained now, Hong Kong will not be prosperous in 1983, let alone 1997. Then the very things we seek to preserve might have disappeared by the time the lease ends. Against the background of recent Chinese history, and given China's political system which is so different from that in Hong Kong, time would be needed for people in Hong Kong and abroad to have sufficient faith in new and untried arrangements to keep their money and skills in the territory and make new investments. But we cannot wait for this.

It seems to us that our common objective of maintaining the prosperity of Hong Kong can only be achieved if people believe that the present arrangements for administering Hong Kong will continue for a long time. There would be a most damaging effect on confidence if changes in the administrative control of Hong Kong by the UK, were introduced or announced now.

So we have to do something very soon and agree what it will be.

Can I now return to sovereignty. The Chinese position on sovereignty is well-known, and I understand it, but it is politically difficult for me just as an assertion of your sovereignty is important to you. Acceptance of this would involve Britain abrogating by Act of Parliament the treaties under which the British administer Hong Kong.

To settle the future of Hong Kong by abrogating the treaties alone would be unthinkable. It would produce immediate panic in

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Hong Kong. It would be a dereliction of British responsibility and would be rejected by the British Government and Parliament and by the people of Hong Kong.

But - and perhaps most important of all - if our two governments could agree defined arrangements about the future administration and control of Hong Kong, and I was satisfied that they would work, that they would command confidence, and that they were acceptable to the people of Hong Kong, and if I could justify them to the British Parliament, there would then be a new situation in which I could consider the question of sovereignty.

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But without agreement on concrete arrangements on administration and control, I could not make any recommendations to my Government on the question of sovereignty.

To sum up so far, if we did not keep confidence now, money will leave Hong Kong. It could collapse as an international financial centre. We have to make arrangements to maintain confidence by keeping British administration and we have to do it now. I could then consider making recommendations to the British Parliament on sovereignty - and I hope that the arrangements would be acceptable to both China and Britain as well as to the people of Hong Kong.

Because the situation is so sensitive and so immediate, I propose that we should start official talks to reach an agreement on arrangements for the administration and control of Hong Kong after 1997 which would meet the wishes of China, Britain and the people of Hong Kong and preserve its prosperity.

These discussions could cover whatever proposals China may wish to make about how present arrangements might be varied. The issues are complex and should be explored thoroughly by officials as soon as possible.

There is a further point we must consider. Since I am going to be pressed hard on this issue in Hong Kong and London I hope that we can reach agreement during our talks both on the next steps in handling the problem and on what we should say in public. What we say in public is very important. Confidence in Hong Kong will be affected by what I say at my Press Conference here in Peking and later, and by any statement made on the Chinese side. I therefore propose:

- (a) that we make it clear that our common objective is to strengthen and maintain the prosperity of Hong Kong
- (b) that we should agree on a very early date for the start of official talks on how that objective can be maintained
- (c) that before I leave for Peking we should make a public announcement to this effect.

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Finally, may I stress that my purpose is to reach an arrangement acceptable to China and the United Kingdom and which will preserve Hong Kong's flourishing economy to the advantage of the people of Hong Kong. I believe that we can achieve that in a spirit of co-operation."

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TO IMMEDIATE F C O

TELEGRAM NUMBER 563 OF THE 20 SEP 82

INFO IMMEDIATE PEKING AND HONG KONG (PERSONAL FOR GOVERNOR)

## PRIME MINISTER'S TALKS WITH MR. SUZUKI (20 SEPT)

1. FOLLOWING DISCUSSION OF THE SITUATION IN CHINA, THE PRIME MINISTER EXPLAINED TO SUZUKI A LITTLE OF HER THINKING ON THE PROBLEM OF THE FUTURE OF HONG KONG.
2. THE PRIME MINISTER EMPHASISED THE IMPORTANCE OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG. SHE WOULD TRY TO CONVINCE THE CHINESE LEADERS THAT FOR CONFIDENCE TO CONTINUE THERE WOULD HAVE TO BE ARRANGEMENTS UNDER WHICH BRITISH ADMINISTRATION CONTINUED. SHE POINTED OUT THAT HONG KONG WITH ITS FREE ENTERPRISE ECONOMY HAD INVESTMENTS FROM THE WHOLE WORLD INCLUDING JAPAN. AN INDEPENDENT HONG KONG DOLLAR AND THE FREE ENTERPRISE SYSTEM, COUPLED WITH THE BRITISH SYSTEM OF LAW, HAD PRODUCED A GOOD COMBINATION BETWEEN CHINESE PEOPLE AND BRITISH ADMINISTRATION. THE CHINESE THOUGHT THAT BRITAIN GOT REVENUE FROM HONG KONG. WE DID NOT TAKE A SINGLE DOLLAR OR POUND. THE MONEY WAS ALL PLOUGHED BACK INTO HONG KONG. AND THERE WAS NO ECONOMIC ASSISTANCE FROM HONG KONG.
3. HER TASK WAS TO CONVINCE THE CHINESE GOVERNMENT THAT IF THERE WAS ANY SUGGESTION OF A BASIC CHANGE IN THE ADMINISTRATION THERE COULD BE A COLLAPSE OF THE HONG KONG DOLLAR, PROPERTY VALUES WOULD DROP AND THE RESULT COULD BE DISASTROUS. SHE HOPED THAT IT WOULD BE POSSIBLE TO ENTER INTO TALKS WITH THE CHINESE GOVERNMENT IN ORDER TO ASSURE PEOPLE THAT PROSPERITY AND STABILITY WOULD CONTINUE IN HONG KONG.
4. SUZUKI RECOGNISED THAT HONG KONG WAS PRIMARILY A BILATERAL ISSUE BETWEEN THE UK AND CHINA. BUT BECAUSE OF JAPAN'S ECONOMIC RELATIONSHIP WITH HONG KONG AND THE MANY CONTACTS THERE, JAPAN HAD A DEEP INTEREST IN ITS FUTURE. HE ADVISED THAT IT WOULD BE WISE TO TRY AND HAVE A FRANK TETE-A-TETE WITH DENG XIAOPING. ON THE TERRITORIAL DISPUTE ABOUT THE SENKAKU ISLANDS, HE HAD FOUND DENG PARTICULARLY HELPFUL. DENG IN EFFECT HAD SAID THAT IT WAS IMPORTANT TO CONCENTRATE ON THE POINTS IN COMMON AND SET ASIDE SMALL DIFFERENCES. THE FUTURE OF THE SENKAKU ISLANDS COULD BE LEFT TO THE DECISION OF POSTERITY. SINCE THEN THE CHINESE HAD NEVER REFERRED TO THE SENKAKU DISPUTE AGAIN.
5. DONALD SUBSEQUENTLY STRESSED TO THE JAPANESE FOREIGN MINISTRY THE EXTREME IMPORTANCE OF NOT DIVULGING ANY OF THE SUBSTANCE OF THIS EXCHANGE. IN SPEAKING TO THE PRESS WE SHALL ACKNOWLEDGE ONLY THAT THE SUBJECT OF HONG KONG WAS DISCUSSED BRIEFLY.

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TO PRIORITY PEKING

TELEGRAM NUMBER 418 OF 17 SEPTEMBER

AND TO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

INFO PRIORITY TOKYO (FOR DONALD)

FOR AMBASSADOR FROM CLIFT

FUTURE OF HONG KONG: PRIME MINISTER'S VISIT

1. OUR TELNO 401 (PARAS 3-5) REFERS. THREE OTHER PAPERS YOU SHOULD SEE ARE:

A) A NOTE ON THE FORM AND STRUCTURE OF NEGOTIATIONS;

B) A CHRONOLOGY OF MAJOR CHINESE STATEMENTS AND EVENTS CONCERNING HONG KONG;

C) A PAPER OUTLINING THE ARGUMENTS FOR BRITISH ADMINISTRATION AND THE MAIN HEADINGS WHICH WOULD NEED TO BE COVERED (THIS IS IN THE FORM OF AN AIDE-MEMOIRE BUT IT IS NOW NOT (NOT) INTENDED TO TABLE IT).

2. DONALD HAS COPIES WITH HIM TO SHOW YOU IN TOKYO. FOR HONG KONG

3. COPIES OF THE ABOVE PAPERS WILL BE IN BAG ARRIVING 21 SEPTEMBER.

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TO PRIORITY TOKYO  
TELEGRAM NUMBER 55 OF 17 SEPTEMBER  
INFO FCO, PEKING

FOR PRIME MINISTER'S PARTY.

FOR DONALD

FUTURE OF HONG KONG.

THE LATEST ISSUE OF THE LOCAL MAGAZINE "GUANGJIAOJING" (WIDE ANGLE), PUBLISHED ON 16 SEPTEMBER, REPORTED AN INTERVIEW WITH XIANG NAN, PARTY FIRST SECRETARY OF FUJIAN PROVINCE, AND ATTRIBUTED TO HIM REMARKS ON "THE SOLUTION OF THE HONG KONG PROBLEM".

2. IT IS NOT CLEAR WHETHER XIANG IS QUOTED DIRECTLY OR WHETHER THE INTERVIEWER HAS INTERPRETED HIS COMMENTS. HOWEVER, XIANG IS REPORTED AS HAVING REFERRED TO DENG XIAOPING'S MEETING WITH MR HEATH IN APRIL WHEN DENG HAD BRIEFLY MENTIONED CHINA'S PROPOSALS FOR THE FUTURE OF HONG KONG AND "THE VIEWS OF THE TWO SIDES WERE IDENTICAL." XIANG IS ALSO REPORTED TO HAVE SAID THAT CHINA WILL "UPHOLD" (JIANCHI) ITS SOVEREIGNTY OVER HONG KONG WHILE MAINTAINING THE TERRITORY'S PROSPERITY AND ITS STATUS AS A FREE PORT AND FINANCIAL CENTRE. HONG KONG'S PROSPERITY BENEFITS CHINA, BRITAIN AND OTHER COUNTRIES IN THE REGION. XIANG IS FURTHER SAID TO HAVE REFERRED TO THE SPECIAL ADMINISTRATIVE REGIONS IN THE DRAFT STATE CONSTITUTION AS PROVIDING A BASIS FOR THE SOLUTION OF THE HONG KONG PROBLEM. HOWEVER, WIDE ANGLE'S INTERPRETATION OF XIANG NAN'S SUMMING UP WAS SIMPLY: "IN THE HANDLING OF HONG KONG'S FUTURE, CHINA WILL BE VERY FIRM AND CAUTIOUS."

3. THE MAIN POINTS OF THE ARTICLE WERE REPRODUCED ON THE FRONT PAGE OF THE HONG KONG STANDARD ON 16 SEPTEMBER (THE NEWSPAPER AND WIDE ANGLE SHARE A REPORTER).

4. GIVEN XIANG NAN'S LONG-STANDING ASSOCIATION WITH HU YAOBANG, HE IS IN A POSITION TO SPEAK WITH AUTHORITY. DOUBTS REMAIN, HOWEVER, ABOUT THE ACCURACY WITH WHICH HE IS QUOTED OR REPORTED BY WIDE ANGLE.

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TO PRIORITY TOKYO (FOR PRIME MINISTERS PARTY)

TELNO 54 OF 17 SEP

INFO FCO AND PEKING

FOR DONALD

PRIME MINISTERS VISIT TO CHINA

SEVERL 0////

SEVERAL LOCAL NON-COMMUNIST CHINESE NEWSPAPERS REPORTED ON 16 SEPTEMBER THAT SIR Y K PAO, WOULD TRAVEL TO PEKING TO ASSIST IN THE TALKS ON HONG KONG'S FUTURE DURING THE PRIME MINISTER'S VISIT. ONE NEWSPAPER ADDED THAT PAO'S PARTY WOULD INCLUDE "SEVERAL PERSONAGES IN HONG KONG BUSINESS CIRCLES".

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TO IMMEDIATE FCO

TELEGRAM NUMBER 562 OF 16 SEPTEMBER

AND TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

INFO IMMEDIATE TOKYO

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PRIME MINISTER'S VISIT: FUTURE OF HONG KONG

1. WHEN I CALLED ON ZHANG WENJIN ON 15 SEPTEMBER I ASKED IF HE WAS IN A POSITION TO RESPOND TO THE PROPOSAL WHICH I HAD PUT TO VICE FOREIGN MINISTER QIAN QICHEN ON 2 SEPTEMBER (MY TELNO 486). ZHANG REPLIED THAT THE TWO SIDES WOULD DISCUSS THIS MATTER DURING THE VISIT AND THAT A DECISION WOULD DEPEND ON THE OUTCOME OF THOSE TALKS. IT WAS MORE NATURAL TO DECIDE AFTERWARDS THAN BEFORE.

2. I REPLIED THAT WE HAD HOPED TO BE ABLE TO AGREE IN ADVANCE THAT THERE SHOULD BE SERIOUS OFFICIAL TALKS ON THE HONG KONG QUESTION. THIS WE SAW AS THE MINIMUM OBJECTIVE OF THE VISIT, AND IT DID NOT PRECLUDE US FROM TRYING TO ACHIEVE MORE. IF, HOWEVER, WE FAILED TO ACHIEVE THIS MINIMUM I THOUGHT THE EFFECT ON HONG KONG WOULD BE VERY SERIOUS, WITH CONSEQUENCES FOR CHINESE AS WELL AS BRITISH INTERESTS. I WAS NOT SEEKING TO PREJUDGE THE TALKS, NOR TO TIE OUR LEADERS' HANDS, BUT WE SHOULD BE ABLE TO APPROACH THE TALKS MORE CONFIDENTLY IF WE KNEW THAT THERE WAS A BASIS OF UNDERSTANDING BETWEEN US AND THAT WE SHOULD NOT FACE AN ELEVENTH HOUR SITUATION IN WHICH WE COULD NOT AGREE WHAT TO ANNOUNCE TO THE WORLD. IN PUTTING FORWARD OUR PROPOSAL, WE WERE TRYING TO BUILD A SAFETY NET SUCH AS THAT USED BY TRAPEZE ARTISTS AT THE CIRCUS. THE SAFETY NET DID NOT PREVENT THE PERFORMERS FROM DOING SPECTACULAR THINGS, BUT IT DID PREVENT THEM FROM DOING THEMSELVES SERIOUS INJURY IF SOMETHING WENT WRONG. I HOPED THAT ZHANG WOULD BE ABLE TO TELL ME BEFORE I LEFT FOR TOKYO THAT THIS WAS NOT AN UNREASONABLE REQUEST.

3. ZHANG REPEATED THAT THIS MATTER, AND WHAT WE SHOULD SAY TO THE PUBLIC, WOULD BE BEST LEFT FOR THE PRIME MINISTER'S TALKS.

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Prime Minister

read in full.

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4. I THEN ASKED ZHANG HOW HE ENVISAGED THE BUSINESS BEING CARRIED ON AFTER THE PRIME MINISTER'S VISIT. HE SAID THAT THE QUESTION WOULD PROBABLY NOT BE SETTLED IN ONE ROUND OF TALKS BETWEEN LEADERS. THERE WOULD HAVE TO BE FOLLOW-UP DISCUSSIONS. THESE DISCUSSIONS COULD TAKE VARIOUS FORMS, OFFICIAL TALKS PERHAPS OR TALKS THROUGH DIPLOMATIC CHANNELS. (I INTERJECTED THAT WHAT WE MEANT BY "OFFICIAL" TALKS WAS TALKS BELOW THE LEVEL OF OUR POLITICAL LEADERS, IE INCLUDING TALKS THROUGH THE DIPLOMATIC CHANNEL.) ZHANG COULD NOT SPECULATE WHAT FORM THESE DISCUSSIONS WOULD TAKE. MRS THATCHER WOULD HAVE THE OPPORTUNITY TO EXCHANGE VIEWS WITH THE CHINESE LEADERS AND DISCUSS AND DECIDE WITH THEM HOW TO PROCEED WITH FOLLOW-UP DISCUSSIONS.

5. I REPLIED THAT AS I PERSONALLY SAW IT, TALKS WOULD PROBABLY BE NECESSARY WHATEVER HAPPENED DURING THE PRIME MINISTER'S VISIT. IF, FOR EXAMPLE, THE TWO SIDES REACHED COMPLETE AGREEMENT ON THE HONG KONG QUESTION, OFFICIAL LEVEL TALKS WOULD STILL BE NEEDED TO WORK OUT DETAILS. IF, ON THE OTHER HAND, WE FAILED TO REACH AGREEMENT IN PRINCIPLE, WE SHOULD NO DOUBT THEN NEED TO HAVE TALKS IN AN ATTEMPT TO DISCOVER COMMON GROUND BETWEEN US. SUCH TALKS SHOULD BE DISCREET, CONFIDENTIAL AND FLEXIBLE. THE LESS PUBLIC ATTENTION THE BETTER. I ASKED ZHANG TO CONSIDER THE MATTER AGAIN AND SAID THAT I WOULD BE AT HIS DISPOSAL IF HE WISHED TO SEE ME BEFORE MY DEPARTURE FOR TOKYO. ZHANG REPEATED THAT THE MATTER WOULD BE DEALT WITH DURING THE PRIME MINISTER'S TALKS.

COMMENT

6. THIS IS LESS THAN WE WANTED. ZHANG WAS CLEARLY UNDER VERY TIGHT INSTRUCTIONS. THE CHINESE ARE APPARENTLY NOT PREPARED TO TIE THEIR OWN HANDS IN ANY WAY BEFORE THE VISIT AND BEFORE THEY KNOW THE SCOPE OF THE FOLLOW-UP TALKS. THEY MAY HAVE CONSIDERED IT TO THEIR ADVANTAGE THAT THE PRIME MINISTER SHOULD NOT COME TO CHINA WITH THE COMFORT OF AN AGREED MINIMUM OBJECTIVE AND THE CONFIDENCE WHICH THAT MIGHT GIVE HER. IN PARTICULAR, THEY MAY HAVE JIBBED AT COMMITTING THEMSELVES IN ADVANCE TO TALKS WHICH WOULD BE PUBLICLY ANNOUNCED AND PERHAPS THEREAFTER CONDUCTED UNDER A GLARE OF PUBLICITY. I HOPE I MAY HAVE ALLAYED THESE FEARS TO SOME EXTENT. HOWEVER, I SEE NO CHANCE OF THEIR CHANGING THEIR MIND BEFORE 22 SEPTEMBER.

7. DISAPPOINTING THOUGH THIS RESPONSE IS, WE SHOULD NOT CONCLUDE FROM IT THAT OUR MINIMUM OBJECTIVE IS OUT OF REACH. ZHANG DID SAY THAT THERE WOULD HAVE TO BE FOLLOW-UP DISCUSSIONS AND THAT THESE COULD BE AT OFFICIAL LEVEL. HE SEEMED TO BE THINKING MAINLY OF DIPLOMATIC CONTACTS. HOWEVER, THE CHINESE MAY SEEK TO FORCE A SHIFT IN OUR POSITION BEFORE THEY AGREE TO SUCH TALKS. THEY MAY, FOR EXAMPLE, PRESS US TO AGREE THAT THE TALKS SHOULD BE SUBJECT TO CHINESE GUIDELINES OR HELD ONLY TO DISCUSS MEANS OF CARRYING OUT THE CHINESE PLAN FOR HONG KONG. THE PRIME MINISTER COULD, THEREFORE, HAVE A ROUGH RIDE, BUT I BELIEVE SHE SHOULD STICK TO THE LINE THAT IT IS ESSENTIAL IN ORDER TO AVERT COLLAPSE OF CONFIDENCE IN HONG KONG THAT WE REACH AGREEMENT ON TALKS DURING THE VISIT, THAT BOTH SIDES SHOULD GO INTO THOSE TALKS WITHOUT PREJUDICE TO THEIR POSITIONS AND WITHOUT PRE-CONDITIONS, AND THAT THOSE TALKS SHOULD BE BOTH DISCREET AND COMPLETELY CONFIDENTIAL.

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*cc Master Sec*

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From the Private Secretary

16 September 1982

FUTURE OF HONG KONG

Thank you for your letter of 15 September. During her discussion with Lord MacLehose, Sir Antony Acland and others at a working lunch yesterday, the Prime Minister made it plain that it was not her intention to hand over an aide memoire at this stage to the Chinese (for the reasons which the Foreign and Commonwealth Secretary has given). The document will, nevertheless, be useful as a background note for the Prime Minister's talks.

I should add that the Prime Minister is extremely grateful for all the detailed and timely work which has been done by the Foreign and Commonwealth Office to prepare her discussions in Peking on this difficult subject. Could you kindly convey her thanks to all concerned.

John Holmes Esq  
Foreign and Commonwealth Office

*John*

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TO IMMEDIATE TOKYO (FOR PM'S PARTY)

TELEGRAM NUMBER 24 OF 16 SEPTEMBER

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD

YOUR TELNO 403: PRIME MINISTER'S DRAFT OPENING STATEMENT ON HONG KONG

1. THIS DRAFT CONTAINS MOST OF THE ESSENTIAL POINTS BUT I HAVE SOME SERIOUS RESERVATIONS.

2. I STILL FEEL THAT IT IS IMPORTANT TO MAKE A BOW TO THE CHINESE POSITION ON SOVEREIGNTY AS EARLY AS POSSIBLE SO AS NOT TO RISK AN UNHELPFUL SALVO FROM THEM ON THIS POINT. THE BEST PLACE TO DO THIS WOULD PERHAPS BE IN YOUR PARA 4 BUT THE SUBSTANTIVE DISCUSSION OF THE SOVEREIGNTY QUESTION (PARAS 8-12) COULD OF COURSE BE DEALT WITH LATER. I WOULD SUGGEST THEREFORE AN INSERTION BETWEEN YOUR FIRST AND SECOND SENTENCES OF A PASSAGE ALONG THE LINES OF QUOTE IF MY UNDERSTANDING IS CORRECT, THE TWO MAIN ELEMENTS OF THE CHINESE VIEW CONCERN SOVEREIGNTY AND THE CONTINUED PROSPERITY OF HONG KONG. THE FIRST OF THESE IS LIKELY TO BE A DELICATE MATTER FOR BOTH SIDES AND I SHALL SAY SOMETHING ABOUT THIS LATER. I SHOULD LIKE FIRST TO DISCUSS THE SECOND ELEMENT - PROSPERITY. I NOTE ... UNQUOTE.

3. I ALSO THINK THAT THE PRIME MINISTER SHOULD BE MUCH MORE SPECIFIC AND MUCH MORE FRANK IN WHAT SHE SAYS ABOUT THE PROPOSALS PUT BY DENG TO MR HEATH. I SUGGEST THAT SHE SHOULD REHEARSE PRECISELY WHAT IT WAS THAT DENG SAID (THIS IS THE STARTING POINT OF DISCUSSIONS FOR THE CHINESE), TAKE ZHAO THROUGH THE POINTS ONE BY ONE AND DESCRIBE EXACTLY WHAT WE BELIEVE THE EFFECTS OF THESE CHANGES WOULD BE. THIS SHOULD BE DONE IN EXPLICIT AND STARK TERMS, ILLUSTRATING THE THESIS THAT IF THIS PLAN WERE IMPLEMENTED, OR EVEN ANNOUNCED, IT WOULD PROVOKE A WHOLESAL FLIGHT OF CAPITAL FROM HONG KONG. THIS IS SOMETHING WE WOULD NOT PROMPT, BUT WE COULD NOT CONTROL IT. NOR WOULD THE MONEY, HAVING LEFT, RETURN. WE SHOULD BE ARGUING OVER A WASTE LAND.

4. THE DRAFT MAKES NO MENTION OF THE CONNECTION BETWEEN THE HONG KONG QUESTION AND TAIWAN. THIS IS A VERY STRONG POINT AND IT MUST BE INCLUDED. IF THE CHINESE TOUCH BRINGS ECONOMIC COLLAPSE IT WILL BE THE GREATEST DISINCENTIVE FOR TAIWAN.

5. I AM ALSO UNHAPPY ABOUT PARA 12 IN WHICH IT IS SUGGESTED THAT THE SOVEREIGNTY QUESTION SHOULD BE LEFT ON ONE SIDE FOR THE TIME BEING. THE CHINESE WOULD CERTAINLY REACT VERY BADLY INDEED TO SUCH A SUGGESTION. THEIR POSITION WILL BE THAT WE SHOULD ONLY DISCUSS ADMINISTRATIVE ARRANGEMENTS ONCE AN UNDERSTANDING ON SOVEREIGNTY IS REACHED. IF WE PROPOSE A POSITION WHICH IS PRECISELY THE OPPOSITE OF THAT WE SHALL RISK A COMPLETE FAILURE OF THE VISIT. WE SHOULD I THINK PROPOSE THAT THE QUESTIONS ON SOVEREIGNTY AND ADMINISTRATION SHOULD BE DISCUSSED IN PARALLEL THROUGH OFFICIAL TALKS AND THAT THESE TALKS WOULD BEGIN WITHOUT PREJUDICE OR PRE-CONDITIONS.

6. I HAVE ALSO A FEW RELATIVELY MINOR POINTS:

(A) PARA 1 OF YOUR DRAFT REALLY BELONGS TO THE OPENING OF THE FIRST SESSION OF TALKS WITH ZHAO IE. THAT ON INTERNATIONAL ISSUES. IT WOULD BE BETTER TO BEGIN THE HONG KONG SESSION BY REFERRING TO THE FRUITFUL EXCHANGE OF THE PREVIOUS DAY.,

(B) PARA 3 OF YOUR DRAFT SHOULD I THINK COME AFTER WHAT IS NOW PARA (C) AS A PREFACE TO OUR RESPONSE TO DENG'S PROPOSALS. IT STANDS COULD STICK IN THE CHINESE GULLET. I SHOULD PREFER IT IF THIS WERE OMITTED AND THE FINAL SENTENCE REDRAFTED TO READ "BRITISH ADMINISTRATION HAS PROVIDED EFFICIENT AND CONSISTENT GOVERNMENT POLICIES AND WITHOUT...".,

(D) YOUR PARA 13(C). I THINK IT WOULD PERHAPS BE PREMATURE TO ANTICIPATE A DISAGREEMENT ON SUBSTANCE IN THE PRIME MINISTER'S OPENING STATEMENT BUT THIS IS OF COURSE A POINT WHICH COULD BE USED LATER.

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PARA 6

(B) PARA 3 OF YOUR DRAFT SHOULD I THINK COME AFTER WHAT IS NOW PARA 4 AS A PREFACE TO OUR RESPONSE TO DENG'S PROPOSALS.,  
(C) ALSO IN PARA 3 I THINK THE PENULTIMATE SENTENCE AS IT STANDS COULD STICK IN THE CHINESE GULLET. I SHOULD PREFER IT IF  
..... OK ??????

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PARA 6

(B) PARA 3 OF YOUR DRAFT WOULD I THINK COME AFTER WHAT IS NOW  
PARA 4 AS A PREFACE TO OUR RESPONSE TO DENG'S PROPOSALS.,  
(C) ALSO IN PARA 3 I THINK THE PENULTIMATE SENTENCE AS IT STANDS  
COULD STICK IN THE CHINEXSE GULLET. I SHOULD PREFER IT IF  
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*May 1982*

*on 20/1*

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*hw Jarrow*

FM FCO 151700Z SEPT 82  
TO IMMEDIATE PEKING

TELEGRAM NUMBR 404 OF 15 SEPTEMBER  
AND TO IMMEDIATE HONG KONG (GOVERNOR AND BTC)  
AND TOKYO

PRIME MINISTER'S VISIT: INTERVIEW WITH CHINESE CORRESPONDENTS

1. THE PRIME MINISTER HAS TODAY GIVEN AN INTERVIEW TO THE  
RESIDENT CHINESE CORRESPONDENTS: YANG YI (NCNA), XU QINGMEI  
(PEOPLE'S DAILY) AND SUN WENFANG (GUANGMING). THE TEXT OF  
A TRANSCRIPT IS BEING SENT TO YOU BY RETRACT.

2. PLEASE NOTE THAT AT CHINESE REQUEST THE INTERVIEW IS  
EMBARGOED UNTIL 170001Z.

3. THE PRIME MINISTER SAID THE VISIT WOULD PROVIDE AN OPPORTUNITY  
TO TALK ABOUT HONG KONG BUT MADE NO MORE DETAILED REFERENCE TO IT.

PYM

NNNN

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

15 September, 1982

Prime Minister

Dear John,

*ms*

A.J.C. 14/9.

Future of Hong Kong

I undertook to let you have Mr Pym's comments on the papers enclosed with my letter to you of 13 September. Mr Pym is generally content but has endorsed the view in my letter that any aide memoire should be handled very carefully indeed. He sees considerable dangers in handing over to the Chinese a paper which goes into such detail as the existing draft. If the Prime Minister decides to hand over an aide memoire to the Chinese (and Mr Pym considers that this is risky whatever the contents), he believes that it would be preferable for it to be confined to the first four paragraphs of the existing draft. Such an aide memoire could perhaps conclude with the statement that the above represents the British view of the basis on which negotiations should be conducted and that such negotiations would have to cover such issues as legislation, external relations, security, citizenship and immigration, finance and trade.

Yours ever

*J E Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

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~~SECRET~~  
SECRET



*Annul brief.*

*Ad 14/9*

*h.c.*

FOREIGN & COMMONWEALTH SECRETARY

PROPOSAL BY HONG KONG TO DESCRIBE  
BRITISH DEPENDENT TERRITORIES  
CITIZENS AS "BRITISH NATIONALS" IN  
PASSPORTS

Thank you for your recent minute. I entirely agree with the line which you suggest the Prime Minister should take if this matter is raised with her in Hong Kong, although she might also indicate that we do see serious difficulties in the proposal that has been made.

I understand that the background brief for the Prime Minister will bring out the serious immigration difficulties which I believe the proposal entails.

I am sending a copy of this minute to the Prime Minister.

*hsw*

15 September 1982

~~SECRET~~  
SECRET



FCS/82/131

Await reply.

MR 15.  
9HOME SECRETARYProposal by Hong Kong to describe British Dependent Territories Citizens as 'British Nationals' in Passports

1. As you know, there has been an exchange of correspondence between our two Departments about the proposal by officials of the Hong Kong Executive and Legislative Councils that the term 'British National' should be entered in British passports issued by the Governor of Hong Kong. You have recorded your strong opposition to the Hong Kong proposal, while we continue to see very strong foreign policy reasons, connected with the broader issue of the future of Hong Kong, for agreeing to it.
2. I recognise that this proposal raises very difficult issues for you as well as for us. It needs careful consideration and I do not think we should attempt to reach a decision before the Prime Minister's visit to Hong Kong. The issue is nevertheless bound to be raised with her while she is in Hong Kong. I suggest that the Prime Minister could take the line that she is aware of this issue and wanted to hear the views of the people of Hong Kong at first hand. She could say that we are carefully considering Hong Kong's suggestion and could undertake to give the matter urgent attention on her return.
3. If you agree, we will amend the brief for the Prime Minister on these lines before her departure and set out the background in a little more detail.

/I



4. I am copying this minute to the Prime Minister.

*FP*

(FRANCIS PYM)



la

10 DOWNING STREET

*From the Private Secretary*

13 September, 1982.

Thank you for your letter of 19 September setting out the views of the Catholic Institute for International Relations on the question of the future of Hong Kong. I shall bring this to the attention of the Prime Minister.

A. I. COLES

Miss Mildred Nevile

HL

SECRET

FILE

Sub

SUBJECT

cc Mather



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10 DOWNING STREET

From the Private Secretary

13 September 1982

FUTURE OF HONG KONG

The Prime Minister chaired a small ministerial meeting here this morning to discuss the above subject. The Foreign and Commonwealth Secretary, the Home Secretary and the Attorney General attended (the Secretary of State for Defence and the Chancellor were unable to attend owing to their absence from London).

The Prime Minister said that before she left for her visit to the Far East on 16 September, she wished to discuss with those present the problem of the future of Hong Kong. She described the problem in some detail. The principal difficulty at present was that China did not understand that the maintenance of confidence and prosperity in Hong Kong required the continuation of British control and administration. If confidence weakened money and people would start to leave Hong Kong. There could, in her view, be no question of our agreeing to concede sovereignty of Hong Kong Island and Kowloon unless we had total control over both these and the new scheduled territories. The prosperity of Hong Kong at present rested on an astonishing partnership of Britain and China, with a largely Chinese population working under British administration. She would not be prepared to discuss substantive concessions on sovereignty. The most she was prepared to envisage was that China would obtain merely titular sovereignty over Hong Kong. She hoped that at the end of her visit to Peking there would be a joint statement to the effect that Britain and China were of one mind with regard to the maintenance of prosperity and confidence in Hong Kong and proposed to embark on talks immediately to ensure that these continued. This was probably as far as we could get during her forthcoming visit. Later we might have to consider various packages. One possibility would be to state that the arrangements for British control and administration would continue for an undefined period, subject to 'X' years notice. The Attorney General pointed out that 'X' must be long enough to avoid the present problems of return on investment.

The Foreign and Commonwealth Secretary said that the conclusions of the 12th Congress of the Chinese Communist Party had left Mr. Deng in a stronger position than he had been at the outset of the Congress. He should be even better placed to reach some understanding about

/Hong Kong

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- 2 -

Hong Kong. He was of the view that the approach which the Prime Minister proposed to adopt when she was in Peking was the right one. The Home Secretary agreed - there seemed to be no sensible alternative.

The Attorney General pointed out that any arrangement involving the cession of sovereignty would require legislation. There might also have to be legislation on immigration. The Home Secretary said that a principal feature of the Nationality Bill was to ensure that the bulk of the Hong Kong population had no automatic right of abode in the United Kingdom but this did not avoid the difficult problem of what the Government's attitude should be if large numbers simply arrived on our shores. The prospect of a major problem of immigration was a strong reason for arriving at a satisfactory agreement on the future of the colony.

The Prime Minister reiterated that she would make it plain that she was not prepared to discuss title to Hong Kong and Kowloon unless we were sure of British control and administration. She wondered what attitude Parliament was likely to adopt. The Foreign and Commonwealth Secretary said that he had had some contact with the Hong Kong lobby. It was led by Sir Paul Bryan and was generally sensible and level-headed. He had detected no signs of discontent. The Home Secretary agreed that the lobby should not be troublesome. The sheer logic of what we were trying to achieve spoke for itself. On the other hand, difficulties could arise with the lobby if in subsequent negotiations we appeared to give the Chinese Government more control than we at present envisaged or if we indicated even a residual responsibility to admit people from Hong Kong into the United Kingdom. Mr. Pym thought it highly desirable to reach a settlement within six months if possible. This would help very substantially with any domestic doubts. When the Prime Minister came back from her visit it would be important to think carefully about how to prepare Party opinion.

I am sending copies of this letter to John Halliday (Home Office) and Jim Nursaw (Attorney General's Office).

John Holmes, Esq.,  
Foreign and Commonwealth Office.

SECRET



GA PSE

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IMMEDIATE

HO/FO 018/13

OO F C O DESKBY 130830Z

No 10 Downing St

GRS 400

IMMEDIATE

MR COLES

DEDIP  
CONFIDENTIAL  
DESKBY 130830Z

FM HONG KONG 130650Z SEPTEMBER 82  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 1035 OF 13 SEPTEMBER

IMMEDIATE

Mr 13/9  
h-2

FOLLOWING PERSONAL FOR DONALD  
FROM GOVERNOR

DESKBY

DURING MY ABSENCE IN LONDON A CHINESE NEWSPAPER OF NO GREAT STANDING PRINTED A SUGGESTION BY A LECTURER AT THE POLYTECHNIC THAT I HAD BEEN APPOINTED HERE MAINLY TO SETTLE THE QUESTION OF HONG KONG'S FUTURE AND WOULD THEN BE SUCCEEDED BY SIR JACK CATER. THIS WOULD PROBABLY HAVE PASSED WITHOUT NOTICE BUT IT WAS PICKED UP BY "THE GIST" A PRINTED DAILY REVIEW OF THE CHINESE PRESS ISSUED BY THE GOVERNMENT INFORMATION SERVICES AND PROMINENTLY HEADLINED (IN A SPECIAL BOX) "SIR EDWARD TO BE SUCCEEDED BY SIR JACK" ON THE SAME PAGE AS SUMMARIES OF PRESS COMMENT ON OUR MISSION TO LONDON LAST WEEK.

2. THIS IN TURN MIGHT HAVE BEEN OF LIMITED CONSEQUENCE BUT AS YOU KNOW SIR JACK CATER WILL BE AMONG THOSE RECEIVED BY THE PRIME MINISTER TOMORROW. SINCE "THE GIST" IS WIDELY DISTRIBUTED HERE THE HONG KONG RUMOUR FACTORY WILL NOW WORK OVERTIME IF THIS CALL IS GIVEN ANY SPECIAL PROMINENCE (NOT TO MENTION THE RESENTMENT BY OTHER SENIOR CIVIL SERVANTS HERE).

3. IT WILL THEREFORE BE IMPORTANT TO AVOID ANY IMPRESSION THAT SIR JACK CATER IS BEING GIVEN ANY SPECIAL STANDING OR BEING RECEIVED "AD PERSONAM". WHEN THE NEWS LEAKS (AS I AM SURE IT WILL) I SUGGEST NO 10 SHOULD RESPOND TO ENQUIRIES BY SAYING SOMETHING LIKE

"THE PRIME MINISTER WAS RECEIVING SOME HONG KONG PERSONALITIES AND AS A MATTER OF COURTESY HAD INVITED SIR JACK CATER AS HONG KONG COMMISSIONER TO ACCOMPANY THEM".

4. I SHOULD BE GRATEFUL IF YOU COULD LET US KNOW WHAT LINE NO 10 PROPOSE TO TAKE IN CASE OF ENQUIRIES HERE. PLEASE FEEL FREE TO SHOW JOHN COLES THIS TELEGRAM.

YOUDE

~~XXXXXXXXXX~~

NNNN

The Hongkong Prospect Institute Ltd.

*h.a.*

*ADL 15.  
9*

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 not 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's 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.

行政立法兩局  
非官守議員辦事處

香港遮打道九至二十五號  
太古大廈十三樓



Office of Unofficial Members of  
Executive and Legislative Councils

Swire House, 12th floor,  
9-25 Chater Road,  
Hong Kong

電話：

Tel:

來函檔號 Your Ref:

Date: 11 September 1982

本函檔號 Our Ref: SYC/N7/LH

The Rt. Hon. Margaret Thatcher, MP  
The Prime Minister  
10 Downing Street  
Whitehall  
London, England

*Dear Prime Minister,*

On behalf of my Unofficial Colleagues I would like to thank you most sincerely once again for your very kind and generous hospitality and your time and courtesy in receiving us on 8 September. We are most grateful to you for your patience and interest in hearing our presentation of the views and wishes of the Hong Kong people with regard to the "1997 lease" issue.

We wish you every success in your negotiation during the forthcoming official visit to China and look forward to welcoming you and your party to Hong Kong on 26 September.

Yours sincerely,

S.Y. Chung

Tel/Fax 204/82

Commissioner ExDis

September 10, 1982

DIS 23 -

ATTENTION NEWS EDITORS:

THE GOVERNOR, SIR EDWARD YOUDE, CONFIRMED THIS (FRIDAY) EVENING THAT HE WILL BE JOINING THE PRIME MINISTER, MRS MARGARET THATCHER, ON HER VISIT TO PEKING LATER THIS MONTH.

SIR EDWARD ANNOUNCED THIS WHEN ASKED BY NEWSMEN AT THE AIRPORT ON HIS RETURN WITH FOUR UMELCO MEMBERS FROM LONDON.

SIR EDWARD: THANK YOU ALL FOR COMING TO WELCOME US BACK. WE HAD A VERY GOOD TRIP TO LONDON AND I THINK I CAN SAY THAT IT IS A VERY ENCOURAGING TRIP. WE SAW NOT ONLY THE PRIME MINISTER BUT WE SAW THE SECRETARY OF STATE FOR FOREIGN AFFAIRS AND WE SAW LORD BELSTEAD AND AFTER THAT WE MET WITH QUITE A FEW OTHER PEOPLE WHO ARE INTERESTED IN HONG KONG AND ALL OF THEM WERE VERY KEENLY INTERESTED IN WHAT WE HAD TO SAY, IN PARTICULAR WHAT THE UNOFFICIAL MEMBERS HAD TO SAY.

I THINK YOU KNOW THAT THE PRIME MINISTER'S OBJECTIVE WAS TO HEAR AT FIRST HAND THE VIEWS OF THE PEOPLE OF HONG KONG ON THE FUTURE, AND FROM THE STATEMENT WHICH WAS ISSUED BY NO. 10 DOWNING STREET AFTER OUR TALK WITH THE PRIME MINISTER SHE SAID THAT SHE HAD ASSURED THE UNOFFICIAL MEMBERS THAT IN HER DISCUSSIONS IN PEKING SHE WOULD FULLY REPRESENT THE VIEWS AND THE INTERESTS OF PEOPLE OF HONG KONG.

SO I THINK ALL IN ALL IT WAS TO US A VERY SUCCESSFUL AND VERY ENCOURAGING TRIP.

REPORTER: SIR EDWARD, CAN YOU NOW TELL US WHETHER YOU WOULD BE AMONG MRS THATCHER'S TEAM?

SIR EDWARD: YES, I SHALL BE JOINING THE PRIME MINISTER IN PEKING.

REPORTER: AND WHAT ABOUT LORD MACLEHOSE ?

SIR EDWARD: I HAVEN'T ANY NEWS TO YOU EXCEPT ME. WHOEVER IS GOING TO PEKING OTHER THAN MYSELF I MUST LEAVE TO NO. 10 TO ANNOUNCE.

(MORE)

cc Mr Highman  
cc Mr B. Stes

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ADD 915 23 -

REPORTER: THERE HAVE BEEN PERSISTENT REPORTS THAT CHINA HAS RECENTLY INFORMED LONDON THAT IT WILL REGAIN THE SOVEREIGNTY OF HONG KONG.....

SIR EDWARD: WE WERE NOT THERE TO TALK ABOUT WHAT THE CHINESE GOVERNMENT MIGHT HAVE SAID TO LONDON. WE WERE THERE TO TALK ABOUT WHAT THE PEOPLE OF HONG KONG WANTED TO SAY. SO I THINK PERHAPS IT'S JUST AS WELL WE SHOULD CONFINE THE QUESTIONS TO THAT.

REPORTER: COULD YOU TELL US A LITTLE BIT WHAT WAS, PERHAPS, THE SORT OF VIEWS PUT FORWARD BY YOURSELF AND UNOFFICIALS TO THE PRIME MINISTER.

SIR EDWARD: SIR S.Y. YOU DID MUCH OF THE TALKING....

SIR S.Y. CHUNG:  
S  
COMPREHENSIVE ACCOUNT OF ALL THE VIEWS AND WISHES THAT WE HAVE BEEN IN THE NEWSPAPERS IN HONG KONG - THE PRESS, THE MEDIA - THROUGH CORRESPONDENCE WRITTEN TO US, PETITIONS MADE TO UMELCO AND STATEMENTS MADE BY A LARGE NUMBER OF ORGANISATIONS IN HONG KONG, AND OF COURSE A NUMBER OF MAJOR OPINION SURVEYS CARRIED OUT IN HONG KONG RECENTLY.

WE WERE ABLE TO REFLECT ALL THE VIEWS AND WISHES AND WE WERE GIVEN A VERY GOOD OPPORTUNITY TO DO THAT.

REPORTER: CAN YOU SINGLE OUT ONE PARTICULAR VERY DEFINITE POINT OF VIEW OF THE HONG KONG PUBLIC THAT YOU HAVE CONVEYED TO THE UK GOVERNMENT?

SIR EDWARD: PERHAPS I SHOULD SAY THAT I DON'T THINK IT'S A GOOD IDEA WHEN YOU HAVE A SUBJECT AS IMPORTANT AS THIS ONE TO TRY TO GO IN FOR SIMPLIFIED PHRASES. I THINK AS SIR S.Y. HAS SAID, THE PEOPLE OF HONG KONG HAVE EXPRESSED THEIR VIEWS IN A VERY WIDE RANGE OF PUBLICATIONS, OPINION POLLS AND ALL THAT KIND OF THING AND WHAT THE UNOFFICIAL MEMBERS DID, AND I CAN CERTAINLY GIVE YOU AN ASSURANCE OF THAT BECAUSE I WAS THERE TO HEAR THEM, WHAT THE UNOFFICIAL MEMBERS DID WAS TO GIVE A FAITHFUL AND VERY COMPREHENSIVE ACCOUNT OF ALL THOSE VIEWS. AND I DON'T THINK IT WOULD BE HELPFUL GIVEN THE STATE WE ARE IN TO TRY AND SUM THEM UP IN A FEW SIMPLE PHRASES.

REPORTER: DO YOU BELIEVE YOU CHANGED ANY OF MRS THATCHER'S IDEAS ON THE PEOPLE OF HONG KONG OR DO YOU FIND YOURSELF MORE OR LESS IN AGREEMENT ON THE POINTS YOU COVERED?

SIR EDWARD: I THINK YOU WOULD HAVE TO ASK MRS THATCHER THAT QUESTION WHEN SHE COMES HERE. BUT I DO KNOW THAT IT WOULD BE VERY OBVIOUS TO YOU IF SHE LISTENED VERY KEENLY TO WHAT WAS BEING SAID TO HER BECAUSE WE WERE THERE FOR A TOTAL OF TWO HOURS AND ALTHOUGH WE WERE IN PART ENJOYING AN EXCELLENT LUNCH WE WERE ALSO TALKING TO THE PRESS AND THE PUBLIC. SO WAIT A MOMENT OF PLEASE AND TRY THE QUESTION AGAIN.

2ND ADD ISFAX 204/82

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2ND ADD 618 23 -

REPORTER: WAS THERE ANYTHING IN PARTICULAR THAT SHE WAS INTERESTED TO KNOW ABOUT HONG KONG?

SIR EDWARD: I WOULDN'T SINGLE OUT A PARTICULAR SUBJECT. I THINK AS YOU KNOW SHE'S BEEN HERE BEFORE SO SHE HAS QUITE A KNOWLEDGE OF HONG KONG ALREADY, AND A GREAT INTEREST IN IT, AND I THINK SHE WAS REALLY SEEKING FOR A VERY WIDE RANGING TALK ABOUT HONG KONG, ABOUT THE CLIMATE OF OPINION HERE, ABOUT THE DEVELOPMENT OF HONG KONG SINCE SHE WAS HERE AND THE VIEWS OF THE PEOPLE ON THE FUTURE.

REPORTER: DO YOU THINK THE BRITISH GOVERNMENT HAVE ALREADY HAD A STAND ON THE QUESTION OF THE FUTURE OF HONG KONG?

SIR EDWARD: I THINK THAT THE OBJECT OF OUR VISIT WAS, AND THE REASON WE WERE INVITED, WAS THAT WE COULD CONTRIBUTE TO THE PREPARATIONS WHICH WERE BEING MADE FOR THAT VISIT AND OBVIOUSLY THEY WERE MUCH CONCERNED TO HEAR THE VIEWS OF THE PEOPLE HERE BEFORE THEY DO COME TO CONCLUSIONS.

REPORTER: WHAT DO YOU EXPECT WILL COME OUT OF MRS THATCHER'S TRIP TO PEKING?

SIR EDWARD: I THINK I'VE SAID IT SO OFTEN BUT PERHAPS IT WOULD BEAR REPETITION THAT I'M VERY CONFIDENT ABOUT THE FUTURE, BUT I'VE ALWAYS SAID I DO NOT EXPECT IT ALL TO BE SETTLED IN ONE GO- BUT HER VISIT WILL BE A VERY IMPORTANT EVENT AND I DO EXPECT PROGRESS STEP BY STEP.

REPORTER: DO YOU THINK HONG KONG CAN MAINTAIN ITS FINANCIAL AND PSYCHOLOGICAL CONFIDENCE IF THERE IS NOT A CLEAR-CUT STATEMENT?

SIR EDWARD: WELL, I THINK HONG KONG IS ABLE TO MAINTAIN ITS FINANCIAL AND GENERAL CONFIDENCE, AND I WOULD EXPECT THAT TO CONTINUE.

REPORTER: DO YOU KNOW WHOM MRS THATCHER WILL BE MEETING IN PEKING?

SIR EDWARD: I THINK HER PROGRAMME WILL BE FOR NO. 10 (DOWNING STREET) TO ANNOUNCE RATHER THAN FOR US.

REPORTER: SIR, ARE YOU GOING TO PEKING BY YOURSELF STARTING FROM HONG KONG OR ARE YOU GOING BACK TO UK FIRST?

SIR EDWARD: MY PLAN AT THE MOMENT IS TO START FROM HONG KONG.

(END)





10 DOWNING STREET

THE PRIME MINISTER

10 September 1982

Dear Mr. Bray.

Thank you for your letter of 31 August about Hong Kong's future. It is most helpful to have the views of someone so closely connected with Hong Kong.

I certainly expect Hong Kong's future to be one of the subjects I will discuss during my visit to China, and I look forward to building on the useful dialogue which Humphrey Atkins had with Chinese leaders on this subject last January. As you will be aware, both we and the Chinese have a strong interest in Hong Kong's continued stability and prosperity. In the course of my talks in China I hope to explore ways and means of maintaining this, while taking full account of the wishes of the people of Hong Kong themselves. Whether the existing Special Economic Zone adjacent to Hong Kong, based on Shenzhen, is likely to be developed and extended as you suggest will no doubt depend on its success in the coming years.

Thank you again for your suggestions and for sending a copy of the Hong Kong Prospect Institute's interesting document. It is helpful to have ideas on this tricky subject from as wide a range of people as possible - especially from you

with your own personal experience. I will of course consider the views of Hong Kong both to the Chinese people and to British administration. Dr. Jeremy Bray, M.P. - a uniquely successful combination

Yours sincerely  
Margaret Thatcher R



10 DOWNING STREET

From the Private Secretary

10 September 1982

HONG KONG

Following this morning's most useful meeting with Lord Maclehole, Sir Antony Acland, Sir Ian Sinclair and Mr. Donald, the Prime Minister requested some additional material. This is as follows:

- (a) a draft aide-memoire which the Prime Minister, if she so decides, may leave with the Chinese Government, describing the need to maintain confidence, and hence stability and prosperity, in Hong Kong. This aide-memoire is likely to be regarded as a working document in any negotiation. It should therefore set out a maximalist position. One of the aims in producing the document is to put something on the table to counter the various statements already made by the Chinese giving their view of the future status of Hong Kong. It thus has an educational purpose, in the sense that the Chinese are probably at present viewing the problem largely in terms of their own statements.
- (b) A list of nominal concessions which might be made in any negotiation. This should be devised as a guide to the Prime Minister, should the talks during her visit to Peking move faster than we think and it becomes necessary to indicate a measure of apparent flexibility.
- (c) A chronology of statements relating to the status of Hong Kong, beginning with extracts from the Treaties and including extracts from the Chinese statements to the then Lord Privy Seal in January 1982 and Lord Home in 1972. The chronology should be in tabular form, indicating the date, the occasion, the speaker, quotations from the statement and a final column describing its effect, if any.
- (d) A speaking note which the Prime Minister might use with Chinese leaders. This could be a revised version of the text which Alan Donald showed to me

/ during

during the discussion, namely:

- (i) It should commence with a reference to common friendship, interests and objectives, and specify that as regards Hong Kong we both agree on the need to maintain confidence.
- (ii) It should contain a paragraph explaining why it is not possible for the Chinese themselves to maintain confidence in Hong Kong. Given the recent history of China, no-one would believe that the Chinese could achieve this aim. Time would be needed to re-establish confidence in the capacity of the Chinese Government to carry out such a task.
- (e) A note on the form and structure of the negotiations which might follow the Prime Minister's visit to Peking. This should include a comment on the possible venue and the desirable degree of secrecy.
- (f) A paper on the various packages which may be acceptable at the end of the negotiation. One example mentioned during the discussion was a formula whereby, to begin with, British administration continued unchanged and the Chinese had titular sovereignty but, later, at the end of an undefined period, there was some change.

B/F  
1  
I should be grateful if as much of the above as possible could be received in time for the Prime Minister to read it on Monday night. In any case, I think Mrs. Thatcher would like to have (a), (c) and (d) by then. If necessary, (b), (e) and (f) could follow by Tuesday night.

J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

9 September 1982

*Please type letter.**A.J.C. 9/9.**Dear John,*

Letter of 31 August 1982 from Dr Jeremy Bray MP to the Prime Minister

Thank you for your letter of 6 September enclosing a letter from Dr Bray about the future of Hong Kong. I enclose a draft reply.

Copies of the document produced by the Hong Kong Prospect Institute, referred to in paragraph 2 of Dr Bray's letter, have been sent to, among others, the Prime Minister and Mr Pym. These have already been acknowledged separately.

*Yours ever*  
*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

DRAFT: ~~memo~~/letter/~~telex~~/~~fax~~/~~videotape~~/~~disk~~

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

Dr Jeremy Bray MP  
House of Commons  
LONDON SW1A 0AA

Secret

Copies to:

Confidential

Restricted

Unclassified

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

Thank you for your letter of 31 August about Hong Kong's future. It is most helpful to have the views of someone so closely connected with Hong Kong.

I certainly expect Hong Kong's future to be one of the subjects I will discuss during my visit to China, and I look forward to building on the useful dialogue which Humphrey Atkins had with Chinese leaders on this subject last January. As you will be aware, both we and the Chinese have a strong interest in Hong Kong's continued stability and prosperity. In the course of my talks in China I hope to explore ways and means of maintaining this, while taking full account of the wishes of the people of Hong Kong themselves. Whether the existing Special Economic Zone adjacent to Hong Kong, based on Shenzhen, is likely to be developed and extended as you suggest will no doubt depend on its success in the coming years.

Enclosures—flag(s).....

Thank you again for your suggestions and for sending a copy of the Hong Kong Prospect Institute's /interesting

interesting document. It is, ~~of course,~~ helpful to  
have ideas on this trucky subject from as wide a  
range of people as possible.

M 9  
/ 9.

SECRET

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Foreign and Commonwealth Office

London SW1A 2AH

9 September 1982

Prime Minister

AM 2/4.

Dear John,

Future of Hong Kong

Thank you for your letter of 9 September about the Special Study on Hong Kong, which inter alia asked for the texts of British statements of commitment to Hong Kong.

I enclose some recent examples.

Yours ever  
John Holmes

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

SECRET

HMG'S COMMITMENT TO THE PEOPLE OF HONG KONG

1. Lord Trefgarne in the House of Lords on 13 February 1981:  
'On the one hand, there is our commitment to the territory [of Hong Kong], which has been announced before today from this Box, and I confirm it again now.'
  
2. Lord Trefgarne in the House of Lords on 24 February 1981:  
'I should like to end on a simple and straightforward point. The ultimate responsibility of the good government of Hong Kong and the protection and well-being of its people rests with Her Majesty's Government here in London, and specifically with my noble Friend, the Foreign and Commonwealth Secretary. I reaffirm our commitment to that constitutional position tonight.'
  
3. Lord Carrington at a Press Conference in Hong Kong on 31 March 1981:  
'The second purpose of the visit is to demonstrate, and reaffirm, the unshakeable commitment of the British Government to the stability and prosperity of Hong Kong'.  
  
'I can't emphasise strongly enough the commitment that Britain has to Hong Kong'.
  
4. Mr Raison in the House of Commons on 4 June 1981:  
'It is a fact that nothing in the [Nationality] Bill changes the relationship and commitment of Her Majesty's Government to the people of Hong Kong. I gladly give that assurance.'
  
5. Lord Trefgarne in the House of Lords on 13 October 1981:  
'I want first to make it clear that the Government are no less determined than my noble friend to maintain present links between Hong Kong and the people of the United Kingdom and to do everything we possibly can to ensure that the people of the territory understand beyond peradventure that our affection for them and our concern for their welfare are not transient things but permanent



in every sense of the word. There is no question of this Bill having the slightest adverse effect on our relationships or our ties. Indeed, it is a source of great satisfaction to us that there exists in Hong Kong such a strong feeling of the need to maintain and even to strengthen the links which exist between us. May I quote the words of my right honourable friend the Home Secretary when he said in another place in 28 January:

'We are aware of the strength of feeling in Hong Kong on the need to maintain the ties between the Territory and the United Kingdom. I should like to reaffirm that the proposed legislation is in no way intended to weaken those links, to which we attach great importance.'

'I welcome this opportunity to reaffirm that relationship, and that it is as important as ever to Her Majesty's Government. As I have made clear, the Government opposed the Gibraltar amendment precisely because we believe that all citizens of the British dependent territories should be treated uniformly, but its passage against our advice does not alter in any way our obligations to the people of Hong Kong and the other dependent territories'.

6. Mr William Whitelaw in a letter to Sir Paul Bryan following an exchange in the House of Commons on 27 October 1981:

'I was glad that you said that you realised that any concern in Hong Kong about the Bill was probably based on a misunderstanding of the very real sense of commitment to Hong Kong which this Government feels. As you know, I have myself underlined in Parliament the importance of that commitment to Her Majesty's Government: and other Ministers have frequently done the same. The British Nationality Bill does not effect Her Majesty's Government's relationship with Hong Kong or the strength of the Government's support for that or any other Dependent Territory.'

7. Lord Belstead in the House of Lords on 19 May 1982:

'I see no cause for any lack of confidence in the future of Hong Kong. Her Majesty's Government's commitment to the territory and the interests of the people remains undiminished.'

2



10 DOWNING STREET

Prime Minister

I have acknowledged

A.S.C. 13/9.

A handwritten signature in blue ink, consisting of several stylized, connected strokes.

General Secretary Miss Mildred Nevile

210/9  
**CIIR**

19 September 1982

The Prime Minister  
The Rt Hon Margaret Thatcher  
10 Downing Street  
London, SW1.

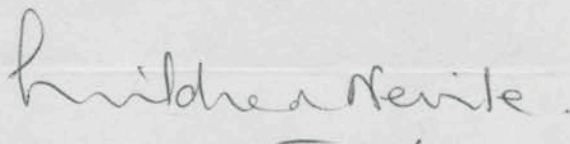
Catholic Institute for  
International Relations  
22 Coleman Fields  
London N1 7AF  
Telephone 01-354 0883

Dear Prime Minister,

We are most concerned that in your forthcoming discussions with the Chinese authorities and the Hong Kong Government, full account should be taken of the rights and reasonable expectations of the people of Hong Kong, whose present situation is, we believe, increasingly invidious to them and difficult for a British government committed to democracy to defend. While we recognise the complexity of the issues involved in deciding the future of Hong Kong, we believe that a solution which visibly excludes consultation with the people most concerned will be seen to be unjust.

I enclose a document which CIIR has just published on this matter, which involves in the most direct way Britain's constitutional responsibility.

Yours sincerely,



Mildred Nevile  
General Secretary

# Comment

## 45

## The Future of Hong Kong

### Hong Kong and Britain

Hong Kong is by far the most important remaining British dependency. Its population of 5 million constitutes over 90 per cent of the people in territories outside the United Kingdom over whom Britain still exercises some form of direct authority. 2,600,000 of the people of Hong Kong are also Citizens of the United Kingdom and Colonies and almost all will become British Dependent Territories' Citizens under the British Nationality Act on 1 January 1983.

Hong Kong is also by far the most prosperous Crown dependency. In the space of 140 years what was, in Lord Palmerston's words, 'a barren island, with hardly a house upon it', has become one of the world's foremost trading nations, a leading exporter of garments, watches and other light industrial goods, the second most important financial centre in Asia, a top shipping power.

At the same time Hong Kong's future has never been more uncertain. The territory is composed of Hong Kong island, ceded by the Chinese government in perpetuity to the British Crown by the treaty of Nanking in 1843, the promontory of Kowloon, added to the Crown by the treaty of Peking in 1861, and the New Territories, leased to Britain in 1898. The Chinese government contests all three agreements on the ground that they were signed under duress. On 30 June 1997 the lease on the New Territories — which constitute 89 per cent of the land area of the colony — comes to an end. It is generally assumed that, without the New Territories, the economy of Hong Kong and Kowloon would be unviable and that the territory's fragile economic advantage, which depends uniquely upon business confidence and Hong Kong's offshore status, would be threatened if the People's Republic of China reassumed sovereignty over the New Territories or over Hong Kong as a whole.

This *Comment* examines the issues raised by the 1997 deadline, in particular Britain's responsibility to the people of the territory, over whom it has exercised sovereignty

**CIIR 22 Coleman Fields London N1 7AF**

since 1841. In order to concentrate on this question of rights and responsibilities, the *Comment* deliberately does not examine the important issues of justice within Hong Kong, notably the severe lack of social provision in the territory.

### **Economic and political history**

Hong Kong and Kowloon were acquired by Britain after the Anglo-Chinese wars of 1839-40 and 1856-58. In both instances the British had employed their military power to force China to grant unhindered access to Chinese markets for British and other foreign merchants. The trade centred on sales of Indian opium in China, and during most of the 19th century this traffic accounted for the bulk of Hong Kong's revenue.

Hong Kong was declared a free port from the beginning. Merchants paid no taxes on trade, and the government financed its very limited budget from house rates, land sales, subsidies from London and a tonnage tax on ships entering the port. Before 1840 the territory was scarcely inhabited, but it soon attracted merchants of many nationalities and large numbers of Chinese workers from the mainland. Between 1845 and 1898 the population rose steadily from 23,000 to 245,000, and then to 300,000 in 1901 after the acquisition of the New Territories. The vast majority were Cantonese-speaking Chinese.

The British government did not consider Hong Kong to be a political or strategic possession. It has always been administered primarily as a trading centre, and as a result its foreign and economic relations have been governed by British policy towards China. Thus, although Britain exercised full authority over the territory, the British government always acknowledged that the Chinese authorities had claims over Chinese workers in the territory and considered it necessary to consult Chinese officials on matters affecting the Chinese community.

The Governor of Hong Kong enjoyed extraordinarily wide powers even by the standards of the 19th century, and today still retains almost absolute executive powers. He exercised his powers with the support of a small number of officials, although it soon became the practice to consult eminent European and, later, Chinese opinion. Two bodies were established to formalise this procedure, the Executive Council and the Legislative Council, each composed of officials and a smaller number of 'unofficial'

members appointed by the Governor. By the time the first Chinese member was appointed to the Legislative Council in 1880, the custom had been established that officials should vote in favour of government policy, thus guaranteeing a government majority. Neither body has ever had elected members.

The first body to include elected members was the Sanitary Board, set up in 1887: 2 of its 10 members were elected on a restrictive franchise based on property, education and wealth. The Board, renamed the Urban Council in 1936, remained until 1982 the only body providing an element of popular participation in government: its responsibility is limited to the administration of spending on parks, playgrounds, cultural activities, etc.

Though they were denied political representation, the Chinese were not prevented from trading, and from the beginning they played an active role in the territory's economic development. As early as 1855 over 80 per cent of those paying rates of between £10 and £49 were Chinese. In 1874 Chinese merchants, supported by the Imperial government, established their own steam-shiping company.

By the end of the 19th century Hong Kong was the largest port in the British Empire outside the United Kingdom, though it remained essentially an entrepot for the China trade. In 1900 it handled 40 per cent by value of China's exports and 42 per cent of its imports, and was also the centre of a thriving passenger trade. The growth of the port stimulated industry as well as Hong Kong's banking and communications facilities. From 1911 the Chinese revolution also encouraged growth and diversification by drawing to the territory wealthy as well as impoverished refugees, with investment funds and expertise.

The revolution also brought new political ideas to the colony. A seamen's strike in 1922 was followed in 1925-26 by a general strike and boycott of trade lasting several months. Like later riots, in 1956 between Kuomintang supporters of Chiang Kai Shek and communists and in 1967 during the Cultural Revolution, these incidents demonstrated the strength of nationalist and anti-colonial feeling among the Chinese population and were vigorously repressed by the British administration. Troops were called in and, in 1922, 1925 and 1956, fired on crowds.

During the Second World War Hong Kong was occupied by the Japanese. The destruction resulting from the war, and the new waves of refugees and army deserters fleeing from China as the civil war reached its climax, exacerbated the colony's social problems. The population rose from 1.6 million in 1946 to 2.3 million in 1956. Immigration controls were introduced and the government began building the vast housing estates which are today a central feature of Hong Kong's geography. Since the war an increasing proportion of government revenue has been devoted to housing, social services and education. Under the governorship of Sir Murray MacLehose (1971-82), the administration embarked on an ambitious programme to improve social conditions and housing, financed by a boom in trade and property. Definite progress was made in some areas, but glaring inadequacies remain in health provision, working conditions, social security and education. Above all the housing crisis remains dramatic: the official building programme has failed to meet its targets, rents and costs have soared because of the property boom, and the arrival of large numbers of refugees from Vietnam and immigrants from China has largely nullified any progress that might otherwise have been made.

The post-war history of Hong Kong, however, is dominated by the rise of industry, which by 1970 employed over half a million people in over 17,000 enterprises. From 1962 industrial exports increased by about 20 per cent per year. Garments, electronics, textile products, toys and watches accounted for over 70 per cent of the total exports of the territory. Industry was strikingly dependent upon the clothing sector, which alone produced nearly half of the territory's exports and employed about a third of the industrial workforce, mainly in small factories which subcontracted work from relatively few large-scale businesses, most of which were in American, British or Japanese hands, and which controlled the territory's international trade. Dependence in other industrial sectors is still greater.

While Hong Kong's industry is best known abroad for its sweatshop conditions and the energy of its small entrepreneurs, the most significant characteristic of its economy is its responsiveness to the markets it serves. After 1948 Hong Kong in effect became an industrial rather than a trading entrepot, importing almost all its raw materials, mainly from China and Japan, and exporting

finished products to the huge markets of the United States and Europe. Its international competitiveness is due almost entirely to its ability to respond to world demand, and to the excellence of its financial and communications facilities.

Hong Kong has no real commercial autonomy, however. It is acutely vulnerable to changes in world trading conditions. This is one reason why the question of the territory's reversion to China is perceived to be crucial.

#### **The significance of 1997**

It is generally accepted that without the New Territories Hong Kong and Kowloon would be economically unviable and militarily indefensible. The People's Republic of China already supplies the territory with much of its food — rice (50 per cent), vegetables (40 per cent), meat and fish (over 70 per cent) — 30 per cent of its oil and much of its water. Although Britain maintains a garrison of 7,000 troops in Hong Kong, this is not intended to repulse the Chinese army, but merely serves to control illegal immigration from China and to support the police in the event of serious disorder within the territory.

Since 1948 the Chinese government (like the Kuomintang government before it) has consistently repudiated the treaties of Nanking and Peking as 'unequal'. It regards Hong Kong as an internal matter for China alone to resolve as and when it sees fit. In 1972 China argued that it is not appropriate for the case of Hong Kong (or that of Macao) to be considered by the United Nations Committee on Decolonisation because both are Chinese territories with predominantly Chinese populations and as such not liable to become independent states.

British laws and the Crown's claim to Hong Kong derive from these treaties and from the lease agreement of 1898. The lease expires on 30 June 1997, when the New Territories, which constitute 89 per cent of the land area at present administered by Britain, are due to revert to China. There is therefore a *prima facie* dispute over international law between the Chinese and British governments, which, if agreement is not reached before 1997, Britain is in no position to contest. Should China so decide, Hong Kong island and Kowloon, as well as the New Territories, would almost certainly have to be surrendered by Britain. This has created an anomalous

situation in which the power of decision over Hong Kong's future apparently lies with a state which does not at present exercise sovereignty over the territory.

In effect, this means that Britain is not in a position to initiate negotiations over the future status of Hong Kong. The initiative lies with China. However, since the Chinese government has refused to state the terms under which it expects to reclaim the territory, or see it administered, both governments have maintained an almost total discretion about the evolution of negotiations.

This uncertainty has naturally created increasing concern among the five million people of Hong Kong who are directly affected. In business terms, 1997 is not a long way away. Hong Kong's growth and commercial prosperity depend upon very high levels of local and foreign investment. In recent years, an abnormally high proportion of the territory's financial resources has been devoted to land speculation, at the expense of manufacturing (whose share of national product has fallen from 30 per cent to 25 per cent since 1970). If it is to remain internationally competitive, Hong Kong must continue to raise part of the capital for major infrastructural and industrial projects abroad. Since the normal period for repayment of international commercial loans extends from 10 to 15 years, it will become increasingly difficult, and eventually impossible, to secure foreign investments and guarantee repayment to foreign creditors until Hong Kong's future has been settled; and the local investment climate is highly responsive to international confidence. Moreover, since land belongs to the Crown, existing leases on property in the New Territories will expire in 1997, and the government cannot lawfully extend new leases beyond that date.

The British government has attempted to reassure the business community. It has guaranteed a HK\$26 billion investment for new power stations and facilities for which repayment continues until 2002, and extension of the costly new underground system is also going ahead. Nevertheless business confidence remains fragile, as was demonstrated in August 1982 when a downturn in economic indicators coincided with reports of Chinese intentions for Hong Kong to cause a sudden fall in shares on the Hong Kong stock exchange.

#### **The status of Hong Kong's people**

The failure of the British government to provide political

guarantees to Hong Kong's British subjects has further exacerbated anxiety. In January 1983, the new British Nationality Act comes into force. Its provisions further restrict the Crown's obligations towards the residents of Hong Kong. The situation of resident Chinese aliens (immigrants from the mainland and elsewhere) remains unchanged, but the Act abolishes the citizenship of the United Kingdom and Colonies held by 2,600,000 inhabitants of the Territory and replaces it by three new citizenships. The first of these, British Citizenship, confers right of abode in the United Kingdom and will be acquired only by a small number of inhabitants of British descent. The third, British Overseas Citizenship, applies to United Kingdom passport holders from former dependencies and affects very few people in Hong Kong. The great majority will acquire the second: British Dependent Territories' Citizenship.

This is a general category for all the peoples of the remaining British dependencies: Hong Kong, Bermuda, the British Antarctic Territories, etc. Though called a citizenship, it is a status without rights, not clearly attached to any territory. It does not confer right of abode, which, in the case of Hong Kong, will depend on the territory's own Immigration Ordinances. (British Dependent Territories' Citizens who come to live in the United Kingdom at any time — for which they will have to satisfy immigration restrictions — will be entitled to register as full British Citizens after five years' residence in Britain, provided that they were free of conditions on their stay under immigration law at least one year before applying).

The issue raised by the Nationality Act is not the right of people from Hong Kong to settle in Britain, which the majority have never sought. People in Hong Kong are, however, anxious that the new status should be seen abroad as truly and fully British. The British government claims that the status is acceptable because (unlike British Overseas Citizenship) Dependent Territories' Citizenship will be transmissible to wives and children. Chinese law accords full citizenship, almost without exception, to descendants of a Chinese parent, wherever they live, and the people of Hong Kong will therefore not become stateless in law. In response to anxiety in Hong Kong, the government also agreed to rename the status 'British Dependent Territories' Citizenship' instead of 'Citizenship of the British Dependent Territories', and Lord Trefgarne,

the Foreign Office minister in the Lords, gave an assurance that the United Kingdom would continue to give consular protection to its holders.

In the one area of crucial significance to the people of Hong Kong, however — in their relations with China — the Act offers no protection at all. Under Chinese law, Hong Kong is Chinese territory and its citizens are Chinese citizens. Since the British authorities tacitly also treat Hong Kong Chinese as if they are dual nationals, this means that the United Kingdom government extends consular protection to British Hong Kong citizens except in China where, as Chinese citizens, they are answerable to the Chinese authorities. The case of Lau San Ching who was arrested in China in December 1981 while visiting the families of dissidents, illustrates the issue. A Hong Kong resident born in the territory and therefore British, his case was not taken up, nor was he visited in detention by the British consular authorities. The position was confirmed by a parliamentary answer in 1982. In effect, Britain already acknowledges that its authority over the people of Hong Kong is shared. At present, this has little practical significance for Hong Kong British subjects (except when they visit China). However, if China repossessed Hong Kong, it means that, since China considers and Britain apparently accepts that they are *de facto* Chinese citizens already, they could not expect consular protection from the United Kingdom.

It is probably true that under international law British Dependent Territories' Citizens are in fact British nationals and that in a crisis — following any large scale exodus from Hong Kong, for example — Britain would be held responsible for them. Nevertheless the Act has removed any legal commitment by Britain and removed from Hong Kong British Dependent Territories' Citizens all faculty of choice; if and when a crisis occurs, the matter will be left to a purely political decision. It is not surprising that many residents have interpreted the timing and wording of the Act as further evidence of Britain's determination to abandon Hong Kong and its population to the Communist government.

### China

In fact, Chinese government policy may not be so uncompromising, and the aspirations of Hong Kong citizens are certainly not uniform. Many of China's interests weigh in favour of maintaining the present status

of Hong Kong, and the vast majority of Hong Kong citizens continue to recognise China as their homeland.

China's economic interests in Hong Kong are numerous and important, and directly affect both its development strategy and foreign policy. In the last few years, since Vice-Chairman Deng Xiao Ping assumed effective power, Hong Kong's economic relations with China have largely regained the primary position they occupied historically. The growth in trade between the two has facilitated China's re-entry into the world market, and has protected Hong Kong's economy from the world recession which has severely reduced European and North American demand for many of its exports, notably clothing. Re-exports of Chinese products rose by 500 per cent in 1978 alone, and until 1982 continued to rise by 200 per cent a year, largely compensating for a slowdown in the colony's industrial growth. In 1980 Chinese exports to Hong Kong earned the mainland at least US\$4.4 billion in hard currency, and the Republic has a substantial balance of trade surplus. Hong Kong is also the source of 60 per cent of China's earnings from tourism; 90 per cent of visitors to China in 1980 were Hong Kong residents, who contributed US\$640 million to the Chinese economy. A considerable proportion of the US\$600 million remitted by Chinese living abroad also passes through Hong Kong banks, and there is in addition a vast and ancient contraband trade from Hong Kong across the Chinese border. In all, Hong Kong probably contributes well over US\$6 billion to China's hard currency earnings — nearly one-third of the total. It is estimated that branches of the Bank of China and of its subsidiaries, which have long been established in the territory, hold up to 30 or 40 per cent of Hong Kong's total dollar deposits. China has also been investing large sums in Hong Kong real estate. These investments are valued at somewhere between US\$700 million and US\$2 billion.

Cross-border investments have also been increasing. Chinese partners are involved in Hong Kong electronics and shipping projects, while all but a handful of the many ventures involving foreign interests started in China since 1978 include Hong Kong participation. In fact, it is through intermediaries in Hong Kong that international trade with China has increasingly been negotiated. When China's frontiers were re-opened to foreign investment, it was in Hong Kong that interested investors set up offices: over 41 new banks and numerous other lending institutions were



registered between 1978 and 1981. Hong Kong offers precisely the skills China needs: managers, sophisticated financial acumen, marketing and advertising expertise, experience of the capitalist system and knowledge of Chinese.

China's interests are not only economic, however; despite their importance for the Peking government, Hong Kong's trade and financial advantages to China may even be outweighed by foreign policy considerations. In particular, Hong Kong is unlikely to be treated in isolation from the question of Taiwan. Many argue that this in itself predisposes the Chinese government to avoid unilateral occupation of the territory, for China's handling of Hong Kong is certain to be seen as a precedent by Chinese in Taiwan and elsewhere in the diaspora.

Hong Kong is also a delicate issue within the larger context of China's international credibility as a reliable economic partner. If the Chinese government proves its ability to reassume sovereignty over Hong Kong without destroying business confidence, or successfully renegotiates Britain's presence without losing face, its international standing, and its ability to raise foreign finance for the four modernisations policy will be enhanced.

Finally, China's attitude to the 'unequal' treaties of Nanking and Peking is influenced by its diplomatic relations with the USSR. The militarised frontier between the two countries was established in the 19th century by treaties which China argues were similarly unequal; and any concessions to Britain could be seen as a precedent in relation to the Soviet Union.

### Hong Kong

The attitudes of people in Hong Kong to the future status of the territory, and its possible return to China, remain opaque. This is principally because, in the absence of democratically elected political institutions to represent local opinion, it is very difficult to know with any certainty what people in Hong Kong are thinking. It remains true that neither the Executive nor the Legislative Council yet contains any elected members, though the ratio of unofficial to official members has increased during the past century. In the circumstances, it is ironical that, ever since 1855, when it was first suggested, by the then Governor, that the people of Hong Kong should be given political

rights, the British authorities have always refused, on the ground that China would object. As it stands, this claim may be unjustified: twice in parliament British ministers have admitted that China has never made representations to Britain about democratic reform in Hong Kong.

The Hong Kong government claims that unofficial members influence decisions, and that policy is formed by a diffuse process of consultation. However, the Governor retains executive power and enjoys a fixed majority on both the Legislative and Executive Councils. Moreover 'unofficial' members are chosen by the Governor and, with rare exceptions, belong to Hong Kong's powerful and conservative plutocracy. The consensus is thus confined to a small financial and administrative elite whose interests do not necessarily coincide with those of the majority of the population. The introduction of a new tier of district boards including elected members has made little difference to this situation. Their function is to improve communication between local committees and the administration, and they too are composed of officials, appointed unofficial members and a minority of elected members. They will be purely consultative, will not deal with essential policy, and can be dissolved by the administration.

Since 1948, the Chinese government has carefully avoided any interference in Hong Kong's affairs (except following the disturbances in 1956, 1966 and 1967); but its presence and events on the mainland deeply influence political attitudes at all levels. While almost all Hong Kong Chinese recognise an allegiance to the Chinese nation, the Chinese community of Hong Kong is divided between one group with a degree of sympathy for the government of Peking, another which supports the Nationalist government in Taiwan, and an increasingly identifiable and growing body of opinion, as yet mainly middle class and young, which is critical of both, and of the Hong Kong government as well, and has a sense of belonging, culturally if not politically, to Hong Kong.

This pattern of allegiance is reflected in the territory's associational life, which, in the absence of formal political structures, has acquired a relatively politicised character. The trade unions, for example, are divided between the Federation of Trade Unions (FTU) which is pro-Peking, the pro-Taiwan Trades Union Congress, and a third independent confederation. In the last two decades, a

number of new organisations have also come into existence, again led mainly by members of the new critical middle class. Deeply involved in community affairs and in social welfare issues, they have influenced public attitudes and stimulated criticism of the government's policies and administrative efficiency. Their approach assumes that Hong Kong citizens have the right to expect their government to be accountable — an attitude which runs counter to Hong Kong's colonial political traditions, and subverts both the current British and Chinese approaches to government. In 1979, the government set up a confidential committee, the Standing Committee on Pressure Groups (SCOPG), which secretly monitored the activities of these organisations. Several foreign critics, missionaries and employees of such organisations have also been refused extensions to their work permits.

#### The future

Already some 70 per cent of the population of Hong Kong is under 35 years of age and, as time passes, a growing number of adults will have been born, socialised and educated in the territory. Their values will not have been conditioned by experience of the revolution in China, and their social and economic expectations may well lead to a demand for political rights. If the British continue to administer the territory for any considerable period, the present political system will undoubtedly face increasing challenge. The timid introduction of local elections indicates that the British administration is aware of popular dissatisfaction with the existing political structures, and sensitive to international criticism. Nevertheless, the administration still refuses to move towards any form of elected government. As new and better educated generations reach voting age, they are likely to demand, not only the same professional opportunities and salaries as expatriate employees and officials, but political representation. The British government has no good reason to refuse such a demand.

The entrepreneurial, technical and managerial skills of this educated middle class are Hong Kong's most useful asset to China. It is also this group which feels it has most to lose under China's political system and is most able to find work abroad if there is a takeover from the mainland. Many therefore believe that Peking will attempt to accommodate its interests, particularly in view of the wide disparity in economic expectations between China, where average incomes are expected to reach about US\$800 in

the year 2000, and Hong Kong, where per capita income is already US\$4,000 and will continue to grow. It has been suggested that Britain may be offered a leaseback for 20 or 50 years, or that Britain might be permitted to manage the territory for a further period if it agreed to withdraw troops and accorded representatives of the Chinese government some formal share in the process of government. Others foresee the gradual or abrupt integration of Hong Kong within the Special Economic Zone at Shen Zhen across the Chinese border. Such arrangements might preserve some measure of economic autonomy for the territory and therefore satisfy the desire of both the Chinese government and Hong Kong's business community to protect the confidence of investors.

It has also been suggested that the Portuguese enclave of Macau might serve as a model for Hong Kong. Portugal's offer to surrender this tiny territory has been ignored by the Chinese government, and Macau continues to be administered by a Governor appointed in Lisbon. In Macau, the Legislative Assembly has been partially elected since 1976, although the introduction of a parliamentary democratic system of government is not expected, officially because China would disapprove.

Finally, the statements made by Chinese leaders in advance of Mrs Thatcher's visit to Hong Kong in September 1982 have been interpreted as indicating that the Chinese authorities intend to reclaim sovereignty over all Hong Kong in 1997, but expect to administer the territory according to the provisions of clause 30 of the new Chinese constitution, which allows for a measure of autonomy, at least formally, in the management of economic and social affairs.

An increasing number of academics, specialists and pressure groups are now publicly exploring the economic and legal implications of the various options. Those which conflict directly with China's interests are generally excluded as unrealistic and tending to minimise the links that Chinese people acknowledge towards the mainland; the choice of independence, for example, is not seriously canvassed at present. It is significant, however, that most hypotheses, even those which seek to maximise China's interests, preserve an element of political as well as economic autonomy for the territory.

Several opinion polls of Hong Kong residents (the first of their kind) have recently shown that there is

considerable support for such an approach: the great majority of respondents expressed a clear desire to preserve the identity of Hong Kong and did not welcome forms of settlement which would reduce their present cultural, economic and political autonomy, including transfer of sovereignty to the Chinese state. This opinion was most strongly expressed by the young and by the educated middle class.

### Conclusion

In fact, the problem of Hong Kong's future is essentially political rather than economic. Although complex, the territory's economic integration into China would not pose insuperable problems to the Hong Kong business community, provided their activities were not too heavily — or inefficiently — controlled and taxed by the Chinese state. Large international companies would be only too glad to invest in China if China could guarantee that trading and investment conditions will remain stable, and many of the most powerful Chinese entrepreneurs in Hong Kong are already engaged in long term co-operation with China. From their point of view, such relations with the mainland are natural, profitable and offer some political insurance. In the longer term, indeed, many argue that closer economic integration with China is a necessity if Hong Kong's prosperity and growth is not to be jeopardised. The local market alone is too small to support heavy manufacturing industry and the light industrial exports of the territory will come under increasing competition from other developing countries, where labour costs are already significantly lower.

Both the Chinese and British governments have nevertheless consistently minimised the political dimension to the issue. Fundamentally this turns upon what rights and status the citizens of Hong Kong should be granted following any transfer of authority or sovereignty over the territory after expiry or re-negotiation of the British lease on the New Territories. The British government is under no legal obligation even to consult the people of Hong Kong before negotiating with the Chinese government, and neither government has made any precise commitment to the people of Hong Kong which guarantees that they will retain, or have any say over, their political, economic or social rights in the future. Indeed, the British government has stated that in deference to China's interests it has no intention of introducing electoral reforms which will give Hong Kong

citizens any real power to govern their affairs, and by means of the Nationality Act it has denied to British Dependent Territories' Citizens any freedom to choose between the British or Chinese systems. At present the five million people of Hong Kong have good reason to feel they are pawns, without access to the negotiating process that will decide their future.

The recent polls have certainly carried the debate forward: but they cannot be equated with a vote. They express desires rather than responsible intentions because no consequences follow from them; and they do not present in precise terms the range of alternatives which are realistically achievable. One cannot therefore say that the people of Hong Kong have expressed any clear preference either in favour of rejoining China or in relation to their present dependent status under the British Crown. The political structures which exist in the territory do not permit them to do so, and the administration has made so far no attempt to consult the population as a whole. Moreover it is difficult for the majority of Chinese people in Hong Kong to discuss the issue in a clear fashion. On the one hand, they acknowledge loyalty to China, but are ambivalent towards its government; on the other, they are reluctant to appear supportive of British colonial rule. This uncertainty, added to the refusal of the British and Chinese governments to indicate the direction or progress of negotiations, puts them in an impossible position. While those sections of the population whose interests are mostly likely to be taken into account by government — the educated middle class and the business sector — are able to make their views known, the majority of Hong Kong citizens, deprived of a voice by the political structures of the colony, are not.

It would be foolhardy to assume, because this is so, that the silent majority in Hong Kong is opposed to reintegration with China or supports extension of the British mandate, or favours any one of the transition solutions which are being canvassed in Hong Kong, in China and elsewhere. It would be equally foolhardy, to assume that, because good relations now exist between the British and Chinese governments, the problem will be resolved amicably and without fuss. It is true that diplomatic relations between the two nations have rarely been so unruffled, and that it is perfectly feasible for the two governments to reach an agreement which reconciled their economic interests without seriously prejudicing the interests or rights of foreign businesses or even those of

major Hong Kong Chinese entrepreneurs. The present balance of power in China, however, is not necessarily stable, and the Falklands war has shown how quickly and dangerously disputes over territory can become intractable and violent.

It is finally up to the people of Hong Kong to insist on making their views known to the British government and to search for solutions which reconcile their aspirations with those of China, and there are signs that they are beginning to do so. It nonetheless remains true that the apparent willingness of the British and Chinese governments to negotiate the territory's future without responsible consultation of the people who are most concerned — however convenient it may be for the present — is *prima facie* an injustice. As the existing sovereign authority, committed to democratic principles, the British government has a particular duty to take account of the views of all the citizens of the territory, and to represent those interests during negotiations with the government of China. It cannot do so without formally consulting the population and initiating public discussion of the issues involved. Having governed Hong Kong for over 140 years, Britain has a responsibility to ensure that any transfer of sovereignty which ends the territory's colonial status protects and guarantees the rights and interests of those who live there.

September 1982

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10 DOWNING STREET

From the Private Secretary

9 September 1982

*Dear John,*

Future of Hong Kong

The Prime Minister was grateful for the minute of 3 September by the Foreign and Commonwealth Secretary and the enclosed special study which she has read with interest.

As you know, the Prime Minister did not wish to hold an OD discussion of this question before her departure for the Far East. Instead, she would like to hold a restricted Ministerial meeting early next week. She hopes that the Foreign and Commonwealth Secretary, the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence and the Attorney General would be free to attend (arrangements are being made separately with their offices). I should be grateful if you could arrange for the Attorney General to receive a copy of the special study before the weekend.

In order to clear her mind about certain aspects of the study before the Ministerial meeting, the Prime Minister has asked that Lord Macle hose and FCO officials should be invited to a meeting tomorrow. This is in hand separately.

I should be grateful if you could bring to the attention of FCO officials who will be attending tomorrow's meeting the following points which the Prime Minister has so far raised in relation to the study:-

- (a) Paragraph 4 states that the Chinese are "acutely aware of the economic benefits which they derive from Hong Kong and of the need to preserve it as a capitalist entity .....". The Prime Minister has asked what evidence there is that they are indeed "acutely aware" of the need to preserve the capitalist structure of Hong Kong.

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- (b) Paragraph 7b refers to HMG's repeated statements of commitment to the five million people of Hong Kong. The Prime Minister would be grateful for the text of such statements.
  - (c) Paragraph 9 states that it is clear that the PRC would not agree to any arrangement for Hong Kong which might prejudice their position on Taiwan. Mrs. Thatcher wonders whether this does necessarily represent the Chinese position.

I am copying this letter to John Halliday (Home Office), John Kerr (HM Treasury), Richard Mottram (Ministry of Defence), Jim Nursaw (Law Officers' Department) and to Richard Hatfield (Cabinet Office).

*Yours ever  
John Coler.*

John Holmes Esq  
Foreign and Commonwealth Office.

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10 DOWNING STREET

*From the Private Secretary*

8 September, 1982

*Dear John,*

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

Thank you for your letter of 6 September. The Governor and the Unofficials had a working lunch with the Prime Minister today. I enclose a record of the discussion.

I also enclose the final version of the press statement which was issued after the departure of the Governor and his party. Sir Edward Youde and Alan Donald already have copies.

I see no objection to the press line which you recommend that the Governor should take on his return to Hong Kong and have so informed him.

*Yours ever*

*John Coler*

John Holmes, Esq.,  
Foreign and Commonwealth Office

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SUBJECT

RECORD OF DISCUSSION AT A WORKING LUNCH AT NO. 10 DOWNING STREET  
AT 1300 ON WEDNESDAY, 8 SEPTEMBER, 1982

Present:

Prime Minister	Sir Edward Youde
Foreign and Commonwealth Secretary	Sir S. Y. Chung
Mr. Donald	Mr. Roger Lobo
Mr. Butler	Mr. Li Fook-wo
Mr. Coles	Miss Lydia Dunn
	Mr. Chan Kam-chuen

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The Prime Minister invited the Governor and the five unofficial members of the Executive and Legislative Councils to express their views on the problem of the future of Hong Kong. Sir S. Y. Chung read out the prepared statement, which is annexed to this record.

The Prime Minister enquired whether, if independence were a genuine option for Hong Kong, those present would welcome it. Miss Dunn replied that if the option indeed existed, it would be preferable to absorption in China. But the wish of the people of Hong Kong was that the British system should be maintained. Under British rule they had developed a lifestyle which they wished to continue.

Mr. Li Fook-wo pointed out that the holding of elections would inevitably lead to absorption in China. Most of the population of Hong Kong came from China. Sir S. Y. Chung said that all present recognised that China would not allow Hong Kong to become independent. He had himself incurred strong Chinese displeasure in the 1960s when, returning from China, he had referred to Hong Kong at a press conference as a "member state" of a particular organisation. Sir Edward Youde said

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that the practical point was that Hong Kong could not sustain independence, given the proximity and size of China.

The Prime Minister said that her principal concern was that the Chinese desire for sovereignty and the need to maintain confidence in Hong Kong were irreconcilable. Some thought that it would be possible to concede purely titular sovereignty to China. But the concession of any sovereignty would open up the possibility of Hong Kong having to live under a different system. It was clear to us that the maintenance of confidence required the continuation of British administration and law and of the free enterprise system. The question was whether all that could be obtained in exchange for a sovereignty which was merely titular. It could clearly not be more than titular. Miss Dunn said that at first blush the Chinese might regard titular sovereignty as inadequate. But they were pragmatic. Once they had been educated to see that prosperity flowed from British administration, the objectives of the two sides could be reconciled.

The Prime Minister questioned whether the Chinese were pragmatic. They were Marxist and their system was centralist. Having been born and bred under a Marxist / Leninist system, they did not understand what was necessary to maintain confidence. Our duty was to the people of Hong Kong, who wished to live under our administration. Her instinct was to concede nothing until it was clear that we could obtain precisely what we wanted.

Mr. Li Fook-wo said that, if the Chinese Government consulted their own people in Hong Kong, he was sure they would be beginning to perceive what was necessary to maintain confidence. The Prime Minister commented that it was not certain that the Hong Kong Chinese stated their views clearly to the Chinese Government.

Sir S. Y. Chung agreed that the mentality of the Chinese presented a problem. They probably believed that they could run

/Hong Kong

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Hong Kong themselves. Nevertheless, they were modifying their policies in a number of respects in order to achieve certain economic ends. They might do so also in order to maintain the prosperity of Hong Kong. China was already engaged in a learning process. The Chinese Government had invited ten Hong Kong businessmen to Peking in June. The party had been lectured on the Chinese approach to the problem and had made it clear that British rule was excluded. The Hong Kong delegation did not argue that the Chinese approach would not work. But the pessimism they had expressed when they returned to Hong Kong had caused a considerable fall in share prices. The Chinese probably knew why this happened. The process of education was in progress.

Mr. Chan Kam-chuen pointed out that the Chinese Government was quite capable of separating politics from economics. When Sino/British relations had been at their worst in the 1960s, they had refrained from damaging actions in Hong Kong.

The Prime Minister said that it was uncertain with whom we should be negotiating. When she had last visited China Deng Xiaoping had been in prison. Who would his successors be? The present Government said that it did not recognise unequal treaties. Could we depend on future Governments not to regard any treaty negotiated now as unequal? Sir S. Y. Chung reiterated his view that if the economic benefits of a treaty of Hong Kong were overriding, they would dictate the Chinese attitude. What was needed was a formula which would save Chinese face. The Prime Minister commented that we had to ensure that any solution did not dilute our real needs in Hong Kong. Sir Edward Youde pointed out that if we did nothing, the situation would get worse because China regained sovereignty over the new territories in 1997.

The Prime Minister said that if China appreciated the danger of a collapse of confidence in Hong Kong, it ought to see the need for negotiating the kind of solution we had in mind.

/Mr. Donald

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Mr. Donald observed that we were up against a strong Chinese conviction that they could manage Hong Kong as well as we could. The Foreign and Commonwealth Secretary said that, once confidence started to ebb, the Chinese might see the need to reach a sensible solution. The Prime Minister commented that the problem was that once confidence started to disappear, it was difficult to arrest the process.

Sir Edward Youde said that almost all Chinese, wherever they lived, believed that Hong Kong was part of China. It was necessary to devise a solution that took account of that feeling. Sir S. Y. Chung and Miss Dunn repeated their view that the present Chinese Government was pragmatic in its approach. Sir Edward Youde said that it was encouraging that, despite the political philosophy of the Chinese and despite the many opportunities they had had to do otherwise, they had allowed Hong Kong to exist.

The Prime Minister pointed out that international law was on our side. She was reluctant to contemplate abandoning sovereignty. Confidence in Hong Kong had recently weakened, partly because we were now within 15 years of the lease expiring, partly because of recent land deals and partly because the Hong Kong financial markets were volatile. The question was - what sort of outcome to her visit to China was necessary to maintain confidence?

Miss Dunn thought that an adequate outcome would be an explicit agreement between the two sides to discuss the resolution of the problem, preferably with an announced date for the first talk. There was a common interest in reaching such an outcome. The Prime Minister contended that on the Chinese side there was a basic misunderstanding - they considered that they themselves were capable of maintaining confidence in Hong Kong. Were the Special Economic Zones relevant to the problem? Mr. Li Fook-wo said that the Zones were not successful. Mr. Lobo said that conditions in the Zones were chaotic. Sir Edward Youde

thought

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thought it would be unwise to suggest that the failure of the SEZs to make more progress was relevant to the Hong Kong problem. The Chinese would reply that the Zones had existed for only three years. Mr. Chan Kam-chuen said that the problem was that the Chinese believed that the SEZs provided an answer. By the time they found out they did not, Hong Kong could be finished.

The Prime Minister repeated that the Chinese objective of continuing prosperity in Hong Kong and their method of seeking to secure this were contradictory. To tell them so would itself be a blow to their self-esteem.

Reverting to the question of the outcome to her visit, the Prime Minister asked whether what had been suggested was really sufficient to maintain confidence. The Foreign and Commonwealth Secretary thought that, short of a miracle occurring, the formula suggested by the Unofficials was on the right lines. The process had to be gradual. We should try to restrain expectations. The Prime Minister commented that this was difficult, given that a crisis of confidence already existed. Sir Edward Youde believed that a forward step would maintain confidence for a period. Then, when the negotiations process began, the problem would be to hold confidence at the right level. It must not weaken to a point where it could not be restored. On the other hand, if confidence remained at too high a level, the Chinese would say there was no problem. The Prime Minister observed that we were under considerable pressure to reach a solution. Sir S. Y. Chung said that that is why he had suggested a formula involving the completion of talks within a year. He believed that China now realised that the formula (it had been putting forward (Chinese sovereignty, plus the application of the principles of the SEZs, plus the continuance of Hong Kong's economic system under Chinese administration) would not work. There had been strong public comment in Hong Kong to this effect. Following this, China had appeared to modify its position.

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/The Prime Minister

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The Prime Minister asked who in China negotiated treaties and who signed them. Sir Edward Youde described the various border treaties which had been negotiated, by representatives of the central government, since 1949. These had been fairly successful but had mostly related just to border adjustments. Hong Kong was a different issue.

The Prime Minister recalled that in his opening statement Sir S. Y. Chung had implied that the time of her visit to Peking was <sup>in</sup> appropriate for a negotiation of the sovereignty issue. Sir S. Y. Chung said that he had merely wished to suggest that the Prime Minister should not attempt to resolve the issue during her visit. Sir Edward Youde suggested that, if the Chinese insisted that sovereignty was theirs, the Prime Minister should take the line that if China wished Hong Kong to continue to provide the benefits of the past, then it must be recognised that the basis of confidence was British administration and this must continue.

Mr. Lobo said that the statement which the Prime Minister would make on arrival in Hong Kong would be important. The Prime Minister commented that it would have to be honest. Sir Edward Youde said that there would clearly have to be a statement, since the absence of one would itself cause a diminution of confidence. In his statement, Sir S. Y. Chung had described the kind of statement which the Unofficials thought was both adequate and realistic. Sir S. Y. Chung emphasised that people in Hong Kong did not expect a quick solution. They accepted the Governor's "step by step" approach.

Sir S. Y. Chung concluded by expressing his thanks to the Prime Minister for the occasion and promising the support of the Unofficials for her in her task. The Prime Minister commented that our duty lay with the five and a half million people of Hong Kong.

A.S.C.

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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.

STRICTLY CONFIDENTIAL

SPEAKING NOTES FOR SIR S Y CHUNG AT A MEETING WITH THE  
BRITISH PRIME MINISTER ON 8 SEPTEMBER 1982 AT  
10 DOWNING STREET, LONDON

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Prime Minister

1. On behalf of my Unofficial Colleagues, may I first say how appreciative we are to have this opportunity to meet with you, Prime Minister, on matters relating to your forthcoming official visit to China and in particular on the question of the long term future of Hong Kong.
2. I know that you, Prime Minister, would be very busy as you will be leaving for the Far East in a few days time and therefore I do not wish to waste any time on peripheral matters and come straight to the points of relevance and importance.
3. As you know, Hong Kong consists of a ceded part and a leased part - the lease for the latter will expire in 1997. It is extremely difficult, if not totally impossible, to make the ceded part economically viable without the leased part. Furthermore, it is simply not possible to separate these two parts politically. In consequence, the two parts must be treated as an integral entity.

4. As the year 1997 is drawing near, increasing number of Hong Kong people will become alert of the uncertainty of Hong Kong's future. Most of us came from China or were born in Hong Kong after 1949 when the present Government gained control of China. These Hong Kong people do not wish to live in China under the current conditions there, otherwise they would have remained in or gone to China. On the other hand, for the very great majority of us, Hong Kong is the end of the road.

5. Prime Minister, if you ask us what are the wishes of the Hong Kong people? I dare say, and it has recently been proved by two major independent surveys, that over 90% of the Hong Kong people would like Hong Kong to remain status quo beyond 1997 for as long as possible.

~~4.57~~  
6. Nonetheless, it is generally recognised and accepted, again by over 90% of the Hong Kong people, that the People's Republic of China would never allow Hong Kong to become independent and detached from China, as in the case of Singapore from Malaysia.

~~4.57~~  
7. It is also generally recognised and accepted by a great majority of the Hong Kong people that Hong Kong is part of China. But in the light of extreme differences in many areas, it could be a long time from now before Hong Kong would eventually return to China. Whether it be 30, 50 or /even



even another 100 years depends on the future economic and political development in China itself. I don't think we need to speculate at this stage.

8. There have been many reports saying that the Chinese Government would claim sovereignty over the ceded part as well as the leased part of Hong Kong. A great deal of public views have been expressed in Hong Kong and elsewhere on the question of sovereignty. The concept of sovereignty, we are fully aware, Prime Minister, is of utmost importance to you and Mr Deng Xiaoping. However, in our view, it would not be an appropriate time to negotiate this important issue during your imminent visit to China. If the question of sovereignty is raised by the Chinese, the British, perhaps from a tactical point of view, should not react one way or the other in order to avoid the possibility of a deadlock during this early stage of talks on this vital issue.

9. The people of Hong Kong value their British connection. Whilst they naturally prefer that HMG not to have to concede British sovereignty, they would be willing for this to be conceded if that is the only way to secure continuing British administration without interference internally or externally.

10. It is our strong belief that now is the opportune time for both the British Government and the Hong Kong people to exert pressure on the Chinese Government for a  
/satisfactory

satisfactory solution on the long term future of Hong Kong. We form this opinion because the present Chinese leadership is committed to the 'four modernisations' programme and to significantly raising the living standards of the 1,000 million people in China. China in the next decade or two will greatly need foreign technology and hence foreign exchange. It is estimated that China at present earns about one-third of its foreign exchange through Hong Kong and that China for some years to come could not afford to lose the share of contribution from Hong Kong. This is our economic and negotiating strength.

11. Time and again, the Russians and the Japanese have shown their territorial ambition on China. As people of Chinese race, we know that the Chinese Government would never trust both the Russians and the Japanese. The Vietnamese have taught the Chinese a bitter lesson by allying themselves with the Russians and turning their backs against China. Hong Kong under British rule could be, to some extent, useful to China both politically and military-wise.

12. We therefore very much believe that the Chinese Government shares a common interest with us in maintaining stability and prosperity in Hong Kong for many years to come. It can therefore reasonably be assumed that the Chinese Government has a genuine desire to find a solution

/which

which would maintain Hong Kong's stability and prosperity, and hence Hong Kong's usefulness to them. However, we doubt that the Chinese authorities fully comprehend the complex mechanism of confidence and in particular the importance of continuing British administration in the maintenance of that confidence in Hong Kong.

13. On the other hand, we do believe that the Chinese Government has a genuine difficulty in seeking a solution which would be politically acceptable at home and abroad. Therefore, the Chinese need time to innovate ideas and test acceptance.

14. Meanwhile, confidence in Hong Kong must not be allowed to slide. We suggest, therefore, that it would be extremely useful if in your visit to China, an agreement could be reached between the two Governments to commence official negotiations with a view to concluding a satisfactory solution to Britain, China and the people of Hong Kong as early as possible and hopefully within one year. During the talks it will be essential to demonstrate that progress is being made, to use the Governor's terminology 'step by step'.

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INFO IMMEDIATE PEKING

*h.a.  
MR 1/1*

PERSONAL FOR ACTING GOVERNOR  
VISIT BY UNOFFICIALS TO LONDON

1. THE FOLLOWING STATEMENT WAS ISSUED TODAY BY NO 10:  
BEGINS:

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 HONGKONG 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. ENDS.

PYM

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FOR CLIFT, HKGD

MCLAREN'S TELELETTER OF 7 SEPTEMBER TO YOU: VISIT OF AUSTRALIAN  
MP: FUTURE OF HONG KONG

1. WE HAVE SEEN THE TEXT OF THE AUSTRALIAN EMBASSY'S REPORT  
(PLEASE PROTECT) OF THIS CONVERSATION BETWEEN SAINSBURY AND  
ZHU QIZHEN, DIRECTOR OF THE MFA'S AMERICAN AND OCEANIA DEPARTMENT,  
OVER LUNCH ON 2 SEPTEMBER. ZHU'S MAIN POINTS WERE:-

(A) IT WAS CLEAR THAT CHINA WOULD WANT TO EXERCISE ITS SOVEREI-  
GNTY OVER HONG KONG, BUT HOW, WHEN AND IN WHAT FORM WERE QUESTIONS  
FOR FUTURE DISCUSSION.

(B) WHILE THE QUESTION WOULD OBVIOUSLY BE DISCUSSED WITH MRS  
THATCHER DURING HER VISIT, THE CHINESE DID NOT EXPECT HER TALKS TO  
GO INTO DETAILS OF THE QUESTIONS TO BE RESOLVED.

(C) WHILE HONG KONG WAS REGARDED BY CHINA AS ITS TERRITORY,  
NEGOTIATIONS WITH BRITAIN WOULD BE CARRIED OUT BY THE FOREIGN  
MINISTRY. VICE MINISTER ZHANG WENJIN WOULD BE A PRINCIPAL  
NEGOTIATOR. ZHU SEMI-JOKINGLY COMMENTED THAT THE NEGOTIATIONS  
COULD BE AS COMPLEX AS THOSE OVER THE QUESTION OF ARMS SALES TO  
TAIWAN FOR WHICH ZHANG HAD ALSO BEEN RESPONSIBLE UNTIL A FEW MONTHS  
AGO.

2. ZHU QIZHEN WAS SPEAKING IN ENGLISH OF WHICH HE HAS AN EXCELLENT  
COMMAND.

COMMENT

3. ALTHOUGH HE IS NOT DIRECTLY INVOLVED WITH HONG KONG, ZHU  
WOULD DOUBTLESS BE WELL BRIEFED ON CHINA'S GENERAL POSITION.  
ALTHOUGH HE SAID MORE TO THE AUSTRALIAN THAN WAS PERHAPS NECESSARY,  
HIS REMARKS GIVE LITTLE CAUSE FOR ALARM AND STRONGLY SUGGEST THAT

CONFIDENTIAL

/ WE SHOULD

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WE SHOULD AT LEAST ACHIEVE THE MINIMUM OBJECTIVE OF AGREEMENT TO OFFICIAL TALKS DURING MRS THATCHER'S VISIT. NEVERTHELESS IT SHOULD BE BORNE IN MIND THAT THESE REMARKS WERE MADE TO AN MP OF A THIRD COUNTRY AND MAY HAVE BEEN TAILORED ACCORDINGLY.

CRADOCK

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

PART 1 ends:-

ABC to PM 8/9

PART 2 begins:-

Peabery Tel 508 8/9

