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PREM 19/791

Part 3

Confidential Filing

The Future of Hong Kong

HONG KONG

New Territorial Leases

Part 1: June 1979

Part 3: October 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
11-10-82							
12-10-82							
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PREM 19/191

PART

3

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HONG KONG TEL 1283 OF 6/11/82

PART

4.

begins:-

FCO to AJC

8.11.82

Hong Kong

W.L.

Good I pl. see

the extract from

Hansard.

A-7C 8/11

GR 65

UNCLASSIFIED

FM HONG KONG 060445Z NOV 82
TO ROUTINE F C O
TELEGRAM NUMBER 1283 OF 6 NOVEMBER
INFO HONG KONG GOVERNMENT OFFICE LONDON, PEKING

FUTURE OF HONG KONG: PRESS COVERAGE

THE COMMUNIST WEN WEI PO ON 6 NOVEMBER PUBLISHED A FRONT PAGE REPORT ON THE DEBATE IN THE HOUSE OF COMMONS ON THE PRIME MINISTER'S VISIT TO CHINA AND HONG KONG. THE ARTICLE CONCENTRATED ON THE CRITICAL REMARKS MADE BY MR. HEALEY AND DR. OWEN. IT ALSO REPORTED EXTENSIVELY A SPEECH BY SIR PAUL BRYAN, HIGHLIGHTING HIS REMARKS ABOUT CHINA'S CONTRIBUTION TO HONG KONG'S ECONOMIC PROGRESS OVER THE PAST 30 YEARS.

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GR 1200
SECRET

SECRET 53B

FM HONG KONG 060135Z NOV 82
TO PRIORITY FCO
TELEGRAM NUMBER 1280 OF 6 NOVEMBER
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MIPT: FUTURE OF HONG KONG: EDUCATION OF CHINESE LEADERSHIP.

1. FOLLOWING IS DRAFT:

FROM THE ACCOUNTS WHICH HAVE APPEARED IN THE PRESS, AND FROM WHAT THEY HAVE BEEN TELLING PEOPLE PRIVATELY, THE CHINESE APPEAR TO BE THINKING OF A SOLUTION TO THE PROBLEM OF THE FUTURE ALONG THE FOLLOWING LINES:

- CHINA WOULD RECOVER SOVEREIGNTY OVER THE WHOLE OF HONG KONG IN 1997:
- HONG KONG WOULD THEN BECOME A SPECIAL ADMINISTRATIVE REGION OF CHINA:
- BRITISH ADMINISTRATION WOULD END:
- BUT VIRTUALLY EVERYTHING ELSE WOULD REMAIN UNCHANGED, IN PARTICULAR HONG KONG WOULD REMAIN A FREE PORT AND A COMMERCIAL AND FINANCIAL CENTRE.

2. THE CHINESE DERIVE GREAT ADVANTAGE FROM HONG KONG AS IT IS AND THERE IS NO REASON TO QUESTION THE GENUINENESS OF THEIR WISH TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG: THIS IS THE COMMON AIM OF BOTH GOVERNMENTS IN THE DIPLOMATIC TALKS WHICH HAVE BEGUN IN PEKING.

3. THE QUESTION IS WHETHER PROSPERITY AND STABILITY WOULD IN FACT BE MAINTAINED UNDER THE KIND OF ARRANGEMENTS THE CHINESE APPEAR TO HAVE IN MIND.

4. PEOPLE IN HONG KONG EVIDENTLY DO NOT THINK SO. THE REPORTS AND RUMOURS CIRCULATING IN HONG KONG HAVE ALREADY AFFECTED THE STOCK AND PROPERTY MARKETS AND THE STRENGTH OF THE HONG KONG DOLLAR: AND HAVE LED TO A SURGE OF ENQUIRIES ABOUT EMIGRATION POSSIBILITIES.

5. THE TROUBLE IS THAT THE CHINESE DO NOT REALLY UNDERSTAND HOW HONG KONG WORKS AND WHY IT IS SUCCESSFUL. THEY DO NOT APPRECIATE THE COMPLEXITY OF A MARKET ECONOMY, PARTICULARLY ONE WHICH IS HIGHLY DEPENDENT ON ITS INTERNATIONAL TRADING AND FINANCIAL CONNECTIONS. NOR DO THEY APPRECIATE THAT TO BE FREELY CONVERTIBLE, THE HONG KONG DOLLAR MUST BE ACCEPTABLE. ABOVE ALL THEY DO NOT APPRECIATE THE LINK BETWEEN BRITISH ADMINISTRATION AND DOMESTIC AND INTERNATIONAL CONFIDENCE.

6. THE BRITISH LINK HAS PROVIDED A STABLE ENVIRONMENT, SOUND ADMINISTRATION, AND CONSISTENT POLICIES - ALL WITHIN A FRAMEWORK OF LAW WHICH IS IMPARTIALLY ADMINISTERED AND INTERNATIONALLY UNDERSTOOD AND ACCEPTED. IT IS THE BRITISH LINK WHICH PROVIDES A GUARANTEE AGAINST EXTERNAL INTERFERENCE. IN THE LAST RESORT IT IS THIS GUARANTEE WHICH SUSTAINS CONFIDENCE.

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FM HONG KONG 040950Z NOVEMBER 82
TO PRIORITY F C O
TELEGRAM NUMBER 1272 OF 04 NOVEMBER
INFO PRIORITY PEKING

MY TELNO 1266: FUTURE OF HONG KONG: PRESS COMMENT

1. TODAY'S LEFT-WING WEN WEI PAO CARRIES THE THIRD IN A SERIES OF SPECIAL ARTICLES BY LI ZISONG, THE PAPER'S MANAGING EDITOR (PARA 7 OF T U R REFERS). THE SERIES IS DEVELOPING INTO A FAIRLY SUBTLE CAMPAIGN TO SHAME LOCAL CHINESE INTO SUPPORT FOR THE RECOVERY OF SOVEREIGNTY BY APPEALING TO THEIR PATRIOTISM.

2. THE FIRST ARTICLE (13 OCTOBER) CHARACTERISED THE 19TH CENTURY 'UNEQUAL TREATIES' AS ACTS OF NATIONAL BETRAYAL, BUT LOOKED FORWARD TO A BRIGHTER FUTURE BASED ON CHINA'S CONTINUED EFFORTS TO MAINTAIN A STABLE AND PROSPEROUS HONG KONG. THE SECOND (30 OCTOBER) LISTED THE VARIOUS CONCESSIONS MADE TO THE WESTERN POWERS DURING LI HUNG CHANG'S ASCENDENCY. IN FAILING TO PUT THE INTERESTS OF CHINA FIRST LI HAD COMMITTED THE ULTIMATE BETRAYAL. TODAY'S ARTICLE FIRMLY PLACES NATIONAL FREEDOM AND INDEPENDENCE ABOVE INDIVIDUAL FREEDOMS: WITHOUT THE FORMER, THE LATTER CANNOT EXIST. /

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Hong Kong 289

File

5 November 1982

Thank you for your letter of 4 November to John Coles about our attitude to the 19th Century Treaties on Hong Kong. The Prime Minister has agreed that Sir Percy Cradock should use the formula proposed in your letter if the matter comes up at his meetings with the Chinese Vice Foreign Minister.

Timothy Flesher

John Holmes, Esq.,
Foreign and Commonwealth Office.

g

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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

Agree that Sir Perry
Cradock may speak as in
the last paragraph?

4 November 1982

A.S.C. 4/11

Yes MK

Dear John,

Future of Hong Kong

The Ambassador in Peking has drawn attention to the likelihood that the Chinese will, at some stage during the talks, bring up the question of our attitude to the 19th Century Treaties. Sir P Cradock has referred to recent reports * ~~~~~ * suggesting that some Chinese may have interpreted the Prime Minister's reference during her Press Conference in Hong Kong to 'varying' the Treaties to mean that it is HMG's intention to get them involved in a process of renegotiating the existing documents.

The Ambassador's view, with which we agree, is that there can be no question of repudiating the Treaties. They are the basis for our present administration of Hong Kong. If asked we must express our view that they are valid. However we need not go on from that to maintain that our solution involves renegotiation of the actual documents. That would be a major sticking point for the Chinese. They would moreover see it as having consequences going beyond their interest in Hong Kong (ie for their relations with the Soviet Union and the border talks in which another set of what the Chinese regard as 'unequal treaties' is involved).

Whether or not it is this concern which explains some of the strongly-worded statements by the Chinese after the Prime Minister's visit, it does seem that they may have got hold of the wrong end of the stick. It would be worth working out a means of clearing up any misunderstanding. It is important to avoid an unnecessary hiccup in the talks at this point. In essence we need to say that the Treaties exist and cannot be ignored, but that we see the right way forward as replacing rather than re-writing them.

The matter might come up at the Ambassador's next meeting with Vice Foreign Minister Zhang Wenjin. We think it would be useful to have a form of words up our sleeve that Sir P Cradock could use in such circumstances and suggest the following:

/'The Treaties

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Passage deleted and retained under
Section 3(4).

C. Wayland

11 October 2012

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'The Treaties are an historical and legal fact. They are the basis for what Hong Kong is today. But it is not the wish of the British Government to seek to revive or rewrite history now. We wish to look to the future and to reach with the Chinese Government arrangements for the administration of Hong Kong that are acceptable to both Governments and to the people of Hong Kong. This implies agreement on the replacement of the Treaties by something which would be more in keeping with the times. As the Prime Minister said to Chinese leaders in September, if she was satisfied with the arrangements agreed for the future administration of Hong Kong, she would be prepared to consider putting to Parliament recommendations on the question of sovereignty'.

Perhaps you could let me know the Prime Minister's views.

Yours ever
J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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GRS 630

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SECRET

FM PEKING 030730Z NOV 82

TO PRIORITY FCO

TELEGRAM NUMBER 715 OF 3/11/82
AND TO PRIORITY HONG KONG

FUTURE OF HONG KONG: TDC VISIT

1. YOU WILL HAVE SEEN MY TELS NO S 704 AND 707 REPORTING REMARKS MADE TO THE TDC DELEGATION BY VICE TRADE MINISTER JIA SHI AND BY XI ZHONGXUN. DAVID NEWBIGGING ALSO BRIEFED ME ON THIS PRIVATE MEETINGS WITH TANG KE (MINISTER OF PETROLEUM) AND SONG GUOHUA (PICC) AND I HAD SOME TALK WITH Y K KAN.
2. TANG KE DESCRIBED SOME OF THE PRIME MINISTER'S REMARKS, ESPECIALLY ON THE VALIDITY OF THE TREATIES, AS "INAPPROPRIATE" (BU HESHI). HE SHOWED KEEN INTEREST IN THE PROBLEMS OF THE HONG KONG STOCK MARKET, WHICH ON THAT DAY HAD FALLEN DRAMATICALLY AFTER THE CARRIAN RIGHTS ISSUE. TANG ASKED DIRECTLY IF JARDINES INTENDED TO MOVE THEIR MONEY OUT OF HONG KONG. NEWBIGGING HAD SAID NO, BUT TOLD ME THAT HE NOW REGRETTED THAT HE HAD NOT QUALIFIED HIS ANSWER.
3. SONG WAS ALSO WELL INFORMED ABOUT THE PROPERTY MARKET IN HONG KONG. MORE THAN ONCE HE SAID THAT HONG KONG INVESTORS SHOULD NOT WORRY AS THEY HAD 14 YEARS AHEAD OF THEM. NEWBIGGING HAD ADDED "AND PERHAPS LONGER?" BUT SONG WAS NOT DRAWN.
4. BOTH TANG AND SONG IMPLIED THAT PRESENT DIFFICULTIES WERE TEMPORARY, THAT THE EXCITEMENT WOULD DIE DOWN AND THAT CONFIDENCE WOULD RETURN FOR THE REMAINING 14 YEARS OF THE LEASE. THERE WAS THE CLEAR IMPLICATION THAT THE CHINESE AUTHORITIES DID NOT WANT TO BE FACED WITH THE CONFIDENCE PROBLEM NOW AND WERE HOPING THAT, AS A RESULT OF SUITABLE MASSAGING OF THE TDC, IT WOULD GO AWAY. NEWBIGGING COMMENTED THAT THE VISIT HAD BROUGHT OUT CLEARLY THE DEPTHS OF IGNORANCE ON BOTH SIDES ABOUT HOW EACH OTHER'S SOCIETY WORKED.

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/s.

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5. Y K KAN WAS ENCOURAGED BY THE GROUP'S RECEPTION, IN PARTICULAR THE REMARKS BY JIA SHI AND XI ZHONGXUN. HE SOUGHT ADVICE FROM ME BEFORE SEEING XI.

I ADVISED HIM TO SAY FIRMLY THAT ANY DRASTIC CHANGE IN HONG KONG WOULD HAVE DISASTROUS CONSEQUENCES. IN THE EVENT HE DID NOT HAVE THE OPPORTUNITY, BUT I HAD THE STRONG IMPRESSION THAT HE WAS NOT PREPARED TO SPEAK UP. MUCH OF HIS TALK WITH ME WAS A COMPLAINT ABOUT THE PROMINENT ROLE Y K PAO SEEMED TO BE SEEKING, A MATTER WHICH ALSO EXCITED OTHERS AMONG THE HONG KONG CHINESE.

6. COMMENT: IN DEALING WITH THE HONG KONG DELEGATION THE CHINESE WERE DELIBERATELY AFFABLE AND ENCOURAGING, EMPHASISING THE CONTRIBUTION HONG KONG COULD MAKE. THE LINE WAS WELL ORCHESTRATED AND IT SEEMS THAT ONE OF THE MAIN OBJECTIVES WAS TO CALM THE HONG KONG BUSINESS COMMUNITY AND ENCOURAGE THEM TO THINK THAT, DESPITE THE NERVOUSNESS WHICH HAD FOLLOWED THE PRIME MINISTER'S VISIT, CONFIDENCE ON THE PREVIOUS BASIS COULD BE RESTORED. CONTENTIOUS MATTERS WERE AVOIDED. XI, FOR EXAMPLE, IN A LONGISH TALKS SAID NOTHING ABOUT SOVERIGNTY OR THE TREATIES. THE TDC DELEGATES WILL THEREFORE PROBABLY RETURN TO HONG KONG WITH REASSURING REPORTS, WHICH SHOULD BE GOOD FOR CONFIDENCE AT LEAST IN THE SHORT-TERM.

7. THERE IS, HOWEVER, ANOTHER SIDE TO THIS. THE CHINESE HAVE GIVEN NOTHING AWAY, CONFINING THEIR COMMENTS TO THE NEXT 14 YEARS. BY IMPLYING THAT CURRENT NERVOUSNESS IN HONG KONG WAS GROUNDLESS THEY SOUGHT TO AVOID THE CONSEQUENCES OF THEIR RECENT STATEMENTS AND LEAKS, AND I AM AFRAID THE DELEGATION DID NOT MAKE IT CLEAR TO THEM THAT THEY CANNOT HAVE IT BOTH WAYS.

8. ALTHOUGH THE EMBASSY WERE REPRESENTED AT ALL TDC MEETINGS, IN SOME CASES AT COUSSELLOR LEVEL, THE CHINESE DID NOT INVITE ME TO ATTEND FOR XI ZHONGXUN, AND I DID NOT PRESS. CLARK ATTENDED. MY IMPRESSION IS THAT THEY WANTED TO PRESENT THIS AS A CHINESE-HONG KONG RATHER THAN A SINO-BRITISH ENCOUNTER.

9. THE CHINESE LINE MAY OF COURSE REFLECT REALISATION THAT RECENT DEVELOPMENTS IN THE HONG KONG STOCK-MARKET MAY HAVE BEEN BROUGHT ABOUT PARTLY BY THEIR OWN ACTIONS AND THAT THEY SHOULD BE MORE CAREFUL IN FUTURE. I HOPE THIS IS THE CASE.

WE SHALL SOON SEE.
CRADOCK

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FM HONG KONG 030935Z NOV 82

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TO PRIORITY F C O

TELEGRAM NUMBER 1266 OF 3 NOVEMBER

INFO PRIORITY PEKING

MY TELNO 1261 : FUTURE OF HONG KONG : PRESS COMMENT

1. APART FROM THE MEETING BETWEEN PROPERTY DEVELOPERS AND WANG KUANG DESCRIBED IN MY TUR, WIDESPREAD COVERAGE HAS BEEN GIVEN BY THE LOCAL PRESS TO :

(A) SIR Y K KAN'S RATHER SELECTIVE ACCOUNT OF XI ZHONGXUN'S REMARKS TO HIM (PEKING TELNO 707 REFERS).

(B) A VISIT TO PEKING BY URBAN COUNCILLOR DR DENNY HUANG DURING WHICH HE WAS RECEIVED BY LIAO CHENGZHI.

(C) A STATEMENT BY THE HONG KONG REFORM CLUB.

(D) A SERIES OF NEWSPAPER ARTICLES AND A SPEECH BY MEMBERS OF THE HONG KONG OBSERVERS.

(E) STATEMENTS MADE DURING A SEMINAR ORGANISED BY THE HONG KONG JUNIOR CHAMBER OF COMMERCE (JAYCEES).

2. SIR Y K KAN IS REPORTED BY ALL PAPERS AS HAVING EXPRESSED SATISFACTION AT XI'S REAFFIRMATION OF CHINA'S INTENTION TO MAINTAIN HONG KONG'S STABILITY AND PROSPERITY. XI'S REMARKS ABOUT LEAVING ALL PRESENT SYSTEMS UNCHANGED AND THE PROSPECTS FOR EXPANSION OF ECONOMIC COOPERATION BETWEEN HONG KONG AND CHINA ARE GIVEN MOST PROMINENCE.

3. DR. HUANG SAID HE HAD SUGGESTED TO LIAO CHENGZHI THAT HONG KONG SHOULD BECOME A FREE CITY FOR 40 YEARS FROM 1990: THAT THE EXECUTIVE, LEGISLATIVE AND URBAN COUNCILS SHOULD GRADUALLY BECOME FULLY ELECTED BODIES, AND THAT CHINA SHOULD BE RESPONSIBLE FOR HONG KONG'S DEFENCE AND FOREIGN RELATIONS WHILE REFRAINING FROM INTERFERING IN HONG KONG'S INTERNAL AFFAIRS. HUANG PROVIDED NO DETAILS OF WHAT LIAO SAID TO HIM, BUT CLAIMED THAT HIS DISCUSSIONS GAVE CAUSE FOR CONFIDENCE IN HONG KONG'S FUTURE STABILITY AND PROSPERITY.

4. THE REFORM CLUB ISSUED A RATHER CONFUSED STATEMENT ON 31 OCTOBER SAYING THAT THE AGREEMENT TO HOLD TALKS ON HONG KONG'S FUTURE HAD BEEN A WELCOME DEVELOPMENT, BUT THAT THE PRIME MINISTER'S REMARKS ABOUT THE TREATIES HAD PRECIPITATED CURRENT FINANCIAL PROBLEMS. THE STATEMENT ADDED THAT ALL CHINESE PEOPLE OF WHATEVER POLITICAL PERSUASION REGARDED THE TREATIES AS UNEQUAL. HONG KONG'S WISH TO HAVE A SAY IN ITS OWN FUTURE HAD NOTHING TO DO WITH THE TREATIES BUT "WAS BASED ON ITS PRESENT ECONOMIC SUCCESS AND WHAT THE HONG KONG GOVERNMENT HAVE DONE AND IS DOING FOR ITS PEOPLE ... TOGETHER WITH THE TRADITIONAL SUPPORT AND COOPERATION FROM THE CHINESE GOVERNMENT".

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15.

5. THE PRIME MOVER IN RECENT OBSERVERS ACTIVITIES HAS BEEN MARY LEE OF THE FAR EASTERN ECONOMIC REVIEW. SHE WROTE ARTICLES WHICH APPEARED IN THE GUARDIAN ON 18 OCTOBER, IN THE SOUTH CHINA MORNING POST (SCMP) ON 19 OCTOBER AND IN THE FAR EASTERN ECONOMIC REVIEW ON 28 OCTOBER. THE ARTICLES START FROM THE OBSERVERS' BASIC ACCEPTANCE OF CHINESE SOVEREIGNTY (MY TELNO 944), AND DEVELOP THREE MAIN THEMES:

- (A) ACCEPTANCE OF AN END TO BRITISH ADMINISTRATION IN 1997:
- (B) THE NEED FOR AN ORDERLY TRANSITION AND HMG'S RESPONSIBILITY TO HELP ACHIEVE IT: AND
- (C) THE NEED FOR HONG KONG PEOPLE TO HAVE A SAY IN DETERMINING THEIR OWN DESTINY BY ELECTING THE LEGISLATIVE COUNCIL, WHICH THE OBSERVERS BELIEVED THAT THE CHINESE WOULD ACCEPT IF SOVEREIGNTY HAD BEEN CONVINCINGLY RECOVERED.

6. THE MOST PROMINENTLY REPORTED CONTRIBUTION TO THE JAYCEE'S SEMINAR WAS A SPEECH BY HU JUREN, THE EDITOR OF THE LOCAL LEFT WING "SEVENTIES" MAGAZINE. HU REPORTEDLY SAID THAT HONG KONG'S TRANSFORMATION INTO A SPECIAL ADMINISTRATIVE REGION WOULD NOT ADEQUATELY SAFEGUARD THE ESSENTIAL FEATURES OF HONG KONG LIFE. HU FAVOURED THE CONTINUATION OF BRITISH ADMINISTRATION FOR 20-25 YEARS. (HU'S REMARKS WERE INCONSISTENT WITH RECENT EDITORIAL COMMENT IN THE "SEVENTIES", WHICH HAS TENDED TO ACCEPT CHINESE ASSERTIONS THAT HONG KONG'S WAY OF LIFE WOULD BE SAFEGUARDED).

7. EDITORIAL COMMENT IN THE INDEPENDENT PRESS HAS CONTINUED TO SIFT FAMILIAR ARGUMENTS, AND HAS GENERALLY BEEN OPTIMISTIC. THE WAH KIU YAT PO ECHOED THE VIEWS OF UNOFFICIAL MEMBERS OF THE LEGISLATIVE COUNCIL IN THEIR REPLIES TO MY SPEECH: MING PAO SAID THAT THE PRIME MINISTER'S ASSERTION OF A MORAL RESPONSIBILITY TOWARDS HONG KONG WAS BOTH JUSTIFIED AND INTENDED TO INDICATE THAT SOVEREIGNTY WAS NEGOTIABLE. THE COMMUNIST PRESS HAVE HIGHLIGHTED INDEPENDENT CRITICISM OF THE PRIME MINISTER'S REMARKS, AND HAVE CRITICISED OTHER EDITORIAL COMMENT FAVOURABLE TO THE BRITISH POSITION. THERE HAVE ALSO BEEN FURTHER ARTICLES ON THE PERFDY OF LI HUNG CHANG AND EMPHASISING CHINA'S CONTRIBUTION TO HONG KONG'S PRESENT PROSPERITY.

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Hong Kong

FM HONG KONG 020744Z NOVEMBER 82
TO PRIORITY F C O
TELEGRAM NUMBER 1261 OF 02 NOVEMBER
INFO PEKING

FUTURE OF HONG KONG

PEKING TELNO 707 REPORTS THAT XI ZHONGXUN TOLD THE HONG KONG TDC DELEGATION ON 1 NOVEMBER THAT "WE" AGREE WITH WHAT WANG KUANG (FIRST DIRECTOR OF NCNA HERE) SAID ABOUT THE FUTURE ON 28 OCTOBER "AND IT IS THE POLICY OF OUR GOVERNMENT".

2. WANG KUANG'S REMARKS WERE MADE AT A MEETING OVER DINNER WITH A GROUP OF HONG KONG PROPERTY DEVELOPERS. NO STATEMENT WAS ISSUED, AND NO TEXT IS AVAILABLE OF WHAT WANG KUANG SAID, BUT HIS REMARKS HAVE BEEN WIDELY REPORTED IN BOTH THE ENGLISH AND THE CHINESE LANGUAGE PRESS (THOUGH NOT (NOT) THE COMMUNIST PRESS).

3. WANG KUANG IS REPORTED AS HAVING SAID THAT "CHINA WON'T TOUCH HONG KONG FOR AT LEAST 15 YEARS". THE TERRITORY WOULD EVENTUALLY BECOME A SELF GOVERNING SPECIAL ADMINISTRATIVE ZONE OF CHINA BUT HONG KONG'S PRESENT POLITICAL, ECONOMIC, SOCIAL AND OTHER INSTITUTIONS WOULD NOT BE CHANGED. INVESTMENTS WOULD NOT BE AFFECTED, AND HONG KONG PEOPLE WOULD NOT LOSE THEIR PRESENT FREEDOMS. FOR EXAMPLE, THEY COULD CONTINUE TO DRIVE ON THE LEFT EVEN THOUGH CHINA DRIVES ON THE RIGHT.

4. IN AN EDITORIAL COMMENT ON 1 NOVEMBER, MING PAO (INDEPENDENT) SAID THAT WANG KUANG SPOKE WITH AUTHORITY. THE ECONOMIC DIFFICULTIES WHICH HONG KONG HAD EXPERIENCED IN RECENT MONTHS WERE NOT TO THE LIKING OF EITHER BRITAIN OR CHINA, AND WANG KUANG'S REMARKS, EVEN THOUGH MADE AT A PRIVATE FUNCTION, WERE IN SOME WAY INTENDED TO REMEDY THE SITUATION.

5. WE HAVE HEARD FROM MORE THAN ONE OF THOSE PRESENT AT THE MEETING THAT WANG KUANG DID NOT SPEAK AS CLEARLY AS THE PRESS REPORTS SUGGESTED: IN PARTICULAR HE DID NOT SAY IN TERMS THAT CHINA WOULD NOT TOUCH HONG KONG FOR AT LEAST 15 YEARS. THE PRESS REPORTS APPEAR TO HAVE COME FROM THE PROPERTY DEVELOPERS PRESENT AT THE MEETING (POSSIBLY IN THE HOPE OF REVIVING THE MARKET) RATHER THAN NCNA. BUT THE CHINESE HAVE EVIDENTLY NOW DECIDED THAT THE REPORTS ADQUATELY SERVE CHINA'S PURPOSES.

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FUTURE OF HONG KONG

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file
Bre
Hong Kong

3 November 1982

FUTURE OF HONG KONG

The Prime Minister has noted the contents
of your letter of 2 November.

John Holmes, Esq.,
Foreign and Commonwealth Office

R



Foreign and Commonwealth Office

London SW1A 2AH

2 November 1982

Prime Minister

TO note.

MS

ASL 3/u.

Dear John,

Future of Hong Kong

Sir Hugh Cortazzi in Tokyo has been given by the Japanese Foreign Ministry the text of a Japanese cable recording the section on Hong Kong of a talk between Deng Xiaoping and Mr Suzuki during the latter's visit to China at the end of September, immediately after Mrs Thatcher's own visit. The relevant passage, translated by our Embassy from the Japanese text, is attached.

The following remarks by Deng are worth noting:

- a) China will regain sovereignty in 1997; this will not be the object of negotiation. (This tallies with what the Chinese leaders told the Prime Minister in September.)
- b) The Chinese are prepared to discuss how sovereignty can be returned to China and how society and politics would be dealt with after 1997. (This also broadly agrees with the Chinese remarks to the Prime Minister.)
- c) In the 15 years from now until 1997, the Chinese would not make changes in present conditions. (This point was also made to the Prime Minister but is somewhat different from Deng's remark that the Chinese 'would discuss how to ensure a good transitional period of 15 years'. Moreover there is no mention of the threat by Deng that China might have to 'consider the time and formula for the recovery of sovereignty', if there were serious disturbances in Hong Kong in the next 15 years.)
- d) After the return of sovereignty in 1997, China did not intend to change the social system and would maintain Hong Kong as a free port and an international financial centre. So far as law was concerned 'current law' could also be used. (The reference to the social system and the free port and financial centre has been made before but the point about the law was put rather differently by Deng to the Prime Minister when he said that 'the laws enacted in Hong Kong would be relevant'.)

/e) The Chinese



- e) The Chinese wanted talks to take place with HMG within the next 2 years; they would announce in 2 years' time that they were going to retake the sovereignty of Hong Kong. In response to this Mrs Thatcher asked that the Chinese should not at present announce that they were going to retake sovereignty and the Chinese agreed. (The first part tallies with what the Chinese leaders told the Prime Minister; the second part about the Prime Minister's remarks is of course a thoroughly misleading compression.)

Apart from the fragment in point (e) Deng apparently did not tell Mr Suzuki what the Prime Minister herself said. He also omitted any reference to China running Hong Kong as a Special Administrative Zone, China not letting anyone else run Hong Kong on her behalf, and the fact that, if it came to the crunch, recovery of sovereignty took priority over the maintenance of prosperity. In other words, Deng, not surprisingly, confined himself to attempting to present a reasonable attitude, and led up to the reassurance to Japanese industrialists that their interests would be safeguarded.

We propose to reply to Sir Hugh Cortazzi asking him to thank the Japanese for sharing this information with us and to let them know in confidence that Mrs Thatcher's main points in talking to the Chinese were that Hong Kong's stability and prosperity depended to a very large extent on the continuance of British administration, and that HMG had a moral commitment to the welfare of the people of Hong Kong.

*Your ever
J E Holmes*

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

S E C R E T

EXTRACT FROM TELELETTER OF 28 OCTOBER FROM HM AMBASSADOR, TOKYO

SUZUKI:

PRIME MINISTER THATCHER, BEFORE HER VISIT TO CHINA, VISITED JAPAN AND TOLD ME THAT SHE WISHED TO DISCUSS THE HONG KONG ISSUE WITH THE CHINESE LEADERS. I ADVISED HER AT THAT TIME THAT SHE SHOULD MEET YOU, DENG XIAOPING, AND TALK TO YOU DIRECTLY ABOUT IT. YOU HAVE MET PRIME MINISTER THATCHER AND DISCUSSED WITH HER THE HONG KONG ISSUE I BELIEVE AND I WOULD LIKE TO ASK WHAT YOU THOUGHT.

DENG:

WE STATED CLEARLY TO PRIME MINISTER THATCHER THAT WITHOUT FAIL WE WILL REGAIN THE SOVEREIGNTY OF HONG KONG IN 1997 AND THIS WILL NOT BE THE OBJECT OF NEGOTIATION. HOWEVER WE CAN DISCUSS SUCH THINGS AS HOW TO RETURN SOVEREIGNTY AND AFTER THAT HOW TO DEAL WITH HONG KONG SOCIETY, POLITICS AND THE SYSTEM THERE. FURTHER IN THE 15 YEARS FROM NOW UNTIL 1997 WE WILL NOT CAUSE ANY CHANGES IN PRESENT CONDITIONS. FURTHERMORE WE ALSO STATED CLEARLY TO PRIME MINISTER THATCHER THAT AFTER THE RETURN OF SOVEREIGNTY IN 1997 WE HAVE NO INTENTION OF CHANGING THE SOCIAL SYSTEM IN HONG KONG AND THAT WE WILL MAINTAIN HONG KONG'S FREE PORT STATUS AND ITS POSITION AS AN INTERNATIONAL CURRENCY CENTRE. IN ADDITION AS FAR AS LAW IS CONCERNED WE CAN USE CURRENT LAW(AFTER THE RETURN OF SOVEREIGNTY). CONCERNING WHAT SORT OF POLICY TO TAKE AFTER THE 15 YEARS WE WISH TO TAKE ACCOUNT OF BRITISH THINKING. WE AGREED THAT WORKING LEVEL TALKS SHOULD BEGIN BETWEEN CHINA AND BRITAIN TO DISCUSS THIS ISSUE. WE CLEARLY STATED TO PRIME MINISTER THATCHER THAT WE WANT THESE TALKS TO TAKE PLACE IN A YEAR AND CERTAINLY IN NO MORE THAN TWO YEARS AND, AT THE LATEST, TWO YEARS HENCE WE WILL ANNOUNCE THAT WE WILL RETAKE SOVEREIGNTY OF HONG KONG IN 1997. IN RESPONSE TO THIS PRIME MINISTER THATCHER ASKED THAT WE SHOULD NOT AT PRESENT ANNOUNCE THAT WE ARE GOING TO RETAKE SOVEREIGNTY OF HONG KONG AND WE AGREED TO THIS.

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SUZUKI:

I UNDERSTAND. SINCE THE HONG KONG ISSUE IS DEEPLY CONNECTED TO JAPAN AS WELL WE ARE VERY INTERESTED. YOUR EXPLANATION HAS BEEN VERY USEFUL. I WILL KEEP WHAT YOU HAVE SAID IN SECRET.

DENG:

I WOULD LIKE YOU TO TELL JAPANESE INDUSTRIALISTS THAT AFTER THE RETURN OF SOVEREIGNTY IN 1997 WE WANT THERE TO BE NO LOSS OF PROFIT BY JAPANESE, AMERICAN, BRITISH AND OTHERS' BUSINESSES.

S E C R E T

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CR 460
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DESKBY BOTH 011300Z
FM PEKING 011140Z NOV 82
TO IMMEDIATE F C O
TELNO 707 OF 1 NOVEMBER
AND TO IMMEDIATE HONG KONG.

FUTURE OF HONG KONG

1. AT A MEETING BETWEEN THE HONG KONG TRADE DEVELOPMENT COUNCIL DELEGATION LED BY SIR Y K KAN, AND VICE CHAIRMAN OF THE NATIONAL PEOPLE'S CONGRESS, XI ZHONGXUN, ON 1 NOVEMBER, XI ZHONGXUN MADE THE FOLLOWING COMMENTS ON HONG KONG.

QUOTE

THE HONG KONG ISSUE AND THE NEAR FUTURE OF HONG KONG CONCERN ALL OF US. ON OCTOBER 29 MR WANG KUANG OF THE NCHA OFFICE IN HONG KONG SPOKE ON THIS SUBJECT. WE AGREE WITH WHAT HE SAID AND IT IS THE POLICY

OF OUR GOVERNMENT. WE WILL TRY TO KEEP THE STABILITY AND PROSPERITY OF HONG KONG AFTER 1997. DURING MRS THATCHER'S VISIT TO BEIJING IT WAS DISCUSSED. WE WANT TO SOLVE THE PROBLEM BY DIPLOMATIC CHANNELS, AND A PLAN SHOULD BE WORKED OUT WITHIN ONE TO TWO YEARS.

AS A FORMER GOVERNOR OF GUANGDONG, I AM VERY FAMILIAR WITH HONG KONG. HONG KONG IS A WORLD FINANCIAL CENTRE AND IS A VERY FAMOUS FREE PORT. ALTHOUGH LIMITED IN AREA, IT IS VERY IMPORTANT, NOT MILITARILY BUT IN ECONOMIC AND FOREIGN TRADE TERMS. ALL CURRENT SYSTEMS WILL REMAIN UNCHANGED. ALL THE INTERESTS OF BOTH THE HONG KONG PEOPLE AND OF FOREIGNERS WILL BE PROTECTED. ALTHOUGH IT IS IMPORTANT THAT THE SYSTEM REMAIN UNCHANGED, NEVERTHELESS THERE WILL HAVE TO BE SMALL CHANGES IN LAWS AND LEGISLATION, IN ORDER TO BENEFIT THE STABILITY OF THE HONG KONG AREA.

HONG KONG HAS A LOT OF MONEY. MANY PEOPLE THINK THAT AFTER 1997 HONG KONG WILL NO MORE BE A FREE PORT OR A FINANCIAL CENTRE. THESE PEOPLE ARE SHORT-SIGHTED. IF WE TAKE THE LONG-TERM VIEW THE AREA WILL STILL BE PROFITABLE. NOT ONLY DOES CHINA WANT TO RECOVER THE AREA, BUT OTHERS WANT IT TO DEVELOP GOOD ECONOMIC AND FOREIGN RELATIONS. HONG KONG IS A PART OF GUANGDONG PROVINCE.

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THE GOVERNOR OF HONG KONG IS SIR EDWARD YOUDE, A FORMER AMBASSADOR TO CHINA. I DO NOT KNOW HIM BUT I KNEW HIS PREDECESSOR, SIR MURRAY MACLEHOSE. I THINK YOUDE IS A GOOD AND OPEN-MINDED MAN.

MAINTENANCE OF THE STABILITY AND PROSPERITY OF HONG KONG DEPENDS BOTH ON THOSE PRESENT HERE AND ON SOME WHO ARE ABSENT SEMICOLON THE ABSENTEES INCLUDE THE ECONOMIC AND PRESS CIRCLES IN HONG KONG AND ALSO SOME PEOPLE IN UK. THERE ARE THOSE WHO SAY WAS CANNOT ACHIEVE THE FOUR MODERNISATIONS PROGRAMME WITHOUT HONG KONG BUT AFTER LIBERATION WE FACED A LOT OF BATTLES AND MADE OUT OWN WAY. EVEN AFTER THE 1950S WHEN THE SOVIET ADVISORS WERE WITHDRAWN WE RELIED ON OUR OWN EFFORTS.

UNQUOTE

2. IN RESPONSE TO A POINT OF SIR Y K KAN'S, XI'S LAST COMMENTYAS QUOTE I THINK ALL OF US MUST HAVE CONFIDENCE IN THE FUTURE OF HONG KONG UNQUOTE.

CCN:- PARA 1 LAST LPARA WHO SAY WE CANNOT ACHIEVE...ETC

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FUTURE OF HONG KONG

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FM FCO 011300Z NOV 82

TO PRIORITY WASHINGTON (PERSONAL FOR AMBASSADOR)

TELEGRAM NUMBER 1921 OF 1 NOVEMBER

INFO PEKING (PERSONAL FOR AMBASSADOR)

INFO HONG KONG.

MY TELNO 512 TO PEKING: FUTURE OF HONG KONG

1. WE SHOULD ALSO BE GRATEFUL FOR YOUR VIEWS ON THE POSSIBLE VALUE OF ENLISTING THE HELP OF SENIOR FIGURES IN INTERNATIONAL ECONOMIC ORGANISATIONS IN ORDER TO PUT OUR POINT ACROSS TO THE CHINESE.
2. WE HAVE IN MIND PARTICULARLY THE CHAIRMAN OF THE WORLD BANK AND THE MANAGING DIRECTOR OF THE IMF. DO YOU THINK THAT THEY WOULD BE EFFECTIVE AND RELIABLE ADVOCATES? ARE THEY LIKELY TO HAVE HIGH LEVEL CONTACTS WITH THE CHINESE IN THE NEAR FUTURE? HOW SECURE WOULD THEY BE?
3. WE HAVE NOT MADE ANY MOVE ON THIS YET AND SHOULD BE GRATEFUL FOR YOUR PERSONAL VIEWS BEFORE CONTEMPLATING AN APPROACH. WE SHOULD ALSO NEED YOUR ADVICE ON HOW THAT SHOULD BE DONE.

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49

FM HONG KONG 300410Z OCTOBER 82
TO PRIORITY F C O
TELEGRAM NUMBER 1254 OF 30 OCTOBER
INFO ROUTINE PEKING (PERSONAL FOR AMBASSADOR) WASHINGTON (PERSONAL
FOR AMBASSADOR)

YOUR TELNO 1890 TO WASHINGTON: FUTURE OF HONG KONG

1. I CAN SEE THE VALUE OF AN EXCHANGE OF VIEWS WITH AMERICAN OFFICIALS ABOUT NEGOTIATING TACTICS WITH CHINA BUT WE SHOULD BE CAREFUL NOT TO TAKE THE ANALOGY BETWEEN U S NEGOTIATIONS WITH THE CHINESE OVER ARMS SALES TO TAIWAN AND OUR DISCUSSIONS WITH THEM OVER HONG KONG TOO FAR.
2. TAIWAN IS NEARLY 200 MILES OFFSHORE AND HAS PRACTICALLY NO CONTACT WITH THE MAINLAND. IT IS MUCH LESS VULNERABLE THAN HONG KONG TO CHINESE PRESSURE. THE AMERICANS WERE NOT NEGOTIATING ABOUT ITS FUTURE WHICH DOES NOT HAVE THE 'OVERHANG' OF THE 1898 TREATY. THERE WAS THEREFORE NO REAL PROBLEM ABOUT MAINTAINING CONFIDENCE THERE. IN ANY CASE, THE REAGON ADMINISTRATION NEVER HAD ANY INTENTION OF GOING TOO FAR ON ARMS SALES. IN THE MAIN IT WAS THE CHINESE WHO WERE THE 'DEMANDEURS' AND IN THE LAST RESORT THE U S COULD SIT TIGHT.
3. GIVEN THE CHINESE ABILITY TO AFFECT CONFIDENCE IN HONG KON, WHENEVER THEY WISH WE SHALL HAVE A DIMENSION TO TAKE INTO ACCOUNT WHICH THE AMERICANS DID NOT HAVE: AND A MUCH MORE COMPLEX HAND TO PLAY.
4. MOREOVER IT SHOULD BE BOURNE IN MIND THAT THE AUGUST 17 COMMUNIQUE ON THE TAIWAN ARMS ISSUE WAS AN AGREEMENT TO DIFFER AND NEITHER THE CHINESE NOR THE AMERICANS ACHIEVED THEIR BASIC OBJECTIVES. (WHICH WERE ON THE AMERICAN SIDE TO PIN THE CHINESE DOWN ON PEACEFUL REUNIFICATION AND ON THE CHINESE SIDE TO STOP SUPPLY OF U S ARMS TO TAIWAN). A FUZZY OUTCOME OF THAT KIND WILL NOT BE ENOUGH FOR HONG KONG.
5. THERE ARE MANY OTHER EXAMPLES OF CHINESE NEGOTIATING TACTICS (E.G. WITH THE JAPANESE OVER THE TREATY OF FRIENDSHIP), AND HUANG HUA, THE FOREIGN MINISTER HAS A RECORD GOING BACK TO THE KOREAN ARMISTICE. IT MIGHT BE WORTH RESEARCH DEPARTMENT TAKING A SOMEWHAT WIDER LOOK AT THE SUBJECT.

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FUTURE OF HONG KONG

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From the Principal Private Secretary

1 November 1982

PERSONAL

My dear Michael,

Thank you so much for your letter of 28 October and for the very helpful information about Eric Hotung. I should love to meet him when he is in London between 29 November and 2 December, and I expect to be in London during the whole of that period. Would you like to let me know in due course how I might best arrange this. I should be glad to give Mr Hotung a meal if that were convenient, but will try to fall in with whatever you suggest.

Yours ever,

Robin

The Very Reverend the Dean of Windsor

RESTRICTED

GR 140
RESTRICTED
FM PEKING 290820Z OCT 82
TO IMMEDIATE F C O
TELNO 704 OF 29 OCTOBER
AND IMMEDIATE HONG KONG

FUTURE OF HONG KONG

1. VICE MINISTER JIA SHI, MFERT, DURING THE COURSE OF A MEETING WITH THE HONG KONG TDC DELEGATION ON 29 OCTOBER AT THE END OF OVER AN HOUR'S PRESENTATION, ON CHINA'S ECONOMIC PRIORITIES AND PROBLEMS, VOLUNTEERED THE STATEMENT THAT HE SINCERELY HOPED THAT HONG KONG WOULD REMAIN STABLE AND PROSPEROUS. HE WENT ON TO SAY THAT CHINA'S EXPORTS TO HONG KONG ACCOUNTED FOR 25 PER CENT OF DOMESTIC EXPORTS AND THAT HONG KONG WAS CHINA'S THIRD LARGEST EXPORT MARKET AFTER USA AND JAPAN. HE THEN SAID THAT HE HOPED THAT "OUR FRIENDS HERE" (IE TDC DELEGATION) SHARED THE VIEW THAT HONG KONG SHOULD REMAIN STABLE AND PROSPEROUS.

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FM HONG KONG 290350Z OCT 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 1246 OF 29 OCTOBER
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MY TELNO 1210: FUTURE OF HONG KONG

1. AS FORECAST IN MY TUR I SPOKE ACCORDINGLY TO EXCO ON 26 OCTOBER AND ATTENDED A PRIVATE MEETING OF UMEICO ON 27 OCTOBER. AFTER SIR S Y CHUNG HAD GIVEN AN ACCOUNT OF HIS MEETINGS IN LONDON (IN RESTRAINED TERMS) I RESPONDED ON THE LINES AUTHORISED IN PARAGRAPH 5 OF YOUR TELNO 879. THIS WAS WELL RECEIVED.

2. IN SUBSEQUENT DISCUSSION A NUMBER OF UMEICO MEMBERS EXPRESSED SERIOUS CONCERN ABOUT THE CHINESE CAMPAIGN OF STATEMENTS AND LEAKS. CONTACTS WHICH THE UNOFFICIALS HAD IN THE COMMUNITY DEMONSTRATED THAT THIS WAS HAVING A SIGNIFICANT EFFECT ON PUBLIC OPINION HERE, AND THAT SOMETHING NEEDED TO BE DONE TO COUNTER IT. OTHERWISE OUR SILENCE WOULD BE TAKEN AS AGREEMENT AND THE CHINESE PLAN WOULD GAIN ACCEPTANCE AS A 'FAIT ACCOMPLI'. VARIOUS OPINIONS WERE EXPRESSED AS TO THE FORM WHICH THIS COUNTER-ACTION SHOULD TAKE, AND WHETHER THE GOVERNMENT SHOULD BE SEEN TO BE PLAYING A DIRECT ROLE.

3. THE UNOFFICIALS ARE WELL QUALIFIED TO ASSESS THE IMPACT OF CHINESE STATEMENTS ON PUBLIC OPINION AND THEIR VIEWS MUST BE TAKEN SERIOUSLY. WE ARE GIVING FURTHER THOUGHT TO THIS. BUSINESSMEN HERE HAVE ALSO REPORTED THAT THEY ARE RECEIVING MANY ENQUIRIES FROM COMPANIES AND BUSINESS PARTNERS IN THE U.S. EXPRESSING CONCERN ABOUT WHAT THE CHINESE HAVE BEEN SAYING. SO THE CHINESE CAMPAIGN HAS BEEN MAKING AN IMPACT ABROAD AS WELL AS IN HONG KONG.

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FUTURE OF HONG KONG

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FM HONG KONG 291000Z OCTOBER 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 1250 OF 29 OCTOBER
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

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PEKING TELNO 699: FUTURE OF HONG KONG

1. I HAVE NO OBJECTION TO DIVIDING THE PRESENTATION ON HOW AND WHY HONG KONG WORKS INTO TWO PARTS, WITH THE FIRST CONFINED TO A DESCRIPTION OF THE MAIN ELEMENTS IN HONG KONG'S SUCCESS ON THE LINES OF PARAS 1 TO 5 OF THE DRAFT IN MY TELNO 1216. I ACCEPT THAT TACTICALLY THIS MIGHT BE THE BEST COURSE. BUT I AM NOT CONVINCED THAT THE REVISION OF THE SECOND HALF OF THE DRAFT ON THE LINES RECOMMENDED BY THE AMBASSADOR IN PARA 5 OF PEKING T U R WOULD DO MORE THAN POSTPONE FOR A SHORT WHILE THE NEED TO SPELL OUT THE REASONS WHY THE CONTINUATION OF BRITISH ADMINISTRATION IS ESSENTIAL.

2. THE CHINESE HAVE A GREAT DEAL OF INFORMATION AVAILABLE TO THEM FROM THEIR OWN SIDE ON HOW HONG KONG WORKS. THE BANK OF CHINA, NCNA AND MAINLAND COMMERCIAL ORGANISATIONS ARE STRONGLY REPRESENTED HERE AND OPERATE SUCCESSFULLY ON THE HONG KONG SCENE. WE MUST OBVIOUSLY HIGHLIGHT, FOR THE BENEFIT OF SENIOR POLITICAL LEADERS (WHO ARE THE ONES WE HAVE TO CONVINCE) THE MAIN COMPONENTS OF HONG KONG'S SUCCESS (PARA 1 - 5 OF THE DRAFT), BUT SIMPLY GOING OVER IN MORE DETAIL INFORMATION WHICH SHOULD ALREADY BE AVAILABLE TO THEM IS NOT IN ITSELF GOING TO CONVINCE THEM OF THE NEED FOR CONTINUING BRITISH ADMINISTRATION.

3. I REFERRED TO SOME OF THE DIFFICULTIES INVOLVED IN PREPARING A CRITIQUE OF DENG'S PROPOSALS IN MY TELNO 1178. THE MAIN ONE, APART FROM THEIR VERY SKETCHY NATURE, IS THAT THE PROPOSALS WERE COINED IN SUCH A FORM THAT IT IS HARD TO CRITICISE THEM WITHOUT SAYING WHY IT IS THAT THEY WOULD NOT WORK. THIS APPLIES, FOR EXAMPLE, TO THE NOTIONS THAT HONG KONG WOULD BE RUN BY A LOCAL GOVERNMENT FORMED BY THE INHABITANTS, AND THAT 'THE VARIOUS SYSTEMS' WOULD REMAIN UNCHANGED: AND THAT HONG KONG WOULD REMAIN A FREE PORT AND AN INTERNATIONAL FINANCIAL CENTRE, WITH FOREIGN INVESTMENT UNAFFECTED. WE SHOULD NOT BE ON SOUND GROUND IN ARGUING THAT HONG KONG CHINESE COULD NOT RUN HONG KONG SUCCESSFULLY (THEY COULD AND WOULD BE DOING SO NOW IF INDEPENDENCE HAD BEEN AN OPTION). AS I SEE IT THE ONLY EFFECTIVE WAY TO CHALLENGE THESE ASSERTIONS IS TO SHOW THAT THERE WOULD BE NO CONFIDENCE IN AN AUTONOMOUS HONG KONG WITHIN CHINA.

3. WE COULD FACE SIMILAR DIFFICULTIES IN TRYING TO GET THE CHINESE TO EXPLAIN THEIR PLAN IN MORE DETAIL. IF WE ASK THEM E.G.

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WHAT THEY INTEND TO DO ABOUT THE JUDICIAL SYSTEM OR THE HONG KONG DOLLAR THEY MAY WELL RESPOND THAT PRESENT ARRANGEMENTS WILL CONTINUE UNCHANGED I.E. THAT BRITISH LAW WILL CONTINUE TO BE USED, WITH JUDGES RECRUITED FROM OVERSEAS AS NECESSARY: AND THAT THE LOCAL GOVERNMENT WILL MANAGE THE CURRENCY EXACTLY AS IT DOES NOW. AGAIN, THE ONLY EFFECTIVE COUNTER TO THIS LINE IS TO TRY TO BRING HOME THE IMPORTANCE OF THE BRITISH CONNECTION.

4. I AGREE ENTIRELY THAT WE WANT TO AVOID CONTENTIOUS ARGUMENT, AND THAT OUR POINTS SHOULD BE PRESENTED IN AS OBJECTIVE AND INOFFENSIVE WAY AS POSSIBLE. THE SECOND HALF OF THE DRAFT SEEKS TO DO THIS AND TO EXPLAIN (SINCE THE CHINESE DO NOT APPEAR TO UNDERSTAND IT) THE PART PLAYED BY THE BRITISH LINK IN PRESERVING CONFIDENCE AND WHY CONFIDENCE WOULD NOT BE MAINTAINED, AT LEAST FOR THE TIME BEING, IF THAT LINK WAS TO BE BROKEN. I AM NOT WEDDED TO THE DRAFTING, AND THE MAIN POINTS COULD WELL BE PUT IN THE FORM OF QUESTIONS, EG THE LAST SENTENCE OF PARA 8(A) COULD BE REPHRASED TO READ: 'HOW COULD THIS GUARANTEE REMAIN CREDIBLE IF THE ULTIMATE AUTHORITY LAY IN CHINA, WHICH HAS A COMPLETELY DIFFERENT ECONOMIC AND SOCIAL SYSTEM?'. WITH SIMILAR MODIFICATIONS ELSEWHERE IN PARAS 7 AND 8. THE CONCLUSION IN PARA 9 COULD ALSO BE SOFTENED. BUT HOWEVER WE DO IT, WE MUST SOMEHOW GET THE KEY POINT ACROSS.

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PP HONG KONG

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FM FCO 291800Z OCT 82

TO PRIORITY HONG KONG

TELEGRAM NUMBER 914 OF 29 OCTOBER

AND TO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

HONG KONG TELNOS 1216, 1217 AND 1250 AND PEKING TELNO 699:

FUTURE OF HONG KONG

Handwritten notes:
1/11
h a.

1. WE ARE GRATEFUL FOR THE SUGGESTIONS IN THESE TELEGRAMS. THE DRAFT IN HONG KONG TELNO 1217 PROVIDES A COMPREHENSIVE DIGEST OF THE ESSENTIAL POINTS WHICH WE NEED TO GET OVER TO THE CHINESE DURING THE NEGOTIATIONS AND WE AGREE THAT IT IS A USEFUL QUARRY FOR OTHER PURPOSES AS WELL. FIRM RECOMMENDATIONS TO THE PRIME MINISTER WILL OF COURSE HAVE TO AWAIT ZHANG WENJIN'S REPLY TO THE AMBASSADOR. HOWEVER THE FOLLOWING SUMS UP OUR PRESENT THINKING ON HOW WE MIGHT PLAY OUR HAND IF WE MOVE ON TO SUBSTANTIVE TALKS.

2. THERE IS GENERAL AGREEMENT THAT WE SHOULD MAKE AN EARLY PRESENTATION TO THE CHINESE AND THAT THE GOVERNOR SHOULD BE INVOLVED IN THIS STAGE. IN DECIDING THE FORM AND CONTENT OF THIS PRESENTATION WE NEED TO BALANCE TWO OBJECTIVES:

A. TO KEEP THE TALKS GOING WITH A GENUINE SUBSTANTIVE CONTENT SO THAT WE CAN REASSURE HONG KONG THAT THE PROCESS IS CONTINUING IN A GOOD ATMOSPHERE AND THUS HELP CONFIDENCE THERE:

B. TO EDUCATE THE CHINESE ABOUT THE BASIS OF CONFIDENCE IN HONG KONG AND THE PROBLEMS WHICH THEIR PROPOSALS RAISE.

3. THE EXCHANGE OF TELEGRAMS HAS SHOWN THAT THERE ARE DIFFICULTIES IN RECONCILING (A) AND (B). WE WANT TO AVOID AN EARLY DEADLOCK AS A RESULT OF THE DISCUSSION COMING UP AGAINST THE QUESTIONS OF SOVEREIGNTY AND CONTROL: BUT WE DO WANT SOME MEAT IN THE EXCHANGE AND WE MUST AIM AT GETTING OVER THE ESSENTIAL POINT ABOUT THE VALUE OF BRITISH ADMINISTRATION AS A GUARANTEE AGAINST CHINESE INTERFERENCE. WE THINK THE ANSWER LIES IN THE TIMING OF OUR REACHING THE LATTER POINT. IN OUR VIEW WE

/SHOULD MOVE

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SHOULD MOVE TOWARDS THIS GRADUALLY IN ORDER TO ENTICE THE CHINESE ONTO FAVOURABLE GROUND (SEE PEKING TELNO 699 PARA 2) AND CONCENTRATE ON RELATIVELY UNCONTENTIOUS POINTS DURING THE FIRST SUBSTANTIVE TALKS.

4. IT FOLLOWS FROM THIS THAT WE WOULD BE AGAINST LEAVING WITH THE CHINESE ANY PAPER WHICH SPELLED OUT THE POINT ABOUT INTERFERENCE. THE CHINESE WOULD PROBABLY FEEL THAT IT WOULD CALL FOR A WRITTEN REPLY WHICH WOULD CERTAINLY BE UNHELPFUL.

5. WE THINK THEREFORE THAT THE FIRST ROUND SHOULD CONSIST OF AN ORAL PRESENTATION IN TWO PARTS BASED ON AN ADAPTATION OF THE MATERIAL IN HONG KONG TELNO 1217. THESE WOULD EITHER BE COVERED IN CONSECUTIVE SESSIONS DURING A SINGLE VISIT BY THE GOVERNOR OR SPACED OUT WITH A GAP OF A WEEK OR MORE. THE AIM WOULD BE TO CONCENTRATE ON FACTUAL MATERIAL BUT WITH EMPHASIS AT THE END ON THE VALUE OF THE PRESENT SYSTEM AS A GUARANTEE. WE TAKE THE POINT IN PARAGRAPH 2 OF HONG KONG TELNO 1250 THAT THE CHINESE COULD ACQUIRE A GOOD DEAL OF INFORMATION ON HOW HONG KONG WORKS FROM THEIR OWN PEOPLE IN HONG KONG. WE STILL THINK NEVERTHELESS THAT IT IS IMPORTANT FOR THEM TO BE PRESENTED WITH OUR VERSION AT A SENIOR LEVEL IN A FORM WHICH WILL BE REPORTED TO THE LEADERSHIP.

6. SUCH A PRESENTATION MIGHT BE ON THE FOLLOWING LINES:

PART I: PARAGRAPHS 1-5 OF HONG KONG TELNO 1217. THIS COULD CONCENTRATE PARTICULARLY ON THE ECONOMIC ASPECTS. (LESS PERHAPS MIGHT BE MADE OF 4(C) WHICH IS NOT LIKELY TO PROVE VERY PERSUASIVE TO THE CHINESE).

PART II: THIS WOULD START WITH A PRESENTATION ON CURRENCY AND TRADE ON THE LINES OF 8(C) AND (D). WE SEE THESE AS THE MOST TELLING POINTS IN THE ARGUMENT AND THE ONES ON WHICH IT IS GENUINELY WORTH PROVIDING MORE DETAIL. THE GOVERNOR MAY WISH TO CONSIDER BEING SUPPORTED BY THE FINANCIAL SECRETARY AT THIS STAGE. THIS WOULD BE FOLLOWED BY A PRESENTATION ON THE LEGAL SYSTEM ON THE LINES OF 8(B). (WE DO NOT THINK HOWEVER THAT WE SHOULD EMPHASISE THE UK'S RIGHT OF DISALLOWANCE OF LEGISLATION- OUR UNDERLYING THOUGHT THROUGHOUT MUST BE THE NEED TO FIND WAYS OF PRESERVING HONG KONG'S DE FACTO

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AUTONOMY). THIS WOULD LEAD TO A SUMMNNG UP DRAWING ON THE FIRST SENTENCES OF PARAGRAPHS 7 AND 9. THIS COULD END ON THE FOLLOWING LINES:

BEGINS : ' AT PRESENT THEREFORE THERE IS A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. IN OUR VIEW, WE SHOULD IN SUCCEEDING MEETINGS EXAMINE WAYS IN WHICH THIS SITUATION COULD BE MAINTAINED.' ENDS.

7. THIS PATTERN WOULD CLEARLY HAVE TO BE ADAPTED TO MEET CHINESE MOVES. FOR EXAMPLE IF, AS THE AMBASSADOR EXPECTS, THE CHINESE BEGIN WITH A REHEARSAL OF THEIR POSITION ON SOVEREIGNTY, WE SHALL HAVE TO REPLY. THIS WOULD BE THE POINT NOT MERELY TO RESTATE OUR POSITION BUT TO EMPHASISE THAT WE DO NOT SUGGEST THAT THE PRESENT ARRANGEMENTS SHOULD NECESSARILY LAST FOR ALL TIME (PARAGRAPH 10 OF HONG KONG TELNO 1217).

SECOND ROUND.

8. SUCH A PRESENTATION WOULD GIVE US A GOOD CHANCE OF AVOIDING EARLY BREAKDOWN AND WOULD CLEAR THE WAY FOR THE NEXT ROUND. THAT WOULD PROBABLY BE THE TIME TO BRING IN THE MORE HARD-HITTING ARGUMENTS IN PARAGRAPHS 6, 7 AND 8(A) OF HONG KONG TELNO 1217. THE NATURAL LEAD IN TO THAT WOULD BE TO ASK THE CHINESE TO EXPAND ON THE GENERAL PROPOSALS THEY HAVE ALREADY MADE. (WE WOULD PROPOSE IN OUR RECOMMENDATION TO SUGGEST HOW THIS COULD BE DONE WITHOUT CONCEDED ANY POINT OF PRINCIPLE.) THIS SHOULD ALLOW US TO ENGAGE IN A MODIFIED VERSION OF THE 'CRITIQUE' IDEA IN WHICH OUR QUESTIONING WOULD CONCENTRATE ON HOW THE CHINESE ASSURANCES OF AUTONOMY FOR HONG KONG WOULD BE GUARANTEED AND ALLOW US TO MAKE OUR KEY POINTS ON INTERFERENCE.

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FM WASHINGTON 291940Z OCT 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 3495 OF 29 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)
HONG KONG (PERSONAL FOR GOVERNOR)

YOUR TELNOS 1890 AND 1891: FUTURE OF HONG KONG

1. THANK YOU FOR THESE INSTRUCTIONS. IN TAKING ACTION WITH SHULTZ AND BUSH, I SHALL EMPHASISE THE NEED TO RESTRICT KNOWLEDGE OF THE TALKS ON HONG KONG TO THE UTMOST. I STRONGLY AGREE, HOWEVER, THAT THERE ARE POSITIVE ADVANTAGES FOR US IN MAINTAINING A DIALOGUE WITH THE AMERICANS IN AS MUCH AS THIS IS POSSIBLE.
2. I ALSO WELCOME THE SUGGESTION THAT IF PRACTICABLE DONALD SHOULD COME HERE FOR THESE BRIEFINGS, AND FOR TALKS WITH HOLDRIDGE, WHO WAS THE LEADING ACTOR ON THE AMERICAN SIDE IN THE TALKS ON TAIWAN, ABOUT NEGOTIATING TACTICS. HOLDRIDGE WILL BE LEAVING WASHINGTON FOR A TRIP TO JAPAN AND KOREA ON 7 NOVEMBER, AND AFTER HIS RETURN ON 17 NOVEMBER WILL BE CONCENTRATING ON PREPARATION FOR HIS CONFIRMATION HEARINGS. IT WOULD THEREFORE BE BEST IF DONALD COULD PLAN TO COME NEXT WEEK. WE WILL TRY TO SET UP A MEETING TO FIT IN WITH THE CALL ON SHULTZ AND WILL REPORT AS SOON AS IT IS POSSIBLE TO SUGGEST A DATE.
4. TODAY'S PRESS CARRIES REPORTS (WHICH WE UNDERSTAND ARE RELIABLE) THAT PAUL WOLFOWITZ, CURRENT HEAD OF THE STATE DEPARTMENT PLANNING STAFF, WHOM WALDEN MET HERE ON 15 OCTOBER, IS TO SUCCEED HOLDRIDGE AS ASSISTANT SECRETARY FOR EAST ASIA.

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NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

SECRET

*Mr Coles
No 10 Downing Street
45*

MR 1/11

f-a.

THE DEANERY
WINDSOR CASTLE

WINDSOR 65561

PRIVATE AND
CONFIDENTIAL

Dear Robin,

28th October, 1982.

You asked me for some details concerning Mr. Eric Hotung. Mr. Hotung is the grandson of Sir Robert Hotung of Hong Kong, and he inherited his grandfather's wealth. Since he is an extremely astute businessman himself, he has greatly added to that wealth, through judicious investments in property and the stock market, as well as by involvement in a number of pioneering ventures. For instance, he has played a major part in financing the first commercial space rocket to be fired from Cape Canaveral.

Eric Hotung lives between - "Windsong", 6 Black Links Road, Hong Kong, and 179 Taconic Road, Greenwich, Connecticut, U.S.A. He is a British citizen and is married to a delightful American wife, Patricia. They are both devout and practising Roman Catholics.

Eric Hotung established 'The Eric Hotung Trust Fund' in 1965, and the wealth from this fund has been consistently and quietly used, without any ostentation or show, to do a great deal of good. Eric Hotung is passionately patriotic, and he has, among other interests, been a consistent benefactor to St. George's Chapel, Windsor Castle, giving £70,000. over a period of ten years. He has financed the Royal Philharmonic Orchestra and has been made an Honorary Life Member in recognition. He helped to sponsor "Operation Drake" for young explorers, and has sponsored scholarships for the United World Colleges. He has helped the Gurkhas and gave £35,000. to help individual victims of the recent Falklands operation. And in America he is a major benefactor to Georgetown University, Washington.

In Hong Kong he set up and provided the funds for mortgages at very advantageous terms to young Chinese. He helped finance the Hong Kong Arts Centre, and has consistently supported the Police Welfare Fund, and many other local Hong Kong Charities. He has given over 1,000. scholarships to young Hong Kong Chinese to advance their studies.

In recognition of his manifold and varied acts of quiet generosity, five of us have suggested to the Hong Kong Government that there should be some recognition of his many public services. Apart from myself, Yehudi Menuhin, John Bimson - Chairman of the Royal Philharmonic Orchestra, General Sir Ian Gourlay - of United World Colleges, and General Sir John Mogg - of 'Operation Drake' for Young Explorers, signed this letter.

Eric Hotung has always maintained the closest links with mainland China. He knows all the leading figures personally, and yet he has no illusions about them! He is exceedingly well-informed about

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28th October, 1982.

the internal manoeuvrings that go on continually. He lived his early years in Shanghai, and many members of his family were killed during the Civil War, including one of his brothers. He speaks Mandarin, Shanghai, Cantonese and several other dialects as his first tongue.

Above all, Eric Hotung is passionately concerned to advance the interests of the Crown in any way he can. His patriotism is his driving force, and it is allied to an extremely astute business brain.

I hope these notes may be of some help. Eric will be coming to London between 29th November and 2nd December, 1982.

Yours ever,

Richard.

Robin Butler, Esq.,
10 Downing Street,
Whitehall,
London. S.W.1.

ERIC PETER HO *CBE*

Secretary for Social Services

Born in 1927. Educated in Hong Kong. Joined the Hong Kong Civil Service in 1954. Served in a number of posts in various departments before being appointed to the present post in 1977.

Great-nephew of Robert Ho Tung.

Husband of Grace Ho, Urban Councillor and Deputy Manager

Director of the HK and Yamato Ferry Co Ltd.

CONFIDENTIAL

Hong Kong
JH

TO DOWNING STREET

From the Private Secretary

27 October 1982

FUTURE OF HONG KONG

Thank you for your letter of 22 October.

As I told you on the telephone today, the Prime Minister has approved the despatch of the two telegrams you enclosed. But on page 2 of the first telegram, after the words "in strict confidence on a personal basis" the following words should be added: "and that we therefore hope it will be kept entirely to themselves". Further, in the second telegram, the sentence at the foot of the first page should read: "Both Deng and Zhao said they did not believe".

N. J. COLTS

John Holmes, Esq.,
Foreign and Commonwealth Office.

JH

HO/FO 039/27

DESKBY ⁽²⁾

- 1) Mr. ~~Scholar~~
- 2) Prime Minister

AJ-C. 22/4

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CONFIDENTIAL

DESKBY 271300Z

FM HONG KONG 271030Z OCTOBER 82

TO IMMEDIATE F C O

TELNO 1229 OF 27 OCTOBER 82.

FOR PRIVATE SECRETARY
FROM GOVERNOR

YOUR TELNO 894: FALL IN HONG KONG STOCK EXCHANGE

THE STEEP FALL IN THE HANG SENG INDEX ON 26 OCTOBER
(TO ITS LOWEST POINT SINCE MARCH 1980) IS ATTRIBUTABLE TO
A COMBINATION OF:

- A. GENERAL UNCERTAINTY ABOUT THE FUTURE.
- B. THE TURBULENCE IN WORLD MARKETS (THE RECORD FALL IN PRICES ON THE NEW YORK STOCK MARKET OF 25 OCTOBER WAS FOLLOWED BY A VERY LARGE FALL IN TOKYO):
- C. THE LIQUIDITY PROBLEMS IN PARTICULAR OF CARRIAN INVESTMENTS LIMITED, WHICH HAS INTERESTS IN SHIPPING, TRAVEL AND RESTAURANTS (AMONG OTHER THINGS) AS WELL AS PROPERTY. ON 26 OCTOBER CARRIAN LAUNCHED A HONG KONG DOLLAR 500 MILLION ISSUE OF CONVERTIBLE LOAN STOCK (OF WHICH 50 PER CENT IS UNDERWRITTEN BY THE HONG KONG AND SHANGHAI BANK) IN ORDER TO RAISE CASH, AND ANNOUNCED THAT ITS INTERIM DIVIDEND, ALREADY DECLARED, WOULD BE REPLACED BY A ONE-FOR-TEN BONUS ISSUE. THESE MOVES WERE ILL PREPARED AND VERY BADLY RECEIVED BY THE MARKET. THE SHARES OF OTHER PROPERTY-BASED COMPANIES WERE MARKED DOWN HEAVILY. E D A INVESTMENTS LIMITED AND OTHER ARE IN TROUBLE. BANKS ARE DOING THEIR BEST, BUT SOME PROPERTY BANKRUPTCIES WOULD NOT BE SURPRISING.

2. WE ARE UNDOUBTEDLY IN FOR A BUMPY RIDE OVER THE NEXT FEW MONTHS AND I HOPE THAT MINISTERS WILL NOT PAY TOO MUCH ATTENTION TO DAY-BY-DAY FLUCTUATIONS IN THE HANG SENG INDEX. APART FROM (A) AND (B) IN PARA 1 ABOVE, THE FOLLOWING FACTORS ARE LIKELY TO AFFECT MARKETS HERE FOR SOME TIME TO COME:

(I) THE WORLD RECESSION. THERE IS VERY LITTLE EXPECTATION HERE OF AN EARLY SUSTAINED RECOVERY IN THE US AND MAJOR EUROPEAN ECONOMIES AND CONSEQUENTLY NO REAL CONFIDENCE IN A GROWTH IN EXPORTS IN THE SHORT TO MEDIUM TERM. BUT ORDER BOOKS OF THOSE EXPORTING TO THE US HAVE RECENTLY IMPROVED.

(II) THE DOWNTURN IN THE LOCAL PROPERTY MARKET. THOUGH UNCERTAINTY OVER 1997 HAS UNDOUBTEDLY BEEN A MAJOR CAUSE OF THE PRESENT DEPRESSED STATE OF THE MARKET, A FALL IN PROPERTY PRICES WAS INEVITABLE SOONER OR LATER, GIVEN THE STRENGTH OF THE SUPPLY RESPONSE TO THE UPSURGE OF DEMAND IN THE LATE 1970'S. SINCE THE STOCK MARKET HERE IS STRONGLY PROPERTY-ORIENTED, SHARE PRICES WILL CONTINUE TO BE AFFECTED.

(III) THE CURRENT WEAKNESS OF THE HONG KONG DOLLAR, CAUSED IN PART BY THE STRENGTH OF ITS US COUNTERPART.

3. WE WILL OF COURSE BE DOING WHAT WE CAN TO STEADY THE MARKETS AND RESTORE CONFIDENCE. THE MEANS AVAILABLE INCLUDE:

(A) CONVENTIONAL OPERATIONS THROUGH THE EXCHANGE FUND WHENEVER APPROPRIATE:

(B) ASSURING PEOPLE HERE THAT THIS GOVERNMENT IS CONTINUING TO INVEST IN THE FUTURE (AS IN MY LEGCO SPEECH ON 6 OCTOBER): AND

(C) ATTEMPTING TO PUT PRESENT PROBLEMS IN PERSPECTIVE (IN A SPEECH TO THE AMERICAN CHAMBER OF COMMERCE ON 26 OCTOBER THE DIRECTOR OF LANDS REMINDED HIS AUDIENCE THAT WHILE LAND PRICES HAD FALLEN BY AS MUCH AS 40 - 60 PER CENT IN RECENT MONTHS THERE HAD BEEN RISES OF UP TO 300 PER CENT BETWEEN 1978 AND 1980).

4. THAT SAID, HONG KONG WILL REMAIN A HIGHLY VOLATILE PLACE OVER THE COMING MONTHS AND STEADY NERVES WILL BE NEEDED.

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SIR ABOUT THAT TELNO IS 1229 IMI 1229 OF 27 OCTOBER 82

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Mr. Coles
No 10 Downing Street

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OO WASHINGTON
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FM FOO 271847Z OCT 82
TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 1891 OF 27 OCTOBER
INFO PEKING PERSONAL FOR AMBASSADOR
HONG KONG PERSONAL FOR GOVERNOR
MIPT: FUTURE OF HONG KONG

1. THE CHINESE LEADERS TOOK A HARD LINE IN THE TALKS WITH THE PRIME MINISTER. THEY INSISTED ON RECOVERY OF SOVEREIGNTY OVER THE WHOLE TERRITORY IN OR BEFORE 1997 SOVEREIGNTY WAS 'NON NEGOTIABLE' AND, IF IT CAME TO THE CRUNCH, TOOK PRECEDENCE OVER THE MAINTENANCE OF PROSPERITY. SUBJECT TO THIS OVERRIDING POINT, THE CHINESE WERE NEVERTHELESS PREPARED TO PURSUE SPECIAL POLICIES IN HONG KONG AND TO ALLOW THE CAPITALIST WAY OF LIFE TO CONTINUE. BRITISH INTERESTS IN INDUSTRY, COMMERCE, FINANCE, SHIPPING AND AVIATION WOULD BE TAKEN INTO ACCOUNT AND BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN IN CERTAIN POSTS. ZHAO EXPLICITLY SAID THAT CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF OR PLACE HONG KONG UNDER THE TRUSTEESHIP OF OTHERS. BOTH DENG AND ZHAO SAID THEY DID NOT BELIEVE THAT WITHOUT BRITISH ADMINISTRATION AND THE LINK WITH THE UNITED KINGDOM THE HONG KONG ECONOMY WOULD DECLINE. THEY SOUGHT BRITISH COOPERATION IN ENSURING A SMOOTH TRANSITION TO CHINESE SOVEREIGNTY AND THE EXERCISE OF OVERALL CONTROL IN 1997.
2. THE PRIME MINISTER TOLD THE CHINESE LEADERS THAT SHE KNEW HOW IMPORTANT SOVEREIGNTY WAS TO CHINA BUT IT WAS ALSO A DIFFICULT ISSUE FOR HER. SHE COULD NOT CONSIDER THIS QUESTION UNLESS THE TWO GOVERNMENTS COULD AGREE DEFINITE ARRANGEMENTS ABOUT THE FUTURE ADMINISTRATION AND CONTROL OF HONG KONG WHICH WOULD WORK IN PRACTICE, COMMAND CONFIDENCE AMONG THE PEOPLE OF HONG KONG AND WHICH COULD BE JUSTIFIED TO THE BRITISH PARLIAMENT. SHE MADE CLEAR HER MORAL OBLIGATION TO THE PEOPLE OF HONG

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KONG AND THE IMPORTANT CONNECTION BETWEEN CONFIDENCE AND THE CONTINUITY OF BRITISH ADMINISTRATION.

3. HM AMBASSADOR PEKING SAW VICE FOREIGN MINISTER ZHANG WENJIN ON 5 OCTOBER. ZHANG INSISTED THAT THE TALKS BE BASED ON THE PREMISE THAT CHINA WOULD RECOVER SOVEREIGNTY NOT LATER THAN 1997. WE ARE STILL DISCUSSING WITH THE CHINESE THE FRAMEWORK WITHIN WHICH SUBSTANTIVE TALKS CAN TAKE PLACE WITH THE COMMON AIM OF MAINTAINING HONG KONG'S STABILITY AND PROSPERITY

4. THE CHINESE STAND WAS PREDICTABLE. ON THE BRIGHTER SIDE, THEY AGREED TO A PRESS STATEMENT THAT DID NOT REFER TO SOVEREIGNTY. THEY WERE READY TO AGREE TO TALKS WITH THE COMMON AIM OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG. ZHANG HAS SEEMED TO SUGGEST THAT SUBSTANTIVE TALKS COULD BEGIN EVEN IF IT WERE NOT POSSIBLE TO SOLVE THE QUESTION OF SOVEREIGNTY TOTALLY. WE SEE A POSSIBLE ANALOGY WITH THE SINO-US TALKS ON ARMS SALES TO TAIWAN WHERE THE CHINESE REPEATEDLY TOOK A VERY HARD LINE BEFORE EVENTUAL AGREEMENT. BUT IT IS DISTURBING THAT THE CHINESE HAVE ALREADY MADE PUBLIC A NUMBER OF ELEMENTS OF THEIR POSITION ON HONG KONG WHICH WILL MAKE EVENTUAL COMPROMISE MORE DIFFICULT.

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FUTURE OF HONG KONG

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Hong Kong 43 BME



file cc: fco

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

ASSESSMENTS RELATING TO HONG KONG

Thank you for your minute of 25 October.

The Prime Minister agrees that the records of her discussions with Chinese leaders about the future of Hong Kong may be shown to the Head of the Assessments Staff, the Deputy Head of the Assessments Staff and the desk officer concerned with China, as an aid to the production of future assessments relating to the future of Hong Kong.

I am copying this minute to John Holmes (Foreign and Commonwealth Office).

A. J. COLES

27 October 1982

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PP PEKING

PP TOKYO

GRS 364

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FM FCO 251130Z OCT 82

TO PRIORITY PEKING

TELEGRAM NUMBER 512 OF 25 OCTOBER

AND TO HONG KONG (PERSONAL FOR GOVERNOR)

WASHINGTON (PERSONAL FOR AMBASSADOR)

TOKYO (PERSONAL FOR AMBASSADOR)

PERSONAL FOR AMBASSADOR

FUTURE OF HONG KONG

1. IN PARALLEL WITH THE TALKS THROUGH DIPLOMATIC CHANNELS WITH THE CHINESE, WE ARE CONSIDERING WAYS OF PUTTING OVER TO THE CHINESE LEADERS IDEA SUPPORTING OUR POINT OF VIEW AND THAT OF HONG KONG.

2. ONE WAY OF ACHIEVING THIS IS BY ENLISTING THE HELP OF SENIOR FIGURES FROM OTHER COUNTRIES BOTH IN THE POLITICAL AND COMMERCIAL FIELDS. WE DO NOT ENVISAGE A BLANKET OPERATION. WE NEED TO BE SELECTIVE, CHOOSING PEOPLE LIKELY TO BE BOTH SYMPATHETIC TO OUR POINT OF VIEW, ABLE TO CONVEY OUR MESSAGE RELIABLY AND LIKELY TO HAVE INFLUENCE WITH THE CHINESE. OBVIOUSLY THIS LIMITS THE FIELD.

3. WE PROPOSE TO START BY IDENTIFYING SENIOR FIGURES WHO ARE LIKELY TO VISIT CHINA IN THE NEAR FUTURE (OVER THE NEXT 6 MONTHS). GRATEFUL IF YOU AND OTHER ADDRESSEES WOULD REPORT POTENTIAL VISITORS WHEN THEY BECOME KNOWN. YOU SHOULD NOT (NOT):

A. CONDUCT SPECIFIC ENQUIRIES WHICH MIGHT SUGGEST THAT WE WERE PLANNING A CAMPAIGN:

B. UNDERTAKE ANY BRIEFING OF VISITORS AT THIS STAGE.

WE WOULD OBTAIN MINISTERIAL APPROVAL FOR THE USE OF ANY LIKELY CANDIDATES AND ISSUE SEPARATE TAILOR-MADE INSTRUCTIONS FOR BRIEFING IN THE APPROPRIATE PLACE.

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CATEGORIES OF VISITORS.

4. WE SHOULD CONCENTRATE ONLY ON SENIOR PERSONALITIES LIKELY TO HAVE ACCESS TO THE TOP CHINESE LEADERSHIP. THIS COULD INCLUDE GOVERNMENT MINISTERS, MAJOR INDUSTRIALISTS AND REPRESENTATIVES OF INTERNATIONAL ORGANISATIONS.

AMERICANS.

5. SEPARATE INSTRUCTIONS ARE BEING SENT TO WASHINGTON ON DISCUSSIONS WITH THE US GOVERNMENT BUT IT WOULD BE HELPFUL TO KNOW OF OTHER POSSIBLE VISITORS FROM THE US.

JAPANESE.

6. HMA TOKYO SHOULD NOTE THAT MINISTERS AT THIS STAGE DO NOT (NOT) FAVOUR THE USE OF JAPANESE VISITORS FOR THIS PURPOSE. HOWEVER TOKYO COULD LEARN OF VISITORS FROM OTHER COUNTRIES WHO ARE INTENDING TO TRANSIT JAPAN ON THE WAY TO CHINA.

CHINESE VISITORS ABROAD.

7. YOU SHOULD ALSO REPORT ON LIKELY VISITS OF SENIOR CHINESE TO FOREIGN COUNTRIES WHOSE GOVERNMENTS WE MIGHT APPROACH TO HELP IN PUTTING OUR POINT OF VIEW.

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FUTURE OF HONG KONG

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Prime Minister

41

As you know, I had the same thought independently. Are you prepared to extend the circle in the way suggested by the cabinet secretary?
A.J.C. 26/10

Ref. A09848

MR COLES ✓

You sent us a copy of your letter of 13 October to Mr Holmes of the Foreign and Commonwealth Office, saying that the Prime Minister did not wish reports on her discussions with Chinese leaders and subsequent diplomatic exchanges to be made available to those concerned in the Assessments Staff and other representatives of the JIC, including the intelligence agencies and the Ministry of Defence.

2. I do of course understand the Prime Minister's reluctance to extend the circulation of the records of her discussions with Chinese leaders about the future of Hong Kong. But I have to say that there is a real risk that the ability of the intelligence machinery to assess other information relating to the views of the Chinese leadership on the future of Hong Kong could be significantly affected if none of them has any knowledge of what the Chinese leadership actually said to the Prime Minister when she was there. Obviously that record would provide a sort of benchmark against which they could assess other less direct information.

3. We could reduce this danger without unduly extending the circulation, if the Prime Minister would allow us to show the record to the Head of the Assessments Staff, and to the Deputy Head of the Assessments Staff and the desk officer concerned with China. I should instruct them not to show the record to anybody else, and not to quote from it or refer to it in any assessment which they produced. In that way we could ensure that neither the record itself nor specific information derived from it went to the JIC as a whole. But I think that we need to go that far, in order to enable the assessment machinery to do its work properly.

Agreed
MR

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ROBERT ARMSTRONG

25 October 1982

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From the Private Secretary

25 October, 1982

CX REPORTS ON HONG KONG

The Prime Minister was grateful for your letter of 22 October enclosing a summary of recent Intelligence Reports on this subject and comment on those reports. The Prime Minister found this useful and hopes that similar summaries will be made available in the future.

A. J. COLES

J.E. Holmes, Esq.,
Foreign and Commonwealth Office

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FM HONG KONG 221015Z OCT 82
 TO ROUTINE FCO
 TELEGRAM NUMBER 1212 OF 22 OCTOBER
 INFO ROUTINE PEKING (PERSONAL FOR AMBASSADOR)

FUTURE OF HONG KONG.

THE VISITORS TO PEKING MENTIONED IN PARA 2 OF MY TELNO 1203 WERE:

(A) EDMUND LAU (MANAGING DIRECTOR OF THE HONG KONG AND YAUMATAI FERRY COMPANY), WHO HAS A CLOSE SEMI-FAMILY RELATIONSHIP WITH LIAO CHENGZHI; AND

(B) DR PAUL LIN (LIN TA-KUANG: A PROFESSOR AT MCGILL UNIVERSITY, IN MONTREAL), WHO WAS AT ONE TIME ENGLISH SECRETARY TO ZHOU EN LAI IN THE 1950S.

2. EDMUND LAU WAS TOLD THAT THE ATMOSPHERE IN THE DISCUSSIONS WITH THE BRITISH THUS FAR HAD BEEN HIGHLY CONFRONTATIONAL: AND THAT IF THE CONFRONTATION PERSISTED THE CHINESE WOULD BE OBLIGED TO MAKE A PUBLIC STATEMENT OF THEIR INTENTION TO RESUME FULL CONTROL OF HONG KONG IN 1997 WITHIN A YEAR OR SO. ACCORDING TO LAU, LIAO SAID THAT THE DEADLINE FOR MAKING SUCH A STATEMENT WOULD BE JUNE 1984.

3. WE HAVE ALSO BEEN TOLD IN STRICT CONFIDENCE BY A MEMBER OF THE AUSTRALIAN COMMISSION (PLEASE PROTECT) OF REMARKS MADE BY THE LEGAL ADVISER TO THE FOREIGN MINISTRY, NIE ZHENGYUN, AT A COCKTAIL PARTY WITHIN HEARING OF CHINESE AND AUSTRALIAN OFFICIALS. NIE APPARENTLY SAID THAT SOVEREIGNTY WAS MEANINGLESS WITHOUT THE EXERCISE OF ADMINISTRATIVE CONTROL: AND THAT CHINA COULD NOT ACCEPT THAT BRITISH ADMINISTRATION WAS INDISPENSABLE FOR THE MAINTENANCE OF STABILITY AND PROSPERITY, ALTHOUGH INDIVIDUAL BRITISH EXPERTS WOULD BE WELCOME TO STAY ON AFTER 1997.

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FUTURE OF HONG KONG

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FM PEKING 220300Z OCT 82
TO IMMEDIATE F C O
TELNO 680 OF 22 OCTOBER
INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

MY TELNO 672: FUTURE OF HONG KONG

1. ON THE ASSUMPTION THAT ZHANG NOW AGREES THAT WE MAY MOVE ON TO SUBSTANTIVE TALKS, WE SHOULD BE CONSIDERING WHEN WE SHOULD LIKE TO HAVE THE FIRST ROUND AND WHAT FORM IT SHOULD TAKE.
2. THE GOVERNOR MAY WISH TO ATTEND THE FIRST SUBSTANTIVE MEETING AND I NOTE FROM HIS TELNO 1141 TO YOU THAT HE WILL HAVE THE DUKE AND DUCHESS OF KENT IN HONG KONG FROM 25 OCTOBER TO 2 NOVEMBER. THAT GIVES US 4 NOVEMBER AS THE EARLIEST POSSIBLE FIXTURE.
3. MY PRELIMINARY VIEW IS THAT WE SHOULD PROPOSE A FULL DAY OF TALKS COMPRISING A MORNING SESSION AND AN AFTERNOON SESSION: ALSO A LUNCH (IT COULD BE EXTREMELY VALUABLE TO HAVE SOME 'INFORMAL' CONTACT).
4. WE SHOULD ALSO CONSIDER THE MATTER OF PUBLICITY FOR THIS ROUND. THE GOVERNOR'S ATTENDANCE WOULD MAKE IT IMPOSSIBLE TO AVOID PRESS ATTENTION, AND HE MAY INDEED REGARD A MEASURE OF PUBLICITY AS USEFUL TO CONFIDENCE IN HONG KONG. BUT I BELIEVE WE SHOULD AVOID ANY COMMENT ON THE FORM OR CONTENT OF THE TALKS. NOR WOULD IT BE WISE TO REVEAL THAT THIS WILL BE THE FIRST SUBSTANTIVE ROUND. WE WOULD NOT WISH TO GIVE THE IMPRESSION THAT SUBSTANCE IS DISCUSSED ONLY IN PUBLICISED MEETINGS ATTENDED BY THE GOVERNOR. WE SHOULD SIMPLY SAY THAT THE TALKS ARE CONTINUING AND THAT THE GOVERNOR IS ATTENDING THIS PARTICULAR ROUND.

CRADOCK

FUTURE OF HONG KONG

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The National Archives

LETTERCODE/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>791</i> (one piece/item number)	
Extract/Item details: <i>Letter from Holmes to Coles dated 22 October 1982, with enclosures</i>	
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Mr Coles
No 10 Downing Street

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OO WASHINGTON

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D E D I P

FM FCO 221900Z OCTOBER 82

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1890

INFO PEKING PERSONAL FOR AMBASSADOR

HONG KONG PERSONAL FOR GOVERNOR

PERSONAL FOR AMBASSADOR

UKMIS NEW YORK TELNO 1485: FUTURE OF HONG KONG

1. I SHOULD BE GRATEFUL IF YOU WOULD FOLLOW UP MY TALK WITH SHULTZ REPORTED IN TUR. THE PRIME MINISTER AGREES THAT WE SHOULD ALSO BRING VICE PRESIDENT BUSH INTO THE PICTURE.
2. AS YOU ARE AWARE, WE HAVE BEEN IN TOUCH SEPARATELY WITH DR KISSINGER WHO WILL BE DINING WITH THE PRIME MINISTER IN LONDON ON 12 NOVEMBER. WE MUST ASSUME THAT THE FACT THAT KISSINGER SAW DENG RECENTLY IN CHINA AND WAS GIVEN AN ACCOUNT OF CHINESE THINKING ABOUT HONG KONG WILL BECOME KNOWN TO THE AMERICAN ADMINISTRATION. THE ADMINISTRATION MIGHT THEREFORE TAKE IT BADLY IF THEY FELT THAT WE WERE DELIBERATELY KEEPING THEM IN THE DARK. MOREOVER, WE THINK THAT THE AMERICANS COULD BE HELPF TO US IN OUR HONG KONG POLICY. AT THE SAME TIME, THE PRIME MINISTER DOES NOT (NOT) WISH THE CIRCLE OF KNOWLEDGE ABOUT WHAT PASSED BETWEEN HER AND THE CHINESE LEADERS TO BE WIDENED MORE THAN IS ABSOLUTELY NECESSARY. IN SPEAKING TO SHULTZ AND TO BUSH PLEASE ENSURE THAT THEY UNDERSTAND THAT THE INFORMATION IS BEING PASSED IN STRICT CONFIDENCE ON A PERSONAL BASIS. AND THAT WE THEREFORE HOPE IT WILL BE KEPT ENTIRELY TO THEMSELVES. GREAT DAMAGE COULD BE CAUSED IN HONG KONG IF FURTHER RUMOURS OF CHINESE OEDURACY APPEAR. WE ARE PARTICULARLY CONCERNED TO AVOID PUBLIC STATEMENTS IN THE WESTERN PRESS WHICH MIGHT PROVOKE THE CHINESE TO PUBLICISE FURTHER THEIR NEGOTIATING POSITION BEFORE OUR SUBSTANTIVE TALKS HA GOT UNDER WAY.
3. IN SPEAKING TO SHULTZ AND TO BUSH YOU SHOULD IN THE FIRST PLACE DRAW ON GUIDANCE TELNO 192 WHICH GIVES THE SEQUENCE OF

h.a.
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EVENTS LEADING TO THE ISSUE OF THE JOINT PUBLIC STATEMENT. MIFT CONTAINS AN ACCOUNT OF THE MEETINGS WITH ZHAO AND DENG ON WHICH YOU SHOULD ALSO DRAW, BUT YOU SHOULD NOT (NOT) LEAVE ANYTHING IN WRITING.

4. THE CHINESE LEADERS SHOWED IGNORANCE ABOUT THE BASIS OF THE CONFIDENCE ON WHICH THE PROSPERITY OF HONG KONG DEPENDS. WE ARE THEREFORE SEEKING WAYS OF TRYING TO INFLUENCE THE SMALL NUMBER OF CHINESE LEADERS WHO ACTUALLY MAKE POLICY TOWARDS HONG KONG, BEYOND OUR OWN DISCUSSIONS WITH THEM. THE PRIME MINISTER WONDERS IF THERE IS ANY PROSPECT OF SECURING INVITATIONS FOR THEM TO VISIT, FOR EXAMPLE, THE UNITED STATES WHERE THEY COULD BE EXPOSED TO SOME COMMONSENSE THINKING ABOUT THE FUTURE OF HONG KONG. EQUALLY, SENIOR AMERICAN POLITICAL FIGURES MAY BE ABLE TO PUT THE POINTS ACROSS DURING VISITS TO CHINA. THIS IS SOMETHING WHICH YOU SHOULD DISCUSS WITH BUSH AND SHULTZ.

5. THE ESSENCE OF THE MESSAGE WE WISH TO GET ACROSS TO THE CHINESE IS AS FOLLOWS. AT PRESENT, PEOPLE IN HONG KONG AND INVESTORS REGARD BRITISH ADMINISTRATION, WHICH PRACTISES THE MINIMUM INTERVENTION IN THE RUNNING OF ECONOMIC AFFAIRS, AS A MEANS OF INSURING AGAINST PEKING INFLUENCE OR THE IMPOSITION OF CHINESE COMMUNIST POLICIES. WE KNOW IT IS NOT WISE TO SUGGEST TO THE CHINESE LEADERSHIP THAT CHINESE PEOPLE ARE LESS COMPETENT MANAGERS THAN THE BRITISH. BUT IF THE EXTERNAL LINK WITH THE UNITED KINGDOM IS SEVERED, THE PEOPLE OF HONG KONG WILL FIND IT VERY DIFFICULT TO HAVE CONFIDENCE IN CHINESE ASSURANCES THAT THEY WILL LEAVE HONG KONG TO RUN ITS OWN AFFAIRS.

THE UNEVEN RECORD OF CHINESE POLICIES SINCE 1952, PARTICULARLY THE DAMAGE DONE TO CAPITALISM AND FREE ENTERPRISE IN SHANGHAI, HAS NOT INSPIRED SUCH CONFIDENCE.

6. WE DO NOT KNOW WHETHER THE CHINESE WOULD LISTEN TO THIS SORT OF MESSAGE FROM THE AMERICANS IF IT WERE OFFERED AS THEIR OWN OBJECTIVE VIEW (RATHER THAN SPEAKING ON OUR BEHALF). ANY US INTERVENTION OVER HONG KONG IS BOUND TO BE DELICATE, PARTICULARLY BECAUSE OF CHINESE SUSPICIONS OF US POLICIES TOWARDS TAIWAN. THE CHINESE VIEW OF US SUPPORT FOR US DURING THE FALKLANDS CRISIS IS ANOTHER COMPLICATING FACTOR. THE

/CHINESE

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32202 - 1

CHINESE WOULD ALSO REACT STRONGLY TO ANY IMPLICATION THAT WE HAD PUT THE US UP TO USING THEIR ECONOMIC INVESTMENTS IN HONG KONG AS A WAY OF PUTTING PRESSURE ON THEM (EG ANY APPARENT THREAT TO WITHDRAW INVESTMENTS UNLESS THE CHINESE AGREE TO CONTINUING BRITISH ADMINISTRATION AFTER 1997). BUT THE CHINESE MIGHT NEVERTHELESS RESPECT THE US VIEW ON THE BASIS OF HONG KONG'S PROSPERITY AND ON WHAT WOULD DAMAGE IT. US INVESTMENTS IN HONG KONG MIGHT THEREFORE PROVIDE A LEAD-IN TO THIS

7. YOU SHOULD ALSO ASK IF ONE OR TWO OF THE AMERICAN OFFICIALS WHO HAVE BEEN CLOSELY INVOLVED IN THE RECENT NEGOTIATIONS WITH THE CHINESE OVER ARMS SALES TO TAIWAN COULD VISIT LONDON FOR A DISCUSSION OF CHINESE NEGOTIATING TECHNIQUES. WE ALREADY HAVE GOOD MATERIAL ON THIS FROM REPORTS FROM YOUR EMBASSY AS WELL AS PEKING. BUT AN EXCHANGE OF VIEWS WITH THOSE WHO ACTUALLY NEGOTIATED THE COMMUNIQUE OF 17 AUGUST WOULD BE VALUABLE.

8. IF IT WOULD BE HELPFUL, I COULD SEND DONALD OVER TO ASSIST YOU IN THE BRIEFING. HE WAS PRESENT IN PEKING AT THE TALKS. HE COULD ALSO BE GIVEN A RUN-DOWN ON THE ARMS NEGOTIATIONS.

PYM

FUTURE OF HONG KONG

LIMITED
HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/LORD BELSTEAD
PS/PUS
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MR DONALD

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Foreign and Commonwealth Office

London SW1A 2AH

MS

22 October 1982

Prime Minister

Content of these instructions
to issue?

A.J.C. 23/10

Dear John,

Future of Hong Kong

Thank you for your letter of 21 October.

We have despatched instructions to Sir Edward Youde about the line he should take with Sir S Y Chung. The Governor was extremely grateful. Sir S Y Chung was much relieved and grateful that his points had been so fully taken into account.

//

I now attach two draft telegrams to Washington about briefing the Americans, which we will despatch if the Prime Minister agrees.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

OUT TELEGRAM

		Classification and Caveats SECRET	Precedence/Deskby PRIORITY
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ZCZC
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TO PRIORITY WASHINGTON
TELEGRAM NUMBER
AND REPEATED FOR INFORMATION TO PEKING DEDIP PERSONAL FOR
AMBASSADOR AND TO HONG KONG PERSONAL FOR GOVERNOR
PERSONAL FOR AMBASSADOR
UKMIS NEW YORK TELNO 1485: FUTURE OF HONG KONG
1. I should be grateful if you would follow up my talk
with Shultz reported in TUR. The Prime Minister agrees that we
should also bring Vice President Bush into the picture.
2. As you are aware, we have been in touch separately with
Dr Kissinger who will be dining with the Prime Minister in
London on 12 November. We must assume that the fact that
Kissinger saw Deng recently in China and was given an account of
Chinese thinking about Hong Kong will become known to the
American Administration. The Administration might therefore
take it badly if they felt that we were deliberately keeping them
in the dark. Moreover, we think that the Americans could be helpful
to us in our Hong Kong policy. At the same time, the Prime
Minister does not (not) wish the circle of knowledge about what

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File number	Dept PRIVATE OFFICE	Distribution FUTURE OF HONG KONG
Drafted by (Block capitals) J E HOLMES		
Telephone number		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

	Classification and Caveats SECRET	PRIORITY	Page 2.
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and that we therefore hope it will be kept entirely to ourselves.

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 2 passed between her and the Chinese leaders to be widened more than
 3 is absolutely necessary. In speaking to Shultz and to Bush please
 4 ensure that they understand that the information is being passed
 5 in strict confidence on a personal basis. Great damage could
 6 be caused in Hong Kong if further rumours of Chinese obduracy
 7 appear. We are particularly concerned to avoid public statements
 8 in the Western press which might provoke the Chinese to publicise
 9 further their negotiating position before our substantive talks have
 10 got under way.
 11 3. In speaking to Shultz and to Bush you should in the first
 12 place draw on Guidance telno 192 which gives the sequence of
 13 events leading to the issue of the joint public statement. MIFT
 14 contains an account of the meetings ^{with} which Zhao and Deng on which
 15 you should also draw, but you should not (not) leave anything
 16 in writing.
 17 4. The Chinese leaders showed ignorance about the basis of the
 18 confidence on which the prosperity of Hong Kong depends. We
 19 are therefore seeking ways of trying to influence the small
 20 number of Chinese leaders who actually make policy towards Hong
 21 Kong, beyond our own discussions with them. The Prime Minister
 22 wonders if there is any prospect of securing invitations for them
 23 to visit, for example, the United States where they could be exposed
 24 to some commonsense thinking about the future of Hong Kong.
 25 Equally, senior American political figures may be able to put the
 26 points across during visits to China. This is something which
 27 you should discuss with Bush and Shultz.
 28 5. The essence of the message we wish to get across to the Chinese
 29 is as follows. At present, people in Hong Kong and
 30 investors regard British administration, which practises the
 31 minimum intervention in the running of economic affairs, as a
 32 means of insuring against Peking influence or the imposition
 33 of Chinese communist policies. We know it is not wise to suggest
 34 to the Chinese leadership that Chinese people are less competent

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OUT TELEGRAM (CONT)

	Classification and Caveats SECRET	Priority PRIORITY	Page 3.
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2 managers than the British. But if the external link with the
3 United Kingdom is severed, the people of Hong Kong will find it
4 very difficult to have confidence in ^{Chinese} assurances that they
5 will leave Hong Kong to run its own affairs. ~~will be honoured~~
6 The uneven record of Chinese policies since 1952, particularly
7 the damage done to capitalism and free enterprise in Shanghai,
8 has not inspired such confidence.
9 6. We do not know whether the Chinese would listen to this
10 sort of message from the Americans if it were offered as their
11 own objective view (rather than speaking on our behalf).
12 Any US intervention over Hong Kong is bound to be delicate,
13 particularly because of Chinese suspicions of US policies
14 towards Taiwan. The Chinese view of US support for us during
15 the Falklands crisis is another complicating factor. The
16 Chinese would also react strongly to any implication that we
17 had put the US up to using their economic investments in Hong
18 Kong as a way of putting pressure on them (eg any apparent
19 threat to withdraw investments unless the Chinese agree to
20 continuing British administration after 1997). But
21 the Chinese might nevertheless respect the US view on the basis
22 of Hong Kong's prosperity and on what would damage it. US
23 investments in Hong Kong might therefore provide a lead-in to this.
24 7. You should also ask if one or two of the American officials
25 who have been closely involved in the recent negotiations
26 with the Chinese over arms sales to Taiwan could visit London
27 for a discussion of Chinese negotiating techniques. We already
28 have good material on this from reports from your Embassy as
29 well as Peking. But an exchange of views with those who actually
30 negotiated the communique of 17 August would be valuable.
31 8. If it would be helpful, I could send Donald over to assist
32 you in the briefing. He was present in Peking at the talks. He
33 could also be given a run-down on the arms negotiations.
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OUT TELEGRAM (CONT)

Classification and Caveats

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OUT TELEGRAM

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TEL NO

1 ZCZC
2 GRS
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6 FM FCO
7 TO PRIORITY WASHINGTON
8 TELEGRAM NUMBER
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10 AND REPEATED FOR INFORMATION TO PEKING DEDIP PERSONAL FOR
11 AMBASSADOR AND HONG KONG PERSONAL FOR GOVERNOR
12 MIPT: FUTURE OF HONG KONG
13 1. The Chinese leaders took a hard line in the talks with the
14 Prime Minister. They insisted on recovery of sovereignty
15 over the whole territory in or before 1997. Sovereignty was
16 'non negotiable' and, if it came to the crunch, took precedence
17 over the maintenance of prosperity. Subject to this overriding
18 point, the Chinese were nevertheless prepared to pursue special
19 policies in Hong Kong and to allow the capitalist way of
20 life to continue. British interests in industry, commerce,
21 finance, shipping and aviation would be taken into account
22 and British Government functionaries could remain in certain
23 posts. Zhao explicitly said that China would not let others
24 administer Hong Kong on its behalf or place Hong Kong under the
25 trusteeship of others. Both Deng and Zhao ^{said they} did not believe that
without British administration and the link with the United Kingdom,

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Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats

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2 the Hong Kong economy would decline. They sought British
3 cooperation in ensuring a smooth transition to Chinese sovereignty
4 and the exercise of overall control in 1997.

5 2. The Prime Minister told the Chinese leaders that she knew
6 how important sovereignty was to China but it was also a
7 difficult issue for her. She could not consider this question
8 unless the two governments could agree definite arrangements about the
9 the future administration and control of Hong Kong which would
10 work in practice, command confidence among the people of Hong
11 Kong and which could be justified to the British Parliament.
12 She made clear her moral obligation to the people of Hong
13 Kong and the important connection between confidence and the
14 continuity of British administration.

15 3. HM Ambassador Peking saw Vice Foreign Minister Zhang
16 Wenjin on 5 October. Zhang insisted that the talks be based
17 on the premise that China would recover sovereignty not later
18 than 1997. We are still discussing with the Chinese the
19 framework within which substantive talks can take place with
20 the common aim of maintaining Hong Kong's stability and prosperity.

21 4. The Chinese stand was predictable. On the brighter side,
22 they agreed to a press statement that did not refer to
23 sovereignty. They were ready to agree to talks with the common
24 aim of maintaining the prosperity and stability of Hong Kong.
25 Zhang has seemed to suggest that substantive talks could begin
26 even if it were not possible to solve the question of
27 sovereignty totally. We see a possible analogy with the Sino-
28 US talks on arms sales to Taiwan where the Chinese repeatedly took
29 a very hard line before eventual agreement. But it is disturbing
30 that the Chinese have already made public a number of elements
31 of their position on Hong Kong which will make eventual compromise
32 more difficult.

33 /
34 PYM

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Catchword

PRIME MINISTER

HONG KONG

There is one question that you did not have time to discuss with the Foreign Secretary at the meeting yesterday on Hong Kong. Given the state of our discussions with the Chinese about the future of Hong Kong, what should be our attitude towards bilateral relations, specifically the Luda Destroyer project, the Guangdong nuclear project and the proposal for increased English language training and help with fees for Chinese students in Britain?

I attach two letters from the FCO on these matters. Do you agree that:-

- ✓ (a) we should maintain our bid for the Luda Destroyer project (no-one is suggesting that we should improve the financial terms).
- ✓ (b) we should also maintain our interest in the Guangdong nuclear project (I have asked the Secretary for Industry to advise on the future handling of our interest here).
- ✓ (c) that BP should continue its involvement in South Chinese off-shore oil activities.
- ✓ (d) that the mission to China on 6 November to discuss English language teaching should go ahead and that we should consider a future programme of language teaching and help for Chinese students here only when the mission has reported?

Agreed

A.J.C.

22 October, 1982

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FM HONG KONG 220950Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1210 OF 22 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

Handwritten: ADL 25/10
h--

YOUR TELNO 879 : FUTURE OF HONG KONG

1. I SPOKE ACCORDINGLY TO SIR S Y CHUNG THIS MORNING. HE WAS MUCH RELIEVED AND GRATEFUL THAT HIS POINTS HAD BEEN SO FULLY TAKEN INTO ACCOUNT.

2. BECAUSE OTHER OFFICIALS WERE TO BE AT THIS MORNING'S MEETING OF UMELCO AND GIVEN THE IMPORTANCE OF WHAT IS TO BE SAID, HE AGREED THAT HE WOULD TELL HIS COLLEAGUES THAT HE MUST FIRST REPORT TO EXCO NEXT TUESDAY AND THERE WILL BE BE A PRIVATE MEETING OF UMELCO NEXT WEDNESDAY WHICH I WILL ATTEND. HE FULLY TOOK THE POINT ABOUT CONFIDENTIALITY AND SAID THAT HE WILL MAKE IT CLEAR TO HIS COLLEAGUES THAT THEY CANNOT EXPECT TO BE TAKEN INTO OUR CONFIDENCE UNLESS STRICT SECURITY IS MAINTAINED.

3. I THINK WE HAVE GOT THROUGH SUCCESSFULLY WHAT COULD HAVE BEEN A VERY STICKY PATCH AND I AM PERSONALLY ALSO GRATEFUL FOR THE RESPONSE IN YOUR TELEGRAM UNDER REFERENCE.

YOUDE

FUTURE OF HONG KONG

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h.a.
OR 25
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DESKBY 220100Z
FM FCO 211710Z OCT 82
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 879 OF 21 OCTOBER
INFO IMMEDIATE PEKING
YOUR TELMOS 1201 AND 1203 AND PEKING TELNO 679: FUTURE OF
HONG KONG.

1. THESE TELEGRAMS HAVE BEEN DISCUSSED WITH THE PRIME MINISTER. THE FOLLOWING POINTS EMERGED.
2. AGAINST THE BACKGROUND OF THE CHINESE TACTICS OF SPREADING KNOWLEDGE OF THEIR PLAN, IT IS IMPORTANT TO KEEP THE UNOFFICIALS' CONFIDENCE. BUT THE PRINCIPLE THAT WE SHOULD MAINTAIN FULL CONFIDENTIALITY ON THE CONTENT OF THE PRIME MINISTER'S DISCUSSIONS IN PEKING AND OF THE SUBSTANCE OF THE TALKS REMAINS VALID. IT IS CLEARLY IMPORTANT THEREFORE THAT YOU IMPRESS ON SIR S Y CHUNG THE NEED TO AVOID LEAKS, INDICATING THAT DISCLOSURE WOULD RENDER ANY FURTHER BRIEFING OUT OF THE QUESTION.
3. WE MUST ALSO AVOID GIVING UMELCO THE IMPRESSION THAT THEY HAVE THE RIGHT TO A REGULAR BLOW BY BLOW ACCOUNT OF THE TALKS OR TO A VETO ON OUR NEGOTIATING POSITION. HOWEVER, THE UNOFFICIALS ARE ALREADY MAKING DEDUCTIONS FROM WHAT HAS BEEN SAID IN CHINESE STATEMENTS AND WE NEED TO RE-ASSURE THEM. BUT IT IS ALSO IMPORTANT TO GET ACROSS TO UMELCO HOW ROBUSTLY THE PRIME MINISTER SPOKE UP IN PEKING IN DEFENCE OF BRITISH AND HONG KONG INTEREST.
4. WE UNDERSTAND THE AMBASSADOR'S CONCERN IN PEKING TUR. HOWEVER AS REGARDS HIS PARAGRAPH 3 AND YOUR POINT (C) WE DO NOT THINK THERE IS ANYTHING IN YOUR SUGGESTION RELATING TO OUR TACTICS WHICH THE CHINESE WOULD NOT WORK OUT FOR THEMSELVES. WE WOULD HOPE, NEVERTHELESS, THAT YOUR STRONG WARNING ABOUT DISCLOSURE WOULD ENSURE THAT OUR INTENTIONS WOULD NOT GET TO CHINESE EARS.

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5. IN THE LIGHT OF THE ABOVE,
WE AGREE TO THE ACTION PROPOSED IN PARAGRAPH 7 OF YOUR TELNO 1203
SUBJECT TO THE FOLLOWING AMENDMENTS TO THE POINTS YOU SUGGEST IN
PARAGRAPH 5:

A. POINT (B) REQUIRES EXPANSION TO DEMONSTRATE THAT THE
PRIME MINISTER NOT ONLY CONCEDED NOTHING
TO THE CHINESE BUT ALSO STATED THE CASE FOR CONTINUED
BRITISH ADMINISTRATION, WITHOUT WHICH THERE WOULD BE NO
CONFIDENCE IN HONG KONG. SHE SAID IN TERMS 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. SOVEREIGNTY WAS DIFFICULT
FOR BOTH SIDES: IF TREATIES WERE TO BE CHANGED, THEY SHOULD
BE CHANGED BY AGREEMENT AND NOT ABROGATED BY ONE SIDE OR
ANOTHER.

B. POINT (D) SHOULD BE MODIFIED TO READ:
BEGINS: 'WE WILL OF COURSE HOLD FULL DISCUSSIONS WITH THE
UNOFFICIALS BEFORE WE TAKE ANY DECISION ON MAJOR CHANGES
IN OUR NEGOTIATING POSITION.' ENDS.

PYM

FUTURE OF HONG KONG

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Hong Kong

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GR 330
SECRET
DESKBY 210930Z OCT
FM PEKING 210840Z OCT 82
TO IMMEDIATE F C O
TELNO 679 OF 21 OCTOBER
REPTD IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

M 22/10
f.a.

HONG KONG TELS NOS 1202 AND 1203: FUTURE OF HONG KONG

1. MY VIEWS ON THE DANGER OF WIDENING THE CIRCLE OF KNOWLEDGE WERE GIVEN IN MY TELNO 660 AND WERE ENDORSED IN RESPECT OF UMELCO AT LEASTYUN YOUR TEL 858. DESPITE A NO DOUBT EXCELLENT RECORD IN THE PAST, I FEAR THERE MUST BE A CONSIDERABLE RISK OF LEAKS FROM UMELCO IN PRESENT CIRCUMSTANCES. NOR DO I BELIEVE THAT A LEAK WOULD ONLY HELP CONFIDENCE, AS SUGGESTED IN PARA 8 OF THE SECOND TUR.
2. THE PROPOSALS IN THE SECOND TUR WOULD HAVE FAR-REACHING IMPLICATIONS. THEY WOULD COMMIT US NOT ONLY TO KEEPING UMELCO INFORMED AT EVERY STAGE ABOUT THE DETAILS OF THE TALKS, BUT ALSO TO REVEALING OUR STRATEGY TO THEM AND CONSULTING THEM IN ADVANCE BEFORE ANY CHANGES WERE MADE IN THAT STRATEGY. IT IS ULTIMATELY FOR MINISTERS TO DECIDE HOW FAR THEY WISH TO COMMIT THEMSELVES TO UMELCO. SEEN FROM HERE, HOWEVER, THIS WOULD PUT US ON A VERY DIFFERENT OPERAT CG BASIS FROM THAT WHICH I THOUGHT WAS AGREED. WE SHOULD ALSO BE TAKING THIS STEP JUST AFTER WE HAVE BERATED THE CHINESE FOR BREACHES OF CONFIDENTIALITY.
3. AMONG A NUMBER OF WORRYING POINTS W DETAIL, THE SUGGESTION IN PARA 5(C) OF THE SECOND TUR GIVES ME PARTICULAR CONCERN. WE HAVE PROPOSED TO THE CHINESE TO START TALKS BY LISTENING TO THEIR OWN PROPOSALS FOR ADMINISTRATION OF HONG KONG AFTER 1997. WE ARE ASKING THEM TO PUT SOVEREIGNTY ON ONE SIDE. OUR PURPOSE IS TO SHOW THAT THEIR PROPOSALS ARE UNWORKABLE. BUT IF WE SAY THIS NOW, AND IT IS REPORTED, AS IT MAY BE, TO THE CHINESE, THEY MIGHT WELL CONCLUDE THAT THEY SHOULD NOT START TALKS WITH US ON THIS BASIS AT ALL, SINCE TO DO SO WOULD BE TO PLAY INTO OUR HANDS.

CRADOCK

FUTURE OF HONG KONG

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SUBJECT

File 2



10 DOWNING STREET

From the Private Secretary

21 October 1982

Dear John,

FUTURE OF HONG KONG

The Prime Minister discussed this question today with the Foreign and Commonwealth Secretary. Sir Antony Acland and Mr. Donald were present. Your letter of 20 October was before the meeting.

Progress of Discussions in Peking

The Prime Minister said that she was not entirely happy with the notion that, in the first round of talks, we should start by asking the Chinese to give their views on the future administration of Hong Kong. This approach could suggest that we were contemplating handing over the administration. After discussion, it was agreed that we should instead envisage the Governor of Hong Kong attending the first round and using it to explain how Hong Kong functioned at present. We might also seek agreement that future sessions would be devoted to specific sectors such as the financial and banking system, the legal system, the customs administration, etc. It would be appropriate for Sir Philip Haddon-Cave to attend the discussions on the financial and banking system.

Education of the Chinese Leadership

The Prime Minister said that she still did not feel that we had a clear enough plan for carrying out this educative process. It was probably necessary to try to influence the small number of Chinese who actually influenced policy. Was there any prospect of securing invitations for them to visit, for example, the United States where they could be exposed to American thinking about the future of Hong Kong?

Briefing of the Americans

It was agreed that H.M. Ambassador in Washington should discuss with Vice-President Bush the possibility of inviting prominent Chinese to America. Mr. Shultz should of course be brought into the picture as well. It would be necessary to brief both on our approach to the problem - a draft telegram to Washington should be submitted to the Prime Minister for her approval. It would be helpful if one or two of the American officials who had been involved in the negotiations with the Chinese over Taiwan could visit London for a discussion of

/ Chinese

Chinese negotiating techniques. This point should be put to Mr. Shultz. The Prime Minister also said that she was looking forward to seeing Dr. Kissinger when he visited London around 13 November.

Briefing of the Hong Kong Executive Council

The Prime Minister would like the instructions to Sir Edward Youde regarding the line which he should take with Sir Y. S. Chung on 22 October to follow to some extent paragraph 5 of Hong Kong telegram 1203, but to contain a clear statement of the commitments to the people of Hong Kong which she had made in her discussions in Peking. It should be emphasised that she had spoken firmly about her moral obligation to the people of Hong Kong and the necessity of British administration continuing.

Bilateral Relations with China

There was no time to discuss the issues of the Luda destroyer project, the Guangdong nuclear power project or the possible technical assistance programme. I shall consult the Prime Minister separately about these.

*John
for holes.*

John Holmes, Esq.,
Foreign and Commonwealth Office.

TOP SECRET



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OF 2 COPIES

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10 DOWNING STREET

From the Private Secretary

20 October 1982

HONG KONG CONTINGENCY PLANNING

The Prime Minister has noted the contents of your letter of 18 October, including the fact that you will report as soon as possible on the contingency planning which is in hand.

E. I. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

TOP SECRET

A



Foreign and Commonwealth Office

London SW1A 2AH

20 October 1982

Dear Idan,

Future of Hong Kong: Prime Minister's
Meeting at 4.15 pm on 21 October 1982

The Department have suggested that at the meeting tomorrow the Prime Minister may wish to cover the following points. This 'annotated agenda' is being submitted to Mr Pym in parallel, but I thought you would wish to have it tonight.

i) Progress of discussions in Peking

CA
Sir Percy Cradock has reported in Peking telegram number 672 on his meeting with Vice Foreign Minister Zhang Wenjin on 19 October. The Chinese have still to reply to the points made by the Ambassador but there is a fair prospect that they will agree to the start of substantive talks, although they are likely to reiterate their position on sovereignty strongly. If they do agree to talks it would probably be best to involve the Governor of Hong Kong in the next round. We should try to make this an opportunity to educate the Chinese on the real basis of confidence in Hong Kong and to provide some detail on the way in which the present administrative system supports this. We could concentrate on getting across the following points:

- a. The extent of long-term investment in the Territory, including proportions of domestic and overseas capital.
- b. The basis of the Hong Kong dollar and its relationship with other currencies.
- c. The extent of Hong Kong's overseas commercial links including the importance of the UK Treaty relationships, eg GATT.
- d. Relations between government and the private sector in financial and economic affairs.

ii) Education of the Chinese leadership

B
Your letter of 13 October passed on the Prime Minister's request for a detailed plan. A draft is enclosed which takes ANNEX. into account suggestions by the Governor and the Ambassador in Peking. The essential points are:

/a.



- a. The message. We need to convince the Chinese leaders that people in Hong Kong and investors regard British administration as an insurance against Chinese interference. We are not arguing about the respective administrative talents of the British and Chinese, but about Hong Kong lack of faith in Chinese assurances that they will allow the Hong Kong way of life to continue unchanged.
- b. Selectivity. We are trying to reach the highest level of the leadership. We need to choose messengers who are reliable and have good access.
- c. Possible messengers. The most effective are likely to be the Americans, heads of international financial bodies and senior Hong Kong figures if they can be persuaded to put the message over. We have not provided a detailed programme of contacts with the Chinese since this will obviously depend on when particular individuals will be in China. But we do believe that we should bring the Americans into play as soon as we can.

iii) Briefing of the Americans

We need to consider urgently how to make use of the Americans in any contacts which they have with the Chinese. The Prime Minister has asked that, if possible, arrangement should be made for her to see Dr Kissinger for a private talk. Dr Kissinger is not yet back in Washington after his visit to China but Mr Walden saw his staff officer last week and passed on the message. (We understand that Dr Kissinger will be in London around 13 November). Meanwhile the Governor of Hong Kong has reported (Hong Kong telegram number 1179) that Sir Y K Pao has been told by Dr Kissinger that Deng Xiaoping gave him an account of Chinese thinking about the future of Hong Kong.

We also have the offer of help by Secretary of State Shultz. No action has been taken on this but we know from the Embassy in Washington that there is much interest at a high level on the American side about Mrs Thatcher's visit to China and Hong Kong. Mr Walden understands that Dr Kissinger is likely to tell Mr Shultz what Deng told him. There is therefore a strong argument for taking the Americans into our confidence and discussing with them how they might help in putting over the message about confidence in Hong Kong. We suggest that Sir Oliver Wright be asked to take this up either directly with Mr Shultz or with the Under Secretary for Far Eastern Affairs in the State Department. It would be right

/to give



to give the Americans a fairly full briefing and also to mention the Prime Minister's intention to speak to Dr Kissinger.

iv) Other Work Commissioned by the Prime Minister

B

Your letter of 13 October mentioned:

- a. Treaty of Friendship and Cooperation with China. Work is urgently in hand.
- b. Gestures to Hong Kong. We are working on precise proposals. The most reassuring moves would be to meet Hong Kong's requests on nomenclature in their passports and on overseas students' fees. The Prime Minister will be discussing the former with the Foreign and Home Secretaries later on 21 October.

v) Briefing of the Hong Kong Executive Council (EXCO)

D

As the Prime Minister will know, Sir S Y Chung, the Senior Unofficial Member of the Hong Kong Executive Council, visited London last week. The Governor has now reported (Hong Kong telegram numbers 1202-3) on Sir S Y Chung's disappointment that he did not receive firmer assurances on a number of points which he had raised. His main concern focussed on:

- a. His wish for an assurance that there would be no departure from the position proposed by Unofficials to the Prime Minister in September (that sovereignty would only be conceded if it was the only way to achieve continuing British administration) without further prior consultation with the Unofficials.
- b. That he was unable to obtain any more precise commentary on the recent Chinese statements about the future which would enable him to convince his colleagues that in the discussions with the Prime Minister the Chinese had not gone a good way in proposing details of the sort of administration which they would like to see in Hong Kong.

In fact, Sir S Y Chung was assured that the Prime Minister's discussions had been concerned only with issues of principle and had not been in any way a negotiation. Sir E Youde has already made these points to the EXCO on 19 October. However, in his view, this is not enough to reassure the Unofficials and there is a danger of their becoming more suspicious and disaffected if we do not take them somewhat further into our confidence. He therefore proposes a line which he could give to Sir Y S Chung to pass to his colleagues on 22 October. This would involve giving some general idea of the line taken by the Chinese with the Prime



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Minister, would make clear that we were working on the basis that continuing British administration was essential and would give an undertaking about further discussion with them before our position was changed.

In our view, the dangers to which the Governor points are real ones. The Hong Kong Unofficials are analagous to local ministers in other types of dependent territory and are strongly conscious that they may be criticised if they are not seen to maintain contact with and be in the full confidence of HMG. We could face a difficult problem with the Unofficials and their concern would be likely to spread more widely in Hong Kong .

On the other hand, we must avoid letting the Unofficials believe that they can expect a 'blow by blow' account of all that passes between the Chinese and British Governments during negotiations, and a right of veto on detailed points. The line proposed by the Governor seems to us to meet these requirements except that it would be better not to refer to 'consultation', as he recommends, but to say that we would of course hold full discussions with the Unofficials before we took any decision on major changes in our negotiating position.

vi) Bilateral Relations with China

E I wrote to you on 15 October about how we should now handle the bilateral issues outstanding from the Prime Minister's visit in the light of our concern about Hong Kong. The issues are the Luda destroyer project, the Guangdong nuclear power project and technical assistance.

Yours ever
J E Holmes
(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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FUTURE OF HONG KONG : EDUCATION OF CHINESE LEADERSHIP

Objective

1. To convince the Chinese that continuity of administration of Hong Kong, with control from London, not Peking, is necessary for the maintenance of confidence, stability and prosperity in the Territory. The message would vary in detail, depending upon the messenger, but would contain the following elements:

- a. Hong Kong has developed through a combination of the British connection, local talent and cooperation by China;
- b. There is no argument about the ability of Chinese people in Hong Kong to run their own administration;
- c. The value of the British link lies not in the presence of British administrators but in the insurance which it provides against interference from Peking. It is a fact that the majority of the population of Hong Kong came there to avoid living in Communist system. Assurances by the Chinese Government that the present economic and social system would remain would not provide sufficient insurance either for investors or residents.

/d.

- d. The announcement of the severing of the link with London would thus damage commercial confidence, impel people to leave Hong Kong and seriously affect its economy. Confidence could pick up later, when Peking had demonstrated for some time that it would allow Hong Kong to continue its present economic and social system. But by then it would be too late. Other East Asian countries, eg Singapore, would have taken over Hong Kong's functions and Hong Kong would not recover.

Background

2. The Chinese have undertaken a major press campaign to sell the thesis that recovery and exercise of Chinese sovereignty is a foregone conclusion. A denial that continued British administration would be allowed is one element of this. However, there is no point in trying to counter with a public campaign of our own. Assertion of our view would only goad the Chinese to further and stronger public statements from which it would be difficult for them to retreat. Our target is not opinion in Hong Kong or the world. We need to convince key figures in the Chinese leadership. There is no guarantee that we shall succeed. However the attempt is worth making.

Direct HMG/Chinese official contacts

3. Any moves by British representatives will be seen by the

/Chinese

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FM HONG KONG 201005Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1203 OF 20 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

MIPT.

FUTURE OF HONG KONG.

1. IT WILL BE EVIDENT THAT THE SENIOR UNOFFICIAL HAS COME BACK FROM LONDON SUSPICIOUS THAT SOMETHING IS GOING ON WHICH WE ARE NOT PREPARED TO REVEAL AND CLOSE TO BEING CONVINCED THAT HMG IS NOT PREPARED TO TRUST THE UNOFFICIALS. I NEED NOT DILATE ON THE DAMAGE THAT WILL BE DONE HERE IF THIS IMPRESSION IS ALLOWED TO GAIN GROUND.
2. THE CHINESE ARE PLAINLY INTENT ON SPREADING KNOWLEDGE OF THIS PLAN. THEY ARE CONTINUING TO TALK TO THIRD PARTIES (PEKING TELNO 669). TWO MORE VISITORS HAVE RETURNED TO HONG KONG FROM PEKING IN THE LAST WEEK HAVING BEEN BRIEFED BY LIAO CHENGZHI (THE POLITBURO MEMBER WITH RESPONSIBILITIES FOR HONG KONG AND MACAO). ONE WAS TOLD OF THE CHINESE INTENTION TO ANNOUNCE THEIR PLANS WITHIN THE NEXT YEAR OR TWO. THIS IS PROBABLY ONLY PART OF THE PICTURE.
3. IF WE LET THIS GO ON WITHOUT COUNTER ACTION WE RISK GIVING THE IMPRESSION THAT WHILE THE CHINESE ARE PREPARED TO LET THEIR POSITION BE KNOWN WE ARE NOT PREPARED TO TAKE EVEN OUR OWN UNOFFICIALS INTO OUR CONFIDENCE. NOR CAN WE ALLOW THE IMPRESSION TO GROW THAT WE ARE LEAVING THE CHINESE POSITION UNCHALLENGED. FAILURE TO RESPOND WILL BE INTERPRETED AS DRIFT NOT AS A SIGN OF STRONG NERVES.
4. NO ONE IS SUGGESTING A DEBATE IN PUBLIC WITH THE CHINESE, AND THERE IS NO QUESTION OF REVEALING THE DETAILED CONTENTS OF OUR TALKS WITH THEM. BUT IF WE ARE TO HOLD THE CONFIDENCE OF UNOFFICIALS (AND IT IS ESSENTIAL THAT WE DO SO) WE SHALL HAVE TO DO SOMETHING QUICKLY TO COUNTER THE IMPRESSION WHICH SIR S.Y. CHUNG HAS BROUGHT BACK FROM LONDON. TO ACHIEVE THIS WE SHALL HAVE TO BE FRANKER THAN WE HAVE BEEN PREPARED TO BE SO FAR.
5. I THEREFORE RECOMMEND THAT I SHOULD NOW BE AUTHORISED TO CONVEY THE FOLLOWING TO HIM, AS A RESPONSE TO THE POINTS HE MADE IN LONDON.
 - (A) IT IS TRUE THAT THE CHINESE HAVE SAID THAT THEY PROPOSE TO RECOVER SOVEREIGNTY IN 1997: THAT THEY HAVE IDEAS OF MAKING HONG KONG A SPECIAL ADMINISTRATIVE ZONE RUN BY LOCAL PEOPLE: AND APPEAR TO THINK THAT ALL ELSE COULD REMAIN UNCHANGED. SOME OF THE ELEMENTS IN THE CHINESE POSITION, IN PARTICULAR SOVEREIGNTY, ARE CLEARLY MATTERS OF PRINCIPLE. IN OTHER AREAS, SUCH AS ADMINISTRATIVE CONTROL, THEY MAY BE SEEKING TO ESTABLISH A BARGAINING POSITION OR TESTING THE WATERS OF PUBLIC OPINION. THE SAME APPLIES TO SOME OF THE IDEAS WHICH THEY HAVE BEEN PUTTING TO THE PRESS AND LOCAL VISITORS, SUCH AS THE IDEA OF A CHINESE GOVERNOR.

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/ (B)

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(B) THE PM'S TALKS IN PEKING WERE CONCERNED WITH BROAD PRINCIPLES AND NO DETAILED PACKAGE WAS PUT TO HER. IT WAS NOT A NEGOTIATING VISIT AND NOTHING HAS BEEN CONCEDED TO THE CHINESE. THE DIPLOMATIC TALKS ARE STILL AT A PRELIMINARY STAGE.

(C) AS THE PM MADE CLEAR TO UMELCO, WE SHALL BE SEEKING TO CONVINCING THE CHINESE THAT THEIR PLANS WILL NOT WORK AND THAT CONTINUING BRITISH ADMINISTRATION IS ESSENTIAL TO STABILITY AND PROSPERITY. THE BRITISH POSITION IS THEREFORE WELL WITHIN THE VIEWS PUT TO THE PM BY THE UMELCO DELEGATION.

(D) THERE WILL BE NO DEPARTURE FROM THIS POSITION WITHOUT CONSULTATION WITH UNOFFICIALS, EITHER THROUGH EXCO, OR THROUGH UMELCO AS THE CIRCUMSTANCES REQUIRE.

(E) I WILL TAKE PART IN THE TALKS AS AND WHEN NECESSARY.

6. THIS WOULD IN EFFECT GIVE SIR S.Y. CHUNG THE ASSURANCE HE HAS SOUGHT (PARA 2 OF MIPT). (I CANNOT IMAGINE THAT HMG WOULD WISH TO MAKE A SUBSTANTIAL CHANGE OF COURSE WITHOUT SUCH CONSULTATION).

7. I WOULD THEN TELL SIR S.Y. CHUNG THAT HE COULD USE THE ABOVE IN STRICT CONFIDENCE WITH UMELCO, OR, IF HE PREFERRED, I WOULD ATTEND THEIR MEETING WITH HIM ON FRIDAY AND SAY IT ON YOUR BEHALF (I SHALL IN ANY CASE HAVE TO MEET UMELCO AGAIN FAIRLY SOON AS PART OF MY REGULAR CONTACTS WITH THEM).

8. UMELCO'S RECORD OF MAINTAINING CONFIDENTIALITY HAS SO FAR BEEN GOOD. NO WORD OF WHAT THE PM SAID TO THEM HAS LEAKED. EVEN IF THERE WAS A LEAK THIS TIME WE WOULD NOT COMMENT ON IT, AND IT COULD ONLY HELP CONFIDENCE BY CONFIRMING THAT UNOFFICIALS ARE BEING KEPT INFORMED.

9. GRATEFUL FOR A REPLY DESKBY 220030Z.

YOUDE

FUTURE OF HONG KONG

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Chinese as, to an extent, special pleading. They are therefore in a different category from the use of third parties. But they have the advantage that we can be sure we are putting the exact message across. We should use the talks themselves for this purpose. We could provide further explanation of the attitudes of investors to Hong Kong and the importance of the present commercial treaty arrangements benefitting Hong Kong through the UK. Briefings could be given by senior Hong Kong officials such as the Chief or Financial Secretary.

4. Contacts with Chinese Embassy in London. We should build on the Embassy's interest in promoting Sino-British relations to take a frank line on the reasons why British administration is valued and to emphasise that our stand remains firm. The Ambassador should be seen personally on his return, either by the Secretary of State or the Prime Minister.

Other channels

5. We should select those channels which are likely to be sympathetic to us and effective with the Chinese. Too much dissemination of effort will not help, particularly since with every potential intermediary we should need, to obtain his help, to give some account of the content of the Prime Minister's discussions in Peking. The risks of leaks and damage to confidence in Hong Kong should be minimised.

/Selection

Selection

6. The most effective channels are likely to be:

- i. Foreign Governments and senior personalities;
- ii. Senior British and overseas commercial figures;
- iii. Hong Kong personalities.

7. For (i), (ii) and (iii) a process of continuous selection is necessary as follows:

- a. Identification of categories;
- b. Selection of individuals likely to visit China and to meet major figures there in the near future. This can be done by HM Ambassador Peking and in London, Hong Kong, Washington and in some cases Tokyo (through which many visitors travel). The US Consulate-General in Hong Kong could help.

Foreign Governments and personalities and international organisations

8. a. The Americans.

- i. The Prime Minister is already planning to see Dr Kissinger. He should be asked on his next visit to China to put the line frankly;
- ii. Mr Shultz. We should also take up the offer by the US Secretary of State.

/b.

- b. The Australians. Less influential with the Chinese than the Americans but keen to help and likely to put the message across reliably. If they are used it would be important to select a senior figure such as Mr Fraser or one of his nominees. We should particularly impress the need for security on them to avoid leaks. The Australian press is notoriously aggressive in worming out secrets.
- c. World Bank, IMF. Could be very influential. We should consult [redacted] Washington about the effectiveness and reliability of the President of the World Bank and the Managing Director of the IMF. (The latter, who is French, might well tell the French Government).

British and overseas firms

9. a. GEC. Lord Carrington's appointment as Executive Chairman provides an excellent opportunity for contact with the Chinese leaders. Lord Carrington, however, might more effectively be used as a special emissary at some stage in the negotiations. He should therefore be kept in reserve.

Other firms may not be so effective. Much would depend upon their access and the political acumen of their chiefs.

Possibilities are:

- b. Banks. Barclays and the Midland Bank gave a presence in China, and the Chairmen of Lloyds Bank,

/Sir Jeremy Morse,

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Sir Jeremy Morse, and the National Westminster, Mr Leigh-Pemberton, have frequent contact with the Chinese;

- c. BP have increasingly close contacts with the Chinese, over oil exploration off South China;
- d. Inchcape. A major Far East trading firm with an office in Peking. Lord Inchcape visits China regularly, but he is shortly to be replaced by Sir David Orr (ex Unilever).
- e. US Bankers. A number have offered to help. Possibilities are Chase Manhattan Bank, the First National Bank of Chicago and other American organisations. We might also consider Robert McNamara, former President of the World Bank.

Intermediaries from Hong Kong

10. Those who have already been seen by the Chinese have not had the courage to put the message over. The use of Hong Kong people will only be effective if they are willing to speak frankly to the Chinese. Lord Kadoorie, who although not Chinese has good contacts with the Chinese leaders, seems the best available person. Others include Mr F W Li (Executive Council) and Mr Francis Tien (Legislative Council). Another possibility might be Sir Y K Kan. But we shall have to rely on the Governor to choose messengers according to their reliability and access to the Chinese.

/Briefing

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Briefing

11. This should be tailored to the individual messenger although the basic points should be the same. Briefing can be carried out in London, Hong Kong, Washington (in the case of the Americans) or even Peking (by the Ambassador).

Suggested Action

12. a. Telegram to Washington instructing them to discuss with State Department and asking for advice on bringing in IMF and World Bank.
- b. Discussions with Dr Kissinger (about 13 November).
- c. Meeting of Prime Minister or Secretary of State with Chinese Ambassador.
- d. Discussions with Australians. Lord Belstead could raise during his visit to Australia from 31 October.
- e. Early discussion with Lord Carrington.
- f. Instructions to Peking, Tokyo, Washington, Hong Kong to identify and report likely senior visitors to China.
- g. Early identification in London of senior commercial personalities likely to visit China.

Hong Kong and General Department

20 October 1982

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1202 OF 20 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

FUTURE OF HONG KONG

1. SIR S.Y. CHUNG, THE SENIOR UNOFFICIAL MEMBER OF EXECUTIVE COUNCIL, CAME TO SEE ME TODAY TO TELL ME ABOUT HIS VISIT TO LONDON. HE SAID THAT HE HAD COME BACK QUOTE DEPRESSED AND DISAPPOINTED UNQUOTE. HE HAD NOT RECEIVED ASSURANCES ON POINTS THAT HE HAD THOUGHT WERE SELF-EVIDENT NOR HAD HE BEEN GIVEN ANSWERS TO THE QUESTIONS HE HAD RAISED. THERE WAS NOW A REAL SUSPICION IN HIS MIND THAT, WHILE A NUMBER OF PEOPLE IN LONDON WERE EVIDENTLY ALLOWED TO KNOW WHAT WAS GOING ON, HMG WAS NOT APPARENTLY PREPARED TO TRUST HIMSELF OR THE UNOFFICIALS. AMONG THE MORE IMPORTANT POINTS HE MADE WERE THE FOLLOWING.

2. HE SAID THAT HE HAD SPOKEN IN HIS MEETINGS IN LONDON OF HIS UNDERSTANDING THAT THERE WOULD BE NO DEPARTURE FROM THE POSITION TAKEN BY THE UNOFFICIALS (THAT SOVEREIGNTY WOULD BE CONCEDED ONLY IF IT WAS THE ONLY WAY TO ACHIEVE CONTINUING BRITISH ADMINISTRATION) WITHOUT FURTHER PRIOR CONSULTATION WITH THE UNOFFICIALS. HE HAD BEEN QUOTE MUCH SURPRISED UNQUOTE AND QUOTE DOWNCAST UNQUOTE THAT AN ASSURANCE ON THIS HAD NOT BEEN FORTHCOMING.

3. HE HAD EXPRESSED CONCERN AT THE TACTICS BEING EMPLOYED BY THE CHINESE IN SPREADING REPORTS BOTH INSIDE AND OUTSIDE HONG KONG AND ABOUT THE EFFECT THESE WERE HAVING ON CONFIDENCE. HE HAD ARGUED THE NEED FOR SOME COUNTER ACTION AND IN PARTICULAR THAT IT WAS ESSENTIAL THAT UNOFFICIALS BE KEPT INFORMED OF THE SITUATION IN ORDER TO DISPEL MISUNDERSTANDING AND MISTRUST. HE HAD HAD QUOTE NO POSITIVE RESPONSE UNQUOTE TO HIS SUGGESTIONS. (HE ADDED THAT IF NO GUIDANCE WERE GIVEN TO UNOFFICIALS ON WHAT THE CHINESE WERE SAYING THEY WOULD INEVITABLY DRAW THEIR OWN CONCLUSIONS ON WHY THEY WERE BEING KEPT IN THE DARK).

4. IN THIS CONNECTION HE HAD ASKED ABOUT THE GAVSHAN REPORT IN THE OBSERVER FOR 10 OCTOBER THAT A SET OF 5 PRINCIPLES HAD BEEN PUT TO THE P.M. NO ONE WAS READY TO TELL HIM WHETHER IT WAS TRUE OR NOT (I TOLD HIM IT WAS NOT).

5. HE HAD REPEATED THE VIEW OF THE UNOFFICIALS THAT I SHOULD BE A MEMBER OF THE NEGOTIATING TEAM. HE HAD BEEN TOLD THAT NO DECISION HAD BEEN TAKEN ON THE COMPOSITION OF THE NEGOTIATING TEAM. (I TOLD HIM THAT THERE MUST BE SOME MISUNDERSTANDING AND THAT IT HAD ALREADY BEEN AGREED THAT I WOULD BE INVOLVED AS AND WHEN NECESSARY).

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6. I WENT OVER WITH HIM THE POINTS I HAD MADE TO EXCO YESTERDAY (WHERE THEY WERE RECEIVED WITH LITTLE COMMENT) EMPHASISING THE MIXTURE OF ELEMENTS IN THE CHINESE INDISCRETIONS: THAT THE PM'S TALKS HAD NOT BEEN A NEGOTIATING SESSION: AND THAT SHE HAD CONCEDED NOTHING. I ALSO RECALLED HER TALK WITH UMELCO AND IN PARTICULAR THE POINT THAT WE SHOULD BE SEEKING TO CONVINCING THE CHINESE ON THE NEED FOR CONTINUING BRITISH ADMINISTRATION AND HER ASSURANCES ON CONSULTATION. BUT HE WAS NOT TO BE COMFORTED.

7. HE WILL NOW REPORT ON HIS VISIT TO HIS COLLEAGUES AT THE REGULAR UMELCO MEETING ON 22 OCTOBER. I AM CONCERNED AT THE EFFECT HIS REPORT COULD HAVE.

8. SEE M.I.F.T.

YOUDE

FUTURE OF HONG KONG

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TO IMMEDIATE FCO

TELEGRAM NUMBER 673 OF 19/10/82

REPEATED FOR INFO TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

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PERSONAL FOR DONALD

YOUR TELNO 856 TO HONG KONG: FUTURE OF HONG KONG

1. I AGREE BROADLY WITH THE IDEAS IN TUR, BUT HAVE THE FOLLOWING SPECIFIC COMMENTS.

(A) THIS EMBASSY AND HONG KONG REPRESENTATIVES TAKING PART IN THE TALKS WILL NECESSARILY BE THE MAIN CHANNEL OF CONTACT WITH THE CHINESE AND WILL HAVE TO TAKE THE LEAD IN THE EDUCATION PROCESS. ALTHOUGH WE SHOULD TAKE ADVANTAGE OF ALL THE HELP WE CAN GET FROM OTHERS TO CORROBORATE WHAT WE ARE SAYING, WE SHOULD NOT EXPECT THEM TO DO OUR WORK FOR US WHILE WE REMAIN DIFFIDENT FOR FEAR OF OUR APPROACHES BEING SEEN AS SPECIAL PLEADING. I THEREFORE FEEL THAT WE SHOULD BE LISTED AS ITEM (A) NON THE LIST, NOT (F) .

(B) THE CHINESE EMBASSY IN LONDON HOWEVER IS AN UNRELIABLE CHANNEL EVEN ON RELATIVELY SIMPLE BUSINESS AND I AM DISINCLINED TO RECOMMEND THAT WE ATTEMPT TO GET ANYTHING COMPLICATED OVER TO THE CHINESE THROUGH THIS CHANNEL. HOWEVER KE HUA WILL UNDOUBTEDLY RETURN TO LONDON WITH INSTRUCTIONS TO FIND OUT HOW FIRM MRS. THATCHER'S STAND IS. IT IS IMPORTANT THAT HE SHOULD BE GIVEN NO REASON TO THINK THAT IT IS NOT FIRM. IT COULD BE USEFUL IF HE COULD BE CONVINCED OF THE CONSTITUTIONAL IMPOSSIBILITY OF MAKING CONCESSIONS ON SOVEREIGNTY IN ADVANCE OF SATISFACTION ON ADMINISTRATION.

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/ (c)

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(C) ALTHOUGH WE WISH TO DO MORE THAN MERELY EDUCATE THE CHINESE IN ECONOMIC REALITIES, I DO NOT THINK WE CAN SAY THAT WE ARE PAST THAT STAGE (YOUR PARA 1(H)). WE HAVE REALLY BARELY BEGUN. THEIR DEEP IGNORANCE IN THIS FIELD IS AT THE ROOT OF OUR DIFFICULTIES, SECOND ONLY TO THE EMOTIONAL/POLITICAL PROBLEM OF SOVEREIGNTY.

2. POTENTIALLY THE BEST CORROBORATIVE EFFORT COULD COME FROM HONG KONG PEOPLE. IT IS THEIR INTERESTS THAT ARE PRIMARILY AT STAKE. THEY KNOW THE TERRITORY AND MANY OF THEM HAVE REGULAR HIGH-LEVEL ACCESS HERE. UNFORTUNATELY VISITING HONG KONG BUSINESSMEN HAVE SELDOM IF EVER BEEN DISPOSED OR COURAGEOUS ENOUGH TO SPEAK FRANKLY TO THE CHINESE. SEEN FROM HERE IT WOULD BE VERY HARD TO SELECT PEOPLE WHO WERE RELIABLE, YET NOT ALSO SEEN TO BE CLOSELY LINKED WITH US. THIS IS FOR THE GOVERNOR TO ADVISE. IF THE RIGHT PEOPLE COULD BE FOUND TO SPEAK ON THE RIGHT LINES, THEY COULD BE A POWERFUL HELP TO US.

3. MOVING NOW TO THIRD COUNTRIES , I AGREE THAT THE AMERICANS ARE LIKELY TO BE THE BEST BET. SHULTZ'S OFFER SHOULD BE TAKEN UP, BUT THERE IS A PROBLEM IN THAT SHULTZ HAS NOT YET HAD THE OPPORTUNITY TO BUILD ANY KIND OF PERSONAL RELATIONSHIP WITH CHINESE LEADERS SUCH AS THAT ENJOYED BY HIS PREDECESSOR. WE SHALL NEED TO CONSIDER CAREFULLY HOW BEST HIS OFFER MIGHT BE UTILISED AND THE AMERICANS THEMSELVES MAY WISH TO GIVE IT SOME THOUGHT. IF YOU AGREE I SHOULD LIKE TO SPEAK ON A STRICTLY CONFIDENTIAL AND PERSONAL BASIS TO THE AMERICAN AMBASSADOR TO DISCUSS WITH HIM WHEN A SUITABLE OPPORTUNITY MIGHT ARISE AND HOW BEST TO HANDLE IT.

4. THE AUSTRALIANS HAVE SHOWN A KEEN INTEREST IN THE HONG KONG QUESTION. THEY HAVE BEEN HELPFUL IN INFORMING US OF CHINESE REMARKS TO THEM ON THE SUBJECT AND HAVE BEEN DISCREET IN THEIR HANDLING OF THE MATTER. I AM SURE THEY WOULD BE PREPARED TO SPEAK HELPFULLY. THEIR INTERESTS HERE ARE GENERALLY NOT IN COMPETITION WITH OUR OWN AND I WOULD BE INCLINED TO TREAT THEM AS A MORE RELIABLE CHANNEL THAN OUR EC COLLEAGUES OR THE JAPANESE (AND PERHAPS MORE RELIABLE THAN THE AMERICANS, BUT WITHOUT COMPARABLE INFLUENCE) AND THUS TO USE THEM MORE READILY FOR ANY "INITIATIVE".

5. INTERNATIONAL ORGANISATIONS SUCH AS THE WORLD BANK AND THE IMF COULD BE VERY HELPFUL. I BELIEVE THAT EARLY USE SHOULD BE MADE OF THESE. I AM NOT SO SURE ABOUT COMMERCIAL FIRMS

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/SINCE

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SINCE ANY USEFUL APPROACH WILL NEED TO TAKE SOME ACCOUNT OF CHINESE POLITICAL SENSIBILITIES.

LORD CARRINGTON WOULD BE AN EXCEPTION OF COURSE.

6. APPROACHES TO THIRD PARTIES OF THE KIND CONTEMPLATED WILL MEAN SLIGHTLY WIDENING THE CIRCLE OF KNOWLEDGE, AND MAY ALSO SEEM TO CONTRADICT OUR WARNINGS TO THE CHINESE TO MAINTAIN CONFIDENTIALITY. WE SHOULD NOT GO FURTHER THAN IS NECESSARY. WE COULD EXPLAIN OUR APPROACH BY SAYING WE FEAR THE CHINESE ARE STILL UNAWARE OF THE EFFECT ON CONFIDENCE AND INVESTMENT OF SUBSTANTIAL CHANGES IN CONTROL OF HONG KONG AND ARE STILL OVER-CONFIDENT OF THEIR ABILITY TO RUN THE PLACE THEMSELVES.

7. IT WILL ALSO BE NECESSARY TO BRIEF OUR HELPERS VERY PRECISELY ON WHAT THEY ARE TO SAY TO THE CHINESE. IT WILL NOT SUFFICE TO EXPRESS GENERAL WORRIES ABOUT THE FUTURE OF HONG KONG. THEY MIGHT SAY SOMETHING ON THE FOLLOWING LINES. DRASTIC CHANGES COULD DESTROY CONFIDENCE IN HONG KONG. THE PROSPERITY OF HONG KONG DEPENDS UPON A GUARANTEE OF STABILITY AND CONTINUITY SUCH AS BRITISH ADMINISTRATION HAS PROVIDED. CHINESE ADMINISTRATION MAY ONE DAY BE ABLE TO OFFER SUCH A GUARANTEE BUT THE RECENT COURSE OF CHINESE HISTORY IS SUCH THAT INVESTORS WILL NOT BE PREPARED TO TAKE THAT KIND OF RISK IN THE SHORT-TO-MEDIUM TERM FUTURE.

8. IT WILL ALSO BE NECESSARY TO PREPARE THEM FOR CHINESE ASSURANCES THAT THEIR PARTICULAR INVESTMENTS WILL NOT BE THREATENED. (SOMETHING SIMILAR HAS ALREADY BEEN SAID TO THE JAPANESE.) THE ANSWER IS THAT GUARANTEED INVESTMENTS IN A WASTELAND ARE OF LITTLE VALUE.

CRADOCK

FUTURE OF HONG KONG

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TO IMMEDIATE FCO

TELEGRAM NUMBER 672 OF 19/10/82

REPEATED FOR INFO TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

Prime Minister

Somewhat more encouraging.
We can discuss at our
meeting arranged for Thursday.

PERSONAL FOR DONALD

YOUR TEL NO 481.

FUTURE OF HONG KONG.

A. J. C. 19/10

1. I CALLED ON VICE FOREIGN MINISTER ZHANG WENJIN THIS MORNING AND SPOKE AS INSTRUCTED, MAKING THE POINTS-

(A) THE PRIME MINISTER REGARDED THE JOINT STATEMENT AGREED BY HERSELF AND DENG AS THE BASIS FOR THE TALKS. THIS WOULD NOT MEAN THE CHINESE SIDE WOULD BE GIVING UP THEIR POSITION, OF WHICH WE WERE FULLY AWARE, BUT AS MRS THATCHER MADE CLEAR TO CHINESE LEADERS, SHE COULD ONLY CONSIDER MAKING RECOMMENDATIONS ON SOVEREIGNTY IF THE PRACTICAL ARRANGEMENTS FOR THE FUTURE ADMINISTRATION SEEMED

~~CONSIDERATIONS ON SOVEREIGNTY IF THE~~
PRACTICAL ARRANGEMENTS FOR THE FUTURE ADMINISTRATION SEEMED
SATISFACTORY.

(B) CHAIRMAN DENG SAID THAT THE TALKS SHOULD, AMONG OTHER MATTERS, COVER ARRANGEMENTS FOR THE PERIOD AFTER 1997. WE PROPOSED THEREFORE THAT THE NEXT STAGE SHOULD BE AN EXCHANGE OF VIEWS ON THE PRACTICAL ARRANGEMENTS FOR ADMINISTRATION. IN ORDER TO SEE WHETHER THESE MET THE REQUIREMENTS OF STABILITY AND PROSPERITY WE SHOULD LIKE TO HEAR MORE ABOUT THE CHINESE IDEAS.

(C) TO SUM UP, WE PROPOSED THAT, DESPITE THE DIFFERENCES ON CERTAIN BASIC POINTS, WE SHOULD BEGIN SUBSTANTIVE TALKS VERY SOON. I STRESSED AGAIN THAT, AS WOULD BE CLEAR FROM MRS THATCHER'S REMARKS TO CHINESE LEADERS, WE HAD NO INTENTION OF BRUSHING ASIDE THE QUESTION OF SOVEREIGNTY. WE WERE WELL AWARE OF THE CHINESE POSITION OF PRINCIPLE ON THE HONG KONG QUESTION WHICH HAD BEEN OUTLINED TO US ON SEVERAL OCCASIONS.

2. ZHANG THANKED ME FOR MY MESSAGE AND SAID HE WOULD HAVE TO REPORT. AFTER STUDYING OUR COMMENTS, THE CHINESE WOULD REPLY. THE CHINESE POSITION HAD BEEN MADE CLEAR BY THEIR LEADERS TO MRS THATCHER AND BY ZHANG HIMSELF AT OUR MEETING ON 5 OCTOBER. THERE WAS NO NEED TO REPEAT IT. THEY WOULD, HOWEVER, CAREFULLY STUDY OUR MESSAGE.

3. ZHANG WENT ON TO SAY THAT THE CHINESE SIDE ATTACHED GREAT IMPORTANCE TO THE TALKS AND WOULD ADOPT A FORTHCOMING AND CONSTRUCTIVE ATTITUDE. HE HOPED THE TALKS WOULD BE SUCCESSFUL AND WOULD RESOLVE THE DIFFERENCES BETWEEN THE TWO SIDES. THE BRITISH WERE CLEAR ABOUT THE CHINESE BASIC POSITION AS EXPLAINED BY CHINESE LEADERS.

4. IN REPLY I WELCOMED ZHANG'S COMMENTS IN PARA 3 ABOVE. WE AHDRED THAT POSITIVE APPROACH. I HOPED IN VIEW OF THESE REMARKS WE COULD EXPECT AN EARLY REPLY. ZHANG SAID HE HOPED SO TOO.

5. I ASKED WHETHER THE CHINESE HAD YET ANY COMMENTS ON THE

5. I ASKED WHETHER THE CHINESE HAD YET ANY COMMENT ON THE PROPOSALS ON MODALITIES PUT TO THEM ON 5 OCTOBER. ZHANG SAID HE PREFERRED TO COMMENT ON THIS TOGETHER WITH THE SUBSTANTIVE POINTS IN ONE PACKAGE.

6. FINALLY, I SPOKE AS IN PARA 8 OF TELEGRAM UNDER REFERENCE ABOUT STATEMENTS BY CHINESE OFFICIALS TO THIRD PARTIES. ZHANG MADE A RATHER WOOLLY REPLY, SAYING HE AGREED THE CHINESE WOULD CERTAINLY TREAT THE TALKS AS HIGHLY CONFIDENTIAL. BUT THEY WOULD FROM TIME TO TIME HAVE TO MAKE THEIR BASIC POSITION CLEAR.

HE CLAIMED THAT THIS HAD NO DIRECT BEARING ON THE TALKS. PEOPLE OUTSIDE WERE VERY INTERESTED AND IT WOULD BE HARD TO AVOID SOME STATEMENTS. OTHERWISE THIS COULD GIVE RISE TO MORE SPECULATION. HE SAID THERE HAD ALSO BEEN LOTS OF STATEMENTS IN THE BRITISH PRESS WHICH COULD HAVE BEEN DETRIMENTAL. HE WOULD NOT LIKE TO GUESS THROUGH WHICH CHANNEL THE BRITISH REPORTERS HAD OBTAINED THEIR INFORMATION. HE ADDED THAT THE HONG KONG PRESS CONFERENCE AND REMARKS ON THE TREATIES HAD GIVEN THE CHINESE "MANY HEADACHES".

7. I SAID I WAS GLAD THE CHINESE WOULD TREAT THE MATTER AS HIGHLY CONFIDENTIAL. I DID NOT ACCEPT THAT STATEMENTS ON THE CHINESE SIDE HAD NO DIRECT BEARING ON THE TALKS. I CITED EXAMPLES WHICH REVEALED WHAT HAD BEEN SAID BY CHINESE LEADERS

TO MRS THATCHER. I DENIED IT WAS NECESSARY TO FEED THE APPETITE OF THE PRESS OR THAT FAILURE TO DO SO WOULD GIVE RISE TO DAMAGING SPECULATION. RATHER THE REVERSE. DESPITE GREAT PRESSURE WE ON THE BRITISH SIDE HAD KEPT OUR MOUTHS SHUT AND WOULD CONTINUE TO DO SO. WE HOPED THE CHINESE WOULD DO THE SAME.

8. ZHANG TOOK ALL THIS REASONABLY WELL AND I HAVE NO DOUBT THE POINT HAS BEEN TAKEN, THOUGH I WOULD NOT EXPECT MORE THAN A TEMPORARY IMPROVEMENT IN CHINESE BEHAVIOUR.

9. THIS WAS A MORE RELAXED OCCASION THAN 5 OCTOBER. FROM ZHANG'S REMARKS IN PARA 3 ABOVE, AND THE FACT THAT HE DID NOT CHOOSE TO REHEARSE THE THEME OF SOVEREIGNTY, I WOULD GUESS WE CAN EXPECT A POSITIVE REPLY ON SUBSTANTIVE TALKS IN THE NEAR FUTURE.

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DESKBY 190830Z
FM HONG KONG 190650Z OCTOBER 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 1193 OF 19 OCTOBER
INFO IMMEDIATE PEKING

WJL 2/10
h.c.

YOUR TELNO 856: FUTURE OF HONG KONG

WE CERTAINLY NEED TO DO EVERYTHING WE CAN TO GET IT ACROSS TO THE CHINESE THAT THEIR PLAN WOULD NOT WORK AND THAT BRITISH ADMINISTRATION WILL CONTINUE TO BE NEEDED FOR A LONG TIME TO COME. BUT I HAVE RESERVATIONS ABOUT ANY KIND OF BLANKET OPERATION, AT ANY RATE AT THIS STAGE. THERE WOULD BE SIGNIFICANT RISKS IN SEEKING TO INVOLVE FOREIGN GOVERNMENTS OR INTERNATIONAL ECONOMIC ORGANISATIONS EXCEPT ON A VERY SELECTIVE BASIS (SEE PARA 2 BELOW). SOME OF OUR PARTNERS WILL NOT NECESSARILY BE SYMPATHETIC TO OUR POINT OF VIEW, AND WE COULD NOT BE SURE THAT ANYTHING WHICH THEY SAID TO THE CHINESE WOULD BE HELPFUL.

2. AS SEEN FROM HERE, IT WOULD BE BETTER TO THINK IN TERMS OF A MORE CLOSELY TARGETTED OPERATION, AIMED AT THOSE LIKELY TO COME INTO CONTACT WITH THE CHINESE LEADERSHIP, AND OCCUPYING POSITIONS WHICH WILL DISPOSE THE CHINESE TO LISTEN TO WHAT THEY HAVE TO SAY. THESE WILL MAINLY BE EITHER:

A. PROMINENT FOREIGN POLITICIANS WHO CURRENTLY HOLD, OR HAVE PREVIOUSLY HELD, SENIOR GOVERNMENT POSITIONS:

B: SENIOR INTERNATIONAL BUSINESSMEN: OR

C. LEADING PERSONALITIES IN THE LOCAL CHINESE COMMUNITY.

3. THE USE OF SUCH PEOPLE WILL ONLY BE EFFECTIVE WHEN THEY HAVE DIRECT ACCESS TO CHINSE LEADERS IN PEKING. THE USE OF SECONDARY INTERMEDIARIES WOULD BE RISKY. WE NEED THEREFORE TO DEVISE A SYSTEM FOR IDENTIFYING VISITORS TO CHINA IN CATEGORIES (A) AND (B) ABOVE AS FAR IN ADVANCE AS POSSIBLE. THE AMBASSADOR WILL NO DOUBT LEARN OF FORTHCOMING VISITS BY PROMINENT FIGURES, OF OF MINISTERIAL AND SENIOR BUSINESS VISITORS. WE MAY LEARN OF OTHERS, AND IN THE CASE OF AMERICANS, COULD ASK THE U S CONSUL-GENERAL TO KEEP US INFORMED. IT WOULD BE HELPFUL TO HAVE THE AMBASSADOR'S VIEW AS TO WHETHER THERE ARE ANY OTHER FOREIGN VISITORS WITH INFLUENCE ON THE CHINESE WHO PASS THROUGH HONG KONG ON WHOSE PLANS IT WOULD BE WORTH SEEKING THE HELP OF COMMONWEALTH OR CONSULAR REPRESENTATIVES HERE.

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4. IN THE CASE OF MAJOR POLITICAL FIGURES (E G FOREIGN MINISTERS OR PEOPLE OF THE STATURE OF KISSINGER) IT WOULD BE NECESSARY TO CONSIDER ON A CASE BY CASE BASIS WHETHER BRIEFING WOULD BE WORTHWHILE AND, IF SO, WHERE IT WOULD BE BEST BE GIVEN. MANY BUSINESS VISITORS TO CHINA PASS THROUGH HONG KONG AND, GIVEN SUFFICIENT NOTICE AND DEPENDING ON THEIR IMPORTANCE, I, THE CS, FS OR THE PA COULD SEE THEM. WE ARE ALSO BEST PLACED TO BRIEF LOCAL CHINESE.

5. IN EACH CASE IT WILL BE VERY IMPORTANT TO GET THE MESSAGE RIGHT. MY RECOMMENDATIONS ON WHAT SHOULD BE SAID FOLLOW.

YOUDE

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Foreign and Commonwealth Office

Prime Minister

London SW1A 2AH

A.J.C. 10/10

18 October 1982

Dear John,

ms

Hong Kong Contingency Planning

While we seek satisfactory arrangements for the future of Hong Kong in our talks with the Chinese, we must at the same time make contingency plans for the worst case of a breakdown of the talks or a period in which little progress is made and relations with the Chinese deteriorate. This could produce two types of problem: lowered morale in Hong Kong and pressure on the Territory from the Chinese. The practical consequences could range from a sharp fall in the Hong Kong dollar to civil unrest in Hong Kong.

The Prime Minister may wish to know that the Governor of Hong Kong is already working on contingency planning at his end. We are in touch with him on supporting action which would need to be taken in London. We shall report on this as soon as possible.

Clearly it will be of the greatest possible importance to avoid any information about such planning leaking out. Knowledge is confined at present to a very small group in the FCO on a 'need to know' basis and we would adopt the same line with those few other Whitehall departments who will have to be brought in. Meanwhile, we are grading the whole exercise Top Secret.

Delivered
Home Office
Treasury.

Tommy
John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

TOP SECRET

GRS 130

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FM PEKING 180640Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 669 OF 18/10/82

MR 2/10
h-a.

REPEATED FOR INFO TO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD.

1. MY NEW ZEALAND COLLEAGUE TELLS ME THAT AT A DINNER HE ATTENDED LAST WEEK, GIVEN BY HUANG HUA FOR AN OLD UNIVERSITY FRIEND FROM NEW ZEALAND, MRS HUANG HUA REMARKED THAT PEOPLE SEEMED TO BE AFRAID TO ASK ABOUT HONG KONG. BUT THE CHINESE WERE NOT AFRAID TO SPEAK. HUANG HUA SAID THAT THEY HAD MADE IT CLEAR TO MRS THATCHER DURING HER VISIT THAT THE CHINESE HAD NO ROOM FOR MANOEUVRE ON HONG KONG. THEY WOULD RECOVER THE TERRITORY IN 1997 IF NOT BEFORE. HUANG HUA THEN WENT ON, RATHER AS IF THINKING ALOUD, TO SAY "WHEN WILL MRS THATCHER REPORT TO PARLIAMENT? I DOUBT IF SHE WILL TELL THEM THE WHOLE TRUTH.

CRADOCK

FUTURE OF HONG KONG
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MR COLLES
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10 DOWNING STREET

From the Private Secretary

18 October 1982

FUTURE OF HONG KONG: RECENT CHINESE STATEMENTS
AND BRIEFING OF HONG KONG UNOFFICIALS

Thank you for your letter of 15 October. When we spoke on the telephone on Friday night, I made the point that these papers were not quite in the most convenient form for submission to the Prime Minister. May I suggest that, in future, it would be better to have a single letter which sets out the problems and the line you propose to take, rather than a draft telegram which can only be understood in relation to other telegrams?

In the circumstances, we agreed that it would be best for the FCO to decide whether the telegram in question should be despatched.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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FM PEKING 180830Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 670 OF 18/10/82

REPEATED FOR INFO TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD

ARL 11/10
K.A.

HONG KONG TEL NO 1187 TO YOU AND YOUR TEL NO 858 TO
HONG KONG: FUTURE OF HONG KONG

1. THE TWO TURS APPEAR TO HAVE CROSSED.
I VERY MUCH PREFER THE FORMULATION IN YOUR PARAGRAPH 5.
THE ESSENTIAL POINT IS THAT WE SHOULD NOT CONFIRM THAT THE
CHINESE PUBLIC STATEMENTS ACCURATELY REFLECT THE
LINE THEY HAVE TAKEN WITH US IN CONFIDENTIAL, OFFICIAL
CONTACTS. ONCE WE DO THIS, WE ARE NEGOTIATING IN PUBLIC
- A GAME WE CANNOT WIN AND WHICH WOULD DO GREAT HARM
TO HONG KONG. IN FACT SOME OF THE STATEMENTS DO NOT REFLECT
WHAT WAS SAID IN THE TALKS.

2. ON A POINT OF DETAIL, I MUST TAKE ISSUE WITH
PARAGRAPH 2 OF HONG KONG'S TUR.

THESE STATEMENTS HAVE CERTAINLY BEEN MADE WITH A DELIBERATE
PURPOSE IN MIND. AND I GAVE MY VIEWS ON THIS IN MY
TEL NO 653. BUT THEY HAVE NOT BEEN OFFICIAL STATEMENTS
AND THEY ARE DENIABLE. THEY DO NOT FORM PART OF
THE CHINESE NEGOTIATING STAND WITH US UNLESS WE
MAKE THEM SO.

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- " PUSD
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PRIME MINISTER

Hong Kong

Last Friday you asked for an early meeting on Hong Kong. I had arranged one for Tuesday morning but learned today that Sir Percy Cradock's next meeting with the Chinese is also on Tuesday. I think it will lead to a more productive meeting if we give ourselves a little time to digest his report. I have therefore rearranged the meeting for Thursday, when we shall have quite a lot to discuss.

Meanwhile, there have been no important new developments. I enclose a note about the performance of the Hong Kong stock market and exchange rate today.

mt

A.J.C.

18 October 1982

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PS

HONG KONG STOCK MARKET AND EXCHANGE RATE:
MONDAY, 18 OCTOBER

1. Hang Seng Index closed at 878.89 (down 1.57).
2. The HK dollar exchange rate index was 82.9 (down 0.3).
3. The HK dollar closed at 6.545 to the US dollar (down 0.01).

18 October 1982

R D Clift
Hong Kong & General Department
WH307 233.3184

cc:PS/Lord Belstead
PS/PUS
Mr Giffard
Mr Donald
Mr Roberts, News D
Mr Coles, 10 Downing Street

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MR 4/10
h-c

OO PEKING
GRS 752
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FM FCO 161100Z OCTOBER 1982
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 858 OF 16 OCTOBER
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

PERSONAL FOR GOVERNOR

YOUR TELNOS 1157, 1170, 1171, AND PEKING TELNOS 653 AND 660:
FUTURE OF HONG KONG : CHINESE STATEMENTS

1. WE AGREE THAT IT IS NECESSARY TO SPEAK TO EXCO TO ALLAY THEIR CONCERN ABOUT THE CHINESE STATEMENTS. WE ALSO AGREE WITH THE AMBASSADOR (PEKING TELNO 660) THAT WE NEED TO BE EXTREMELY CAREFUL IN BRIEFING TO AVOID WIDENING THE KNOWLEDGE OF THE CONTENT OF THE PRIME MINISTER'S TALKS IN PEKING. AT THE SAME TIME WE ACCEPT THAT EXCO ARE IN A SPECIAL POSITION AND THAT IT IS VITAL TO CARRY THEM WITH US OVER THE COMING MONTHS. WE KNOW THAT YOU WILL IMPRESS ON THEM THE NEED FOR VERY TIGHT SECURITY. WE DO NOT THINK THERE SHOULD BE ANY QUESTION AT THIS STAGE OF SPREADING THE BRIEFING TO THE WIDER CIRCLE OF UMELCO AND CERTAINLY NOT TO THE CONSULAR CORPS OR THE BUSINESS COMMUNITY.
2. THE NEED FOR REASSURANCE TO EXCO IS UNDERLINED BY REMARKS BY SIR S Y CHUNG IN LONDON THIS WEEK TO MINISTERS AND OTHERS. HE HAS SOUGHT CLARIFICATION OF WHETHER ANY OF THE POINTS MADE IN THE PRESS (EG GAVSHON'S ARTICLE IN THE OBSERVER OF 10 OCTOBER) WERE ACTUALLY MADE TO MRS THATCHER BY CHINESE LEADERS (IN PARTICULAR HE CITED CHINESE CONTROL OF FOREIGN AFFAIRS AND THE APPOINTMENT OF A CHINESE GOVERNOR). HE IS CLEARLY UNDER PRESSURE FROM HIS COLLEAGUES WHO ARE SEEKING REASSURANCE THAT WE ARE NOT WITHHOLDING INFORMATION ON THE CHINESE POSITION (OR EVEN THAT WE HAVE STARTED THE PROCESS OF SUBSTANTIVE NEGOTIATION).
3. SIR S Y CHUNG IN DISCUSSION WITH ME ALSO PUT GREAT STRESS ON THE NEED FOR HMG TO CONSULT UNOFFICIALS BEFORE ANY CHANGE WAS MADE IN THE POSITION WHICH HE UNDERSTOOD THE PRIME MINISTER HAD ACCEPTED, NAMELY THAT SOVEREIGNTY COULD ONLY BE CONCEDED AS A

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LAST RESORT IN RETURN FOR THE RETENTION OF THE STATUS QUO (UNDER-
LINE) (IE UNDER BRITISH ADMINISTRATION).

4. OUR MAIN COMMENT ON THE PROPOSALS IN YOUR TELNOS 1170 AND
1171 IS THAT WE AGREE WITH THE AMBASSADOR THAT IT WOULD BE A
MISTAKE TO TELL EXCO THAT THE RECENT STATEMENTS INCLUDE THE MAIN
ELEMENTS IN THE CHINESE POSITION AS WE UNDERSTAND IT. WHILE WE
KNOW *~~~~~* THAT THE CHINESE
PROPAGANDA REFLECTS THE THRUST OF THEIR PRESENT THINKING, IT
WOULD BE WRONG TO GIVE THE IMPRESSION THAT THIS POSITION WAS PUT
AS A PACKAGE TO THE PRIME MINISTER. MOREOVER, SOME OF THE POINTS
OF DETAIL, INCLUDING THOSE WHICH HAVE MOST STRUCK THE UNOFFICIALS,
ARE NOT NECESSARILY SET IN CONCRETE.

5. THIS AFFECTS POINT 1 AND 4 IN YOUR TELNO 1171. TAKING
ACCOUNT OF THE AMBASSADOR'S SUGGESTION, WE SUGGEST THAT THESE
BE COMBINED AS FOLLOWS:

' WHAT THE CHINESE HAVE SAID OVER THE PAST FEW WEEKS IS
PROBABLY A MIXTURE OF THEIR HARD LINE ON SOVEREIGNTY,
SOME KITE-FLYING AND SOME PRIVATE OFF-THE-CUFF
SPECULATION EMBROIDERED BY FOREIGN CORRESPONDENTS. CERTAIN
ELEMENTS ARE THE OBVIOUS COROLLARY OF THE CHINESE STAND ON
THE PRINCIPLE OF SOVEREIGNTY BUT WE SHOULD BE CAUTIOUS
ABOUT ASSUMING THAT THEY HAVE COME TO ANY FIRM CONCLUSIONS
ON THE DETAILS, EG ABOUT CONTROL OF FOREIGN AFFAIRS OR A
CHINESE GOVERNOR. THE PRIME MINISTER'S TALKS WERE
CONCERNED WITH THE BROAD PRINCIPLES. IT WAS NOT A
NEGOTIATING SESSION. '

6. POINT 2 COULD BE USED WITH THE OMISSION OF THE PHRASE:

' AND IN BREACH WITHOUT PUBLICITY. '

7. WE SUGGEST AN AMPLIFICATION OF POINT 3 AS FOLLOWS:

' IT CAN BE ASSUMED THAT CHINESE INDISCRETIONS FORM PART OF
A DELIBERATE PATTERN. WE CAN ONLY SPECULATE ABOUT CHINESE
MOTIVES. IT IS OF COURSE A FAMILIAR COMMUNIST TECHNIQUE
TO SEEK TO INFLUENCE THE COURSE OF ANY NEGOTIATIONS BY
LEAKING INFORMATION BOTH BEFORE AND DURING CRITICAL TALKS.
EXCO WILL BE AWARE OF ZHAO'S CALCULATED REMARKS TO THE
PRESS BEFORE HIS TALKS WITH THE PRIME MINISTER HAD EVEN

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* ~ * Passage deleted and retained under
Section 3(4). *Wayland*
11 October 2012

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BEGUN. IT IS IMPORTANT THAT THE LEADERS OF HONG KONG
OPINION SHOULD NOT BE RATTLED BY THIS METHOD OF PRESSURE.'

8. POINTS 5, 6 AND 7 SHOULD ALL BE USED. WE SUGGEST THAT YOU
ADD THE FOLLOWING ADDITIONAL POINT TO COVER THE SPECIFIC REQUEST
OF SIR S Y CHUNG:

' THE PRIME MINISTER HAS CONCEDED NOTHING TO THE CHINESE.
THE PURPOSE OF THE TALKS WHICH HAVE JUST BEGUN IN PEKING
IS TO EXPLORE THE CHINESE POSITION IN DEPTH AND TO SEEK A
PRACTICAL SOLUTION SATISFACTORY TO CHINA, BRITAIN AND THE
PEOPLE OF HONG KONG. THE PRIME MINISTER HAS MADE CLEAR
THE IMPORTANCE OF KEEPING IN CLOSE TOUCH WITH HONG KONG
OPINION DURING THE PROCESS. WE SHALL OF COURSE KEEP EXCO
INFORMED.'

PYM

NNNN

DIST:

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HD/PUSD

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Piece 791

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dated 15 October 1982

Paper extracted and
temporarily retained
under Section 3(4)
pending completion of
review.
(date)..... 9 October 2012
(Signed) Wayland



Foreign and Commonwealth Office

London SW1A 2AH

15 October, 1982

*Dear John,*Future of Hong Kong: Recent Chinese Statements and Briefing of
Hong Kong Unofficials

Sir S Y Chung, Senior Unofficial Member of the Hong Kong Executive Council, has been visiting London this week. He called on Mr Pym on 14 October. He expressed great appreciation for the Prime Minister's achievement in getting agreement with the Chinese on the start of talks on the future of Hong Kong. At the same time he expressed much concern over recent Chinese statements indicating a hard line both on sovereignty and on British administration and asked that the Executive Council should be consulted before any change was made in HMG's negotiating position. Some resentment at the lack of information so far given to EXCO on the talks was evident. He was also concerned that there should be no shift beyond the 'fall back' of a possible concession on sovereignty in return for the maintenance of the status quo as regards British administration. He also asked that the Governor of Hong Kong should take part in the talks with the Chinese. The Secretary of State expressed understanding and undertook to pass on Sir S Y's views to the Prime Minister.

In Hong Kong telegram numbers 1157 and 1170, the Governor underlines the need to provide the Executive Council with some reassurance on the recent Chinese statements. Hong Kong telegram number 1171 contains an outline of a possible briefing which he wishes to make at the next EXCO meeting on 19 October.

The Ambassador has commented both on the Chinese statements and on the Governor's proposals in Peking telegram numbers 653 and 660. His view, with which we broadly agree, is that the statements are primarily part of the Chinese negotiating style intended to present the outcome of the talks as a foregone conclusion and to soften up the opposition. The technique began with the calculated remarks by Premier Zhao Ziyang to the press before his discussion with the Prime Minister in Peking. (Copies of all the relevant telegrams are enclosed).

Sir P Cradock expresses considerable reservations about the briefing of EXCO and in particular about saying anything, even by implication, which might widen the knowledge of the content of the Prime Minister's discussion with Chinese leaders in Peking. This leads him to query the suggestion by the Governor that we could confirm that the Chinese statements amount to a broad picture of the current Chinese position on the future of Hong Kong.



We share a number of the Ambassador's reservations. There is the additional point that the Chinese statements have covered a very wide field including some points which were made to the Prime Minister, others which appear to be part of the Chinese position * ~~~~~ * and further ideas which are probably speculative or on which the Chinese have probably not made up their minds. However, in our view it is very important that the Governor should give EXCO as much reassurance as possible. The Ambassador overestimates the risk of leaks from that body. EXCO has a very good record indeed on preserving confidentiality. There is no question of proceeding to further briefing of the Hong Kong Consular Corps, the business community or even a wider grouping of the Unofficial Members of the Executive and Legislative Councils (UMELCO)).

/ I enclose a draft telegram of instructions to the Governor of Hong Kong agreeing to his proposal to provide a briefing but amending his suggested speaking notes to take account of the Ambassador's views and other considerations. This does not include any further information about the content of the Prime Minister's talks in Peking, but does emphasise that the latter did not amount to a negotiating session.

A passage is included to take account of Sir S Y Chung's request for further consultation. Given the Prime Minister's assurance that the views of the people of Hong Kong would be taken into account it would be right to meet this point so far as possible while reserving the right of HMG to make any decision on policy or tactics.

Yours ever
John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

* ~ * Passage deleted and retained under
Section 3(4). *Wayland*
9 October 2012

SECRET

FM HONG KONG 131012Z OCT 62
TO PRIORITY F C U
TELEGRAM NUMBER 1170 OF 13 OCTOBER
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

PERSONAL FOR DONALD
MY TELNO 1157
FUTURE OF HONG KONG : CHINESE STATEMENTS

1. AT THE MEETING OF EXCO ON 12 OCTOBER CONCERN WAS EXPRESSED ABOUT THE RECENT CHINESE STATEMENTS REPORTED IN PEKING TELNO 642 AND MY TELNO 1120. I SAID THAT I WOULD CHECK WITH THE AMBASSADOR AS TO WHAT THE CHINESE HAD SAID, AND WHY HE THOUGHT THEY WERE SAYING IT. THESE CHINESE STATEMENTS WERE DAMAGING TO CONFIDENCE, AND THIS WAS A POINT THE AMBASSADOR WOULD NO DOUBT BE MAKING TO THE CHINESE.

2. IT IS ESSENTIAL THAT WE CARRY EXCO WITH US DURING THE COMING MONTHS. GIVEN WHAT THE CHINESE HAVE BEEN SAYING I CANNOT LEAVE THEM IN THE DARK AND I SHALL NEED TO SAY MORE AT NEXT WEEK'S MEETING (ON OCTOBER 19). MIFT CONTAINS THE POINTS WHICH, SUBJECT TO YOUR VIEWS, I WOULD PROPOSE TO MAKE. I SHOULD DO SO ON EXCO TERMS - NO PAPER WOULD BE CIRCULATED AND NO MINUTES WOULD BE TAKEN - AND I AM SURE THAT SECRECY WOULD BE PRESERVED. EXCO AS SUCH HAS A VERY GOOD RECORD IN THIS RESPECT.

3. IN DRAFTING MIFT I HAVE HAD THE FOLLOWING CONSIDERATIONS IN MIND:

(A) THROUGH BRIEFING DONE BY THE CHINESE OF VISITORS TO PEKING AND OF JOURNALISTS, A LOT IS KNOWN ALREADY ABOUT THE CHINESE POSITION (MY TELNO 1157). WE WOULD LACK CREDIBILITY IF WE DID NOT CONCEDE TO EXCO THAT THE STATEMENTS WHICH HAVE APPEARED IN THE PRESS DO INCLUDE THE MAIN ELEMENTS IN THE CHINESE POSITION (VARIANTS ON SUCH ELEMENTS AS ADMINISTRATION CONTROL IN THE FUTURE NOTWITHSTANDING) AS WE UNDERSTAND IT.

(B) THERE IS EVERY ADVANTAGE IN TELLING EXCO THAT HMG'S OBJECTIVE IS CONTINUED BRITISH ADMINISTRATION (AND DEVELOPING A COMMON LINE WITH THEM AS TO WHY WE THINK IT IS VITAL TO THE MAINTENANCE OF PROSPERITY AND STABILITY). THE PRIME MINISTER SAID THIS VIRTUALLY IN TERMS AT HER MEETING WITH UMELCO ON 27 SEPTEMBER.

(C) WE ALSO NEED TO INDICATE THAT THE BRITISH POSITION ON SOVEREIGNTY IS NOT TOTALLY INFLEXIBLE. THIS CAN BE DONE BY DRAWING ATTENTION TO THE PRIME MINISTER'S REMARKS AT HER PRESS CONFERENCE THAT THE TREATIES CAN BE VARIED BY AGREEMENT.

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4. A BRIEFING ON THESE LINES WILL BE ONLY THE FIRST STEP. WE SHALL NEED TO CONSIDER VERY CAREFULLY WHAT MORE CAN BE SAID TO EXCO, (AND LATER TO THE WIDER UMELCO GROUP), AS THE TALKS IN PEKING PROGRESS.

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FM HONG KONG 131025Z OCT 82
 TO PRIORITY F C O
 TELEGRAM NUMBER 1171 OF 13 OCTOBER
 INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

PERSONAL FOR DONALD
 MIPT : FUTURE OF HONG KONG

FOLLOWING ARE THE POINTS I SUGGEST SHOULD BE MADE TO EXCO:

(1) WHAT HAS BEEN REVEALED IN THE VARIOUS CHINESE STATEMENTS AND INTERVIEWS OVER THE PAST FEW WEEKS ADDS UP TO A FAIRLY COMPLETE PICTURE OF THE CHINESE FOREIGN MINISTRY'S CURRENT POSITION ON THE FUTURE AS WE UNDERSTAND IT.

(2) THE AMBASSADOR HAS MADE IT CLEAR TO THE CHINESE THAT SUCH STATEMENTS ARE DAMAGING TO CONFIDENCE IN HONG KONG, AND IN BREACH OF WHAT WE REGARDED AS A CLEAR UNDERSTANDING THAT THE TALKS WILL BE HELD WITHOUT PUBLICITY.

(3) IT CAN BE ASSUMED THAT THE CHINESE INDISCRETION FORM PART OF A DELIBERATE PATTERN. WE CAN ONLY SPECULATE ABOUT CHINESE MOTIVES. THE AMBASSADOR'S VIEW IS

(4) SOME OF THE ELEMENTS IN THE CHINESE POSITION, IN PARTICULAR ON SOVEREIGNTY, ARE CLEARLY MATTERS OF PRINCIPLE. IN OTHER AREAS, SUCH AS ADMINISTRATIVE CONTROL, THE CHINESE MAY BE SEEKING TO ESTABLISH A STRONG BARGAINING POSITION OR TO TEST THE WATERS OF PUBLIC OPINION HERE. IT SHOULD BE STRESSED THAT THE CHINESE HAVE A VERY INADEQUATE UNDERSTANDING OF HOW AND WHY HONG KONG WORKS. THEIR IDEAS ON FUTURE ARRANGEMENTS SHOULD NOT BE REGARDED AS SET IN CONCRETE, BUT THEY WILL NEED TO BE MADE AWARE, BY ONE MEANS AND ANOTHER, OF THE COMPLEXITIES OF A MODERN MARKET ECONOMY.

(5) THE PRIME MINISTER HAS BEEN CAREFUL NOT TO BE DRAWN ABOUT HER OBJECTIVES IN THE NEGOTIATIONS IN SPEAKING TO THE PRESS. BUT SHE MADE IT CLEAR IN HER MEETING WITH UNELCO THAT HMG'S AIM WOULD BE TO PERSUADE THE CHINESE THAT BRITISH ADMINISTRATION WOULD CONTINUE TO BE NEEDED IF THE COMMON AIM OF PRESERVING THE STABILITY AND PROSPERITY OF HONG KONG IS TO BE ACHIEVED. THE PROCESS OF CONVINCING THEM OF THIS FACT OF LIFE IS BOUND TO BE SLOW.

(6) THE PRIME MINISTER HAS MADE IT CLEAR IN PUBLIC THAT, WHILE HMG REGARD THE TREATIES AS VALID, THEY CAN BE VARIED BY AGREEMENT. SO THE BRITISH POSITION ON THE TREATIES IS NOT INFLEXIBLE IN THE CONTEXT OF THE COMMON AIM.

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/ (7)

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(7) SO FAR THE TALKS HAVE NOT GONE BEYOND PRELIMINARY EXCHANGES ON THE MODALITIES, FUTURE CONDUCT OF THE TALKS, AND THE POSITIONS OF THE TWO SIDES.

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FM PEKING 130750Z OCT 82

TO IMMEDIATE F C U

TELNO 653 OF 13 OCTOBER

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

PERSONAL FOR DONALD

HONG KONG TELNO 1157: FUTURE OF HONG KONG

1. PARA 3 OF TUR. I DO NOT BELIEVE THAT THE CHINESE ARE DELIBERATELY SEEKING TO DISTURB THE HONG KONG MARKETS, THOUGH THEY ARE NOT VERY SENSITIVE ABOUT THEM. ALTHOUGH THEIR STATEMENTS AND COMMENTARIES HAVE BEEN WORRYING, THEY WERE NOT UNEXPECTED. THE SINO/US NEGOTIATIONS OVER TAIWAN ARMS SALES BEGAN WITH SIMILAR LEAKS AND HARDLINE COMMENTARIES FROM THE CHINESE, WHICH CONTINUED INTERMITTENTLY THROUGHOUT. THIS IS PART OF THEIR NEGOTIATING STYLE, DESIGNED I BELIEVE TO PUT PRESSURE ON THE OTHER SIDE, TO MAKE THE CHINESE POSITION APPEAR TO BE ROCK FIRM AND THUS TO TRY TO "SOFTEN UP THE OPPOSITION". IN SHORT THE CHINESE APPEAR TO BE SEEKING TO MAKE THIS NEGOTIATION, AS THEY HAVE DONE WITH OTHERS, LESS A NEGOTIATION BETWEEN EQUALS THAT A SORT OF FIAT. IT REMAINS TO BE SEEN HOW MUCH OF THE CHINESE PUBLIC POSITION REMAINS IMMOVABLE AND WHETHER, AS IN THE CASE OF ARMS SALES, IT MAY BE MODIFIED IN THE LAST ANALYSIS.

2. MY RECOMMENDATION IS, AS SUGGESTED IN MY TELNO 642, THAT WE SHOULD NOT BE DRAWN INTO A PUBLIC WRANGLE WITH THE CHINESE AND THAT WE SHOULD PROBE THEIR POSITION FULLY IN THE COMING TALKS FOR ANY SIGN OF GIVE.

3. PARA 4 OF TUR. I HAVE VERY STRONG RESERVATIONS ABOUT GIVING FURTHER BRIEFING ON THE CONTENTS OF THE TALKS TO ANYONE, BUT I SHOULD PREFER TO SEE THE GOVERNOR'S RECOMMENDATIONS BEFORE COMMENTING IN DETAIL.

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FROM PEKING 140740Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 660 OF 14/10/82

REPEATED FOR INFO TO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD.

HONG KONG TELS NOS 1170 AND 1171:

FUTURE OF HONG KONG.

1. I AM CONCERNED AT THE PROPOSALS IN THESE TELEGRAMS AND THEIR IMPLICATIONS. WE ARE DEALING WITH A SUBJECT WHICH, FROM ITS EXTREMELY DELICATE NATURE, AND BECAUSE OF THE PRIME MINISTER'S PARTICULAR REQUEST, MUST BE HELD AS TIGHTLY AS POSSIBLE. WHAT IS BEING PROPOSED IS A WIDENING OF THE CIRCLE OF KNOWLEDGE, WITH THE PROSPECT OF FURTHER WIDENING (PARA 4 OF FIRST TUR). IT IS EVEN SUGGESTED SOMETHING MAY NEED TO BE SAID TO MEMBERS OF THE HONG KONG CONSULAR CORPS AND THE BUSINESS COMMUNITY.

2. AS I SEE IT, NO REPEAT NO STEP OF THIS KIND SHOULD BE TAKEN UNLESS THE BALANCE OF ADVANTAGE IS SHOWN TO BE OVERWHELMINGLY IN FAVOUR. THIS HAS NOT BEEN DEMONSTRATED. ON THE OTHER HAND, THE DANGERS ARE VERY REAL. IN THE CASE OF EXCO, I WOULD NOT WISH TO QUESTION THEIR PAST RECORD, BUT ON A MATTER OF SUCH DELICACY AND DIRECT CONCERN TO THEM I DO NOT THINK WE CAN BE SURE THAT ALL MEMBERS, GIVEN THEIR SPECIAL INTERESTS, WILL REMAIN RELIABLE. THE RISK IS SIMPLY NOT WORTH TAKING. IN THE CASE OF UMELCO, THE DANGER OF LEAKS MUST BE VERY HIGH.

3. I EXPLAINED IN MY TEL NO 653 WHAT I THOUGHT THE CHINESE WERE TRYING TO ACHIEVE BY THEIR UNHELPFUL STATEMENTS. IT IS IMPORTANT TO REALISE THAT THEY ARE PART OF A NEGOTIATING POSTURE AND THAT WHATEVER THE BEDROCK OF THE CHINESE POSITION MAY TURN OUT TO BE AND WHATEVER THEY HAVE SAID TO US OFFICIALLY, THESE REMARKS TO THIRD PARTIES SINCE THE PRIME MINISTER'S VISIT HAVE BEEN UNOFFICIAL AND DENIABLE. I DO NOT AGREE WITH THE GOVERNOR THAT THEY ARE NOW "KNOWN" ELEMENTS OF THE CHINESE POSITION. THERE MUST REMAIN AN ELEMENT OF UNCERTAINTY IN MOST PEOPLE'S MINDS. TO CONFIRM THAT THEY DID REPRESENT THE CHINESE POSITION WOULD BE GRATUITOUS LEAKAGE ON OUR PART.

IT WOULD ASSIST THE CHINESE IN THEIR AIM OF MAKING THEIR OWN POSITION APPEAR FIRMER AND THUS SOFTENING UP THE OPPOSITION. MY FIRM BELIEF IS THAT THE ONLY WAY TO COUNTER THESE STATEMENTS IS BY OFFERING NO COMMENT TO ANYONE. THE AMERICANS, DESPITE THE PECULIAR DIFFICULTIES OF THE R POLITICAL SYSTEM, MANAGED TO DO THIS WITH ALMOST COMPLETE SUCCESS IN THE ARMS SALES TALKS.

4. MOREOVER, IF WE BEGIN NOW TO OFFER OUR CONFIDENTIAL COMMENTS TO EXCO AND OTHERS ON CHINESE PUBLIC STATEMENTS OR ON THE PROGRESS OF THE TALKS, IT WOULD BE DAMAGING IF IN FUTURE WE WERE TO JUDGE THAT THE PRACTICE HAD TO CEASE OR BE CURTAILED. WE CAN EXPECT THE CHINESE TO MAKE MANY MORE PUBLIC STATEMENTS AND DISCLOSURES. IF WE COMMENT NOW WE SHALL BE EXPECTED TO CONTINUE TO DO SO. I FIND THE PROSPECT OF CONTINUOUS CONFIDENTIAL BRIEFINGS ON THIS DELICATE MATTER ALARMING.

5. I ALSO BELIEVE THAT IT WOULD BE DANGEROUS TO INDICATE TO EXCO OR OTHERS IN TERMS THAT "THE BRITISH POSITION ON SOVEREIGNTY IS NOT TOTALLY INFLEXIBLE", PARA 3(C) OF FIRST TUR). HOWEVER, I WOULD NOT OBJECT TO THE LINE RECOMMENDED IN PARA 6 OF SECOND TUR, IE FOLLOWING CLOSELY THE LANGUAGE USED BY THE PRIME MINISTER TO THE PRESS AND NOT MENTIONING THE WORD "SOVEREIGNTY".

6. I REALISE THAT IT WILL NOT BE EASY FOR THE GOVERNOR, GIVEN THE PRESSURES ON HIM IN HONG KONG, BUT I AM CONVINCED THAT THE RIGHT COURSE IS FOR US, HERE AND IN HONG KONG, TO CONTINUE TO PLAY THIS ISSUE VERY TIGHTLY INDEED AND PARTICULARLY TO AVOID COMMENTING ON CHINESE LEAKS. AS THE GOVERNOR HIMSELF HAS SAID, STEADY NERVES WILL BE NEEDED.

7. THAT SAID, I BELIEVE THAT THERE ARE SOME THINGS WHICH MAY BE SAID SAFELY TO MEET EXCO'S UNDERSTANDABLE WISH FOR A FULLER BRIEFING THAN THAT WE HAVE GIVEN TO THE PUBLIC PROPER.

ON THAT BASIS I SHOULD HAVE NO OBJECTION TO MAKING THE FOLLOWING POINTS TO EXCO:-

- (A) THAT THE VARIOUS CHINESE STATEMENTS AND INTERVIEWS OVER THE PAST FEW WEEKS HAVE BEEN IN THE MAIN OFF-THE-CUFF REMARKS. THE CHINESE WOULD NOT CONSIDER THEMSELVES AS BOUND BY THEM. THEY ARE IN NO SENSE OFFICIALS STATEMENTS OF THE CHINESE POSITION.

- (B) THE FOLLOWING PARTS OF SECOND TUR: POINT 3, THE LAST TWO SENTENCES OF PARA 4, AND POINTS 5,6 AND 7.

IT WILL BE CLEAR FROM THE ABOVE WHY I AM NOT HAPPY ABOUT POINT 1 IN HONG KONG TUR. POINT 2 TO MY MIND TENDS TO CONFIRM THAT THE CHINESE STATEMENTS ARE LEAKS OF WHAT THEY HAVE SAID TO US OFFICIALLY. AND THE FIRST PART OF POINT 4 I BELIEVE GOES TOO FAR TOWARDS DIVULGING THE CONTENT OF THE PRIME MINISTER'S TALKS.

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FM HONG KONG 140825Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 1179 OF 14 OCTOBER

INFO PRIORITY WASHINGTON (PERSONAL FOR AMBASSADOR), PEKING
(PERSONAL FOR AMBASSADOR)

h.a.
Mr 207
10-

PERSONAL FOR DONALD
FUTURE OF HONG KONG.

AS YOU KNOW, HENRY KISSINGER HAS RECENTLY BEEN IN PEKING WHERE HE SPENT 2 AND A HALF HOURS WITH DENG. ACCORDING TO SIR Y.K. PAO, WHO SAW KISSINGER SUBSEQUENTLY IN TOKYO, DENG GAVE KISSINGER A FAIRLY FULL ACCOUNT OF CHINESE THINKING ABOUT THE FUTURE OF HONG KONG. AMONG OTHER THINGS, HE APPARENTLY SAID THAT SOVEREIGNTY WOULD BE TAKEN BACK IN 1997 AND THERE WOULD HAVE TO BE A CHINESE GOVERNOR. BUT THERE COULD BE A BRITISH VICE-GOVERNOR.

2. IT WOULD BE VERY USEFUL IF SOMEONE SUITABLY SENIOR IN THE EMBASSY COULD HAVE A WORD WITH KISSINGER AND, WITHOUT REVEALING OUR SOURCE (SIR Y.K. PAO IS (NEXT WORD UNDERLINED) VERY SENSITIVE ON THIS POINT), TRY TO FIND OUT DISCREETLY WHAT DENG ACTUALLY SAID ABOUT HONG KONG. IT MIGHT ALSO BE HELPFUL TO HAVE KISSINGER'S OWN ASSESSMENT OF THE CHINESE POSITION IN THE LIGHT OF WHAT HE WAS TOLD.

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FUTURE OF HONG KONG

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*cc to Hong Kong
Recommendation in Report*

*MR 19
10*

p.a.

CALL ON LORD BELSTEAD BY SIR S Y CHUNG, SENIOR MEMBER OF
THE HONG KONG EXECUTIVE COUNCIL, 14 OCTOBER 1982

Present

Lord Belstead

Sir S Y Chung

Mr A E Donald

Mr R D Clift

Mr M Arthur

Future of Hong Kong

1. At Lord Belstead's invitation, Sir S Y Chung described the present views in Hong Kong in the aftermath of the Prime Minister's visit. People on the inside, such as UMELCO, appreciated the Prime Minister's efforts and thought she had done an extremely good job. The talks were an important step forward and the start of a long process of negotiation. Meanwhile, there was concern at the recent Chinese statements about the future which appeared to be an attempt to harden their line on sovereignty and he noted in particular the 'Observer' article of 10 October which mentioned a Chinese Governor and Chinese control on foreign affairs in Hong Kong.

2. Sir S Y stressed the importance of briefing the Unofficials on the content of the discussions with the Chinese. At present they really only knew that there had been friendly talks. It was important that the Unofficials should not

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begin to lose their nerve.

3. Mr Donald said that the points referred to by Sir S Y appeared as part of alleged '5 Principles'. These were probably journalistic speculation on points of detail. Mrs Thatcher's discussions had concentrated on principle.

4. Lord Belstead asked about views in Hong Kong on the stress which the Prime Minister had placed on the treaties. Sir S Y said that he supported 100% the Prime Minister's remarks on this score.

5. Lord Belstead asked whether there were ways of providing greater reassurance to the Hong Kong media. Sir S Y said that something might be done with radio and television but the press was really too diffuse. Moreover the Communist press would do what they could to suggest that a Chinese takeover was inevitable.

6. Lord Belstead asked how consultation with people in Hong Kong might be set up. Sir S Y said that he understood that the Hong Kong Government was preparing a paper on this. He agreed with Lord Belstead that the District Boards should be involved.

7. Lord Belstead asked whether it would be helpful if more influential visitors went to Peking for discussion with the Chinese authorities. Sir S Y said that most visitors went for business purposes. It was difficult for them to get over to the Chinese the basis of Hong Kong's confidence and success. The most effective advocate might be a third party

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who clearly had no self-interest in the Hong Kong situation. However, it was very difficult to find such a person. If education of the Chinese authorities could not be conducted in this way it might be necessary for this to be done in a more painful and dangerous manner, by accepting a further decline in the Hong Kong economy. The problem was whether this would have an effect on the Chinese leaders before Hong Kong became bankrupt.

8. Lord Belstead asked about the present position on the Hong Kong Stock Exchange. Sir S Y noted that in fact the Hong Kong Stock Exchange had a very small capacity. The top ten companies were equal in total to the value of IBM. He referred to rumours that the Bank of China might have been supporting the Hong Kong dollar. Mr Donald commented that this was probably unfounded.

9. Sir S Y reiterated the importance of UMELCO being kept informed about the progress of the talks. This was particularly important when China was reiterating her position on sovereignty. This encouraged fears that HMG might back down. Lord Belstead underlined the importance of keeping a steady nerve in the talks. We have known that China would take a tough line. The Prime Minister had made our position abundantly clear and we had not shifted from it.

British Nationality Act

10. Sir S Y referred to the Hong Kong legislation which was coming before the Executive and Legislative Councils as a consequence of the British Nationality Act. This was

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inevitably linked in the minds of Unofficials with their request that they should be described as 'British' in their passports. If they did not get a positive answer on this it would be difficult for them to pass the legislation.

11. Lord Belstead said that this had been referred to by the Prime Minister. It was now under discussion in London. It was not yet resolved but he hoped that there would be an early answer.

12. Sir S Y emphasised the shortness of time. The legislation would take six weeks to pass. The question of designation in passports was an important symbol. It was necessary to counteract any suggestion that the British Government might renege on its commitment to Hong Kong. Lord Belstead emphasised that the Prime Minister had taken a very robust line. She had been criticised in some quarters for being too tough but there was no doubt about her commitment to Hong Kong.

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Mr Donald
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Mr Coles, 10 Downing Street
Governor, Hong Kong

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cc to Henry Henry - Peking
July 1982

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CALL ON THE SECRETARY OF STATE BY SIR S Y CHUNG,
SENIOR MEMBER OF THE HONG KONG EXECUTIVE COUNCIL,
14 OCTOBER 1982

Present

Mr Francis Pym MC MP Sir S Y Chung
Mr R D Clift
Mr J C Holmes

Future of Hong Kong

1. Sir S Y Chung said that he was very grateful for the Prime Minister's achievement, during her visit to Peking, in obtaining agreement on talks with the Chinese. In his view, this had been entirely the correct objective. Moreover, he disagreed with those who thought that she should not have laid so much stress in her public pronouncements on the Hong Kong treaties. Thinking people did not agree with this.
2. Sir S Y said that he and other Unofficial Members in Hong Kong were concerned at Chinese tactics of spreading rumours since the Prime Minister's visit. It was important to counteract these. Mr Pym said that it would be wrong to try to do this point by point; this would merely spur the Chinese to further statements. Sir S Y said that he was not suggesting any public action but he thought that the matter should be discussed with the Hong Kong Unofficials. The Unofficials felt somewhat uneasy because the Chinese appeared to have laid their cards on the table whereas people in Hong Kong did not know exactly what the British hand consisted of.

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3. Mr Pym emphasised that meetings with the Chinese had only just begun. There was no question of any negotiation having taken place but he quite took the point about periodic briefing of the Unofficials and he would consider this. Sir S Y asked that there should be no change in what he understood to be the present position of the British Government (i.e. that sovereignty should only be conceded if there were fully satisfactory arrangements allowing for the continuation of the status quo as regards administration) without consultation with the Unofficials in Hong Kong.

4. Mr Pym emphasised that there was no thought of the British Government changing its position but he undertook to pass Sir S Y's request to the Prime Minister. He stressed that people in Hong Kong should have confidence in HMG; the Prime Minister's position was robust and she placed particular importance on the views of the people of Hong Kong. Sir S Y said that there was a danger in the negotiations being too long drawn out. He did not think that confidence in Hong Kong could hold out for much longer than 1 1/2 to 2 years. Mr Pym commented that he hoped that a favourable result could be achieved in a much shorter time but it was of course impossible to make firm predictions.

5. Sir S Y said that he hoped it would be possible for the Governor of Hong Kong to take part in the negotiations with the Chinese. The Unofficials had full confidence in Sir Edward Youde. Mr Pym said that he would convey this to the Prime Minister.

British Nationality Act 1981

6. Sir S Y said that the amending legislation for Hong Kong consequent upon the passing of the British Nationality Act was shortly to come before the Executive and Legislative Councils. At the same time they were concerned about the description to be placed in the passports of British Dependent Territories Citizens. It would be very difficult for the Hong Kong Councils to pass their legislation if they did not have a favourable answer on the description. He stressed that there was a timing element. About 6 weeks were needed to get the legislation through in Hong Kong. People in Hong Kong had noted the Prime Minister's encouraging remarks on the question during her visit. Mr Pym confirmed that Ministers were considering the matter urgently.

fn.
A meeting on
this has been
arranged for
Thursday.

A. J. C. 15.
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Hong Kong & General Department
18 October 1982



*Pl. type draft letter,
attached note and timetable*

Foreign and Commonwealth Office

London SW1A 2AH

14 October 1982

Mr. Butler

Would you like to send this?

Dear John,

A.J.C. 14/10.

Thank you for your letter of 7 October about briefing on Hong Kong for TRH Princess Margaret and Princess Anne. I attach a draft letter to Robert Fellowes together with some appropriate material.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

Hang Kong, Future, P#3

4 OCT 1982



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
A J Coles

Reference

DEPARTMENT: **TEL. NO:**

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Robert Fellowes Esq
Assistant Private Secretary
The Queen's Household
Buckingham Palace

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

As promised, I enclose some briefing material on the Prime Minister's visit to Hong Kong in connection with Major General Chapple's call on ^{Her Royal Highness} ~~THE~~ Princess Margaret and Princess Anne on 18 October.

Enclosures—flag(s).....

FUTURE OF HONG KONG : THE PRIME MINISTER'S VISITS TO CHINA AND
HONG KONG, SEPTEMBER 1982

1. The Prime Minister visited China from 22 to 26 September and Hong Kong from 26 to 28 September.
2. Her visit to China, the first ever by a British Prime Minister in office, provided an opportunity to hold talks with Chinese leaders on a number of world as well as bilateral issues.
3. One of the subjects discussed was Hong Kong. The following statement was issued after a meeting between the Prime Minister and Chairman Deng Xiaoping:

'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 into talks through diplomatic channels following the visit with a common aim of maintaining the stability and prosperity of Hong Kong'.
4. In subsequent Press Conferences and interviews, both in Peking and in Hong Kong, the Prime Minister made it clear that:
 - (a) these talks will be confidential;
 - (b) Britain takes its responsibility for the people of Hong Kong very seriously;
 - (c) the views of the people of Hong Kong will be taken into account.

5. Meetings in Peking to follow up the Prime Minister's visit have begun through diplomatic channels. As was made clear by the Prime Minister in her press conferences in Peking and Hong Kong, the content of these talks must remain confidential. No timetable for these talks has been set. The extent and level of Hong Kong's participation on the British side will be decided in accordance with the requirements of the talks. The Governor of Hong Kong will be consulted throughout and will participate as and when necessary.

6. A copy of the Prime Minister's programme and of her

FOREIGN & COMMONWEALTH OFFICE
8 October 1982

statement to her press conference is attached.

THE PRIME MINISTER'S PROGRAMME (All timings approximate)

SUNDAY 26 SEPTEMBER

12.25 Arrive Hong Kong Airport
 12.45 Arrive Government House
 13.30 Private lunch at Government House
~~15.00 - 16.30 Private Engagement~~
 17.00 - 18.30 Discussions with Governor and Officials
 20.15 Dinner at Government House for 40 people

MONDAY 27 SEPTEMBER

~~08.00 Private Engagement~~
 09.40 Depart Government House for UMELCO Office
 09.45 Meeting with UMELCO (Unofficial Members of Executive and Legislative Councils)
 11.00 Leave UMELCO for HQ British Forces
 11.05 Meet Army, Navy and Hong Kong Chinese seamen, personnel and families
 11.30 By Wessex Helicopter to Stanley
 11.40 Meet personnel and families of 1st Scots Guards
 12.15 By Wessex to HQ British Forces
 12.25 Arrive HQBF. Car to Government House
~~12.30 Arrive Government House~~
 12.55 Depart Government House for Mandarin Hotel
 13.00 Lunch with businessmen - speech

/14.25

14.25 Depart Mandarin Hotel
~~14.30 Arrive Government House~~
 15.30 Meet Urban Council Delegation at Government House
 15.55 Leave Government House for Government Secretariat
 16.00 Press Conference
 16.30 (approx) Return Government House
 18.00 Reception at Government House for 400 people
 20.10 Leave Government House for UMELCO
 20.15 Dinner with UMELCO
 23.00 (approx) Return Government House

TUESDAY 28 SEPTEMBER

~~08.00 Private Engagement~~
 11.10 Depart Government House by car. Helicopter to Castle Peak
 11.30 Arrive Castle Peak power station. Tour and declare open. Meet the press briefly. Lunch
 14.30 Leave Castle Peak by helicopter
 14.40 Arrive container terminal. Tour of Modern Terminals Ltd
 15.00 Leave container terminal by helicopter
 15.10 Arrive Shek Wai Kok housing estate. Tour
 15.50 Depart housing estate for Mass Transit Railway
 15.55 Arrive station. Meet Chairman of railway and view station development

/16.05

16.05 Board Mass Transit Railway, reserved carriage. Selected journalists and Chairman of Mass Transit Railway to accompany

16.40 Arrive Government House

17.30 Round up meeting with Governor and senior officials

19.00 Farewell drinks for 30 minutes with press and others at Government House

20.00 Private supper at Government House

21.00 Leave Government House for airport

21.30 Depart for ^{India.} ~~UK~~

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FROM PEKING 140740Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 660 OF 14/10/82

MR 4/10
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REPEATED FOR INFO TO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD.

HONG KONG TELS NOS 1170 AND 1171:

FUTURE OF HONG KONG.

1. I AM CONCERNED AT THE PROPOSALS IN THESE TELEGRAMS AND THEIR IMPLICATIONS. WE ARE DEALING WITH A SUBJECT WHICH, FROM ITS EXTREMELY DELICATE NATURE, AND BECAUSE OF THE PRIME MINISTER'S PARTICULAR REQUEST, MUST BE HELD AS TIGHTLY AS POSSIBLE. WHAT IS BEING PROPOSED IS A WIDENING OF THE CIRCLE OF KNOWLEDGE, WITH THE PROSPECT OF FURTHER WIDENING (PARA 4 OF FIRST TUR). IT IS EVEN SUGGESTED SOMETHING MAY NEED TO BE SAID TO MEMBERS OF THE HONG KONG CONSULAR CORPS AND THE BUSINESS COMMUNITY.

2. AS I SEE IT, NO REPEAT NO STEP OF THIS KIND SHOULD BE TAKEN UNLESS THE BALANCE OF ADVANTAGE IS SHOWN TO BE OVERWHELMINGLY IN FAVOUR. THIS HAS NOT BEEN DEMONSTRATED. ON THE OTHER HAND, THE DANGERS ARE VERY REAL. IN THE CASE OF EXCO, I WOULD NOT WISH TO QUESTION THEIR PAST RECORD, BUT ON A MATTER OF SUCH DELICACY AND DIRECT CONCERN TO THEM I DO NOT THINK WE CAN BE SURE THAT ALL MEMBERS, GIVEN THEIR SPECIAL INTERESTS, WILL REMAIN RELIABLE. THE RISK IS SIMPLY NOT WORTH TAKING. IN THE CASE OF UMEICO, THE DANGER OF LEAKS MUST BE VERY HIGH.

3. I EXPLAINED IN MY TEL NO 653 WHAT I THOUGHT THE CHINESE WERE TRYING TO ACHIEVE BY THEIR UNHELPFUL STATEMENTS. IT IS IMPORTANT TO REALISE THAT THEY ARE PART OF A NEGOTIATING POSTURE AND THAT WHATEVER THE BEDROCK OF THE CHINESE POSITION MAY TURN OUT TO BE AND WHATEVER THEY HAVE SAID TO US OFFICIALLY, THESE REMARKS TO THIRD PARTIES SINCE THE PRIME MINISTER'S VISIT HAVE BEEN UNOFFICIAL

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AND DENIABLE. I DO NOT AGREE WITH THE GOVERNOR THAT THEY ARE NOW ''KNOWN'' ELEMENTS OF THE CHINESE POSITION. THERE MUST REMAIN AN ELEMENT OF UNCERTAINTY IN MOST PEOPLE'S MINDS. TO CONFIRM THAT THEY DID REPRESENT THE CHINESE POSITION WOULD BE GRATUITOUS LEAKAGE ON OUR PART.

IT WOULD ASSIST THE CHINESE IN THEIR AIM OF MAKING THEIR OWN POSITION APPEAR FIRMER AND THUS SOFTENING UP THE OPPOSITION. MY FIRM BELIEF IS THAT THE ONLY WAY TO COUNTER THESE STATEMENTS IS BY OFFERING NO COMMENT TO ANYONE. THE AMERICANS, DESPITE THE PECULIAR DIFFICULTIES OF THE R POLITICAL SYSTEM, MANAGED TO DO THIS WITH ALMOST COMPLETE SUCCESS IN THE ARMS SALES TALKS.

4. MOREOVER, IF WE BEGIN NOW TO OFFER OUR CONFIDENTIAL COMMENTS TO EXCO AND OTHERS ON CHINESE PUBLIC STATEMENTS OR ON THE PROGRESS OF THE TALKS, IT WOULD BE DAMAGING IF IN FUTURE WE WERE TO JUDGE THAT THE PRACTICE HAD TO CEASE OR BE CURTAILED. WE CAN EXPECT THE CHINESE TO MAKE MANY MORE PUBLIC STATEMENTS AND DISCLOSURES. IF WE COMMENT NOW WE SHALL BE EXPECTED TO CONTINUE TO DO SO. I FIND THE PROSPECT OF CONTINUOUS CONFIDENTIAL BRIEFINGS ON THIS DELICATE MATTER ALARMING.

5. I ALSO BELIEVE THAT IT WOULD BE DANGEROUS TO INDICATE TO EXCO OR OTHERS IN TERMS THAT ''THE BRITISH POSITION ON SOVEREIGNTY IS NOT TOTALLY INFLEXIBLE'', (PARA 3(C) OF FIRST TUR). HOWEVER, I WOULD NOT OBJECT TO THE LINE RECOMMENDED IN PARA 6 OF SECOND TUR, IE FOLLOWING CLOSELY THE LANGUAGE USED BY THE PRIME MINISTER TO THE PRESS AND NOT MENTIONING THE WORD ''SOVEREIGNTY''.

6. I REALISE THAT IT WILL NOT BE EASY FOR THE GOVERNOR, GIVEN THE PRESSURES ON HIM IN HONG KONG, BUT I AM CONVINCED THAT THE RIGHT COURSE IS FOR US, HERE AND IN HONG KONG, TO CONTINUE TO PLAY THIS ISSUE VERY TIGHTLY INDEED AND PARTICULARLY TO AVOID COMMENTING ON CHINESE LEAKS. AS THE GOVERNOR HIMSELF HAS SAID, STEADY NERVES WILL BE NEEDED.

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/7. THAT

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7. THAT SAID, I BELIEVE THAT THERE ARE SOME THINGS WHICH MAY BE SAID SAFELY TO MEET EXCO'S UNDERSTANDABLE WISH FOR A FULLER BRIEFING THAN THAT WE HAVE GIVEN TO THE PUBLIC PROPER.

ON THAT BASIS I SHOULD HAVE NO OBJECTION TO MAKING THE FOLLOWING POINTS TO EXCO:-

(A) THAT THE VARIOUS CHINESE STATEMENTS AND INTERVIEWS OVER THE PAST FEW WEEKS HAVE BEEN IN THE MAIN OFF-THE-CUFF REMARKS. THE CHINESE WOULD NOT CONSIDER THEMSELVES AS BOUND BY THEM. THEY ARE IN NO SENSE OFFICIALS STATEMENTS OF THE CHINESE POSITION.

(B) THE FOLLOWING PARTS OF SECOND TUR: POINT 3, THE LAST TWO SENTENCES OF PARA 4, AND POINTS 5,6 AND 7.

IT WILL BE CLEAR FROM THE ABOVE WHY I AM NOT HAPPY ABOUT POINT 1 IN HONG KONG TUR. POINT 2 TO MY MIND TENDS TO CONFIRM THAT THE CHINESE STATEMENTS ARE LEAKS OF WHAT THEY HAVE SAID TO US OFFICIALLY. AND THE FIRST PART OF POINT 4 I BELIEVE GOES TOO FAR TOWARDS DIVULGING THE CONTENT OF THE PRIME MINISTER'S TALKS.

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Piece 791

Letter from Butler to fellows
dated 14 October 1982,
with enclosure

Paper extracted and
temporarily retained
under Section 3(4)
pending completion of
review.
(date)..... 9 October 2012
(Signed) C. Wayland



Hong Kong
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From the Private Secretary

13 October, 1982

FUTURE OF HONG KONG

Thank you for your letter of 11 October. The Prime Minister has read it with interest and has noted the comments made by the Foreign and Commonwealth Secretary before his departure for the Middle East.

The Prime Minister is grateful for the work that has been done. She feels that it is now necessary to develop our ideas quickly.

As regards gestures to the Chinese, Mrs Thatcher believes that the goal of "improving the atmosphere of the talks" is too vague to be worth spending money on. Unless we can find a gesture that will positively promote a solution on Hong Kong, we should not go down this path.

But the idea of a Treaty of Friendship and Co-operation would be worth refining on a contingency basis, since it might help the Chinese to accept a solution which would otherwise be unpalatable.

BP//
The Prime Minister is inclined to think that the plan for educating the Chinese about Hong Kong is too general in nature. We ought to have a much more specific and detailed plan available very soon (paragraph 2 of Hong Kong telegram 1157 shows that the Chinese are well ahead with their briefing of people in Hong Kong). Mrs Thatcher thinks that we should be in a position very shortly to commence this campaign of education. She would like to see more specific ideas urgently, when the Governor has been consulted.

The Prime Minister is also inclined to question whether we could not make more use of the Peking talks to carry the education process forward. She has asked whether, for example, Sir Philip Haddon-Cave could not, in the context of the talks, put forward a good deal of information about the way Hong Kong's banking and financial mechanisms operate.

/As regards

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As regards gestures to Hong Kong, the Prime Minister will be meeting soon with the Foreign and Home Secretaries to discuss the passport question. She would like to consider other proposals, particularly any which might help to maintain confidence in Hong Kong by demonstrating our faith in its future.

On another point, the Prime Minister has commented, with regard to paragraph 3(i)B of the paper on the Future of Hong Kong that we must be very wary of defence sales to China at present.

I should be grateful if the above could be given urgent consideration and if further advice could be sent to the Prime Minister in the next few days.

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office

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*Am Coles 19
No 10 Downing Street*

FM PEKING 130750Z OCT 82
TO IMMEDIATE F C O
TELNO 653 OF 13 OCTOBER
INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

Prime Minister

PERSONAL FOR DONALD

14/10

HONG KONG TELNO 1157: FUTURE OF HONG KONG

1. PARA 3 OF TUR. I DO NOT BELIEVE THAT THE CHINESE ARE DELIBERATELY SEEKING TO DISTURB THE HONG KONG MARKETS, THOUGH THEY ARE NOT VERY SENSITIVE ABOUT THEM. ALTHOUGH THEIR STATEMENTS AND COMMENTARIES HAVE BEEN WORRYING, THEY WERE NOT UNEXPECTED. THE SINO/US NEGOTIATIONS OVER TAIWAN ARMS SALES BEGAN WITH SIMILAR LEAKS AND HARDLINE COMMENTARIES FROM THE CHINESE, WHICH CONTINUED INTERMITTENTLY THROUGHOUT. THIS IS PART OF THEIR NEGOTIATING STYLE, DESIGNED I BELIEVE TO PUT PRESSURE ON THE OTHER SIDE, TO MAKE THE CHINESE POSITION APPEAR TO BE ROCK FIRM AND THUS TO TRY TO "SOFTEN UP THE OPPOSITION". IN SHORT THE CHINESE APPEAR TO BE SEEKING TO MAKE THIS NEGOTIATION, AS THEY HAVE DONE WITH OTHERS, LESS A NEGOTIATION BETWEEN EQUALS THAT A SORT OF FIAT. IT REMAINS TO BE SEEN HOW MUCH OF THE CHINESE PUBLIC POSITION REMAINS IMMOVABLE AND WHETHER, AS IN THE CASE OF ARMS SALES, IT MAY BE MODIFIED IN THE LAST ANALYSIS.

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2. MY RECOMMENDATION IS, AS SUGGESTED IN MY TELNO 642, THAT WE SHOULD NOT BE DRAWN INTO A PUBLIC WRANGLE WITH THE CHINESE AND THAT WE SHOULD PROBE THEIR POSITION FULLY IN THE COMING TALKS FOR ANY SIGN OF GIVE.

3. PARA 4 OF TUR. I HAVE VERY STRONG RESERVATIONS ABOUT GIVING FURTHER BRIEFING ON THE CONTENTS OF THE TALKS TO ANYONE, BUT I SHOULD PREFER TO SEE THE GOVERNOR'S RECOMMENDATIONS BEFORE COMMENTING IN DETAIL.

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From the Private Secretary

13 October 1982

Future of Hong Kong

Thank you for your letter of 8 October asking whether the Prime Minister would agree to reports on her discussions with Chinese leaders, and subsequent diplomatic exchanges, being made available to those concerned in the Assessment Staff and other representatives on the JIC including the intelligence agencies and the MOD. Mrs. Thatcher has considered this point but has decided that she does not wish the circle of those who have knowledge of her discussions on the future of Hong Kong to be widened.

I am copying this letter to Richard Hatfield (Cabinet Office).

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

SECRET

Hong Kong.

GR 320

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Mr Coles
No 10 Downing Street

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FM HONG KONG 131025Z OCT 82
TO PRIORITY F C O
TELEGRAM NUMBER 1171 OF 13 OCTOBER
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

A. J. C. ¹⁴/₁₀.
h-a.

PERSONAL FOR DONALD
MIPT : FUTURE OF HONG KONG

FOLLOWING ARE THE POINTS I SUGGEST SHOULD BE MADE TO EXCO:

(1) WHAT HAS BEEN REVEALED IN THE VARIOUS CHINESE STATEMENTS AND INTERVIEWS OVER THE PAST FEW WEEKS ADDS UP TO A FAIRLY COMPLETE PICTURE OF THE CHINESE FOREIGN MINISTRY'S CURRENT POSITION ON THE FUTURE AS WE UNDERSTAND IT.

(2) THE AMBASSADOR HAS MADE IT CLEAR TO THE CHINESE THAT SUCH STATEMENTS ARE DAMAGING TO CONFIDENCE IN HONG KONG, AND IN BREACH OF WHAT WE REGARDED AS A CLEAR UNDERSTANDING THAT THE TALKS WILL BE HELD WITHOUT PUBLICITY.

(3) IT CAN BE ASSUMED THAT THE CHINESE INDISCRETION FORM PART OF A DELIBERATE PATTERN. WE CAN ONLY SPECULATE ABOUT CHINESE MOTIVES. THE AMBASSADOR'S VIEW IS

(4) SOME OF THE ELEMENTS IN THE CHINESE POSITION, IN PARTICULAR ON SOVEREIGNTY, ARE CLEARLY MATTERS OF PRINCIPLE. IN OTHER AREAS, SUCH AS ADMINISTRATIVE CONTROL, THE CHINESE MAY BE SEEKING TO ESTABLISH A STRONG BARGAINING POSITION OR TO TEST THE WATERS OF PUBLIC OPINION HERE. IT SHOULD BE STRESSED THAT THE CHINESE HAVE A VERY INADEQUATE UNDERSTANDING OF HOW AND WHY HONG KONG WORKS. THEIR IDEAS ON FUTURE ARRANGEMENTS SHOULD NOT BE REGARDED AS SET IN CONCRETE, BUT THEY WILL NEED TO BE MADE AWARE, BY ONE MEANS AND ANOTHER, OF THE COMPLEXITIES OF A MODERN MARKET ECONOMY.

(5) THE PRIME MINISTER HAS BEEN CAREFUL NOT TO BE DRAWN ABOUT HER OBJECTIVES IN THE NEGOTIATIONS IN SPEAKING TO THE PRESS. BUT SHE MADE IT CLEAR IN HER MEETING WITH UNELCO THAT HMG'S AIM WOULD BE TO PERSUADE THE CHINESE THAT BRITISH ADMINISTRATION WOULD CONTINUE TO BE NEEDED IF THE COMMON AIM OF PRESERVING THE STABILITY AND PROSPERITY OF HONG KONG IS TO BE ACHIEVED. THE PROCESS OF CONVINCING THEM OF THIS FACT OF LIFE IS BOUND TO BE SLOW.

(6) THE PRIME MINISTER HAS MADE IT CLEAR IN PUBLIC THAT, WHILE HMG REGARD THE TREATIES AS VALID, THEY CAN BE VARIED BY AGREEMENT. SO THE BRITISH POSITION ON THE TREATIES IS NOT INFLEXIBLE IN THE CONTEXT OF THE COMMON AIM.

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(7) SO FAR THE TALKS HAVE NOT GONE BEYOND PRELIMINARY EXCHANGES ON THE MODALITIES, FUTURE CONDUCT OF THE TALKS, AND THE POSITIONS OF THE TWO SIDES.

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A.A. Coles
No 10 Downing Street

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FM HONG KONG 131012Z OCT 82
TO PRIORITY F C O
TELEGRAM NUMBER 1170 OF 13 OCTOBER
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

k-a.

ADD 14/10.

PERSONAL FOR DONALD
MY TELNO 1157
FUTURE OF HONG KONG : CHINESE STATEMENTS

1. AT THE MEETING OF EXCO ON 12 OCTOBER CONCERN WAS EXPRESSED ABOUT THE RECENT CHINESE STATEMENTS REPORTED IN PEKING TELNO 642 AND MY TELNO 1120. I SAID THAT I WOULD CHECK WITH THE AMBASSADOR AS TO WHAT THE CHINESE HAD SAID, AND WHY HE THOUGHT THEY WERE SAYING IT. THESE CHINESE STATEMENTS WERE DAMAGING TO CONFIDENCE, AND THIS WAS A POINT THE AMBASSADOR WOULD NO DOUBT BE MAKING TO THE CHINESE.

2. IT IS ESSENTIAL THAT WE CARRY EXCO WITH US DURING THE COMING MONTHS. GIVEN WHAT THE CHINESE HAVE BEEN SAYING I CANNOT LEAVE THEM IN THE DARK AND I SHALL NEED TO SAY MORE AT NEXT WEEK'S MEETING (ON OCTOBER 19). MIFT CONTAINS THE POINTS WHICH, SUBJECT TO YOUR VIEWS, I WOULD PROPOSE TO MAKE. I SHOULD DO SO ON EXCO TERMS - NO PAPER WOULD BE CIRCULATED AND NO MINUTES WOULD BE TAKEN - AND I AM SURE THAT SECRECY WOULD BE PRESERVED. EXCO AS SUCH HAS A VERY GOOD RECORD IN THIS RESPECT.

3. IN DRAFTING MIFT I HAVE HAD THE FOLLOWING CONSIDERATIONS IN MIND:

(A) THROUGH BRIEFING DONE BY THE CHINESE OF VISITORS TO PEKING AND OF JOURNALISTS, A LOT IS KNOWN ALREADY ABOUT THE CHINESE POSITION (MY TELNO 1157). WE WOULD LACK CREDIBILITY IF WE DID NOT CONCEDE TO EXCO THAT THE STATEMENTS WHICH HAVE APPEARED IN THE PRESS DO INCLUDE THE MAIN ELEMENTS IN THE CHINESE POSITION (VARIANTS ON SUCH ELEMENTS AS ADMINISTRATION CONTROL IN THE FUTURE NOTWITHSTANDING) AS WE UNDERSTAND IT.

(B) THERE IS EVERY ADVANTAGE IN TELLING EXCO THAT HMG'S OBJECTIVE IS CONTINUED BRITISH ADMINISTRATION (AND DEVELOPING A COMMON LINE WITH THEM AS TO WHY WE THINK IT IS VITAL TO THE MAINTENANCE OF PROSPERITY AND STABILITY). THE PRIME MINISTER SAID THIS VIRTUALLY IN TERMS AT HER MEETING WITH UNELCO ON 27 SEPTEMBER.

(C) WE ALSO NEED TO INDICATE THAT THE BRITISH POSITION ON SOVEREIGNTY IS NOT TOTALLY INFLEXIBLE. THIS CAN BE DONE BY DRAWING ATTENTION TO THE PRIME MINISTER'S REMARKS AT HER PRESS CONFERENCE THAT THE TREATIES CAN BE VARIED BY AGREEMENT.

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4. A BRIEFING ON THESE LINES WILL BE ONLY THE FIRST STEP. WE SHALL NEED TO CONSIDER VERY CAREFULLY WHAT MORE CAN BE SAID TO EXCO, (AND LATER TO THE WIDER UMELCO GROUP), AS THE TALKS IN PEKING PROGRESS.

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No 10 Downing Street*

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FM HONG KONG 131005Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 1169 OF 13 OCTOBER

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

PERSONAL FOR DONALD

YOUR TELNO 481 TO PEKING: FUTURE OF HONG KONG

1. AS INDICATED IN MY TELNO 1141, I AM CONTENT TO LEAVE CONSIDERATION OF THE TIMING OF A VISIT TO PEKING TO TAKE PART IN THE TALKS UNTIL AFTER THE AMBASSADOR'S NEXT CALL ON ZHANG WENJIN.

2. I AM ALSO CONTENT WITH THE SCENARIO IN PARAGRAPH 7 OF YOUR TELEGRAM UNDER REFERENCE (THOUGH WHAT IS REQUIRED IF NOT SO MUCH A BRIEFING ON QUOTE THE PRESENT SYSTEM OF GOVERNMENT UNQUOTE IN HONG KONG AS A DETAILED EXPLANATION OF HOW AND WHY HONG KONG WORKS AS SUCCESSFULLY AS IT DOES). I AGREE THAT IT MIGHT GIVE IMPETUS TO THE TALKS, AND HELP TO GET THE CHINESE ENGAGED ON GROUND OF OUR CHOOSING, IF THE BRIEFING COULD BE SPUN OUT OVER MORE THAN ONE SESSION. IN THAT EVENT IT MIGHT ONLY BE NECESSARY FOR ME TO TAKE PART IN THE FIRST SESSION. DEPENDING ON HOW THINGS WENT THE AMBASSADOR COULD BE SUPPORTED AT SUBSEQUENT SESSIONS BY OTHER REPRESENTATIVES FROM HONG KONG. BUT WE CAN DECIDE THAT WHEN THE TIME COMES.

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M 14/10.

Hong Kong
Future

FUTURE OF HONG KONG

My minute of 12 October refers.

With the compliments of

A E Donald

FOREIGN AND COMMONWEALTH OFFICE

LONDON, SW1A 2AH

Portuguese Embassy,
11, Belgrave Square,
London, SW1X 8PP

12th October, 1982

PERSONAL

Dear Mr. Donald,

When we talked last week I promised to send you the text of the provisions of the Portuguese Constitution concerning Macao.

They are as follows:-

" ARTICLE 5

T e r r i t o r y

1. Portugal comprises the territory defined by history on the European continent and the archipelagos of the Azores and Madeira.
2. The state shall not, except for frontier rectifications, alienate any part of the Portuguese territory or of the sovereign rights it exercises over it.
3. The extent and limits of territorial waters and the rights of Portugal to adjacent sea beds shall be defined by law.
4. The territory of Macao, under Portuguese administration, shall be governed by a Statute in keeping with its special situation.

ARTICLE 306

S t a t u t e o f M a c a o

1. The statute of the territory of Macao by virtue of Law No. 1/76 of 17 February 1976 shall continue in force.
2. On a proposal by the Legislative Assembly of Macao the Assembly of the Republic may, after consulting the Council of the Revolution, approve amendments to the statute or its replacement by another one.
3. If the proposal is approved with amendments, the President of the Republic shall not promulgate the decision of the Assembly of the Republic unless the Legislative Assembly of Macao expresses its approval. "

You will I am sure have noticed the specially careful wording of No. 4 of Article 5.

A.E. Donald, Esq., CMG.,
Assistant Under-Secretary of State,
Foreign and Commonwealth Office,
London, SW1A 2AL.

J. de Freitas-Cruz

J. de Freitas-Cruz
(J. de Freitas-Cruz)
Ambassador of Portugal.

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Mr Coles
No 10 Downing St
14

FROM PEKING 120900Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 649 OF 12/10/82

REPEATED FOR INFO TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD

MY TEL NO 647: INTERVIEW WITH ZHANG WENJIN

1. THE MFA HAVE JUST INFORMED US THAT ZHANG WENJIN WILL BE OUT OF TOWN WITH THE WEST GERMAN PRESIDENT UNTIL MONDAY 18 OCTOBER. IF WE CANNOT WAIT UNTIL THEN THEY OFFER WANG BENZUO, THE HEAD OF THE WEST EUROPEAN DEPT.

2. WANG WOULD HAVE EVEN LESS ROPE THAN ZHANG, AND COULD DO NOTHING BUT UNDERTAKE TO REPORT WHAT I HAVE TO SAY. THIS WOULD BE UNPRODUCTIVE. THE CHINESE HAVE OBVIOUSLY CONCLUDED THAT I WILL NOT WISH TO SEE ANOTHER VICE MINISTER NOW THAT WE HAVE ALREADY STARTED MEETINGS WITH ZHANG WENJIN. I THINK THIS IS RIGHT. I AM RELUCTANT TO ASK FOR HUANG HUA. HE MIGHT ON PAST EXPERIENCE BE MORE UNLEPFUL THAN ZHANG. I THEREFORE RECOMMEND THAT I SEEK AN INTERVIEW WITH ZHANG ON 18 OCTOBER. IF YOU AGREE I WILL SO INFORM THE MFA.

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MR GIFFARD

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FROM PEKING 120700Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 647 OF 12/10/82

REPEATED FOR INFO TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)
PERSONAL FOR DONALD

YOUR TEL NO 481: FUTURE OF HONG KONG

1. AS INSTRUCTED, I HAVE REQUESTED A CALL ON ZHANG AND HOPE TO GET IT TOMORROW, BUT HE IS INVOLVED WITH THE VISIT OF THE WEST GERMAN PRESIDENT AND THERE MAY BE A DELAY.

2. LOOKING AHEAD AND ASSUMING THAT ZHANG AGREES TO START TALKS, THE FIRST SUBSTANTIVE ROUND COULD BEGIN IN AS LITTLE AS A WEEK OR TEN DAYS AFTER MY CALL. WE ARE ASKING THE CHINESE TO ELABORATE ON THEIR IDEAS FOR MAINTAINING HONG KONG'S STABILITY AND PROSPERITY, AFTER 1977. EVEN IF THEY AGREE TO THIS I FEAR THAT IT IS LIKELY THAT THEY WILL BE UNABLE, AT LEAST INITIALLY, TO GO MUCH FURTHER THAN REITERATION OF DENG'S PROPOSALS TO MR HEATH. THE PRIME MINISTER HAS ALREADY TOLD THEM THAT THESE WOULD KILL THE GOOSE, BUT I THINK WE SHOULD BE PREPARED TO COMMENT ON AND CRITICISE THESE PROPOSALS IN DETAIL. IF YOU AGREE, I RECOMMEND THAT WORK ON SUCH A CRITIQUE SHOULD BEGIN AS SOON AS POSSIBLE. THE ARGUMENTS WOULD NEED TO BE CONCRETE AND SPECIFIC AND WE WOULD WANT TO LEAVE PAPER WITH THE CHINESE EMBODYING OUR COMMENTS

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*Mr Coles
No. 10 Downing Street
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SECRET

FROM PEKING 120615Z OCT 82
TO IMMEDIATE FCO TELEGRAM NUMBER 645 OF 12/10/82

REPEATED FOR INFO TO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD. MY TEL NO 642:

FUTURE OF HONG KONG : CHINESE COMMENTS

1. THE FOREIGN PRESS HERE HAVE REPORTED COMMENTS MADE TO FINANCIAL TIMES VISITORS BY ZENG TAO, A DEPUTY SECRETARY GENERAL OF THE NPC AND FORMER DIRECTOR OF NCNA.

2. ZENG, WHO IS NOT IDENTIFIED BY NAME IN THE REPORTS, IS QUOTED AS SAYING THAT ULTIMATE CONTROL WOULD REST WITH PEKING. 'WITH SOVEREIGNTY IN CHINESE HANDS YOU THINK IT IS NOT POSSIBLE TO MAINTAIN HONG KONG'S PROSPERITY AND STABILITY. THIS IS A MATTER OF OPINION. I BELIEVE THAT WITH THE MANAGEMENT OF THE CHINESE GOVERNMENT THERE WOULD BE NO LESS FREEDOM IN HONG KONG THAN THERE IS NOW.' ZENG IS SAID TO HAVE ADDED THAT CERTAIN FREEDOMS WOULD NOT BE PERMITTED. 'YOU CAN IMAGINE WHAT FREEDOMS WILL NOT BE ALLOWED.'

3. THE REPORT GOES ON TO SAY THAT ZENG SAID THE PEOPLE OF HONG KONG WOULD ENJOY DUE AND LAWFUL FREEDOM UNDER CHINESE MANAGEMENT AND THAT CHINA WOULD TRY TO KEEP THE ADVANTAGES OF BRITISH MANAGEMENT. 'SOME PEOPLE SAY SOVEREIGNTY WILL GO TO CHINA AND MANAGEMENT TO BRITAIN. THIS IS NOT COMPLETE.'

4. THE REPORTS WE HAVE SEEN DO NOT ELUCIDATE WHAT ZENG MEANT BY HIS FINAL COMMENT ON SOVEREIGNTY AND MANAGEMENT. BUT IT IS CLEAR THAT THE CHINESE INTEND TO CONTINUE SPEAKING TO THE PRESS IN THESE TERMS DESPITE OUR AGREEMENT TO MAINTAIN CONFIDENTIALITY. THIS LENDS EXTRA FORCE TO THE COMMENTS IN MY 642, AND I SHALL REFER TO ZENG'S REMARKS WHEN I SPEAK TO ZHANG WENJIN

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TO PRIORITY FCO

TELEGRAM NUMBER 1157 OF 12 OCTOBER

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

PERSONAL FOR DONALD

FUTURE OF HONG KONG

PEKING TELNO 642.

THE MAIN ELEMENTS IN THE CHINESE POSITION WHICH HAVE NOW BEEN MADE PUBLIC IN HONG KONG THROUGH CHINESE STATEMENTS, NCNA ARTICLES OR INTERVIEWS ARE AS FOLLOWS.

- (A) THE CHINESE POSITION ON SOVEREIGNTY WAS TACKED ON TO THE CHINESE VERSION OF THE AGREED STATEMENT ISSUED AFTER THE PRIME MINISTER'S TALKS IN PEKING.
- (B) THE MFA STATEMENT OF 30 SEPTEMBER (PEKING TELNO 613) RESTATED THE CHINESE VIEW THAT THE TREATIES WERE UNEQUAL AND THAT CHINA IS NOT BOUND BY THEM.
- (C) THE NCNA COMMENTARY ON 1 OCTOBER (PEKING TELNO 616) REINFORCED THIS AND CONTESTED THE PRIME MINISTER'S ASSERTION OF BRITAIN'S MORAL RESPONSIBILITY FOR HONG KONG.
- (D) VICE MINISTER XIAN QIWEN TOLD CASS OF THE FINANCIAL TIMES ON 7 OCTOBER THAT SOVEREIGNTY WAS MORE IMPORTANT THAN STABILITY AND PROSPERITY AND INDICATED THAT BRITISH ADMINISTRATION AFTER 1997 WOULD NOT BE POSSIBLE (PEKING TELNO 634).

2. WE ALSO HAVE EVIDENCE THAT THE CHINESE ARE CONTINUING TO BRIEF VISITING HONG KONG BUSINESSMEN ABOUT THEIR PLANS: WHEN FRANCIS TIEN (GARMENT MANUFACTURER, LEGCO) RECENTLY VISITED SHANGHAI THE MAYOR (AN OLD SCHOOL FRIEND) INVITED HIM TO DINNER SPECIFICALLY TO TALK ABOUT THE FUTURE, AND TOLD HIM THAT THE TWO PARTS OF SOVEREIGNTY, OWNERSHIP AND ADMINISTRATIVE CONTROL, WERE INDIVISIBLE. THE CHINESE ARE ALSO GIVING SOME ACCOUNT OF THEIR POSITION TO FOREIGN VISITORS (E.G. SUZUKI-PEKING TELNO 625) AND TO SELECTED FOREIGN JOURNALISTS (THE INDIAN JOURNALIST G.K. REDDY, WHO SAW ZHAO IN PEKING LAST WEEK WAS APPARENTLY TOLD THAT THE CHINESE FLAG WOULD FLY OVER HONG KONG IN 1997 AND LEFT WITH THE IMPRESSION THAT THERE COULD BE NO ROLE FOR BRITAIN THEREAFTER). IN ADDITION THERE IS EVIDENCE * ~~~~~ * THAT EVEN BEFORE THE PRIME MINISTER'S VISIT TO PEKING LOCAL COMMUNIST CADRES WERE BEING BRIEFED IN SOME DETAIL ABOUT SINO-BRITISH EXCHANGES AND ABOUT CHINESE THINKING ON THE FUTURE.

SECRET

* ~ * Passage deleted and retained under Section 3(4) of the Official Information Act 1982
9 October 2012

*Mr Coles
No 10 Downing Street
We shall have
to discuss
the position
Candidly
MJ*

A. J. C. 15/10

118

SECRET

3. THERE CAN BE LITTLE DOUBT THAT ALL THIS FORMS PART OF A PATTERN. IT WOULD BE HELPFUL TO HAVE THE AMBASSADOR'S COMMENTS ON CHINESE AIMS AND MOTIVES. ARE THEY, FOR EXAMPLE
- A) PUTTING THEIR POSITION ON PUBLIC OR SEMI-PUBLIC RECORD:
 - OR B) SEEKING TO "SOFTEN UP" PUBLIC OPINION IN HONG KONG TO GET IT USED TO THE IDEA OF TAKE-OVER IN 1997:
 - OR C) DELIBERATELY SEEKING TO SAUSE TURBULENCE IN THE MARKETS HERE?
4. WHATEVER THE REASONS FOR THESE CHINESE REVELATIONS, WE HAVE NOW REACHED THE POINT WHERE ANY REASONABLY PERCEPTIVE OBSERVER CAN PUT THE JIGSAW TOGETHER AND FILL IN MANY OF THE REMAINING BLANKS FOR HIMSELF. THIS HAS IMPLICATIONS FOR
- A) WHAT I TELL EXECUTIVE COUNCIL. I CANNOT KEEP THEM COMPLETELY IN THE DARK IN THE FACE OF CHINESE REVELATIONS.
 - B) WHAT ADVICE WE SHOULD GIVE UNOFFICIAL MEMBERS OF LEGCO ABOUT REFERENCES TO THE FUTURE IN THEIR SPEECHES ON THE GOVERNOR'S ADDRESS.
 - C) WHAT LINE WE SHOULD TAKE WITH CONSULAR REPRESENTATIVES HERE AND VISITING BUSINESSMEN WHO SEEK COMMENT ON WHAT THE CHINESE ARE SAYING.
5. I AM TELEGRAPHING SEPARATELY ON THESE POINTS.

YOUDE

LIMITED

HDI HK&GD
HDI PLANNING STAFF
HDI FED
HDI PUSD
PS
PS/LORD BELSTEAD
PS/PUS
MR GIFFARD
MR DONALD

COPIES TO
MR COLES NO 10 DOWNING ST
MR ROBERTS NEWS D

SECRET

PRIME MINISTER

Future of Hong Kong

Yes - the paper contains everything that's not very much. I agree very much with the practical approach you have outlined.

I attach a paper which the FCO have prepared at my request. I think it is a useful beginning but we need to develop a detailed and precise plan of campaign - and quickly. If you agree, I would make the following points in reply:

- a) You are grateful for the paper. We need to develop our ideas quickly.
- b) As regards gestures to the Chinese, the goal of "improving the atmosphere of the talks" is too vague to be worth spending money on. Unless we can find a gesture that will positively promote a solution on Hong Kong, we should not go down this path.
- c) The idea of a Treaty of Friendship and Co-operation is worth developing on a contingency basis - it might help the Chinese to accept a solution which would otherwise be unpalatable.
- d) The plan for educating the Chinese about Hong Kong is still too general. We need to know very soon roughly which Hong Kong people are likely to speak to the Chinese and when. Now is the time to begin the process. You would like to see more specific ideas soon when the Governor has been consulted.
- e) Can we really not make more use of the Peking talks to carry the education process forward? For example, could not Philip Haddon-Cave, in the context of the talks, put forward a good deal of information about the way Hong Kong's banking and financial mechanisms operate?

SECRET

SECRET
- 2 -

- f) As regards gestures to Hong Kong, you will be meeting soon with the Foreign and Home Secretaries to discuss the passport question. You would like to consider other proposals, particularly any which might help to maintain confidence in Hong Kong by demonstrating our faith in its future.

Agree that I may reply in these terms?

A & C.

12 October 1982

SECRET

Prime Minutes

You may like to see the
attached extract from the
Portuguese Constitution on Macao.

MT

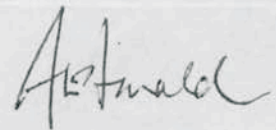
A. J. C. 12/10

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:
MY MINUTE OF 5 OCTOBER
P+2

1. I attach the relevant extract from Article V of the Portuguese Constitution to which reference is made in paragraph 5 of my minute.
2. I hope that I shall shortly get from the Portuguese Ambassador an English version of the secret clause, but he said it was taking some time to go through his personal records.
3. The Ambassador emphasised that this was being passed to me on a personal basis. I hope that Lisbon will respect this confidence.



12 October 1982

A E Donald

Article V of Portuguese Constitution

Second line, paragraph 3.

1. Portugal comprises the territory defined by history on the European continent and the archipelagos of the Azores and Madeira.
2. The State shall not, except for frontier ratifications, alienate any part of the Portuguese territory or of the sovereign rights it exercises over it.
3. The extent and limits of territorial waters and the rights of Portugal to adjacent sea beds shall be defined by law.
4. The territory of Macao, and the Portuguese administration, shall be governed by a Statute in keeping with its special situation.

Hong Kong:

Future of

26 Jul 1982



SECRET

2 pps

10A



Foreign and Commonwealth Office

London SW1A 2AH

11 October 1982

New John.

Future of Hong Kong

You asked in your letter of 4 October for advice on three points:

- i) Possible gestures to the Chinese in the field of Anglo/Chinese relations;
- ii) How to educate further the Chinese in the realities of Hong Kong;
- iii) Possible gestures to the people of Hong Kong.

/ I enclose a note on these points prepared by the Department.

Mr Pym saw the enclosure before his departure for the Middle East and commented that the ideas were worth considering and developing further. One general comment, however, which he had on the first of these points was that we should not assume that the Chinese position would be susceptible to change through financial inducement. Any gesture involving financial expenditure would therefore need to be carefully justified on something very close to our normal criteria for aid and/or commercial relations with major countries.

It would also be important that the use of any sweeteners for the Chinese, whether financial or otherwise, should be made only if some substantive progress were achieved in the talks on the future, and with very careful regard for our strategy in the negotiations.

Your ever,
Roger Bone
(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET



FUTURE OF HONG KONG

1. Mr Coles' letter of 4 October asked for advice on three points:
 - a) possible gestures to the Chinese in the field of Anglo/Chinese relations;
 - b) how to educate further the Chinese in the realities of Hong Kong;
 - c) possible gestures to the people of Hong Kong.

This note contains the Department's initial views and gives some idea of the range of possibilities. These do not include the views of Hong Kong and Peking, who are currently being consulted. We shall be making detailed recommendations on a number of points which call for early action. All these proposals will be subject to variation as the scene changes. We shall be keeping them under close review.

a) GESTURES TO THE CHINESE

2. The Chinese Government's approach to Hong Kong's future is nationalistic. The pragmatism of the current leadership has definite limits. They cannot easily retreat from their public position on the resumption of sovereignty. They have told us that this is more important than economic considerations. Their track-record forces us to take this statement seriously. Their national pride and fear of exposing flank to internal critics would prevent their accepting any 'sweeteners' which could too obviously appear as bribes. We could not risk offering to make any gesture conditional on the satisfactory outcome of the talks. This could back-fire.

3. But gestures could be useful in two respects:

/i)



- i) The Chinese have made clear that they would welcome easier terms for British goods and projects. Premier Zhao specifically referred to this during a farewell discussion with the Prime Minister on 25 September. While we should be under no illusions that we would get a direct political return we might improve the atmosphere of the talks by economic means. Examples are:
- A. Using Aid/Trade Provision funds to soften the terms of British bids for project business in China.
 - B. Softening the financial or other contractual terms for British defence sales to China.
 - C. Strengthening our scientific and technological links and further expanding our contribution to English language teaching.
 - D. Adopting a more liberal approach towards quotas (negotiated by the European Commission) for China's industrial exports to Britain.
- ii) If during the talks the Chinese appear to be moving towards compromise and accepting continued British administration of Hong Kong, we might be able to oil the wheels or make such a compromise more palatable by improving the economic benefits to China of a continuing triangular relationship Britain/Hong Kong/China. Possibilities include:
- A. Guangdong Nuclear Project.
 - B. South West Energy Project (development of mines, railways, and port facilities to exploit coal deposits in Guizhou (Kweichow) province).

*We must be
wary of these
attempts.*



Both these projects require massive investments for which China will not wish to borrow money at international market rates. (We would in effect be offering a partly tied soft loan somewhat akin to the idea floated earlier by Sir Y K Pao). It might be possible to help from:

- Hong Kong Government resources;
- Private Hong Kong resources;
- A special allocation from the UK Aid vote over and above any ATP funds set aside for either project.

If such money could be made available we might also contemplate:

C. A special 'Anglo-Chinese Friendship Project' perhaps in Canton, eg a major hospital like the Sino-Japanese Friendship Hospital in Peking, a university science faculty or English Language Teaching centre.

But any of these radical ideas would need very careful consideration and some could be expensive. In particular substantial aid funds for China could not be found from the current Aid Vote, which is already under the severest pressure, without serious damage to our relations with the countries whose current allocations would have to be further reduced. Neither ODA nor other Whitehall Departments have been consulted. We could expect them to be very reluctant to see China as a special case, particularly when there is no guarantee that the Chinese would be influenced as we hope.

SECRET



4. UK/China Treaty of Friendship and Cooperation

If an initiative on the lines of 3(ii) seemed feasible, it might be best presented as part of a package. We might be able to negotiate a new Treaty with China including three elements:

- Supersession of 19th century Treaties and formal establishment of new era of Anglo-Chinese relations on basis of friendship, equality, etc;
- Economic cooperation (as above);
- Continuing British administration of Hong Kong.

/b)

SECRET



- b) EDUCATION OF CHINESE GOVERNMENT IN REALITIES OF HONG KONG
5. The objective of such education must be to convince the Chinese that continuity of British administration and ultimate control from London is essential to the maintenance of confidence. The key point is not that the British have expertise in administration which the Chinese lack - there is much common ground between us and Peking that the bulk of administration could be left to Hong Kong people to run. The reason why the British connection is valued is as an insurance against interference from Peking on major domestic and external issues. Without this there would be only very limited trust in Chinese assurances that the present economic system and style of life would continue.
6. This is a very difficult message to get across both frankly and without causing offence. It has become even more complicated since the Chinese line on sovereignty has hardened. There are nevertheless two main ways which are worth trying:
- (i) by local Hong Kong people. If people of influence in business and the professions could be persuaded to make this point to the Chinese their views would probably be the most effective. So far people in this category who have been consulted have not had the courage to speak out. In consultation with the Governor we should nevertheless try to get the message across in this way for delivery both to Peking Communist representatives in Hong Kong and when Hong Kong people visit China. The Governor is in the best position to choose individuals but generally they should be senior people not obviously under the British thumb.
 - (ii) Friendly Foreign Governments and organisations. Since it is important for the Chinese to receive advice which appears to be as objective as possible, there is a case for asking governments which have a strong economic interest in Hong Kong or good relations

/with the



with the Chinese to put over to Peking their view of the basis of confidence in Hong Kong and how this should be preserved. This needs to be handled extremely carefully because of the vital importance of avoiding leaks to Hong Kong about the way in which talks between ourselves and the Chinese have been going - we could hardly ask other governments to help without giving them a fair amount of background briefing. The timing therefore needs to be very carefully chosen. For the time being the most realistic option is to make use of:

A. The Americans Secretary of State Shultz has offered to help. It is clear that the Chinese wish to develop their relations with the Americans, despite the limitations of the Taiwan issue, and they might listen to Washington if the Americans spoke with sufficient authority. It will in any case be very difficult to resist giving the Americans a fuller rundown on the talks than they already had and we should take the opportunity to discuss with them how an approach to the Chinese might be made. So far as possible we would hope that they could make use of their normal contacts, but at the same time this should be done at a high level.

Other possibilities are:

B. The Old Commonwealth. It would be worth briefing the Australians, Canadians and New Zealanders on the lines that when they have contacts with the Chinese they should underline the difficulty of preserving confidence in Hong Kong without a clear undertaking of continuity of administration in the Territory.

/C. The



C. The European Community. We should consider briefing our European allies on similar lines to B above.

D. International Economic Organisations, eg IBRD and IMF. Again at a later stage we could consider involving senior figures in such organisations as it seemed helpful. Indeed former members of such bodies, eg Mr Macnamara, might also help.

If the net were widened further, others might be:

E. Singapore. Sir P Cradock has advised (Peking Telegram No. 607) that it would not be helpful to use the Singaporeans at this stage. But they should be kept in mind.

F. The New Commonwealth, Pakistan etc. At some stage, but not yet, it might be worth selecting particular friends of China including individuals to put over the point about confidence.

G. The Japanese. Mr Suzuki told the Prime Minister on 20 September that Japan was deeply interested in the question. Sir P Cradock has reported (Peking Telegram No. 625) that on his visit to China immediately after the Prime Minister's, Mr Suzuki raised the subject with Deng. He was told firmly that China intended to recover sovereignty over Hong Kong by 1997 and that he should assure Japanese investors that after recovery, Japan's financial and other interests would not suffer. We do not know whether Mr Suzuki commented on this. At present we see no value in asking the Japanese to take up our case. They are influential with China in terms of their economic relations but they are primarily concerned with their own interests. They may well consider that their long-term economic interests in China outweigh their existing stake in Hong Kong.

/There are



There are other possible channels which could be considered.
They are:

- iii) The Embassy in Peking. There will be some opportunity for the Ambassador to make these points during the talks on Hong Kong and in the margins. But the effect of this is likely to be limited since the Chinese will regard it as special pleading.
- iv) FCO and Chinese Embassy in London. The same considerations apply as in (iii) except that the Chinese Embassy here has a brief^f to smooth Anglo/Chinese relations and both the Ambassador and his senior Counsellor are likely to react rationally to the sort of points which we would want to put over. But it could be helpful to feed the Chinese Embassy here with some convincing figures about the economic relationship between Hong Kong and China.
- v) Senior British figures. While the Governor of Hong Kong will from time to time be involved in the negotiations, there may be scope for him to get across points to Chinese contacts both when they are visiting Hong Kong and when he goes to China. This however needs to be very carefully judged and is more a part of the strategy for the negotiations than of the general education process. It would be open to consideration to take advantage of visits to China by other important British personalities who would have access to Chinese leaders. But again the objection to special pleading applies.
- vi) British and International Companies. There are a number of major British trading houses and other firms which have frequent contact with the Chinese Government. Some of them may be able to help although they are less



likely to be believed by the Chinese than foreign-based companies. We are urgently considering ways of approaching selected firms from both groups, particularly from the Community.

- vii) The Media. While we need to be careful to avoid 'conducting negotiations through the media' and thus provoking a Chinese response which would hit confidence once more, there is a good deal which can be done by briefing reliable press people to put over in articles the basic economic and political points about confidence in Hong Kong. We are producing a detailed plan for this.

7. There are a number of ways in which the effectiveness of such approaches could be monitored. They include:

- i) reports by the intermediaries themselves on their impressions of the Chinese reaction;
- ii) analysis of comment in the Chinese mainland and Chinese Communist press in Hong Kong which may show shifts in attitude;
- iii) possible shifts in the Chinese attitude during the talks in Peking;
- iv) *Passage deleted and retained under Section 3(4).*

CH Wayland

9 October 2012



c) GESTURES TO HONG KONG

8. There are a number of areas in which we could demonstrate our commitment to Hong Kong in practical ways and help confidence:

- (i) Overseas Students' Fees. Hong Kong students have been hard hit by the rise in fees for overseas students at British universities and many have voted with their feet by moving elsewhere, particularly to the US and Canada. Following the recent report of the Overseas Students Trust recommending co-operation between HMG and Dependent Territory Governments to help students, the Hong Kong Government have suggested joint financing to bring the fee charged to the individual student back to the Home Student level, subject to means testing. It would help greatly if HMG could soon announce that they will meet a specified proportion of these costs, preferably 50%. It would of course be necessary to take account of the demands of other groups, for example those from Malaysia and Cyprus. Hong Kong is not alone in having complained bitterly about our fees policy.
- (ii) Nationality Questions. The Prime Minister, while in Hong Kong, herself mentioned encouragingly Hong Kong's interest in getting a description in their new British Dependent Territories passports which would allow them to be called British Nationals. This would not change their non-eligibility for entry to or abode in the UK. They would see it primarily as a symbol of the continuing link between the UK and Hong Kong. The proposal does nevertheless have important implications for HMG's policy as a whole, and is the subject of separate correspondence with No. 10. Related to this is the proposal by Lord Bruce of Donnington that Falkland Islanders should be granted British Citizenship under the new Nationality Act. While it is clear that his

/amendment



amendment cannot and should not be opposed, it will certainly arouse considerable criticism in Hong Kong whose residents will see themselves as another form of special case. The more that HMG, in its comments on Lord Bruce's amendment, can show understanding for the position of Hong Kong, the better.

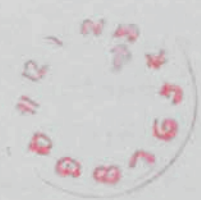
- (iii) British investment in Hong Kong. This remains relatively low. Active encouragement of investment by British Ministers and others would be seen as a symbol of confidence in the future.
- (iv) Vietnamese Refugees. Hong Kong is increasingly concerned at the new net rise in the number of refugees in the Territory caused by the reduction of resettlement opportunities in the West. Any moves by HMG to help Hong Kong would be taken as a sign of support and would also encourage other governments to step up their efforts.
- (v) The Multi-Fibre Arrangement. This is an area of irritation where help for Hong Kong would only be possible by a complete reversal of our agreed line with our EC partners. Negotiations between Hong Kong and the Community on future levels of textile imports to Europe have been temporarily suspended. British Ministers have already expressed understanding of Hong Kong's reliance on its textile industry and a general wish for treatment in the negotiations which recognises the importance of Hong Kong's free trade policies and open market access. But the agreed mandate to the Community negotiations which we have supported does not allow for any concession other than ensuring that Hong Kong is no worse treated than other dominant suppliers.

Hong Kong

Future of



12 OCT 1982



GRS 360

SECRET

SECRET

DEDIP

*McColes
No 10 Downing Street
10*

FROM PEKING 110615 Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 642 OF 11/10/82

REPEATED FOR INFO TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD

*head in file
10/10/82*

HONG KONG FUTURE: CHINESE STATEMENTS

1. THE CHINESE HAVE BEEN SPEAKING FAIRLY FREELY TO JOURNALISTS AND OTHER VISITORS SINCE THE PRIME MINISTER'S VISIT. YOU WILL HAVE SEEN MY TEL NO 634 ABOUT ALAN CASS'S CALL ON QIAN QICHEN. THIS WAS THE ORIGIN OF THE AP REPORT IN HONG KONG TEL NO 1128 TO YOU AND OF AN AFP REPORT CARRIED IN THE NCNA BLUE NEWS ON 8 OCTOBER WHICH SIMPLIFIED THE ACCOUNT ALONG THE SAME LINES. (I SHOULD BE INTERESTED INCIDENTALLY TO HEAR WHAT THE HONG KONG REACTION WAS TO THESE REPORTS.)
2. AT A MEAL FOR THE VISITING AUSTRALIAN CHIEF JUSTICE LAST WEEK THE AUSTRALIANS WERE TOLD BY A LEGAL EXPERT FROM THE MFA THAT SOVEREIGNTY CAME FIRST, THAT ADMINISTRATION WAS AN ASPECT OF SOVEREIGNTY AND THAT THERE COULD NOT BE A BRITISH ADMINISTRATION AFTER 1997. BUT SPECIAL MEASURES WOULD BE ADOPTED AND SOME BRITISH EXPERTS COULD BE RETAINED.
3. THE JAPANESE AMBASSADOR HAS TOLD ME THAT DENG TOLD SUZUKI THAT THE CHINESE WOULD ANNOUNCE THEIR PLANS FOR HONG KONG'S FUTURE IN ABOUT TWO YEARS. THIS IS IN ADDITION TO WHAT WAS REPORTED IN MY TEL NO 625.

ms

SECRET

/COMMENT

SECRET

COMMENT

4. THE CHINESE MAY NOT HAVE BEEN SPEAKING WITH COMPLETE ABANDON, BUT THEY HAVE CERTAINLY REVEALED TO OTHERS ENOUGH FOR ANY INTELLIGENT OBSERVER TO PIECE TOGETHER A PRETTY FULL PICTURE. FORTUNATELY THE DIFFICULTIES WE ARE HAVING GETTING THE TALKS STARTED HAVE NOT BECOME OUTSIDE KNOWLEDGE, THOUGH WE SHOULD NOT TAKE IT FOR GRANTED THAT THIS WILL REMAIN CONCEALED. I SHALL OF COURSE STRESS TO ZHANG WENJIN WHEN I NEXT SEE HIM THAT IT IS NOT HELPFUL AND INDEED POTENTIALLY VERY DAMAGING TO TALK TO THIRD PARTIES IN THIS WAY. HOWEVER, I AM AFRAID THAT EXPERIENCE SHOWS THAT WE MUST EXPECT THE CHINESE TO CONTINUE WITH THIS KIND OF KINDISCRETION. THE BEST WAY TO DEAL WITH IT IS, I BELIEVE, TO REMAIN INSCRUTABLE.

CRADOCK

LIMITED
HD/HKGD
HD/FED
HD/PUSD
HD/PLANNING STAFF
HD/NEWS DEPT
PS

PS/LORD BELSTEAD
PS/PUS
MR GIFFARD
MR DONALD

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MR COLES NO 10 DOWNING ST

Hong Kong

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SECRET

28391 - 1

OO PEKING

GRS 957

SECRET

FM FCO 111230Z OCOOBER 82

TO IMMEDIATE PEKING

TELEGRAM NUMBER 481 OF 11 OCTOBER,

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

YOUR TELNOS 620, 623 AND 636 AND HONG KONG TELNO 1130: FUTURE
OF HONG KONG: CALL ON ZHANG WENJIN

- h-a.
Mc 13/10.
1. WE AGREE WITH YOUR ANALYSIS OF THE CHINESE POSITION AND WITH YOUR GENERAL STRATEGIC APPROACH. FOR THE SAKE OF MAINTAINING CONFIDENCE IN HONG KONG, OUR IMMEDIATE AIM MUST BE TO DEMONSTRATE THAT CONTACTS ARE CONTINUING. (WE ALSO NEED TO BEAR IN MIND THAT PARLIAMENT RESUMES THIS WEEK.) WE NEED TO SUSTAIN THE LINE TAKEN BY THE GOVERNOR IN HIS SPEECH TO LEGCO. FOR THIS PURPOSE WE OURSELVES NEED NOT DISTINGUISH BETWEEN PRELIMINARY CONTACTS AND SUBSTANTIVE TALKS ALTHOUGH WE ACCEPT THAT WE MUST TRY TO STEER THE CHINESE TOWARDS SUBSTANCE AS SOON AS POSSIBLE AND THAT WE MUST AVOID A PUBLIC WRANGLE WITH THE CHINESE ON THE QUESTION.
 2. WE AGREE THAT THE CHINESE ARE UNLIKELY TO WANT A BREAKDOWN AND WE SHOULD TAKE ADVANTAGE OF THIS. IT IS IMPORTANT FOR YOU TO BE ABLE TO CONFIRM TO THE CHINESE, AFTER REFERENCE TO LONDON, THAT THE PRIME MINISTER REGARDS THE LINE TAKEN IN THE AGREED STATEMENT AS THE BASIS FOR TALKS. IT SHOULD BE POSSIBLE TO DO THIS AND TO SUGGEST WAYS IN WHICH SUBSTANTIVE DISCUSSIONS COULD BE STARTED BY FOLLOWING BROADLY THE LINE SUGGESTED IN PARAGRAPH 5 OF YOUR TELNO 623 BUT WITHOUT AT THIS STAGE OFFERING ANY STRONGER ASSERTION ABOUT OUR INTENTION TO CONSIDER THE SOVEREIGNTY QUESTION.
 3. PLEASE THEREFORE SEEK A VERY EARLY MEETING WITH ZHANG AND MAKE THE FOLLOWING POINTS:
 - A) IN OUR VIEW THE JOINT STATEMENT AGREED BY THE PRIME MINISTER AND CHAIRMAN DENG SHOULD BE THE BASIS FOR THE TALKS:
 - B) THIS WOULD NOT MEAN THAT THE CHINESE WOULD BE GIVING UP THEIR POSITION, OF WHICH WE ARE FULLY AWARE, BUT MRS THATCHER MADE CLEAR SHE COULD ONLY CONSIDER MAKING RECOMMENDATIONS

/ON

1

SECRET

ON SOVEREIGNTY IF THE PRACTICAL ARRANGEMENTS FOR THE FUTURE ADMINISTRATUON SEEMED SATISFACTORY:

C) DENG XIAOPING SAID THAT THE TALKS SHOULD AMONG OTHER MATTERS COVER ARRANGEMENTS POST-1997. IT IS THEREFORE LOGICAL THAT THE NEXT STAGE SHOULD BE AN EXCHANGE ON THE PRACTICAL ARRANGEMENTS FOR ADMINISTRATION, IN ORDER TO SEE WHETHER THESE MET THE REQUIREMENTS OF STABILITY AND PROSPERITY. WE WOULD LIKE TO HEAR MORE ABOUT THE CHINESE IDEAS.

D) TO SUM UP, OUR PROPOSAL IS FOR TALKS ON SUBSTANCE WITHOUT PREJUDICE TO POSITIONS OF PRINCIPLE, IN ORDER THAT WE CAN CONCENTRATE ON THE POINTS ON WHICH WE AGREE, AND MOVE ON FROM THERE.

4. IN TAKING THIS LINE YOU SHOULD NOT SUGGEST THAT WE WOULD BE TALKING ON THE BASIS OF THE CHINESE PREMISE, EVEN BY INFERENCE. WE THINK IT WOULD BE UNWISE TO GIVE THEM ANY SUGGESTION OF THIS, HOWEVER QUALIFIED.

5. DEPENDING ON THE OUTCOME OF THE NEXT ROUND WE SHALL NEED TO CONSIDER MORE FULLY THE IDEAS IN PARAGRAPH 6 OF YOUR TELNO 623.

6. WE FULLY TAKE THE GOVERNOR'S POINT IN HONG KONG TELNO 1130 OF THE NEED FOR A VISIBLE SIGN OF MOVEMENT SOON. WE DO HOWEVER SEE SOME POSSIBLE RISKS IN THE GOVERNOR BECOMING INVOLVED WHILE PRELIMINARY DISAGREEMENT HAS NOT BEEN OVERCOME:

A) THE CHINESE WOULD BE LIKELY TO RESPOND TO APPEALS FOR HELP IN MAINTAINING CONFIDENCE IN HONG KONG BY BLAMING US FOR RIGIDITY. THIS COULD LEAD INTO ANOTHER ARGUMENT ABOUT THE NEED TO ACCEPT THE PREMISE OF SOVEREIGNTY. THE GOVERNOR WOULD THUS BE INVOLVED AT AN EARLY STATE IN A DISCUSSION IN WHICH NO PROGRESS WAS MADE.

B) IF THIS HAPPENED SIR E YOUDE, WHO WOULD BE UNDER GREAT PRESSU FROM THE PRESS ON HIS RETURN TO HONG KONG, WOULD BE UNABLE TO GIVE ANY INDICATION ON PROGRESS. RELIANCE ON REITERATING THE NEED FOR CONFIDENTIALITY WOULD NOT BE ENOUGH.

C) IT IS POSSIBLE THAT TOO MUCH STRESS ON NERVOUSNESS IN HONG KONG COULD PERMIT THE CHINESE TO REMIND US OF DENG XIAOPING'S THREAT THAT IF THINGS GOT OUT OF CONTROL IN THE TERRIROTY THEY MIGHT NEED TO REVISE THEIR TIMETABLE FOR THE RECOVERY

/OF

OF SOVEREIGNTY.

7. IT MAY THEREFORE BE RIGHT FOR A VISIT BY THE GOVERNOR TO WAIT UNTIL THE CHINESE HAVE AGREED TO MOVE ON TO SUBSTANCE. BUT WE ARE VERY CONSCIOUS, TOO, OF THE DESIRABILITY OF INVOLVEMENT BY THE GOVERNOR IN THE NEGOTIATIONS AND WE SHALL BE REVIEWING THIS IN THE LIGHT OF YOUR MEETING WITH ZHANG. ONE WAY OF AVOIDING AN EARLY CLASH ON THE SOVEREIGNTY ISSUE COULD BE FOR THE GOVERNOR TO PROVIDE A FULL FACTUAL BRIEFING ON THE PRESENT SYSTEM OF GOVERNMENT IN HONG KONG. ALTHOUGH THE CHINESE WILL BE GENERALLY FAMILIAR WITH THIS THERE MUST BE MANY ASPECTS OF WHICH THEY ARE IGNORANT. INDEED IF WE JUDGED IT TACTICALLY NECESSARY SUCH A BRIEFING COULD BE SPUN OUT OVER TWO OR EVEN THREE SESSIONS AND WOULD ALLOW TIME FOR US TO ENGAGE IN FURTHER EDUCATION ABOUT THE BASIS OF CONFIDENCE IN THE TERRITORY. WE SHALL BE GRATEFUL FOR YOUR AND THE GOVERNOR'S VIEWS ON THIS.

8. FINALLY, WE AGREE WITH YOUR TELNO 634 THAT STATEMENTS BY CHINESE OFFICIALS TO THE PRESS WHICH REFLECT SUBSTANTIVE POINTS MADE BY THE CHINESE LEADERS TO MRS THATCHER ARE VERY DAMAGING. HONG KONG TELNO 1128 UNDERLINES THIS. WE WOULD LIKE YOU TO DRAW ZHANG WENJIN'S ATTENTION TO THIS ON THE FOLLOWING LINES. PREMIER ZHAO AGREED WITH MR ATKINS IN JANUARY THAT UNTIL A CONCRETE FORMULA HAD BEEN WORKED OUT NOTHING SHOULD BE DONE BY EITHER SIDE TO HARM PROSPERITY IN HONG KONG. STATEMENTS OF THIS SORT WILL CAUSE NERVOUSNESS IN HONG KONG AND DAMAGE CONFIDENCE, A FUNDAMENTAL ELEMENT IN PROSPERITY. IT WAS IMPLICIT IN MRS THATCHER'S OFFER TO ENTER INTO TALKS THAT WE WOULD BE HOLDING THESE CONFIDENTIALLY THROUGH DIPLOMATIC CHANNELS. THE CHINESE STATEMENTS SUGGEST THAT THE CHINESE GOVERNMENT WOULD PREFER TO NEGOTIATE THROUGH THE PRESS. THIS IS NOT LIKELY TO BE CONDUCIVE TO TRUST BETWEEN US IN THE TALKS. FOR OUR PART WE HAVE NOT LEAKED ANY OF THE SUBSTANCE OF THE CONFIDENTIAL TALKS WITH CHINESE LEADERS. WE HOPE THAT ON THE CHINESE SIDE GREATER DISCRETION WILL BE SHOWN IN FUTURE IN TALKING TO THE PRESS.

PYM
LIMITED
HD/HKGD
HD/FED
HD/PLANNING STAFF
PS

PS/LORD BELSTEAD
PS/PUS
MR GIFFARD
MR DONALD

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SIR I SINCLAIR, LEGAL ADVISERS.
MR COLES, NO 10 DOWNING STREET



SECRET



10 DOWNING STREET

From the Private Secretary

11 October, 1982.

Future of Hong Kong: Talks with Chinese Government

Thank you for your letter of 8 October. The Prime Minister agrees that the proposed instructions to Sir Percy Cradock should issue.

Mrs. Thatcher has, however, commented that she remains worried about the Governor's request that he should be enabled to participate in the next meeting in Peking. She feels that we may not be showing sufficient comprehension of his difficult position, and would like the matter to be reviewed after the next meeting between Sir Percy Cradock and the Chinese Government. The Prime Minister has further commented that she hopes that this meeting can be held soon. She will soon have to deal with Parliamentary Questions on this matter, and it would be better if substantive talks had started by then, or if, at least, we were able to announce a date for the commencement of substantive talks.

A. J. COLES

J.E. Holmes, Esq.,
Foreign and Commonwealth Office.

SECRET

Sw



10 DOWNING STREET

From the Private Secretary

11 October, 1982

Dear John,

PQ: Future of Hong Kong

Thank you for your letter of 8 October describing the line which Lord Belstead proposes to take in response to the Parliamentary Question on 14 October. The Prime Minister agrees with the main answer and has commented "the less said the better".

With regard to the Supplementaries she has asked whether the word "contacts" should not be substituted for "meetings" in the first Note for Supplementaries.

The Prime Minister would like the first sentence of the second Note for Supplementaries to read: "I cannot make any useful forecast of how long the talks will take".

Finally, with regard to the sixth Note for Supplementaries, the last sentence should read: "I would rule out no possible solution that was acceptable to the people of Hong Kong and to this Parliament".

JC

J. E. Holmes, Esq.,
Foreign and Commonwealth Office

M

7B

Mr Coles
No 10 Downing Street

S E C R E T

GRS 175
D E D I P
S E C R E T
FM HONG KONG 081105Z OCTOBER 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 1140 OF 08 OCTOBER
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR

PERSONAL FOR DONALD
FROM GOVERNOR

PEKING TELNO 636: FUTURE OF HONG KONG

WE AGREED WITH THE CHINESE ''TO ENTER INTO TALKS'' ABOUT THE FUTURE. WE AVOIDED DISTINGUISHING BETWEEN PRELIMINARY AND SUBSTANTIVE TALKS BY SAYING, IN MY LEGCO SPEECH, THAT ''MEETINGS'' HAVE BEGUN. I AGREE THAT THERE ARE DANGERS INVOLVED IN TRYING TO ELABORATE ON THIS AND I SEE NO NEED TO DEPART FROM THE FORMULA FOR SOME TIME: ON THAT BASIS THERE WOULD BE NO INCENTIVE FOR THE CHINESE TO CHALLENGE US.

2. I AM TELEGRPAHING SEPARATELY ABOUT POSSIBLE VISITS BY ME TO PEKING. I CERTAINLY DO NOT ENVISAGE GOING FOR THE AMBASSADOR'S NEXT CALL ON ZHANG WENJIN.

YOUDE

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PS
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MR DONALD

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MR ROBERTS
NEWS DEPT

S E C R E T

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

8 October 1982

Talks with China: Future of Hong Kong

The Prime Minister would find it useful to have a talk with Dr. Kissinger some time, given his experience of negotiating with the Chinese.

I understand that George Walden is expecting to meet a member of Dr. Kissinger's staff during a visit to Washington on 15 October. It would be helpful, provided you see no objection, if he could establish whether Kissinger is likely to be visiting London in the near future. If there is any prospect of this, the message could be conveyed that the Prime Minister would welcome the chance for a private talk about China and Hong Kong. She would of course not wish the fact that she intended to discuss these matters with Kissinger to become public and I should be grateful if George Walden could emphasise the need for total confidentiality.

A. J. COLLIER

John Holmes Esq
Foreign and Commonwealth Office.

AB

CONFIDENTIAL

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Prime Minister



This would widen the circle of those who know about your discussions by between 10 and 20 people.

Foreign and Commonwealth Office

London SW1A 2AH

8 October 1982

2. But JIC assessments would be useful to you. Should we say that only those covered in the Assessment Staff (and as few of them as possible) should be informed about the discussion?

No - none
mb

A.J.C. 12/10

Dear John,

Future of Hong Kong

We shall be letting you have regular commentaries by the FCO on the state of play in the discussions with the Chinese and on the way in which we see Peking tactics tending. In addition we think that it would be useful to provide the Prime Minister with updated assessments through the JIC *~~~~~*

No

To make full use of the JIC machinery, we should need the Prime Minister's authority for the reports on her discussions with the Chinese leaders, and subsequent diplomatic exchanges, to be seen at least by those concerned in the Assessments Staff, but ideally also by other representatives on the JIC including the intelligence agencies and the MOD. This would of course be done on a very strict need-to-know basis, but would ensure that collective assessments were available. I should be grateful to know whether the Prime Minister agrees. If so, we shall pursue with the Cabinet Office.

I am copying this to Richard Hatfield (Cabinet Office).

~ Passage deleted and retained. Yours ever

Wayland
9 October 2012

J E Holmes
Private Secretary

A J Coles Esq
10 Downing Street



Foreign and Commonwealth Office

London SW1A 2AH

8 October 1982

Dear John,

Future of Hong Kong: Talks with Chinese Government:

/ I enclose copies of Peking telegrams Nos 620 and
 / 623 reporting and commenting on Sir Percy Cradock's first
 / discussion with Vice-Foreign Minister Zhang Wenjin.
 / Also enclosed is Hong Kong telegram No 1130 giving the
 views of the Governor of Hong Kong.

This was a firm exchange. There was no change in the
 hard line taken by Deng Xiaoping and Zhao Ziyang with the
 Prime Minister. Indeed, Zhang spelt out rather more
precisely that sovereignty should be exercised by China from
 1997 at the latest, that no distinction between sovereignty
and administration was envisaged on the Chinese side, and
 that consequently British administration must end by then.

As the Ambassador points out, the more positive side
 of the discussion was the Chinese acceptance that talks
 could begin despite the differences over sovereignty and in
 particular over the Chinese demand that the premise of the
 Chinese position should be accepted.

Given the Chinese line during the Prime Minister's
 talks, and their public statements since, Zhang's stance is
not surprising. It was to be expected that they would
 adopt a very tough opening position. While there may be
 some room for give on their approach to detail, it is
unlikely that they will shift on their key point of effective
recovery of sovereignty. At present there seems little
 prospect of their accepting the need for British administration.
 But we should still work to this end. Further efforts to
 educate the Chinese leadership will clearly be of high
 importance.

/In these



In these circumstances, and particularly given the need to bolster confidence in Hong Kong, we suggest that our objective must be to keep the contacts with the Chinese going and to be able to demonstrate publicly, especially in Hong Kong, that this is happening. Here we probably have some common ground with the Chinese. As the Ambassador comments, they are unlikely to want a breakdown. They have an interest in maintaining stability and confidence in Hong Kong and experience of their previous negotiations with ourselves and with other countries shows that they have been prepared to continue contacts over a considerable period, even when the two sides fundamentally disagreed. On the other hand the continuing Chinese tactic of presenting their position publicly makes it increasingly difficult to avoid revealing the major differences between the two sides.
 // Hong Kong telegram No 1128 and Peking Telegram No 634 show the Chinese taking this a stage further, and leaking important and damaging points from their leaders' remarks to the Prime Minister.

The Ambassador makes a distinction between talks and contacts, saying that we should get the former going as soon as possible. In his telegram No 636 he emphasises the problem of trying to blur the two. We must certainly avoid a public wrangle with the Chinese on this. Nevertheless, from the point of view of Hong Kong, it is very important to stand on the line taken in the Governor's speech on 6 October to the Legislative Council that meetings have begun to follow up Mrs Thatcher's visit. Provided that we avoid comment on the content of the discussions this should provide reassurance and be sustainable for some time.

The best course would therefore be an amalgam of the options described by the Ambassador in paragraph 3 of his telegram No 623. We may find that we simply cannot move the Chinese but it would be right to re-emphasise the basis of the talks as expressed in the agreed statement following the Prime Minister's discussions. It would be tactically wrong at this stage to make any stronger play with our conditional willingness to consider the sovereignty question, although a repetition of the points already made to Zhang by the Ambassador, to the effect that sovereignty could only be considered if administrative arrangements seemed to be satisfactory, would be helpful.

I enclose a draft telegram of instructions which is in effect the line recommended in paragraph 5 of Peking Telegram No 623 with some modification to take account of the comments above. It also comments on the Governor's suggestion in Hong Kong telegram 1130 that he should take part in the discussions very soon. We do not think that he should do this right away, but suggest a means of involving him if we are able to get talks of substance started.

SECRET



Paragraph 6 of Peking telegram No 623 looks ahead to the next stage and suggests a statement on sovereignty which might induce the Chinese to move on to substantive talks. This would need to be considered after the Ambassador's next round with Zhang. Our initial reaction is that a statement along these lines might prove useful at some stage but would have to be very carefully worded.

Mr Pym saw an earlier version of this letter and the draft telegram but has not been able to see these versions. I am submitting them to him in parallel and will let you have any comments as soon as possible.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

18 OCT 1962



SECRET

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).

Handwritten: Prime Minister

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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 (SENT-COLON) ONLY BY DOING SO. ONLY THEN 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 (SENT-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

CRADOCK

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

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

- 3 -
SECRET

GR 780

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SECRET

Handwritten: HK91

D E D I P

DESKBY FCO 060900Z

DESKBY HONG KONG 060600Z

FM PEKING 060640Z OCT 62

TO IMMEDIATE F C O

TELNO 623 OF 6 OCTOBER

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

TOP SECRET

*Prime Minister
You have already
seen this.
OR 5/10*

PERSONAL FOR DONALD

MY TELNO 620: CALL ON ZHANG WENJIN: HONG KONG TALKS

1. THIS WAS A COURTEOUS AND FRIENDLY BUT VERY FIRM EXCHANGE. ZHANG TOOK A HARD LINE AND STUCK CLOSELY TO IT. HE IS OF COURSE ON A TIGHT REIN. HE REPEATEDLY HARPED ON THE SOVEREIGNTY "PREMISE" OR "PRE-CONDITION". I GAVE HIM A NUMBER OF OPPORTUNITIES TO CLARIFY WHICH HE MEANT, BUT HE USED THE TWO WORDS INTERCHANGEABLY. HE DENIED THAT SOVEREIGNTY AND ADMINISTRATION WERE SEPARABLE AND REINFORCED ZHAO'S REMARK TO THE PRIME MINISTER, THAT BRITISH ADMINISTRATION WAS OUT OF THE QUESTION.

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2. ALTHOUGH ZHANG GAVE NOTHING AWAY, THERE WERE TWO POSITIVE POINTS IN WHAT HE SAID. FIRST HE AGREED THAT TALKS COULD BEGIN DESPITE THE MAJOR DIFFERENCES OUTSTANDING, EVEN THOUGH THE PROBLEM OF THE PREMISE WOULD BE ENCOUNTERED IMMEDIATELY. SECONDLY HE SAID THAT IF IT WERE NOT POSSIBLE TO SOLVE THE QUESTION OF SOVEREIGNTY TOTALLY WE SHOULD AT LEAST REACH A "SETTLEMENT IN PRINCIPLE" OF THE SOVEREIGNTY QUESTION SO THAT DISCUSSION OF THE MAINTENANCE OF PROSPERITY AND STABILITY COULD PROCEED.

3. AS TO WHERE WE GO FROM HERE, WE APPEAR TO HAVE TWO OPTIONS:
(A) TO RETURN TO THE CHARGE WITH ZHANG AND SEEK TO PERSUADE HIM THAT SOVEREIGNTY CAN BE CONSIDERED ONLY AFTER WE HAVE DEALT WITH THE ADMINISTRATIVE ARRANGEMENTS.
(B) TO BEGIN TALKS IN THE KNOWLEDGE THAT WE SHALL RUN INTO IMMEDIATE DIFFICULTIES ON SOVEREIGNTY.

4. IN MY VIEW ZHANG WILL NOT BE MOVED FROM HIS POSITION BY ANOTHER APPROACH ON THE LINES OF (A). FURTHERMORE IT IS IMPORTANT FOR US AND FOR CONFIDENCE IN HONG KONG THAT WE SHOULD GET INTO TALKS AS SOON AS POSSIBLE. I BELIEVE THAT WE SHOULD DO SO EVEN THOUGH WE KNOW THAT THE "PREMISE" WILL CAUSE US DIFFICULTIES. WE SHALL HAVE CONCEDED NOTHING ON PRINCIPLE. IT MAY PROVE HARD TO KEEP THE TALKS MOVING, BUT PERHAPS NOT IMPOSSIBLE. THE CHINESE WILL PRESUMABLY WISH TO AVOID A BREAKDOWN. WE COULD EXPLORE WHAT THEY MEAN BY A "SETTLEMENT IN PRINCIPLE" AND IT IS JUST POSSIBLE THAT A STRONGER ASSERTION OF OUR GENUINE INTENTION TO CONSIDER THE SOVEREIGNTY QUESTION EVENTUALLY WILL PRODUCE A CORRESPONDING MOVEMENT FROM THE CHINESE. ONLY WHEN TALKS BEGIN CAN WE EXPECT TO INFLUENCE THEIR COURSE.

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5. I RECOMMEND THEREFORE THAT WE SHOULD AIM TO BEGIN TALKS AS QUICKLY AS POSSIBLE AND WITHOUT EXPECTING TO RESOLVE THE WRANGLE OVER THE PREMISE BEFOREHAND. HOWEVER I FEEL IT WOULD BE WRONG IF I WERE TO GO BACK TO ZHANG AND AGREE TO BEGIN TALKS WITHOUT MORE ADD AND WITHOUT A STATEMENT FIRST MAKING OUR POSITION EVEN MORE PLAIN AND AVOIDING ANY IMPRESSION THAT WE WERE SUCCUMBING TO PRESSURE AND ENTERING TALKS ON HIS TERMS. I RECOMMEND THEREFORE THAT I BE INSTRUCTED TO MAKE A SECOND CALL ON ZHANG RESTATING OUR POSITION IN STRONGER TERMS, AND THEN PROPOSING THAT WE SHOULD BEGIN TALKS DESPITE THE DIFFERENCES BETWEEN US ON BASIC POINTS. IN DOING SO I MIGHT IN ADDITION DEPLOY THE IDEAS ABOUT THE FIRST STAGE OF THE TALKS IN PARA 8 OF MY TELNO 611. I COULD TELL ZHANG THAT SINCE WE PROPOSED IN ANY CASE TO START BY ASKING THE CHINESE TO ELABORATE ON THEIR IDEAS ON THE ADMINISTRATION OF HONG KONG AFTER 1997, THIS WOULD BY DEFINATION BE ON THEIR PREMISE, EVEN IF WE DID NOT ACCEPT IT. WE WOULD IN EFFECT BE TREATING THEIR PREMISE AS A WORKING HYPOTHESIS. BUT THEY SHOULD BE IN NO DOUBT THAT WE ARE NOT COMMITTED TO IT.

6. IF, WHEN SUBSTANTIVE TALKS HAVE BEGUN, THE CHINESE, AS I SUSPECT, ARE NOT FULLY SATISFIED BY THE LINE RECOMMENDED IN THE LAST FOUR SENTENCES OF MY PARA 5 ABOVE AND WE RUN STRAIGHT UP AGAINST THE PROBLEM OF THE SOVEREIGNTY PREMISE, IT MIGHT BE POSSIBLE TO FINESSE THIS BY A FORMAL STATEMENT ON SOMETHING LIKE THE FOLLOWING LINES. BEGINS. WE HAVE TAKEN FULL ACCOUNT OF AND GIVEN FULL WEIGHT TO THE CHINESE POSITION ON SOVEREIGNTY. WE HAVE NO INTENTION OF AVOIDING THE ISSUE, BUT CAN ONLY TAKE DECISIONS ON THIS POINT WHEN THE OTHER ASPECTS OF THE QUESTION HAVE BEEN SATISFACTORILY DISCUSSED. WE UNDERSTAND THE CHINESE PREMISE AND ASK THEM TO UNDERSTAND OURS. WE ARE PREPARED TO CONDUCT DISCUSSIONS ON THE BASIS OF THIS UNDERSTANDING AND ARE FULLY CONSCIOUS OF THE CHINESE POSITION ON SOVEREIGNTY. ENDS. WE MIGHT NEED TO BACK THIS BY EXPLAINING IN STRONGER TERMS WHY NO BRITISH GOVERNMENT COULD AGREE TO CEDE SOVEREIGNTY WITHOUT REFERENCE TO PARLIAMENT.

7. PARA 6 ABOVE IS ONLY PRELIMINARY THINKING AND WE SHALL NEED TO CONSIDER MORE DEEPLY HOW WE MIGHT ACHIEVE OUR FIRST OBJECT IN THE TALKS OF GETTING THE CHINESE INVOLVED IN DISCUSSION ON PRACTICAL DETAIL WITHOUT COMPROMISING OUR PRINCIPLES.

CRADOCK

LIMITED
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HD/PLANNING & STAFF
HD/PUS
PS
PS/LORD BEKSTEAD
PS/PUS
MR BIFFARD
MR DONALD

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00 PEKING

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D E D I P

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DESKBY 071300Z

FM HONG KONG 071205Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1130 OF 7 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

PERSONAL FOR DONALD FROM GOVERNOR

PEKING TELNO 623: FUTURE OF HONG KONG

1. THE FOLLOWING ARE PRELIMINARY COMMENTS ON THE LINE RECOMMENDED IN PEKING TUR, SENT NOW TO MEET YOUR DEADLINE (MY TELECON WITH CLIFT REFERS).

2. FROM THE HONG KONG POINT OF VIEW THE FIRST REQUIREMENT IS TO KEEP TALKING. SINCE THERE IS VIRTUALLY NO PROSPECT OF REACHING AGREEMENT WITH THE CHINESE ON ANY QUOTE PREMISE UNQUOTE FOR SUBSTANTIVE TALKS, I SUGGEST THAT THE AMBASSADOR'S NEXT APPROACH SHOULD BE MADE ON THE ASSUMPTION THAT THE TALKS HAVE ALREADY BEGUN. THERE WOULD HAVE TO BE FURTHER EXHCANGES ABOUT SOVEREIGNTY DURING WHICH THE BRITISH POSITION WOULD NEED TO BE RESTATED WITH GREAT FIRMNESS, BUT THE AIM SHOULD BE TO SLIDE INTO DISCUSSION OF SUBSTANCE SO THAT WE CAN BEGIN TO PUT INTO EFFECT OUR STRATEGY OF WEARING AWAY THE CHINESE POSITION.

IMMEDIATE

ADVANCE COPY

3. IN ORDER TO MAINTAIN CONFIDENCE HERE THE SECOND HONG KONG REQUIREMENT IS THAT THERE SHOULD BE SOME VISIBLE SIGN OF PROGRESS OR AT LEAST ACTIVITY - IN THE REASONABLY NEAR FUTURE. SINCE THERE CAN BE NO ANNOUNCEMENTS ABOUT THE CONTENT OF THE TALKS (AND EVEN IF THERE WERE THIS WOULD SCARCELY BE HELPFUL), THE BEST WAY TO ACHIEVE THIS MIGHT BE FOR ME TO GO TO PEKING TO TAKE PART. SUCH A VISIT WOULD ENABLE ME TO BRING HOME TO THE CHINESE THE GENERAL STATE OF NERVOUSNESS HERE, EXACERBATED BY THEIR OWN STATEMENTS IN THE PRESS: AND TO STRESS THE IMPORTANCE OF PRESERVING THE CONFIDENTIALITY OF THE DISCUSSIONS IF CONFIDENCE IS TO BE MAINTAINED. I WOULD ALSO SEEK TO REASSURE THEM THAT I AND THE GOVERNMENT ARE DOING EVERYTHING POSSIBLE TO MAINTAIN CONFIDENCE E.G. THROUGH MY LEGCO SPEECH.

4. AGAINST THAT BACKGROUND YOU MAY WISH TO CONSIDER WHETHER THE AMBASSADOR SHOULD BE INSTRUCTED TO PROPOSE THAT QUOTE THE SITUATION IN HONG KONG UNQUOTE SHOULD BE DISCUSSED EARLY ON IN THE TALKS. THIS MIGHT HELP TO GET ROUND THE PROCEDURAL OBSTACLE IF THE APPROACH RECOMMENDED BY SIR P. CRADOCK DOES NOT SUCCEED: THE CHINESE MAY BE SUSCEPTIBLE TO THE ARGUMENT THAT THE FIRST PROBLEM TO BE TACKLED IS THE DIFFICULTY OF MAINTAINING CONFIDENCE NOW, WHILE THE TALKS ARE TAKING PLACE.

YOUDE

SECRET

NNNN

IMMEDIATE

ADVANCE COPY

D/B 080900Z

DWF G 19/08

[LIMITED]

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GR 240

SECRET

DESKBY 080900Z

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FM PEKING 080700Z OCT 82

TO IMMEDIATE F C O

TELNO 636 OF 8 OCTOBER

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

PS/ LOW 32/160
PS/ PUS
NEG/ FRAM
72 DONALD

HONG KONG TELNO 1130: FUTURE OF HONG KONG

SIP-1-SINCLM7
LEO ADV

1. THE LINE RECOMMENDED IN PARAGRAPH 2 OF TUR IS NOT VERY DIFFERENT IN SUBSTANCE FROM OUR OWN RECOMMENDATION. HOWEVER, YOU SHOULD BE IN NO DOUBT THAT THE CHINESE DO NOT AS YET ACCEPT THAT FORMAL TALKS HAVE BEGUN. IT WOULD BE DANGEROUS TO TRY TO BLUR THIS, SINCE IT IS A SENSITIVE POINT FOR THEM. IT WOULD BE EVEN MORE DANGEROUS TO BLUR IT PUBLICLY, SINCE THERE WOULD THEN BE A SERIOUS RISK THAT THEY WOULD DENY PUBLICLY THAT TALKS HAVE BEGUN. A PUBLIC DISAGREEMENT ON THIS POINT WOULD BE VERY DAMAGING.

2. THE NEXT STEP, AS IMPLIED IN PARA 4 OF TUR, MUST BE ANOTHER CALL BY ME ON ZHANG TO TRY TO GET TALKS MOVING. I TAKE IT THAT THE GOVERNOR IS NOT PROPOSING TO COME TO PEKING FOR THIS CALL, BUT FOR THE SUBSTANTIVE SESSION WHICH WE HOPE WILL FOLLOW. YOU ALREADY KNOW FROM MY TELNO 633 OF MY WORRIES ABOUT THE FREQUENCY AND TIMING OF 'EVENTS'.

3. THE SUGGESTION IN PARA 4 OF TUR COULD BE USEFUL, AND WOULD ALLOW THE GOVERNOR TO UNDERLINE THE REASONS FOR THE PRESENT NERVOUSNESS IN HONG KONG. BUT IT WOULD NOT GET US OFF THE SOVEREIGNTY HOOK.

IMMEDIATE
ADVANCE COPY

Hd HKGD ↓

[Mr. Donald]

[RC]

[D/BY 080600Z]

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OO F C O (DESKBY 080600Z)

OO HONG KONG

GR 260

SECRET

DESKBY FCO 080600Z

FM PEKING 080410Z OCT 82

TO IMMEDIATE F C O

TELNO 634 OF 8 OCTOBER

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

PERSONAL FOR DONALD

1. THE ASIAN EDITOR OF THE FINANCIAL TIMES, ALAN CASS, WAS RECEIVED YESTERDAY BY VICE FOREIGN MINISTER QIAN QICHEN. CASS ASKED ABOUT HONG KONG. QIAN MADE IT CLEAR THAT SOVEREIGNTY WAS THE MOST IMPORTANT CONSIDERATION FOR THE CHINESE, AND THAT THIS CAME BEFORE STABILITY AND PROSPERITY. CASS DERIVED THE IMPRESSION THAT THE CHINESE DID NOT MUCH CARE ABOUT PROSPERITY IN HONG KONG. CASS ASKED WHETHER, IF THE BRITISH CONCEDED SOVEREIGNTY, THERE COULD BE A ROLE FOR BRITISH ADMINISTRATION FOR SAY A FURTHER 25 OR 50 YEARS. QIAN APPARENTLY REPLIED THAT HE DID NOT THINK THAT THIS WOULD BE POSSIBLE.

2. THE FT DELEGATION HAVE REPORTED THIS AND IT HAS ALREADY BEEN PICKED UP BY NEWS AGENCIES HERE. INEVITABLY THE STORY IS BEING SIMPLIFIED TO 'NO BRITISH ADMINISTRATION AFTER 1997'.

3. IF THE QUESTION ACTUALLY WAS PUT TO QIAN AS DESCRIBED ABOVE, IT IS NOT SURPRISING THAT HE SAID NO: NEVERTHELESS THIS IS A BREACH OF THE CONFIDENTIALITY WHICH WE AGREED ON THE SUBSTANCE OF THE TALKS, AND I DO NOT THINK WE SHOULD LET IT PASS. I WOULD PROPOSE TO MENTION IT TO ZHANG IN THE COURSE OF MY NEXT CONVERSATION WITH HIM, AND TO SAY THAT WE REGARD IT AS UNHELPFUL. WHATEVER OUR DIFFERENCES, BOTH SIDES SHOULD AVOID MAKING STATEMENTS WHICH WOULD DAMAGE CONFIDENCE IN HONG KONG WHILE THE TALKS WERE PROCEEDING.

CRADOCK

AGNNNN

RESTRICTED

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FM HONG KONG 071045Z OCT 82
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 1128 OF 7 OCTOBER
 INFO IMMEDIATE PEKING

FUTURE OF HONG KONG

THE FOLLOWING REPORT WAS PUT OUT BY AP TODAY, DATELINED PEKING,
 AND WAS CARRIED IN THE AFTERNOON EDITION OF THE ENGLISH LANGUAGE
 QUOTE THE STAR UNQUOTE:-

QUOTE CHINESE OFFICIAL SAYS SOVEREIGNTY COMES BEFORE PROSPERITY

RECOVERING CHINA'S SOVEREIGNTY OVER HONG KONG MUST TAKE
PRECEDENCE, BUT EFFORTS WILL BE MADE TO GUARANTEE ITS STABILITY AND
ITS PROSPERITY, A SENIOR CHINESE OFFICIAL SAID WEDNESDAY.

QUOTE WE CANNOT PLACE MAINTENANCE OF PROSPERITY OVER SOVEREIGNTY
 UNQUOTE, HE WAS QUOTED AS TELLING A DELEGATION OF THE LONDON
 FINANCIAL TIMES.

HE SAID THAT BRITAIN AND CHINA WANT TO MAINTAIN HONG KONG'S
 PROSPERITY AND SPECIAL MEASURES WILL BE ADOPTED.

THE OFFICIAL, WHO ASKED NOT TO BE NAMED, ALSO SAID HE DID NOT
THINK IT WOULD BE POSSIBLE FOR BRITAIN TO CONTINUE AN ADMINISTRATIVE
ROLE EVEN IF IT CONCEDED SOVEREIGNTY.

QUOTE I DON'T THINK THAT WOULD BE POSSIBLE UNQUOTE, HE WAS QUOTED
 AS SAYING IN ANSWER TO A QUESTION. UNQUOTE:

YOUDE

LIMITED
 HKAGD
 FED
 PUSD
 NEWS D
 RES. D.
 PLANNING STAFF
 PS
 PS/LORD BELSTEAD
 PS/PUS
 MR GIFFARD
 MR DONALD
 SIR I SINCLAIR

COPIES TO:
 MR COLES
 NO 10 DOWNING ST

RESTRICTED

File No.

Department HKGD

Drafted by

(Block Capitals)

Tel. Extn.

OUTWARD

TELEGRAM

SECRET <i>Security Classification</i>
IMMEDIATE <i>Precedence</i>
DESKBYZ

FOR COMMS. DEPT. USE

Despatched

(Date)

(Time)Z

POSTBYZ

PREAMBLE

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

(Restrictive Prefix)

(Security Class.) SECRET

(Caveat/ Privacy marking)

(Codeword)

(Deskby) Z

TO IMMEDIATE PEKING
(precedence) (post)

Tel. No. of

AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info) IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

SAVING TO (for info)

Distribution:-

[TEXT]

and Hong Kong Tel No 1130

YOUR TELNOS 620, 623 & 636 | FUTURE OF HONG KONG :
CALL ON ZHANG WENJIN

1: We agree with your analysis of the Chinese position and with your general strategic approach. For the sake of maintaining confidence in Hong Kong, our immediate aim must be to demonstrate that contacts are continuing.

We need to sustain the line taken by the Governor in his speech to LEGCO. For this purpose we ourselves need not distinguish between preliminary contacts and substantive talks although we accept that we must try to steer the Chinese towards substance as soon as possible and that we must avoid a public wrangle with the Chinese on the question.

Copies to:-

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-2-

2. We agree that the Chinese are unlikely to want a breakdown and we should take advantage of this. It is important for you to be able to confirm to the Chinese, after reference to London, that the Prime Minister regards the line taken in the agreed statement as the basis for talks. It should be possible to do this and to suggest ways in which substantive discussions could be started by following broadly the line suggested in paragraph 5 of your Telno 623 but without at this stage offering any stronger assertion about our intention to consider the sovereignty question.

3. Please therefore seek an early meeting with Zhang and make the following points:

- a) In our view the joint statement agreed by the Prime Minister and Chairman Deng should be the basis for the talks;
- b) This would not mean that the Chinese would be giving up their position, of which we are fully aware, but Mrs Thatcher made clear she could only consider making recommendations on sovereignty if the practical arrangements for the future administration seemed satisfactory;
- c) Deng Xiaoping said that the talks should among other matters cover arrangements post-1997. It is therefore logical that the next stage should be an exchange on the practical arrangements for administration, in order to see whether these ^{meet} ~~not~~ the requirements of stability and prosperity. We would like to hear more about the Chinese ideas.
- d) To sum up, our proposal is for talks on substance without prejudice to positions of principle, in order /that

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-3-

that we can concentrate on the points on which we agree, and move on from there.

4. In taking this line you should not suggest that we would be talking on the basis of the Chinese premise, even by inference. We think it would be unwise to give them any suggestion of this, however qualified.

5. Depending on the outcome of the next round we shall need to consider more fully the ideas in paragraph 6 of your Telno 623.

6. We fully take the Governor's point in Hong Kong Telno 1130 of the need for a visible sign of movement soon. We do however see problems in the Governor becoming involved while the preliminary disagreement has not been overcome. There are three risks:

- a) The Chinese would be likely to respond to appeals for help in maintaining confidence in Hong Kong by blaming us for rigidity. This could lead into another argument about the need to accept the premise of sovereignty. The Governor would thus be involved at an early stage in a discussion in which no progress was made.
- b) If this happened Sir E Youde, who would be under great pressure from the press on his return to Hong Kong, would be unable to give any indication on progress. Reliance on reiterating the need for confidentiality would not be enough.
- c) It is possible that too much stress on nervousness in Hong Kong could permit the Chinese to remind us of Deng Xiaoping's threat that if things got out of control in the Territory they might need to revise their timetable for the recovery of sovereignty.

7. On balance therefore we think that a visit by the Governor

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/should

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should wait until the Chinese have agreed to move on to substance (although agreeing to differ on the premise). A way then of avoiding an early clash on the sovereignty issue could be for the Governor to provide a full factual briefing on the present system of government in Hong Kong. Although the Chinese will be generally familiar with this there must be many aspects of which they are ignorant. Indeed if we judged it tactically necessary such a briefing could be spun out over two or even three sessions and would allow time for us to engage in further education about the basis of confidence in the Territory. We shall be grateful for your and the Governor's views on this.

8. Finally, we agree with your Telno 634 that statements by Chinese officials to the press which reflect substantive points made by the Chinese leaders to Mrs Thatcher are very damaging. Hong Kong Telno 1128 underlines this. We would like you to draw Zhang Wenjin's attention to this on the following lines. Premier Zhao agreed with Mr Atkins in January that until a concrete formula had been worked out nothing should be done by either side to harm prosperity in HongKong. Statements of this sort will cause nervousness in Hong Kong and damage confidence, a fundamental element in prosperity. It was implicit in Mrs Thatcher's offer to enter into talks that we would be holding these confidentially through diplomatic channels. The Chinese statements suggest that the Chinese Government would prefer to negotiate through the press. ~~and~~ This is not likely to be conducive to trust between us in the talks. For our part we have not leaked any of the substance of the confidential talks with Chinese leaders. We hope that on the Chinese side greater discretion will be shown in future in talking to the press.

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I agree these instructions

I remain worried about

PRIME MINISTER

the Governor's request - he will feel that we do it fully understand his difficult position. Perhaps we can

Hong Kong remind it of the next meeting.

This letter and the attached telegrams will bring you up to date.

I hope it can be held soon - I shall soon be under questioning in the

The point for decision is - do you agree that the instructions to Sir Percy Cradock at Flag A should be sent?

House - and it would be better if

The considerations are essentially tactical. - my own instinct is to follow the advice of the experts. What the FCO is proposing is very much in line with Percy Cradock's recommendations.

talks had really started

There is no hurry. The instructions can be sent on Monday.

by then - or we had a date

You may like to know that I have asked the FCO to let you have soon:-

to announce it.

(a) a paper analysing gestures which we might be able to make to the Chinese in any field which might help us to secure what we want on Hong Kong;

(b) a further paper setting out, in much more detail than I have been able to obtain yet, how we propose to "educate" the Chinese in the realities of Hong Kong. I think we need a clear plan of campaign.

A.F.C.

8 October, 1982.

SECRET



Foreign and Commonwealth Office

London SW1A 2AH

8 October 1982

Prime Minister

*Content that Lord Belstead
should take this line?*

*Yes -
the bill would
be better
not*

Dear John,

A.J.C. 8/10

PQ: Future of Hong Kong

Lord Brockway has put down for oral answer on 14 October a question on the Prime Minister's discussions in Peking in September, "particularly regarding the future of Hong Kong". Lord Belstead will reply.

I enclose a draft section on Hong Kong for inclusion in Lord Belstead's reply and draft notes for supplementaries that may arise with regard to Hong Kong. These are based closely on the joint statement issued after the Prime Minister's meeting with Deng Xiaoping, the comments made by the Prime Minister in her press conferences in Peking and Hong Kong, and the relevant parts of the speech made by the Governor of Hong Kong in the Legislative Council on 6 October. They have been cleared with HMA Peking and the Governor of Hong Kong. I would be grateful for your confirmation that they are acceptable.

The remainder of the reply on the Prime Minister's other discussions in Peking is non-controversial and will be handled in the normal way.

Yours ever

(J. E. Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

PQ: LORD BROCKWAY

Q To ask HMG whether they will make a statement on the discussions which the Prime Minister had in Peking in September, particularly regarding the future of Hong Kong.

A [for Hong Kong]
The Prime Minister held far-reaching talks in a friendly atmosphere on the future of Hong Kong with both Premier Zhao Ziyang and Chairman Deng Xiaoping. Both sides made clear their respective positions on this subject, and agreed to enter into talks through diplomatic channels following the visit with a common aim of maintaining the stability and prosperity of Hong Kong.

REFERENCES

FLAG A PQ 13 February 1981, Vol 417, Col 403

FLAG B PQ 8 July Vol 432, Col 993-4

NOTES FOR SUPPLEMENTARIES

Start of Talks

Contacts
1. Meetings in Peking to follow up the Prime Minister's visit *have* already begun.

Timetable for Talks

2. ~~The aim will be to complete them as soon as possible~~ but I cannot make any useful forecast of *how long the* ~~that will be~~ *talks will take* ~~when~~ that will be. The issues are complex, and there are differences between the sides that must be reconciled.

Areas of disagreement with Chinese

3. There is a difference of views over sovereignty. The Chinese position is wellknown. The Prime Minister stated our position clearly. But given our common objective, we believe that these differences can be reconciled and an agreement reached.

Action to prevent erosion of confidence in Hong Kong

4. The Prime Minister has made it clear that Her Majesty's Government is committed to the people of Hong Kong and that during the talks we will speak for the people of Hong Kong. The Governor's speech to the Legislative Council last week emphasised the intention of the Hong Kong Government to invest vigorously in the future of

Hong Kong and its people and to continue with the development of the territory.

Failure to reach agreement with the Chinese

5. That is a very pessimistic view. The Prime Minister and the Chinese leaders have agreed on a common aim to maintain the stability and prosperity of Hong Kong and the aim of the talks is to build on this.

UK position on sovereignty

6. Britain administers Hong Kong under three international treaties. If there is a dispute about them, the right way to deal with it is by discussion and agreement. I would rule out no possible solution that was acceptable to the people of Hong Kong. *and to this Parliament*

Aims of HMG

7. Her Majesty's Government's aim is to preserve the stability and prosperity of Hong Kong in a way acceptable to Parliament and the people of Hong Kong. (We are not entering into the talks with any rigid preconceptions as to how this might be achieved, and will be receptive to any proposals that meet these criteria.)

Involvement of people of Hong Kong

8. The process of consultation has already begun. An important stage in it was the visit to London last month by the Governor and 5 Unofficial Members of the Executive and Legislative Councils. The process is a continuous one and careful consideration is now being given as to how it can best be pursued.

Wishes of people of Hong Kong

9. The Prime Minister has made it clear that the

views of the people of Hong Kong will be fully taken into account in the talks.

Progress reports on talks

11. For reasons that will be obvious to Noble Lords, the contents of the talks must necessarily remain confidential. That doesn't rule out an agreed statement, during the talks, if there is anything particular to report.

House of Lords *2nd*

Friday, 13th February, 1981.

1 House met at eleven of the clock: The LORD CHANCELLOR on the Woolsack.

Prayers—Read by the Lord Bishop of Truro.

Hong Kong: Expiry of Lease

Lord Brockway: My Lords, I beg leave to ask the first Question which stands in my name on the Order Paper.

The Question was as follows:

To ask Her Majesty's Government whether the future of Hong Kong was discussed at the meeting in October of the Secretary of State for Foreign and Commonwealth Affairs with the Foreign Minister of the People's Republic of China and, if so, whether any understandings were reached.

The Parliamentary Under-Secretary of State, Department of Trade (Lord Trefgarne): No, my Lords.

Lord Brockway: My Lords, may I ask the Minister whether time is not now short, since within a few years the Chinese lease for a decisive area of Hong Kong will be ended? Is it not desirable that the present ambiguity should be replaced by negotiations for a constructive agreement?

Lord Trefgarne: My Lords, our policy in this matter has two important strains. On the one hand, there is our commitment to the territory, which has been announced before today from this Box, and I confirm it again now; and, on the other there are our excellent relations with the People's Republic of China. We have no doubt that this matter will be resolved in good time.

Lord Campbell of Croy: My Lords, as relations with the Peking Government have, happily, been improving over the last five years or so, and since there are nearly 20 years before the lease is due to run out, would it not be best to allow matters to proceed as they are at the moment?

Lord Trefgarne: My Lords, it is, of course, important to ensure that the confidence of the business community and others in Hong Kong is maintained. Therefore, it is, I am sure, desirable that this matter should be resolved well in advance of the expiry of the lease, and I have no doubt that it will be.

Lord Goronwy-Roberts: My Lords, will the Minister confirm, once more, that our understanding with China in regard to Hong Kong is part of the undoubtedly excellent relations that we now enjoy with the People's Republic of China, and that, however informal that understanding may be, it has proved workable and augurs well for the future, which both previous supplementary questions have raised?

Lord Trefgarne: Yes, indeed, my Lords. There is no doubt that the People's Republic of China derive very considerable benefit—for example, in terms of foreign exchange earnings—from the present arrangements with regard to the territory, and I can say that they are certainly well aware of our views, which I do not think depart very far from theirs.

32

European Disarmament Conference Proposals

UKIC 0201

RECEIVED IN SECRETARY NO. 51
18 FEB 1981

DESK OFFICER	REGISTRY
My Lords, I beg leave to ask the second Question which stands in my name on the Order Paper.	
<i>no</i>	<i>11-2</i>
	<i>11-2-6</i>

11.8 a.m.

Lord Brockway: My Lords, I beg leave to ask the second Question which stands in my name on the Order Paper.

The Question was as follows:

To ask Her Majesty's Government what is their response to the undertaking by Chancellor Schmidt and President Giscard d'Estaing, stated in the communiqué after their summit meeting in Paris on 6th February, to work together to set up a European disarmament conference.

Lord Trefgarne: My Lords, the Government support the proposal for a conference on disarmament in Europe tabled at the Madrid CSCE Review Meeting on 9th December by France. We shall be working with our allies for the adoption of this proposal, which would open the way for confidence-building measures applying to the whole of Europe.

Lord Brockway: My Lords, while I welcome that reply, may I ask the Minister whether he can clarify the nature of the European conference that is proposed? Is he aware that France is limiting it to observational manoeuvres of a larger area and information, while West Germany has been proposing actual measures of disarmament? Will the Government support the fullest terms of reference for this conference, particularly to end the nuclear confrontation in Europe?

Lord Trefgarne: My Lords, the French proposal envisages, initially, negotiations on militarily significant, verifiable and binding confidence-building measures, to which the noble Lord refers, applying to the whole of Europe; that is to say, from the Atlantic to the Urals. The results of this initial stage of the conference would be submitted to the next CSCE follow-up meeting, which would examine, in the light of the progress, how efforts towards security and disarmament in Europe should be continued. It is true to say that there are a number of other proposals for conferences of one sort or another put forward by, for example, Poland, Romania, Yugoslavia and Sweden. Some of them, however, have some shortcomings. In particular, some of them do not go farther east than Germany itself, leaving the area adjacent to the border, but inside the Soviet Union, unaffected.

Lord Brockway: My Lords, I thank the Minister for that reply.

Lord Goronwy-Roberts: My Lords, will the Minister confirm that this is essentially an attempt to strengthen

DATE 13.2.81

COL. 403

VOL. 417

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THE FALKLAND ISLANDS: ARGENTINE STOCKS OF NAPALM AND DUM-DUM BULLETS

Lord Molson asked Her Majesty's Government:

Whether any napalm weapons or dum-dum bullets were found in the equipment of the Argentine forces in the Falkland Islands.

The Minister of State for Defence Procurement (Viscount Trenchard): Our forces reported the discovery of stocks of a substance which was believed to be napalm together with filled tanks for its aerial delivery; our forces also reported what appear to be dum-dum bullets. We are continuing to investigate the precise nature of the substances found but further analysis may be required in the United Kingdom before a positive identification can be made.

DISARMAMENT: UN SECRETARY-GENERAL'S STUDIES AND RECOMMENDATIONS

Lord Brockway asked Her Majesty's Government:

On what grounds they did not reply to the invitations of the UN General Assembly to state their views on (1) the study of the Secretary-General on the relationship between disarmament and development and the request for its mass distribution; (2) the Secretary-General's study on institutional arrangements for disarmament, including the convening of a world disarmament conference; and (3) the Secretary-General's recommendations on the organisation and financing of a World Disarmament Campaign.

Lord Belstead: Our views on (1) are contained in the joint reply which the ten member states of the European Community sent to the Secretary-General on the 10th June. Copies have been placed in the Library of the House.

We did not communicate our views on (2) formally because they had already been made clear by the United Kingdom expert on the study group. The study does not recommend a World Disarmament Conference.

We did not comment in writing on (3) because it would have been premature to do so before the campaign was launched at the Special Session. As my right honourable friend made clear in another place on the 22nd June, much is already being done to inform the public about disarmament in Britain and in other countries which enjoy freedom of information and debate.

HONG KONG: FUTURE

Lord Lloyd of Kilgerran asked Her Majesty's Government:

What steps are being taken to approach the

Government of the People's Republic of China in respect of the future of Hong Kong generally.

Lord Belstead: Hong Kong has been raised in a number of ministerial discussions with Chinese leaders. Both Her Majesty's Government and the Chinese Government are studying the question of the future of the Territory and both sides are agreed on the vital importance of its continued prosperity and stability.

Lord Lloyd of Kilgerran asked Her Majesty's Government:

Whether they agree that the *status quo* should be preserved in Hong Kong at the end of the New Territories lease in 1997 and that the whole of Hong Kong Chinese territory should be administered by Her Majesty's Government for another 20 years and there after unless and until the Chinese Government gives at least 10 years notice of their desire to change the administration.

Lord Belstead: It would be inappropriate at this time to speculate on the arrangements to be reached on this matter.

HONG KONG: FUTURE AND REFORM CLUB PROPOSALS

Lord Lloyd of Kilgerran asked Her Majesty's Government:

Whether they had received and considered the proposals of the Reform Club of Hong Kong in regard to the future of the Territory based upon the survey of public opinion undertaken by that Club which appeared to suggest that 85 per cent. of the people of Hong Kong wished to preserve its present *status quo*.

Lord Belstead: Yes.

CHEMICAL WEAPONS: SOUTH-EAST ASIA

Lord Hylton asked Her Majesty's Government:

Whether they will place in the Library copies of the documentation, referred to in their Written Reply of 7th June 1982 (HL Deb., col. 92) concerning the use of chemical and biological weapons of war in South-East Asia and elsewhere.

Lord Belstead: A copy of Mr Haig's report to the United States Congress of the 22nd March 1982 has been placed in the Library of the House. I regret that other evidence available to us cannot be released for reasons of security.

House adjourned at fourteen minutes before ten o'clock.

DATE 8.7.82
COL 993-994
VOL 432

CONFIDENTIAL

GRS 100

CONFIDENTIAL

FROM PEKING 070330Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 624 OF 7/10/82

REPEATED FOR INFO TO PRIORITY HONG KONG (POLITICAL ADVISERS
OFFICER UKMIS NEW YORK

FUTURE OF HONG KONG: ALLEGED REMARK BY HUANG HUA

1. REUTERS ASKED US ON 6 OCTOBER TO COMMENT ON A QUOTE
RUMOUR FROM THE HONG KONG STOCK MARKET UNQUOTE THAT
HUANG HUA HAD SAID THAT TALKS ABOUT THE
FUTURE OF HONG KONG COULD BEGIN
PROVIDED THE BRITISH CONCEDED SOVEREIGNTY FIRST. WE REPLIED SIMPLY
THAT HE HAD SAID NO SUCH THING TO US.

2. HUANG HUA IS IN NEW YORK.
IT IS POSSIBLE THAT SOMETHING HE SAID THERE
HAS GIVEN RISE TO THIS RDOUR

CRADOCK

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PUSD
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FM HONG KONG 070840Z OCT 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 1124 OF 7 OCTOBER
INFO IMMEDIATE PEKING

FUTURE OF HONG KONG: COMMUNIST PRESS COMMENT.

OF THE TWO MAIN COMMUNIST NEWSPAPERS, WEN WEI PO MAKES THE PASSAGE IN MY SPEECH RELATING TO THE FUTURE AND THE START OF TALKS ITS FRONT PAGE LEAD. THE TA KUNG PAO COVERS ONLY THE ECONOMIC AND FINANCIAL SECTIONS OF THE SPEECH ON AN INSIDE PAGE.

2. THE WEN WEI PO ON 6 OCTOBER PUBLISHED ANOTHER EDITORIAL CRITICAL OF THE PRIME MINISTER'S REMARKS ABOUT THE TREATIES. THE EDITORIAL, CAST IN MORE POLEMICAL LANGUAGE THAN THE PREVIOUS ONES, SOUGHT TO DEMONSTRATE THAT THE PRIME MINISTER'S REFERENCES TO THE TREATIES WERE INCONSISTENT WITH RESPECT FOR THE PRINCIPLES OF INTERNATIONAL LAW AND OPPOSITION TO SOVIET HEGEMONISM AND SOVIET VIOLATIONS OF THE UN CHARTER. THE EDITORIAL ALSO ATTACKED THE NOTION THAT HONG KONG'S VALUE TO CHINA IN MONEY TERMS WAS THE DOMINANT CONSIDERATION. CHINA'S FOREIGN EXCHANGE EARNINGS FROM HONG KONG WERE OBTAINED THROUGH THE SALE OF MUCH NEEDED GOODS, NOT FOR NOTHING. WHERE WOULD HONG KONG BE WITHOUT THIS TRADE? TO THINK ONLY OF MONEY WOULD BE TO UNDERESTIMATE THE FEELINGS OF THE CHINESE PEOPLE.

3. THE EDITORIAL SAID THAT HISTORY HAD CONDEMNED AS CRIMINALS THOSE LIKE THE EMPEROR TAO KUANG AND HIS MINISTER LI HUNGCHANG WHO HAD SOLD CHINA TO THE IMPERIALISTS. IT QUOTED ZHAO ZIYANG'S REMARKS AT THE WELCOMING BANQUET ABOUT PROBLEMS LEFT OVER FROM HISTORY NOT BEING DIFFICULT TO SOLVE ON THE BASIS OF A LONG TERM STRATEGIC POINT OF VIEW AND OF THE FIVE PRINCIPLES OF PEACEFUL COEXISTENCE. REFERENCES TO THE TREATIES WERE A VIOLATION OF CHINA'S SOVEREIGNTY AND TERRITORIAL INTEGRITY AS WELL AS AN

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INSULT TO THE DIGNITY OF THE CHINESE PEOPLE. SUCH REFERENCES WOULD NOT (NOT) HAVE A GOOD EFFECT ON THE TALKS. PEKING'S ATTITUDE WAS REASONABLE. IT WAS WILLING TO SOLVE THESE PROBLEMS BY PEACEFUL MEANS.

4. THE WEN WEI PO ON 7 OCTOBER ALSO PUBLISHED ON ITS FRONT PAGE A REUTERS REPORT OF A SPEECH TO THE GENERAL ASSEMBLY BY THE PANAMANIAN VICE PRESIDENT SAYING THAT BRITAIN SHOULD RESTORE GIBRALTAR, THE FALKLANDS AND HONG KONG TO SPAIN, ARGENTINA AND CHINA RESPECTIVELY.

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²
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FM HONG KONG 070810Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1125 OF 7 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

29
Hong Kong 4
Mr Coles
10 Downing St
A.J.C. 5/10
h.a.

FOLLOWING FOR DONALD FROM GOVERNOR.
FUTURE OF HONG KONG.

1. MIFT CONTAINS THE TEXT OF AN AFP REPORT PRINTED IN THE SCMP THIS MORNING AND DATE-LINED LONDON OCTOBER 6.
2. I HAD HOPED THAT WE COULD AVOID MAKING SUCH A CLEAR DISTINCTION IN PUBLIC BETWEEN THE PRELIMINARY AND SUBSTANTIVE NEGOTIATIONS (PARA 4 OF MY TELNO 1105). IF THIS AFP REPORT IS CORRECT, WE RUN A STRONG RISK OF BEING ASKED SOON WHETHER FORMAL NEGOTIATIONS HAVE YET BEGUN. I HAD THOUGHT IT WAS OUR INTENTION SIMPLY TO INDICATE THAT TALKS (WITHOUT SPECIFICATION AS TO THEIR NATURE OR CONTENT) HAD COMMENCED AND STICK TO THAT (PARA 3 OF MY TELNO 1116).
3. GRATEFUL FOR YOUR COMMENTS.

YOUDE

LIMITED
HD/HKGD
HD/FED
HD/NEWS DEPT
HD/PLANNING STAFF
HD/PUSD
HD/RESEARCH DEPT
PS
PS/LORD BELSTEAD
PS/PUS
MR GIFFARD
MR DONALD

COPIES TO:

MR COLES NO 10 DOWNING ST
SIR IAN SINCLAIR LEGAL ADVISERS

SECRET



CF
10 DOWNING STREET

From the Private Secretary

7 October, 1982

Robert Fellowes rang me today to say that Princess Margaret and Princess Anne are receiving on 18 October Major General Chapple, the present Commander of the British Forces in Hong Kong. They have asked whether they could be briefed on the Prime Minister's visit to Hong Kong.

B/R | I told Robert Fellowes that we would, of course, provide a brief, though he would understand that it would not be possible to go into much detail about the Prime Minister's talks on the future of Hong Kong. He entirely accepted this. Could you kindly let me have a brief, for onward transmission, to the Palace, by 14 October.

A. L. COLES

J E Holmes, Esq.,
Foreign and Commonwealth Office

J

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PP FCO

PP HONG KONG (PERSONAL FOR GOVERNOR)

IMMEDIATE

GRS 360

TR COLES NO ID

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DOWNING ~~SECRET~~

FROM PEKING 070345Z OCT 82

MS

head in file.

TO PRIORITY FCO

TELEGRAM NUMBER 625 OF 7/10/82

REPEATED FOR INFO TO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD

HONG KONG: JAPANESE PRIME MINISTER'S TALKS

1. THE JAPANESE EMBASSY HERE HAVE GIVEN US IN STRICT CONFIDENCE AN ACCOUNT OF SUZUKI'S TALK WITH DENG XIAOPING ON HONG KONG. THEY PARTICULARLY ASKED THAT IT SHOULD NOT BE REVEALED IN TOKYO THAT THEY HAD DONE SO, PRESUMABLY BECAUSE THEY HAVE NO AUTHORITY.

2. SUZUKI APPARENTLY RAISED THE SUBJECT AND STRESSED JAPAN'S CONCERN ABOUT THE FUTURE OF HONG KONG. DENG MADE IT CLEAR THAT CHINA INTENDED TO RECOVER SOVEREIGNTY OVER HONG KONG BY 1997. THIS COULD NOT BE THE SUBJECT OF NEGOTIATIONS. CHINA WAS HOWEVER PREPARED TO HOLD NEGOTIATIONS ABOUT HOW TO RECOVER SOVEREIGNTY, AND WHAT TYPE OF SOCIOLOGICAL SYSTEM HONG KONG SHOULD HAVE AFTER 1997. THERE SHOULD BE NO CHANGE IN THE STATUS OF HONG KONG OVER THE 15 YEARS TO 1997.

THE CHINESE WOULD LIKE TO HEAR THE OPINION OF THE UK ABOUT WHAT KIND OF POLICIES SHOULD BE PURSUED TOWARDS HONG KONG AFTER 1997. DENG DID NOT MAKE ANY COMMENTS ON THE BRITISH ATTITUDE DURING MRS THATCHER'S VISIT. HE DID HOWEVER SAY THAT THE DISCUSSIONS ON THE FUTURE OF HONG KONG SHOULD TAKE PLACE OVER A RELATIVELY SHORT PERIOD. HE ASKED SUZUKI TO CONVEY A

MESSAGE TO JAPANESE ENTERPRISES THAT AFTER THE RECOVERY OF SOVEREIGNTY CHINA HAD NO INTENTION OF DAMAGING THE FINANCIAL OR OTHER INTERESTS OF JAPANESE, UK OR US ENTERPRISES.

3. THE EMBASSY COMMENTED THAT DENG DID NOT ELABORATE ON WHAT HE MEANT BY 'RECOVERING SOVEREIGNTY', WHICH THEY REGARDED AS A SOMEWHAT FLEXIBLE EXPRESSION. THEY HAVE PROMISED TO KEEP US INFORMED OF ANYTHING FURTHER THEY HEAR FROM THE CHINESE ABOUT HONG KONG. THEY DO NOT EXPECT BRIEFING IN RETURN.

4. I LEAVE YOU TO REPEAT THIS TO TOKYO IF YOU WISH.



Foreign and Commonwealth Office

London SW1A 2AH

6 October 1982

Prime Minister

The bank's analysis is also
attached.

A.S.C. $\frac{6}{10}$

Dear John,

Future of Hong Kong: Stock Market and Exchange Rate

/ As you asked, I enclose a note commenting on the recent
/ fluctuations in the Hong Kong Stock Market and exchange rate.
/ Some supporting material which shows the relative movement
/ of the Hong Kong index as compared with others in the Far
East is also attached. I also enclose a copy of Hong Kong
Telegram No 1117 giving the Governor's views on the relative
importance of the Hong Kong dollar rate and the Hang Seng
Index.

The broad conclusion is that falls in both the Stock
Market and the exchange rate were to be expected in the
context both of Hong Kong's domestic economic position, and
of the world economic situation. Moreover, the fall in the
Hong Kong dollar has been markedly less than that of the
stock market and to a considerable extent due to the rise of
the US dollar. But this cannot disguise the fact that concern
over the future of Hong Kong has accentuated the downward
pressure. Even more to the point is that economic factors
likely to encourage nervousness are likely to persist during
the period in which talks with the Chinese on Hong Kong
are being undertaken. Reports and rumours about the progress
of these talks are likely to contribute to the market's
already natural volatility. One example of this has been
shown by the fact that yesterday's quite impressive rise
was partly attributed to rumours that the Bank of China
would be prepared to finance 20-year loans (ie beyond 1997).
But as is clear, uncertainty is more inclined to push downwards
than up.

/On the

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On the other hand, if the progress of the talks is reasonably reassuring, the natural tendency for the bulls to move in and push the markets upwards, with a corresponding boost to the Hong Kong dollar, is likely to be assisted. But firm prediction is impossible and the situation will have to be very carefully watched.

*Your ever
for Holmes*

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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HONG KONG STOCK MARKET AND EXCHANGE RATE

1. The Hang Seng Bank index closed today at 866, 21% lower than on 24 September (1096). It had already fallen earlier in the year from a peak of 1445 on 12 January.

2. Sharp fluctuations in the Hang Seng Bank index are not unknown; in 1973 it fell from 1700 to little more than 200, although it should be said that the peak was the result of a period of intense and unsustainable speculation which is now precluded by subsequent regulation. The Hang Seng Bank index appears to fluctuate somewhat more than other Far Eastern indexes; some comparisons are attached. This is not altogether surprising. It is fairly heavily centred on property shares, and the market has always been quite speculative.

3. It is hard to single out the influences behind this year's fluctuations. Both economic and political developments have been important. There has been a steady deterioration of economic prospects over the year, resulting primarily from world economic conditions, although there may also have been some erosion of confidence domestically for political reasons. It seems reasonable to interpret the fairly sharp decline in recent days as disappointment over the result of the Prime Minister's visit to China, although it is hard to tell what hopes were entertained beforehand.

4. It is worth noting that the only improvement in the index seen in recent days - when it recovered yesterday by 60 points - was ascribed to rumours that the Bank of China was contemplating 20-year mortgage loans.

5. The exchange rate has fluctuated considerably less. It now stands at HK\$6.51 = \$1, slightly up on yesterday, but 6% below the level of 27 September (6.11). The dollar rate remained stable for most of the year at around HK\$5.80-90 but weakened a little from August, largely, it would appear, because of the unusual strength of the dollar. It is worth noting that today's rate against sterling (HK\$10.96) is still slightly stronger than at the beginning of the year.

6. The implied weakening of the property market and of confidence in the Hong Kong dollar are not such as to call into question the collateral of bank loans or of the government's ability to control the situation. But continuation of these trends for a long period would be another matter.

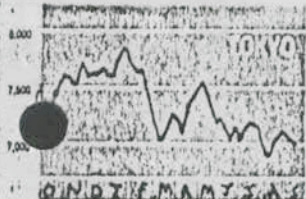
6 October 1982

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STOCK EXCHANGE INDICES 1982

	High		Low		Range (% of mean)
Australia (All ordinary)	595	(4 Jan)	443	(8 Jul)	29.3
Hong Kong (Hang Seng)	1445	(12 Jan)	818	(4 Oct)	55.4
Japan (Dow)	7927	(27 Jan)	6848	(1 Oct)	14.6
Singapore (Straits Times)	811	(8 Jan)	557	(18 Aug)	37.1
UK (Industrial Ordinary)	596	(3 Sep)	518	(5 Jan)	14.0
US (Dow Industrial)	935	(21 Sep)	777	(12 Aug)	18.5



JAPAN

Nikkei-Dow Jones Average

Sept. 14	7,096.30
Sept. 15	closed
Sept. 16	7,087.90
Sept. 17	7,062.51
Sept. 18	closed
Sept. 20	7,042.63
Change on week	-0.44%

Sept. 20	% change	P/E
Jan	on week	ratio
Ayumi	+0.5	29.6
Bridgeline Tire	-2.9	18.8
C. Itoh	-1.2	44.3
Calpa	-4.3	391.0
Canon	+0.1	21.1
Citizen Watch	+0.7	13.1
Dai Nippon Printing	-0.8	17.4
Daiwa House	+2.2	25.9
Ebara Mfg.	+1.1	18.2
Fuji Photo Film	-0.7	12.8
Fujitsu	+2.8	36.5
Honda Real Estate	+0.2	82.8
Honda	-2.1	25.9
Honda Motor	+1.2	24.1
I.H.I.	-1.5	17.8
J. E. O. L.	-1.5	41.2
Kajima Const.	-3.0	15.3
Kanaka	-1.1	45.9
Kao Soap	-0.2	21.8
Kashiyama	+2.1	12.8
Kirin Brewery	+2.5	15.8
Kumagai	-	40.0
Kumagai Gumi	+0.5	10.4
Mitsubishi Elec. Wtd.	-1.8	14.8
Mitsubishi Elec. Ind.	-	20.7
Mitsubishi Estate	-0.7	24.8
Mitsubishi H. I.	-0.8	30.1
Mitsui & Co.	-2.0	-

Wheat Real Estate	390	+1.8	32.2
Mitsubishi	241	+1.8	19.8
Nippon N. C. R.	520	-1.3	24.4
Nippon Hado	747	-1.7	11.2
Nippon Oil	869	+3.2	96.4
Nippon Steel	132	-	15.5
Nomura Securities	429	-0.7	14.7
N. Y. K.	215	-0.5	29.1
Olympus	1079	-1.8	24.5
Pioneer	1700	-0.6	12.3
Ricoh	500	+3.3	20.0
Sanko Steamship	101	-4.7	64.8
Sankyo Pharm.	945	+0.5	18.1
Sanyo Bank	502	+0.4	31.7
Sekisui Prefab Homes	600	+1.5	15.9
Sharp	888	+2.9	29.3
Shiseido	890	-0.1	18.2
Sony	3400	+3.0	16.8
Sumitomo Bank	500	-	20.0
Taisei Const.	225	-3.0	14.8
Takeda Chem.	798	-1.5	23.9
Tokai Marine and Fire	429	-0.5	25.4
Tokyo Elec. Power	825	+0.5	18.4
Toray	359	-0.3	30.8
Toto	595	-1.5	16.4
Toyo Kogyo	352	+2.5	15.0
Toyota Motor	875	+1.2	14.8
Yamaha Motor	648	-1.5	14.8

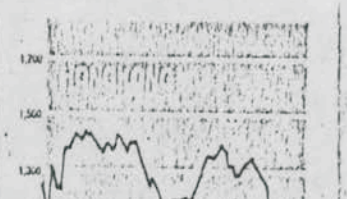
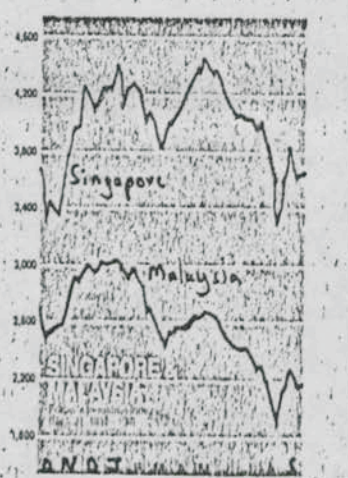
SINGAPORE

Fraser's Industrial Index

Sept. 14	3,626.39
Sept. 15	3,657.50
Sept. 16	3,665.01
Sept. 17	3,672.08
Sept. 20	3,685.03
Change on week	+2.37%

Sept. 20	% change	%
on week	yield	
Benjamin	1.2	17.3
Boustead	+2.2	6.1
C. Sugars	+1.2	1.7
Cold Storage	+10.3	2.4
C. & C.	-	0.3
Dey Bank of Singapore	+1.9	2.1
Dunlop Estates	-3.8	5.6
Dunlop Industries	-	8.6
Fraser and Neave	-	4.4
Ganong	-2.7	4.4
Ganymex	+2.8	5.1
Harimut	-1.7	8.7

Haw Par	1.25	+1.8	4.4
H. Leong Fin	0.00	+3.4	2.0
Inchajoo	2.02	+1.0	8.7
Island & Peninsular	5.40	-5.2	4.6
Jacks Int.	2.49	+22.1	-
K.L. Kupong	1.58	+1.5	8.3
Kupong Ship	3.20	+3.8	6.1
Marjham	2.03	+1.2	5.7
Melayan Banking	5.55	+2.8	3.0
Melayan Breweries	-	-	-
Melayan Tobacco	4.87	+5.0	8.4
M.M.C.	1.87	-	9.2
M.U.I.	3.06	+0.7	1.4
Mutual Box Singapore	2.50	-0.8	7.0
M.P.H.	1.90	+0.5	-
National Iron	5.55	+2.7	4.5
N. Borneo Timbers	2.04	-1.9	3.7
O.C.B.C.	7.55	+2.0	1.1
Pan Electric	2.54	-	2.9
Pag Malaysia	2.18	+2.8	2.3
Sitel	4.20	+4.5	6.0
Sime Darby	1.75	+2.3	6.2
Singapore Land	6.85	+8.7	0.6
Straits Steamship	1.40	-	2.8
Straits Times	5.08	-0.4	2.1
Straits Trading	4.58	+2.7	5.0
Tractors	3.40	+3.7	8.8
United Engineers	1.04	-1.0	0.8
U.O.B.	3.34	-	4.9
United Overseas Land	2.14	+5.4	2.8
Weirne Bros	3.02	+6.3	3.3



HONGKONG

Hang Seng Index

Sept. 14	1,092.63
Sept. 15	1,090.26
Sept. 16	1,090.10
Sept. 17	1,068.28
Sept. 20	1,117.78
Change on week	+3.46%

Sept. 20	% change	%	
on week	yield		
Associated Hotels	4.00	+2.6	16.4
Bank of E.A.	21.00	+1.6	1.1
Carah	2.025	+4.3	10.2
Chungking Ex. Div.	11.30	+2.7	1.7
Christ Light	14.00	+4.3	1.2
Conc.	1.60	+2.7	1.1
F. E. Consortium	1.16	+5.0	11.8
F. L. Hotels	1.06	+1.0	2.1
Great Eagle	1.11	+0.7	16.1
G. Island Cement	30.50	-1.8	1.3
Hang Lung Development	3.70	+2.1	1.1
Hang Seng Bank	84.00	+2.4	2.7
HALCO Ex. Div.	4.90	-3.9	16.4
Haitong Centre	36.50	-	18.4
H.K. Electric Ex. Div.	5.05	+1.7	5.1
H.K. & C. Gas	27.80	+6.9	1.1
H.K. & C. Wharf	4.15	+1.8	3.1
H.K. Land	6.70	+6.3	6.2
H.K. & S. Bank Ex. Div.	10.10	+3.6	5.1
H.K. & S. Hotels	30.50	-1.5	3.1
H.K. Realty "A"	5.05	+4.7	8.1
H.K. Telephone	33.60	+5.4	1.1
H.K. & Yau Fung Ex. Div.	3.60	+2.7	1.2
Hopewell	2.30	+5.5	8.1
Hui Chong	1.27	+2.3	10.2

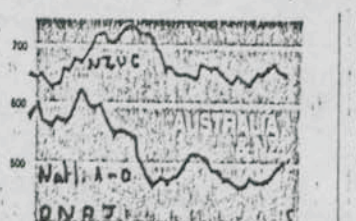
Hutchison Whampoa	17.40	+35.9	2.4
Inf City Holdings Ex. Div.	0.89	+4.5	4.3
Jarvis Matheson	17.40	+0.7	4.8
Jarvis Sec	13.00	+4.8	9.3
Lane Crawford "A"	8.40	-	8.9
Lau Chung Hong	2.75	+5.8	7.3
NAN Fung Textiles Ex. Div.	18.70	-7.4	10.2
New World	3.35	+3.9	8.9
Onion O. East C	2.40	-5.9	13.3
Paul Y. Const.	3.70	+1.4	4.9
Peckay D. C. "A"	4.00	-1.2	7.5
Sincere	40.00	-	5.0
Sioux	3.00	-3.2	13.3
Sun H. K. Props	5.75	+1.8	6.9
Svens Props Ex. Div.	7.25	+9.0	6.0
Svens Plac. "A"	11.10	+3.7	6.8
Tai Cheung	1.85	-2.6	11.9
Trasagar	2.50	-	8.0
Wan Kwong Ship	2.65	-	12.6
Wheelock "A"	4.875	-2.5	8.2
Wheel Mar. "A"	3.70	-12.9	12.2
Wing On Holdings	4.00	-	5.0
Wingor Ex. Div.	2.85	+3.8	13.0
Wund Int.	2.40	+1.1	5.0
Yangtzeung	10.00	-	13.8
Zung Fu	1.34	-	10.1

AUSTRALIA

Aust. All-Ordinaries Index

Sept. 14	493.4
Sept. 15	494.7
Sept. 16	496.7
Sept. 17	505.5
Sept. 20	511.2
Change on week	+4.09%

Sept. 20	% change	%
on week	yield	
Amax	4.5	8.7
Ampol Exploration	1.5	3.3
Ampol Petroleum	5.6	5.7
ANZ Bank	7.9	7.4
Australian Cons. Ind.	1.8	11.1
Australian Guarantees	1.9	4.5
APAL	1.7	8.3
Bank of NSW	1.7	8.7
Bougainville	1.6	4.0
Brambles Ind.	1.1	9.0
B.H.P.	3.6	5.4
Brown Hill South	1.2	2.2
Burns Philp	1.0	10.1
C.I.G.	1.0	5.8
Canlon United Brewery	1.1	8.7



NEW ZEALAND

NZUC Index

Sept. 14	648.23
Sept. 15	640.17
Sept. 16	632.71
Sept. 17	632.87
Sept. 20	633.02
Change on week	-2.96%

Sept. 20	% change	%	
on week	yield		
Colas OJ	2.28	+6.5	7.5
Comalco	2.18	+2.3	0.9
CSIR	3.11	+2.3	5.8
Dunlop Australia	1.09	+7.9	7.3
EZ Industries	4.52	+7.1	0.7
Elder Smith GM	2.72	+3.8	6.1
Harold J.	3.30	+8.9	6.7
Harold & Weekly Times	2.23	+2.2	7.8
ICI Australia	1.95	+9.9	9.7
Lend Lease Corp.	3.34	+2.1	2.7
MIM Holdings	1.35	+5.5	0.5
Myer Emporium	2.85	+0.6	0.3
National Bank	2.29	+2.7	5.7
North Broken Hill	5.22	+7.5	1.2
Peko Walsend	1.48	+3.5	8.8
Pioneer Concrete	5.62	+0.4	1.1
Series	4.13	+4.6	5.4
Smith H.	-	-	-
Thomas Nationwide Trans	3.55	+3.5	2.4
Western Mining	0.90	+12.5	-
Woodside	1.51	+7.9	9.3
Woolworths	-	-	-

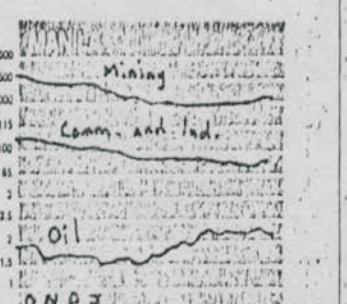
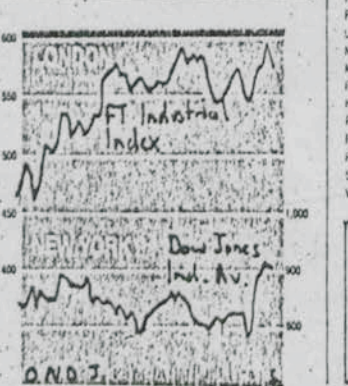
Fletcher Challenge	1.74	-2.8	8.8
Lion Breweries	1.75	-0.6	8.0
NZ Forest Products	2.68	-7.6	9.0
NZ Oil and Gas	0.33	-2.9	-
NZ South British	0.80	-2.4	9.4
NZ Steel	2.10	-2.3	8.6
UEB Industries	1.02	-0.8	9.5
Watax NZR	2.18	-2.2	9.6
Wattle	1.62	-2.4	8.8

THAILAND

Bangkok Book Club Index

Sept. 14	115.40
Sept. 15	111.14
Sept. 16	113.57
Sept. 17	113.21
Sept. 20	108.83
Change on week	-10.35%

Sept. 20	% change	%	
on week	yield		
Bangkok Bank	246.00	-9.8	17.1
Buri Jucker	321.00	-3.6	8.1
ICT	125.50	+12.5	10.8
Jaisirathan Cement	130.50	-24.4	8.8
Rama Tower	62.50	-19.6	-
Siam Cement	237.00	-17.4	3.8
Siam S&K	286.00	-2.1	-
Thai Farmers Bank	260.00	+12.2	12.3
Thai Glass	140.00	+3.7	-



PHILIPPINES

Manila Mining Index

Sept. 14	1,055.07
Sept. 15	1,052.07
Sept. 16	1,029.52
Sept. 17	1,025.01
Sept. 20	1,013.74
Change on week	-6.44%

Sept. 20	% change	%	
on week	yield		
Acoba Mng	0.062	-	-
Atlas-B	20.40	-	5.9
Baguio Gold-B	0.0017	-	-
Fe-Am	0.031	-	-
First Holdings	7.10	-	16.9
Lepanto-B	0.664	+4.5	11.9
Marcopper	1.56	-3.6	-
Mantadoc-B	4.36	-	-
Phix-B	0.165	-	7.9
PLDT	32.29	-0.8	15.5
Phil Overseas	0.037	+2.6	2.7
Pioneer-B	0.001	-	-
Proco-B	0.0231	-	-
San Miguel-B	10.23	+1.1	7.7
W. Mexico-B	0.001	-	-

SOURCES

Japan: Nikkei Industrial (N.K.) Hongkong: Hang Seng Index
 Hong Kong: Hang Seng Bank
 Australia and Singapore: Australia All-Ordinaries
 Australia: FT Industrial & Dow Jones
 Australia: Australian All-Ordinaries
 Australia: Australian All-Ordinaries
 Australia: Australian All-Ordinaries

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AMENDED DISTRIBUTION 5 OCT 1982

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FM HONG KONG 050940Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1117 OF 5 OCTOBER

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.

YOUDE

LIMITED
HD/ HK+GD
HD/ PLANNING STAFF
HD/ ESID
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

SECRET

Approved: [Signature] Date: 2 Oct 1982

SECRET
IN WASHINGTON FIELD
DATE: 2 OCT 1982

FOR THE RECORD
DATE: 2 OCT 1982

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16 OCT 1982

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DATE: 2 OCT 1982

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SECRET

PRIME MINISTER

MR 11/10

HONG KONG

h-a.

I sent you last night Sir Percy Cradock's account of his discussion with the Chinese on 5 October. I now attach his recommendations as to the next steps. These are being considered in the FCO and I aim to let you have advice, on the basis of which you can take a decision, tomorrow (Thursday) night.

John - can we
use their technique A.S.C.
and indicate that we gave them
a signal in our opening
statements about sovereignty =

6 October 1982

keep in mind that I have
to get it through Parliament
and with as little trouble as
possible for my own sake.
ms

GR 730

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SECRET

D E D I P

DESKBY FCO 060900Z

DESKBY HONG KONG 060600Z

FM PEKING 060640Z OCT 82

TO IMMEDIATE F C O

TELNO 623 OF 6 OCTOBER

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

*Mr Coles
No 10 Downing Street*

PERSONAL FOR DONALD

MY TELNO 620: CALL ON ZHANG WENJIN: HONG KONG TALKS

1. THIS WAS A COURTEOUS AND FRIENDLY BUT VERY FIRM EXCHANGE. ZHANG TOOK A HARD LINE AND STUCK CLOSELY TO IT. HE IS OF COURSE ON A TIGHT REIN. HE REPEATEDLY HARPED ON THE SOVEREIGNTY "PREMISE" OR "PRE-CONDITION". I GAVE HIM A NUMBER OF OPPORTUNITIES TO CLARIFY WHICH HE MEANT, BUT HE USED THE TWO WORDS INTERCHANGEABLY. HE DENIED THAT SOVEREIGNTY AND ADMINISTRATION WERE SEPARABLE AND REINFORCED ZHAO'S REMARK TO THE PRIME MINISTER, THAT BRITISH ADMINISTRATION WAS OUT OF THE QUESTION.

2. ALTHOUGH ZHANG GAVE NOTHING AWAY, THERE WERE TWO POSITIVE POINTS IN WHAT HE SAID. FIRST HE AGREED THAT TALKS COULD BEGIN DESPITE THE MAJOR DIFFERENCES OUTSTANDING, EVEN THOUGH THE PROBLEM OF THE PREMISE WOULD BE ENCOUNTERED IMMEDIATELY. SECONDLY HE SAID THAT IF IT WERE NOT POSSIBLE TO SOLVE THE QUESTION OF SOVEREIGNTY TOTALLY WE SHOULD AT LEAST REACH A "SETTLEMENT IN PRINCIPLE" OF THE SOVEREIGNTY QUESTION SO THAT DISCUSSION OF THE MAINTENANCE OF PROSPERITY AND STABILITY COULD PROCEED.

3. AS TO WHERE WE GO FROM HERE, WE APPEAR TO HAVE TWO OPTIONS:
(A) TO RETURN TO THE CHARGE WITH ZHANG AND SEEK TO PERSUADE HIM THAT SOVEREIGNTY CAN BE CONSIDERED ONLY AFTER WE HAVE DEALT WITH THE ADMINISTRATIVE ARRANGEMENTS.
(B) TO BEGIN TALKS IN THE KNOWLEDGE THAT WE SHALL RUN INTO IMMEDIATE DIFFICULTIES ON SOVEREIGNTY.

4. IN MY VIEW ZHANG WILL NOT BE MOVED FROM HIS POSITION BY ANOTHER APPROACH ON THE LINES OF (A). FURTHERMORE IT IS IMPORTANT FOR US AND FOR CONFIDENCE IN HONG KONG THAT WE SHOULD GET INTO TALKS AS SOON AS POSSIBLE. I BELIEVE THAT WE SHOULD DO SO EVEN THOUGH WE KNOW THAT THE "PREMISE" WILL CAUSE US DIFFICULTIES. WE SHALL HAVE CONCEDED NOTHING ON PRINCIPLE. IT MAY PROVE HARD TO KEEP THE TALKS MOVING, BUT PERHAPS NOT IMPOSSIBLE. THE CHINESE WILL PRESUMABLY WISH TO AVOID A BREAKDOWN. WE COULD EXPLORE WHAT THEY MEAN BY A "SETTLEMENT IN PRINCIPLE" AND IT IS JUST POSSIBLE THAT A STRONGER ASSERTION OF OUR GENUINE INTENTION TO CONSIDER THE SOVEREIGNTY QUESTION EVENTUALLY WILL PRODUCE A CORRESPONDING MOVEMENT FROM THE CHINESE. ONLY WHEN TALKS BEGIN CAN WE EXPECT TO INFLUENCE THEIR COURSE.

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/5.

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5. I RECOMMEND THEREFORE THAT WE SHOULD AIM TO BEGIN TALKS AS QUICKLY AS POSSIBLE AND WITHOUT EXPECTING TO RESOLVE THE WRANGLE OVER THE PREMISE BEFOREHAND. HOWEVER I FEEL IT WOULD BE WRONG IF I WERE TO GO BACK TO ZHANG AND AGREE TO BEGIN TALKS WITHOUT MORE ADD AND WITHOUT A STATEMENT FIRST MAKING OUR POSITION EVEN MORE PLAIN AND AVOIDING ANY IMPRESSION THAT WE WERE SUCCUMBING TO PRESSURE AND ENTERING TALKS ON HIS TERMS. I RECOMMEND THEREFORE THAT I BE INSTRUCTED TO MAKE A SECOND CALL ON ZHANG RESTATING OUR POSITION IN STRONGER TERMS, AND THEN PROPOSING THAT WE SHOULD BEGIN TALKS DESPITE THE DIFFERENCES BETWEEN US ON BASIC POINTS. IN DOING SO I MIGHT IN ADDITION DEPLOY THE IDEAS ABOUT THE FIRST STAGE OF THE TALKS IN PARA 3 OF MY TELNO 611. I COULD TELL ZHANG THAT SINCE WE PROPOSED IN ANY CASE TO START BY ASKING THE CHINESE TO ELABORATE ON THEIR IDEAS ON THE ADMINISTRATION OF HONG KONG AFTER 1997, THIS WOULD BY DEFINITION BE ON THEIR PREMISE, EVEN IF WE DID NOT ACCEPT IT. WE WOULD IN EFFECT BE TREATING THEIR PREMISE AS A WORKING HYPOTHESIS. BUT THEY SHOULD BE IN NO DOUBT THAT WE ARE NOT COMMITTED TO IT.

6. IF, WHEN SUBSTANTIVE TALKS HAVE BEGUN, THE CHINESE, AS I SUSPECT, ARE NOT FULLY SATISFIED BY THE LINE RECOMMENDED IN THE LAST FOUR SENTENCES OF MY PARA 5 ABOVE AND WE RUN STRAIGHT UP AGAINST THE PROBLEM OF THE SOVEREIGNTY PREMISE, IT MIGHT BE POSSIBLE TO FINESSE THIS BY A FORMAL STATEMENT ON SOMETHING LIKE THE FOLLOWING LINES. BEGINS. WE HAVE TAKEN FULL ACCOUNT OF AND GIVEN FULL WEIGHT TO THE CHINESE POSITION ON SOVEREIGNTY. WE HAVE NO INTENTION OF AVOIDING THE ISSUE, BUT CAN ONLY TAKE DECISIONS ON THIS POINT WHEN THE OTHER ASPECTS OF THE QUESTION HAVE BEEN SATISFACTORILY DISCUSSED. WE UNDERSTAND THE CHINESE PREMISE AND ASK THEM TO UNDERSTAND OURS. WE ARE PREPARED TO CONDUCT DISCUSSIONS ON THE BASIS OF THIS UNDERSTANDING AND ARE FULLY CONSCIOUS OF THE CHINESE POSITION ON SOVEREIGNTY. ENDS. WE MIGHT NEED TO BACK THIS BY EXPLAINING IN STRONGER TERMS WHY NO BRITISH GOVERNMENT COULD AGREE TO CEDE SOVEREIGNTY WITHOUT REFERENCE TO PARLIAMENT.

7. PARA 6 ABOVE IS ONLY PRELIMINARY THINKING AND WE SHALL NEED TO CONSIDER MORE DEEPLY HOW WE MIGHT ACHIEVE OUR FIRST OBJECT IN THE TALKS OF GETTING THE CHINESE INVOLVED IN DISCUSSION ON PRACTICAL DETAIL WITHOUT COMPROMISING OUR PRINCIPLES.

CRADOCK

LIMITED
HD/HK&D
HD/FED
HD/PLANNING & STAFF
HD/PUS
PS
PS/LORD BELSTEAD
PS/PUS
MR RIFFARD
MR DONAH

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2
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Foreign and Commonwealth Office

London SW1A 2AH

6 October 1982

Dear John,

*AR 11/10
h-a-*

Future of Hong Kong: Public Comment
on Anglo/Chinese talks

You asked in your letter of 5 October for advice on:

- a) a line for the Prime Minister to take in Parliament;
and
- b) line to be taken with the media.

As you know, several PQs on the future of Hong Kong and the outcome of the Prime Minister's talks in China have been tabled for the second half of October. It might be helpful if the Prime Minister were to make a statement in Parliament on her visit to the Far East which would include a short passage on Hong Kong and which, as you suggest, could be drawn upon thereafter. We are giving urgent thought to this and will be putting forward a proposed statement soon.

As for the line for use with the media, specifically on the question of Anglo/Chinese talks, I attach extracts from the text of what the Governor has told the Legislative Council on 6 October and a draft line for use with the media here (the gist of which you already know). This line would also be useful for our posts abroad and could be incorporated in a guidance telegram to them, if you agree.

*Yours ever
J E Holmes*

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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DEFENSIVE LINE TO TAKE WITH THE MEDIA AND OTHERS ON THE ANGLO/
CHINESE TALKS ON HONG KONG

Meetings in Peking to follow up the Prime Minister's visit have begun through diplomatic channels. As was made clear by the Prime Minister in her press conferences in Peking and Hong Kong, the content of these talks must remain confidential. No timetable for these talks has been set. The extent and level of Hong Kong's participation on the British side will be decided in accordance with the requirements of the talks. The Governor of Hong Kong will be consulted throughout and will participate as and when necessary.

6 OCT 1982



PART 42 ends:-

AJC to PM + att 5/10/82

PART 3 begins:-

FCO to AJC 6/10/82

