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FILE TITLE: Future of Hong Kong (CLOSED)	SERIES: HONG KONG (5 808)
	PART: 5
PART BEGINS: February 1983	PART ENDS: April 1983
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Cabinet / Cabinet Committee Documents

Reference	Date
JIC(EA)(83) 1	29/03/1983
JIC(83)(N) 51	24/03/1983
CC(83) 11th Meeting, Most Confidential Record	24/03/1983
CC(83) 8th Meeting, item 2	10/03/1983
JIC(83)(N) 26	17/02/1983

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 1/2/2013

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Paper 176 - Second Report from the Defence Committee Session 1982-83- British Forces in Hong Kong, published by HMSO 14 April 1983.

Signed J. Gray Date 1/2/2013

PREM Records Team

GPS.950

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RESTRICTED
FM HONG KONG 191025Z APR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 536 OF 19 APRIL 1983
INFO IMMEDIATE PEKING

Read in full. The F/C.O. will send shortly further advice on how we should react to these leaks. A. & C. 21/4

FUTURE OF HONG KONG: PRESS REPORTS

TODAY'S ECONOMIC JOURNAL'S (INDEPENDENT) FRONT PAGE LEAD IS A STORY UNDER THE HEADLINE QUOTE CHINA REJECTS CONFIDENTIAL BRITISH PROPOSALS UNQUOTE. QUOTING QUOTE SOURCES CLOSE TO CHINESE OFFICIALS UNQUOTE THE JOURNAL ASSERTS THAT BRITAIN PUT FORWARD A SECRET PROPOSAL ON HONG KONG'S FUTURE THROUGH THE BRITISH EMBASSY IN PEKING LAST OCTODER. THE PROPOSAL CONCENTRATED ON THE MAINTENANCE OF HONG KONG'S STABILITY AND PROSPERITY AND DID NOT (NOT) DEAL WITH THE QUESTION OF SOVEREIGNTY. THE BRITISH SIDE INSISTED THAT THE TALKS BE CONDUCTED WITHOUT PRECONDITIONS. HOWEVER, SIR P CRADOCK HAD HINTED ORALLY TO ZHANG WENJIN DURING THEIR PRELIMINARY CONTACTS THAT THE BRITISH MIGHT RECOGNISE CHINA'S SOVEREIGNTY OVER HONG KONG IN RETURN FOR RETAINING ADMINISTRATIVE CONTROL AFTER THE EXPIRY OF THE NEW TERRITORIES LEASE.

2. THE ARTICLE SAYS THAT THE CHINESE SIDE DELAYED GIVING A REPLY TO THESE PROPOSALS UNTIL LATE JANUARY THIS YEAR, WHEN YAO GUANG TOLD SIR P CRADOCK ORALLY THAT THE PROPOSALS WERE UNACCEPTABLE. THE BRITISH SIDE EXPRESSED DISSATISFACTION THAT THE CHINESE HAD DELAYED THEIR REPLY FOR THREE MONTHS AND THAT THE CHINESE HAD NOT RESPECTED THE CONFIDENTIALITY OF THE DISCUSSIONS. YAO GUANG EXPLAINED THAT THE MAIN REASON FOR THE DELAY WAS PERSONNEL CHANGES. HE ALSO SAID THAT THE VIEWS EXPRESSED BY SENIOR OFFICIALS WERE NO MORE THAN REITERATIONS OF CHINA'S PUBLIC STAND ON THE QUESTION AND THAT THERE WAS NO BREACH OF THE AGREEMENT ON CONFIDENTIALITY. CHINA'S OPEN DECLARATION OF HER POSITION WOULD IN FACT BE BENEFICIAL TO THE PROGRESS OF THE TALKS.

3. YAO GUANG IS ALSO SAID TO HAVE STRESSED THAT SOVEREIGNTY WAS NON-NEGOTIABLE AND THAT THE CHINESE SIDE COULD NOT PERMIT ANY FORM OF BRITISH CONTROL AFTER 1997. THE TALKS WOULD THEREFORE CONCENTRATE ON HOW TO MAINTAIN HONG KONG'S PROSPERITY BETWEEN NOW AND 1997, ON THE BASIS THAT SOVEREIGNTY LAY WITH CHINA. IN THE CHINESE VIEW THE TRANSITIONAL PERIOD BEFORE HONG KONG REVERTED TO CHINA REFERRED TO THE 14 YEARS BEFORE 1997 AND NOT TO THE POST-1997 PERIOD. ON THE PREMISE THAT BRITAIN ACCEPTED CHINESE SOVEREIGNTY, THE CHINESE WERE ALSO PREPARED TO DISCUSS WITH THE BRITISH SIDE REFORMS TO THE EXECUTIVE AND LEGISLATIVE COUNCILS AND THE QUESTION OF HONG KONG'S RESERVES. IN OTHER WORDS CHINA WAS PREPARED TO DISCUSS WITH BRITAIN ANY MATTERS RELATING TO THE TRANSITIONAL PERIOD BEFORE 1997. THE QUESTION OF HONG KONG'S FUTURE AFTER 1997 WAS A DOMESTIC MATTER FOR CHINA AND DID NOT CONCERN OTHER COUNTRIES.

RESTRICTED /4

4. ON THE FURTHER CONDUCT OF THE TALKS, THE ARTICLE SAYS THAT THE CHINESE SIDE HAS NOT CHOSEN ITS NEGOTIATING TEAM BECAUSE THE TALKS ARE STILL AT A PRELIMINARY STAGE AND BECAUSE THEY ARE WAITING TO SEE WHO WILL SUCCEED SIR P CRADOCK WHO IS DUE TO RETIRE IN OCTOBER. THE GOVERNOR WOULD NOT BE ABLE TO TAKE PART AS A REPRESENTATIVE OF HONG KONG, BECAUSE THE TALKS ARE BETWEEN THE CHINESE AND BRITISH GOVERNMENTS.

5. ON THE SELF RULE PROPOSAL, THE SOURCES ARE QUOTED AS SAYING THAT THE CHINESE GOVERNMENT HOPED THAT HONG KONG CHINESE WOULD PROGRESSIVELY TAKE OVER THE SENIOR POSITIONS WITHIN THE HONG KONG GOVERNMENT WITHIN SEVEN OR EIGHT YEARS. PROMOTION OF LOCAL CHINESE INTO THESE POSTS SHOULD BEGIN WITHIN TWO OR THREE YEARS. BY 1997 THE CHINESE FLAG WOULD HAVE REPLACED THE BRITISH FLAG, AND THE GOVERNOR, THE SECRETARY FOR SECURITY AND THE COMMANDER, BRITISH FORCES WOULD HAVE TO RETURN TO BRITAIN. THE ARTICLE ALSO SUGGESTED THAT THE CHINESE WISHED THE CHARTERED BANK AND THE HONG KONG AND SHANGHAI BANK TO CONTINUE ISSUING HONG KONG'S BANKNOTES. IF THEY DID NOT CO-OPERATE, CHINA WOULD CONSIDER INVITING US AND JAPANESE BANKS TO HELP THE BANK OF CHINA ISSUE LOCAL CURRENCY.

6. IN CONCLUSION, THE SOURCES ARE QUOTED AS SAYING THAT THE LACK OF PROGRESS IN THE TALKS IS DUE TO OBSTACLES RAISED BY BRITAIN. CHINA IS SHOWING ITS CONCERN FOR THE WELL BEING OF HONG KONG PEOPLE BY INVITING A SERIES OF DELEGATIONS TO PEKING TO PRESENT THEIR VIEWS. BRITAIN HAD UNDER-ESTIMATED THE FIRMNESS OF CHINA'S STAND ON SOVEREIGNTY, AND HAD MISTAKENLY THOUGHT THAT SOVEREIGNTY MIGHT BE A BARGAINING COUNTER IN THE NEGOTIATIONS. CHINA WAS CONFIDENT THAT A SOLUTION WOULD BE FOUND, BUT WOULD NOT BE THE DEMANDEUR, EVEN THOUGH AN EARLY SOLUTION WOULD BE IN HONG KONG'S BEST INTERESTS. THE SOURCES ARE QUOTED AS HAVING SAID QUOTE CHINA IS NOT ARGENTINA AND HONG KONG IS NOT THE FALKLANDS UNQUOTE. THIS IS INTERPRETED AS MEANING THAT CHINA'S POSITION IS BOTH QUOTE REASONABLE AND BACKED BY STRENGTH UNQUOTE (THE ORIGINAL CHINESE INVOLVES A PLAY ON WORDS).

7. FULL TRANSLATION FOLLOWS BY BAG.

YOUDE

FUTURE OF HONG KONG

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HD/PUSD
PS
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RESTRICTED
FM HONG KONG 190935Z APR 83
TO ROUTINE FCO
TELEGRAM NUMBER 533 OF 19 APRIL 1983
INFO ROUTINE PEKING

MY TELNO 493: VISIT TO HONG KONG BY MR ROLAND MOYLE MP: HONG KONG ELECTORAL SYSTEM.

1. AT THE PRESS CONFERENCE REPORTED IN TUR MR MOYLE REFERRED TO CHINESE STATEMENTS ABOUT HONG KONG PEOPLE GOVERNING HONG KONG AND SAID THAT THEIR ATTITUDE WAS NOT ENTIRELY CONSISTENT. QUOTE TO A SIMPLE PERSON LIKE MYSELF, FOR HONG KONG PEOPLE TO GOVERN HONG KONG REQUIRES EVERY PERSON OVER THE AGE OF 18 TO VOTE IN ELECTIONS FOR A LEGISLATIVE ASSEMBLY WHICH WOULD CONTROL THE ADMINISTRATION OF HONG KONG, FORMULATE ITS POLICIES AND PASS ITS LAWS. BUT IF YOU PUT THIS IDEA TO THE CHINESE IN PEKING THEY ARE NOT AT ALL ENTHUSIASTIC ABOUT IT: IN FACT VERY MUCH THE REVERSE. ANY IDEAS ALONG THESE LINES ARE FIRMLY REBUFFED AS NOT BEING APPROPRIATE UNQUOTE.

2. MOYLE TOLD A NUMBER OF OFFICIALS HERE THAT GIVEN THE LABOUR PARTY'S TRADITIONAL INTEREST IN EXTENDING REPRESENTATIVE DEMOCRACY IN HONG KONG, ONE OF HIS AIMS IN PEKING HAD BEEN TO SOUND OUT THE CHINESE IN ORDER TO DISCOVER WHETHER THEIR REACTION WAS AS NEGATIVE AS THE FCO AND THE HONG KONG GOVERNMENT HAD ALWAYS REPRESENTED IT AS BEING. HE HAD RAISED THE QUESTION AT THREE DIFFERENT LEVELS:

(A) WITH A JUNIOR OFFICIAL WHO HAD SAID THAT THERE WERE ONLY A FEW YEARS TO GO BEFORE 1997 SO WHY BOTHER TO CHANGE THE SYSTEM.

(B) WITH A MIDDLE RANKING OFFICIAL, WHO HAD TAKEN THE LINE THAT CHINESE AND WESTERN CONCEPTS OF DEMOCRACY WERE DIFFERENT: AND

(C) WITH ASSISTANT FOREIGN MINISTER ZHOU NAN WHO HAD SAID THAT THE EXTENSION OF REPRESENTATIVE DEMOCRACY WOULD BE INAPPROPRIATE, AND THAT IF A FUTURE BRITISH GOVERNMENT WERE TO PURSUE THE IDEA IT WOULD CAUSE PROBLEMS FOR SINO-BRITISH RELATIONS.

/ 3. MOYLE

3. MOYLE DREW THE CONCLUSION THAT A POPULARLY-ELECTED GOVERNMENT WOULD NOT BE ACCEPTABLE TO THE CHINESE BUT THAT THIS DID NOT RULE OUT LESSER STEPS SUCH AS THE INDIRECT ELECTION OF SOME LEGCO MEMBERS OR THE TRANSFORMATION OF DISTRICT BOARDS INTO WHOLLY ELECTED BODIES.

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FUTURE OF HONG KONG

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FM HONG KONG 190850Z APR 83

TO PRIORITY FCO

TELEGRAM NUMBER 532 OF 19 APRIL 1983

INFO PRIORITY PEKING

MY TELEGRAM 499.

FUTURE OF HONG KONG: ACADEMICS VISIT.

THE DELEGATION HAD ONE SESSION WITH LIAO CHENGZHI AND A SEPARATE SESSION WITH TWO OF LIAO'S STAFF AT THE HONG KONG AND MACAU OFFICE, LI HOU AND LU PING. INDIVIDUAL MEMBERS OF THE DELEGATION ALSO HAD SOME SEPARATE CONVERSATIONS WITH LI AND LU.

2. LIAO APPEARS TO HAVE GIVEN THEM A FAIRLY STANDARD EXPOSITION OF THE CHINESE LINE. HE ALSO EMPHASISED THAT CHINA WAS NOW UNIFIED AND THE PRESENT SET OF ECONOMIC AND POLITICAL OPTIONS WOULD BE MAINTAINED EVEN AFTER THE DEATH OF THE PRESENT LEADERSHIP. OTHER POINTS OF INTEREST MADE BY LIAO WERE AS FOLLOWS:

A) HONG KONG' S IMPORTANCE TO CHINA AS A SOURCE OF FOREIGN EXCHANGE WAS LIKELY TO DECLINE AFTER THE COMPLETION OF THE CURRENT 5-YEAR PLAN:
B) FREEDOM OF TRAVEL WOULD REMAIN, BUT DETAILED QUESTIONS LIKE PASSPORTS NEEDED FURTHER STUDY:
C) THERE ARE 14 YEARS TO GO. BUT TRANSITION BEGINS NOW, AND ALL TRANSITIONAL MEASURES SHOULD BE COMPLETED BY 1997.

3. IN ADDITION TO QUESTIONS, LIAO MADE THE FOLLOWING ADDITIONAL POINTS:

A) THE SAR WOULD NOT BE PART OF GUANGDONG PROVINCE BUT WOULD COME DIRECTLY UNDER THE CENTRAL GOVERNMENT.
B) THE CHINESE WERE WILLING TO LISTEN TO IDEAS FROM HONG KONG PEOPLE BUT THE NEGOTIATIONS WERE BILATERAL AND HONG KONG PEOPLE COULD NOT PARTICIPATE IN THEM.
C) BY 1997 HONG KONG WOULD HAVE ITS OWN SUPREME COURT (BY IMPLICATION NOT ANSWERABLE TO EITHER LONDON OR PEKING).

4. THE MEETINGS WITH LIAO'S COLLEAGUES PROVIDED MORE OPPORTUNITY FOR THE VISITORS TO MAKE POINTS OF THEIR OWN. BY THEIR OWN ACCOUNT, THE VISITORS MADE THE FOLLOWING POINTS OR QUESTIONS OF SUBSTANCE:

A) WOULD THE GOVERNOR BE ACCEPTED AS A HONG KONG REPRESENTATIVE AT THE NEGOTIATIONS?
ANSWER: HONG KONG DOES NOT NEED A BRITISH PERSON TO REPRESENT THEM. HONG KONG PEOPLE ARE MEMBERS OF THE SAME FAMILY. WE CAN CONSULT THEM AT ANY TIME.
B) THE GUARANTEES GIVEN BY THE CHINESE WERE NOT GOOD ENOUGH FOR INVESTORS. HAD THE CHINESE CONSIDERED A FURTHER SINO/BRITISH TREATY BY WAY OF A GUARANTEE.

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/ANSWER

GR 250

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FM HONG KONG 190040Z APR 83
TO ROUTINE FCO
TELEGRAM NUMBER 527 OF 19 APRIL
INFO ROUTINE PEKING

a Hong Kong financier.

YOUR TELNO 229 TO PEKING: FUTURE OF HONG KONG: FUNG KING HEY.

1. FUNG KING HEY CALLED ON ME TODAY TO REPORT ON HIS VISIT TO PEKING. AS REGARDS THE PRIME MINISTER'S MESSAGE (PARA 2 OF TEL UNDER REF), LIAO CHENGZHI TOLD FUNG THAT A MESSAGE FROM BRITAIN (NOT FURTHER SPECIFIED) HAD BEEN RECEIVED. LIAO DID NOT (NOT) GIVE ANY INDICATION OF THE CONTENT OF THE MESSAGE BUT SAID THAT THE CHINESE WOULD REPLY TO IT AFTER IT HAD BEEN THOROUGHLY DISCUSSED. WHEN FUNG ASKED WHETHER IT WAS NOW LIKELY THAT THERE WOULD BE PROGRESS IN THE TALKS, LIAO SAID THAT IT WAS NOT CERTAIN THAT THERE WOULD BE PROGRESS BUT IT WAS POSSIBLE.

2. FUNG SAID HE HAD ASKED LIAO ABOUT DENG XIAOPING'S SPEECH IN 1980 IN WHICH REUNIFICATION WITH TAIWAN WAS LISTED AS ONE OF THE THREE MAIN TASKS FOR THE 1980'S. HOW DID THE 1997 DATE FOR HONG KONG FIT IN WITH THIS? LIAO RESPONDED THAT THE POLICY FOR HONG KONG WOULD NOT CHANGE. 1997 WAS NOT TOO LATE TO RECOVER SOVEREIGNTY BUT RECOVERY COULD NOT BE DELAYED BEYOND THAT. FUNG COMMENTED THAT WHILE HE HAD GAINED THE IMPRESSION FROM EARLIER MEETINGS WITH CHINESE LEADERS THAT ACTION BEFORE 1997 WAS A REAL POSSIBILITY, HE NO LONGER BELIEVED THIS TO BE THE CASE.

3. BY HIS OWN ACCOUNT FUNG SPOKE ROBUSTLY ABOUT THE CONSEQUENCES SHOULD THE CHINESE IMPLEMENT THEIR SELF-RULE PLAN FOR HONG KONG. HE HAD TOLD LIAO THAT IF THAT HAPPENED 70 PER CENT OF THE PEOPLE THE CHINESE WOULD WISH TO REMAIN IN HONG KONG (INCLUDING THE EXECUTIVES IN HIS COMPANIES AND HIS CHILDREN), WOULD SEEK TO LEAVE. HE HIMSELF WOULD WANT TO STAY, BUT IF BUSINESS DECLINED DRASTICALLY HE TOO MIGHT BE FORCED TO LEAVE. HE HAD STRESSED THE VITAL IMPORTANCE OF FREEDOM OF MOVEMENT FOR HONG KONG PEOPLE, AND FREEDOM TO TRANSFER ASSETS. THOUGH LIAO HAD BECOME ANNOYED WHEN FUNG HAD SPOKEN IN THIS VEIN ON AN EARLIER OCCASION HE DID NOT REACT THIS TIME.

THIS TELEGRAM WAS NOT ADVANCED

YOUDE

FUTURE OF HONG KONG

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From the Private Secretary

19 April 1983

FUTURE OF HONG KONG: BRIEFING FOR EXCO ON SINO-BRITISH EXCHANGES

Thank you for your letter of 15 April in which you state that Sir Edward Youde wishes to put to EXCO a paper setting out details of HMG's talks with the Chinese on Hong Kong.

The Prime Minister has commented that she would be very reluctant to distribute documents of this kind. She wonders whether it would be possible for EXCO to be given the paper to read at one of their meetings, after which it would be retained in Government House.

A C

John Holmes, Esq.,
Foreign and Commonwealth Office.

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19 April 1983

HONG KONG

Thank you for your letter of 18 April about briefing members of the Opposition Parties.

The Prime Minister agrees that Mr. Pym should give Mr. Healey, Mr. Steel and Dr. Owen an account of our position on sovereignty in the terms described in your last paragraph.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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66

PRIME MINISTER

Future of Hong Kong

You will see from the attached letter that Sir Edward Youde wants to give EXCO a written account of the exchanges which we have so far had with the Chinese about the future of Hong Kong. The FCO see no objection.

The Governor wants to do this in order to get rid of any lingering doubts in the minds of EXCO that we have not told them everything.

I see two possible disadvantages. There might be a leak - but we have always been told that EXCO can be trusted and I doubt if the risk is very high. Secondly, if we give them a written document now, it will be difficult to avoid giving them further written accounts in the future. There could come a point where we do not wish to divulge everything - or at least do not wish to run the risk of putting things on paper.

Another point you may wish to bear in mind is that the unofficials already know a great deal more than the British Parliament.

My instinct would normally be to let Sir Edward Youde do what he thinks best. But for the reasons above I am rather more hesitant on this occasion.

Do you wish him to hand over the paper?

A.S.C.

I should be very reluctant to distribute these documents. Is it not possible for the LEVCO to read it in Govt. House - or wherever they meet and then leave the paper there? not

18 April 1983

SECRET

cc/RJ

①.

Prime Minister

Agree that Mr. Pym should give Messrs. Healey, Owen and Steel an account of our position on sovereignty, as in the final paragraph of this letter?

A.J.C. 18/4

Yes

Foreign and Commonwealth Office

London SW1A 2AH

18 April 1983

Dear John,

Hong Kong

In your letter of 7 January, you said that the Prime Minister agreed to Mr Pym briefing Mr Healey, Mr Steel and Dr Owen on the future of Hong Kong, but that it would be best if the briefing contained as little as possible on our attitude towards future sovereignty over Hong Kong.

This briefing has not yet been carried out. First the visit to London by the Governor and Ambassador meant that we were taking another look at policy. Thereafter it was agreed that Mr Pym should speak to a small group of Conservative backbenchers. This was done on 30 March. The group were generally content and raised no points of difficulty.

Mr Pym would like to brief the three Opposition members on Privy Councillor terms fairly soon (the exact timing is not yet decided). His aims would be on the one hand to discourage them, and their backbenchers, from raising points in the House or outside which could damage confidence in Hong Kong; and on the other to try to build up a responsible attitude among the Opposition against the time when the question of Hong Kong comes before the House.

Mr Pym believes that if the Opposition are to be effectively briefed we need to set out all the issues, including that of sovereignty, albeit in broad terms. We can hardly expect them not to raise it. Since, in our discussions with the Chinese, we are putting emphasis on the position of Parliament, it is important that leading members of the Opposition should know this (and the fact that the Chinese are leaking the contents of the Prime Minister's message reinforces this). Equally, they should

/understand

understand that we do not rule out a move on sovereignty but that this would be subject to the very strong proviso that first an agreement must be worked out which would be acceptable to Parliament and the people of Hong Kong.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

Hong Kong's Future pt 5

TOP SECRET UK EYES A

Copy No. 4 of 4 Copies

Hong Kong

65

10 DOWNING STREET

From the Private Secretary

18 April 1983

Hong Kong

The Prime Minister has noted the contents of your Secretary of State's minute of 14 April in which Mr. Heseltine comments on the meaning of the phrase "to identify such aggression" in the current directive to our Force Commander in Hong Kong and states that the present directive contains sufficiently detailed guidance as to how the garrison should resist a Chinese attack.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Richard Mottram Esq
Ministry of Defence

TOP SECRET UK EYES A

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10 DOWNING STREET

From the Private Secretary

18 April 1983

Visit to London by Hong Kong EXCO senior officials

Thank you for your letter of 15 April. I agree that, when you reply to Sir Edward Youde about the visit by Sir S.Y. Chung to London from 2-5 May, you could keep in reserve the possibility of a talk with the Prime Minister. Mrs. Thatcher would in fact like to see Sir S.Y. Chung and we have set aside 30 minutes at 1700 hours on Wednesday 4 May - though if there is a disarmament debate on that day it is possible that we shall have to change the time.

JC

John Holmes, Esq.,
Foreign and Commonwealth Office.

NR

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10 DOWNING STREET

Caroline

Can you manage 30 minutes?

A J C. 15/4

AJC

1700-1730
on Wed 4 May
[4 No Department
Debate.]

C.

18/4

GR 340

SECRET

SECRET

DESKBY 160830Z

FM PEKING 160340Z APR 83

TO IMMEDIATE F C O

TELNO 346 OF 16 APRIL

RPTD INFO IMMEDIATE HONG KONG.

64

YOUR TELNOS 357 AND 358: FUTURE OF HONG KONG

1. I WOULD NOT RULE OUT THE INTERPRETATION OF CHINESE AIMS IN YOUR SECOND TUR BUT THERE MAY BE A MORE POSITIVE EXPLANATION. IF, AS SOME OF THE SIGNS SUGGEST, THE PRIME MINISTER'S LETTER HAS BEEN REASONABLY WELL RECEIVED, THE CHINESE MAY BE PREPARING TO RESPOND POSITIVELY TO IT. THE DISSEMINATION OF KNOWLEDGE OF THE PRIME MINISTER'S LETTER MAY BE A PART OF THAT PREPARATION, A FACE-SAVING EXERCISE INTENDED TO CREATE A CLIMATE IN WHICH IT APQEARS THAT THEIR INTRANSIGENCE HITHERTO HAS ACHIEVED SOMETHING, THUS JUSTIFYING THE MOVE TO TALKS. ALTHOUGH THIS HAS FROM THEIR POINT OF VIEW USEFUL SPIN OFF VIS A VIS THE GENERAL POPULATION OF HONG KONG, I WOULD SEE IT AS PRIMARILY AIMED AT THEIR OWN POTENTIAL CRITICS ON THE MAINLAND, MOST OF WHOM ARE INFORMED THROUGH ''REFERENCE NEWS'' OF FOREIGN NEWS REPORTS, AND AT THEIR SUPPORTERS IN HONG KONG.

2. IF THE CHINESE ARE IN FACT INTENDING TO TAKE A HARD LINE, AND TO REFUSE TO ENTER INTO TALKS, PUBLIC KNOWLEDGE OF THE LETTER AND ITS CONTENTS, WHICH WOULD BE WIDELY REGARDED AS FLEXIBLE AND REASONABLE, WOULD NOT IN MY VIEW BE USEFUL TO THEM.

3. IN THE CIRCUMSTANCES I STRONGLY RECOMMEND THAT IN SPITE OF THE PROVOCATION WE SHOULD NOT RUSH IN AND PROTEST, WHICH WOULD AT THE LEAST DAMAGE THE ATMOSPHERE AT A TIME WHEN WE HOPE IT MAY BE IMPROVING, AND COULD PERHAPS EVEN CAUSE CONFUSION ABOUT THE KIND OF SIGNALS WE ARE TRYING TO GIVE. SUCH A PROTEST WOULD IN ANY CASE BE PURELY FOR THE RECORD, SINCE AS WE KNOW FROM PAST EXPERIENCE, IT IS UNLIKELY TO ACHIEVE ANY PRACTICAL EFFECT.

4. IN OTHER WORDS I BELIEVE STRONGLY THAT WE MUST HOLD OFF UNTIL WE KNOW WHAT THE CHINESE ARE GOING TO SAY IN RESPONSE TO THE PM'S MESSAGE. IT IS THE SUBSTANCE THAT MATTERS IN THE END, NOT THE WAY IN WHICH THE CINESE CHOOSE TO DECORATE IT.

CRADOCK

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SECRET
FM HONG KONG 150930Z APR 83
TO PRIORITY FCO
TELEGRAM NUMBER 516 OF 15 APRIL 1983
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

YOUR TELNO 221 OF 12 APRIL AND PEKING'S TELNO 334 OF 13 APRIL.5
FUTURE OF HONG KONG: VISIT BY HAL MILLER MP

1. WHEN MILLER LEFT THE HKG SERVICE AND BEFORE HE ENTERED PARLIAMENT HE WORKED FOR CHA CHI MING OF CHINA DYEING WORKS LTD, A SUCCESSFUL SELF MADE EX-SHANGHAINESE BUSINESSMAN IN TEXTILES, WITH INTERESTS IN NIGERIA AND SOME IN UK. WE BELIEVE THAT MILLER CONTINUES TO BE RETAINED IN SOME WAY BY CHA CHI MING, EITHER AS PART OF HIS MANAGEMENT TEAM OR AS A CONSULTANT. CHA ALSO HAS ASSOCIATIONS IN CHINA (INCLUDING ACCESS TO LIAO CHENGZHI) AND IS A VISITOR THERE. HE WAS THERE BEFORE ZHAO ZIYANG'S VISIT TO AFRICA: BECAUSE OF HIS NIGERIAN CONNECTION HE MAY HAVE SEEN ZHAO OR SENIOR OFFICIALS IN THE MFA. HE KEEPS A VERY LOW PROFILE IN HONG KONG WHERE HE IS WELL REGARDED FOR HIS BUSINESS ACUMEN.

2. AS I RECALL THE INVITATION TO MILLER CAME THROUGH CHA CHI MING EARLY IN MARCH. IT SEEMS TO US QUITE POSSIBLE THAT MILLER MAY HAVE ASKED CHA TO USE HIS CHINESE CONNECTIONS TO SECURE AN INVITATION FOR HIM TO GO TO CHINA. ALTERNATIVELY CHA, WHO WE BELIEVE IS THE HONG KONG CONTACT REFERRED TO IN PARA 1 OF YOUR TELNO 221, MAY HAVE PRESSED MILLER'S CASE WITH THE CHINESE FOR HIS OWN REASONS, OR MAY INDEED, HAVE BEEN THE PRIME MOVER.

3. THE INVITATION TO MILLER PRECEEDED THE PM'S MESSAGE. THE FACT THAT THE CHINESE EMBASSY BRIEFED MILLER ABOUT IT MAY BE PART OF A MOVE TO GET ITS EXISTENCE KNOWN: (MY TELNO 513) BUT I ACCEPT THAT IT IS ALSO POSSIBLE THAT THE CHINESE HAVE DECIDED TO MAKE SOME USE OF HIM, WHATEVER THE ORIGIN OF THE INVITATION. (PEKING TELS NO 334 AND 338).

YOUDE

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

THIS TELEGRAM WAS NOT ADVANCED

COPIES TO

SIR I SINCLAIR LEGAL ADVISER
MR BURROWS LEGAL ADVISERS
MR ROBERTS NEWS D
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE
MR FLOWER PUSD
MR COLES NO 10 DOWNING STREET

SECRET

The National Archives

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2 pp's

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Prime Minister

I imagine that you would like to see Sir S.Y. Chung?

A.J.C. 15/4

Yes MT

Foreign and Commonwealth Office

London SW1A 2AH

15 April 1983

Dear John

Visit to London by Hong Kong Exco Senior Officials

TPM

I wrote to you on 14 April about the Governor's proposal that the Unofficial members of EXCO should visit London before June. Sir E Youde has now told us, quite separately, that Sir S Y Chung will be visiting London privately from 2 - 5 May. His main purpose will be to receive honorary distinctions from the engineering profession.

It would obviously be right for Sir S Y to be seen by Ministers in the FCO, probably by the Secretary of State and Lord Belstead. Depending on how things stand on Hong Kong by that stage, it might also be appropriate for him to call at No 10 as well. As you know, the Governor is keen that the Unofficials should be shown attention and given face. This applies particularly to Sir S Y.

The Governor thinks, and we agree, that any decision on a call by Sir S Y in early May should not in any way prejudice the idea of a larger scale visit of EXCO members later on.

We propose to reply to the Governor with firm proposals for calls at the FCO with the possibility of a talk with the Prime Minister in reserve. Perhaps you could let me know if this is acceptable.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

H-K : Future of : Pt 5.

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Foreign and Commonwealth Office

London SW1A 2AH

15 April 1983

Dear John,

Future of Hong Kong: Briefing for EXCO on Sino-British Exchanges

As I mentioned to you on the telephone, the Governor now wishes to put to EXCO a paper detailing HMG's talks with the Chinese on Hong Kong, including the Prime Minister's talks. I enclose the draft as it stood in March (it is being updated to take account of the latest exchanges). The Prime Minister's letter of 2 December to the Governor gave him full authority to brief the Unofficials on our talks with the Chinese. The Governor has of course briefed the Unofficials orally on several occasions, but now believes that it is important that there be no gaps in their knowledge, mainly because of the probability that the Chinese will tell them or their contacts anyway. He believes that the surest way to ensure that there are no gaps and that the Unofficials cannot come back to the Governor complaining that he has not briefed them fully is to put the details in writing. The Governor believes that the Unofficials' earlier resentment about not having been fully briefed immediately after the Prime Minister's visit still rankles, and he is anxious to try to lay any suspicions to rest before Sir S Y Chung and the other Unofficials come to London again. On the other hand he has said that he cannot exclude further rumblings if the Unofficials detect in the written summary aspects of the talks which they believe are new to them.

The Governor is aware of the Prime Minister's reluctance about giving the Unofficials written texts and would therefore like to be sure that the Prime Minister is content, despite the authority he was given. He would like to hand over the summary record on 20 April if possible. I should add that officials here see no objection to this.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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sent to Fco for
in Eyonde 29/1/83

Summary Record of Sino-British Exchanges on the Future of Hong Kong since March 1979

Visit to Peking by Sir M (now Lord) MacLehose, March 1979

1. The question of the future came up in Sir M MacLehose's meetings with DENG Xiaoping, with the then Foreign Minister HUANG Hua and with LIAO Chengzhi. The only substantive discussion was with DENG, who Sir M MacLehose saw first. LIAO and SONG Zhiguang (a former Chinese Ambassador in London, now Ambassador in Tokyo and then Assistant Minister of Foreign Affairs) were present.

2. DENG raised the subject at the outset of his meeting with Sir M MacLehose on 25 March, making the following points:-

(a) 1997 was still 18 years away, and discussions might be held before then according to the circumstances prevailing.

(b) China had a consistent position that sovereignty over Hong Kong lay with China. Any solution would have as its prerequisite that Hong Kong was part of China.

(c) The special status of Hong Kong would

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be respected. Even when there was a political solution, it would never affect investments. This was because China needed Hong Kong and the policy was beneficial to socialist construction.

(d) China's policy towards Taiwan applied to Hong Kong and Macau also. China would respect Taiwan's special status and would not change its social system or affect its living standards. The island would enjoy local autonomy and have its own armed forces.

3. At a later stage DENG said that in this century and even at the beginning of the next century Hong Kong would still be continuing with its capitalist system while China was getting ahead with its socialist system. There were two possible solutions in 1997, to take over Hong Kong or to recognise present realities. Neither solution would affect investment. DENG asked Sir M MacLehose to tell investors to "put their hearts at ease".

4. Sir M MacLehose said that the long term future was a matter between the CPG and HMG. There was however the immediate problem of individual land leases in the New Territories,

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which would not wait. As the length of these leases shortened investment of the right type would be deterred. If this question could be solved then investment could be attracted which would keep Hong Kong competitive in world markets. His proposal was to replace the system of leases valid until June 1997 by leases which were valid as long as Britain administered the New Territories. This would remove the question of the date. Such a solution would be of benefit to the UK and China.

5. DENG's immediate reaction was that any wording should avoid mention of British administration, in view of the Chinese position. Sir M MacLehose explained that his proposal would not affect the Chinese position. Subsequent conversation was inconclusive.

6. Sir M MacLehose outlined the proposal again when he saw HUANG Hua, stressing that it did not affect the Chinese Government's position and that there would be no requirement for the Chinese Government to do or say anything. HUANG Hua said that the problem would have to be considered but that DENG had already explained China's "principled stand".

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Proposal for an Amendment to the 1898 Order in Council

7. Following Sir M MacLehose's visit to Peking, it was decided to explain to the Chinese in some detail the proposal which he had outlined to DENG. Sir P Cradock called on Assistant Minister SONG Zhiguang on 5 July 1979 for this purpose. He explained that what HMG had in mind was to amend the 1898 Order in Council so as to enable individual land leases to be granted extending beyond 1997. In doing so, he emphasised that what was proposed required no action on the part of the Chinese, and was without prejudice to China's position. A parallel approach was made to NCNA in Hong Kong.

8. The Chinese reply was given by SONG Zhiguang to Sir P Cradock in Peking on 24 September. The measures proposed were described as "unnecessary and inappropriate" and the Chinese made it clear that they did not wish them to be taken any further.

Visit to the United Kingdom by then Premier HUA Guofeng (October/November 1979)

9. When HUA Guofeng met the Prime Minister and the then Foreign and Commonwealth Secretary Lord Carrington, Lord Carrington reminded him that the problem of confidence caused by the 1997 deadline remained. The British Government would not pursue its earlier proposals since any action had to be acceptable to both sides, but it was not

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in the interests of China or of Hong Kong that uncertainties should jeopardise Hong Kong's future. Lord Carrington asked that the Chinese Government give thought to the matter. HUA Guofeng replied that the Chinese Government had given thought to the matter and had already given their reply. He said that the two sides should keep in touch on the problem.

10. During the same visit, the subject was discussed at a separate meeting between Lord Carrington and the then Chinese Foreign Minister, HUANG Hua. Lord Carrington explained that anxieties about Hong Kong's future remained. It was agreed that the two Governments should keep in touch.

Transit Stop in Hong Kong by HUANG Hua, March 1980

11. Sir M MacLehose met HUANG Hua briefly during a transit stop by the latter on 21 March 1980. He reminded HUANG that the 1979 proposals were not for an extension of the lease on the New Territories but were designed to deal with an interim problem so as to hold confidence until long term arrangements could be agreed.
Sir M MacLehose hoped that there had been no misunderstanding on this point. HUANG Hua confirmed that the Chinese had not misunderstood the proposal but made no other comment.

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Visit to Peking by the then Financial Secretary, Sir Philip Haddon-Cave (May 1980)

12. The future was discussed during Sir P. Haddon-Cave's meeting with GU Mu, at time a Vice Premier. Most of the conversation was devoted to economic relations between Hong Kong and China. Sir P. Haddon-Cave emphasized the need for confidence in Hong Kong's long-term future to be maintained, so that the planning and execution of major projects could continue.

13. GU Mu repeated the assurances given by DENG Xiaoping to Sir M. MacLehose in 1979, emphasizing that Hong Kong would continue as a capitalist society and that whatever measures the Chinese Government adopted would take account of the need to guarantee continuing prosperity. DENG's remarks to Sir M. MacLehose should be sufficient to maintain confidence.

Visit to Britain by the then Chinese Foreign Minister, HUANG Hua, October 1980

14. Lord Carrington reviewed the previous exchanges on the subject, and repeated that the effect of shorter and shorter land leases in the New Territories would be to undermine investors' confidence in the future. HUANG reminded Lord Carrington that DENG had told Sir M MacLehose that China would not do anything which would adversely affect investors. That had been an authoritative statement of the Chinese Government's position, and

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it should have been sufficient to maintain confidence. Lord Carrington said that the problem could not be dealt with by general assurances. Sir E Youde later went over the ground again with HUANG Hua, explaining the importance of the land lease issue and the risks involved in delay in dealing with it.

Visit to Peking by the then Foreign and Commonwealth Secretary, Lord Carrington, (April 1981

15. When Lord Carrington met DENG Xiaoping, he again rehearsed the problems caused by the 1997 deadline. He suggested that there could be a discussion of the problem during which the British side might come up with ideas for its solution, although they had none to put forward at that time. DENG said very little by way of direct reply beyond repeating his earlier assurances and inviting the British Government to tell investors in Hong Kong to set their minds at ease. DENG referred to Chinese policy towards Tibet, where he said that reform had only been introduced because the Dalai Lama had run away in 1959. He also invited Lord Carrington to study China's policy towards Taiwan, which was to leave Taiwan people's way of life and political system unchanged as well as to preserve their living standards. The claim to statehood and the flag would have to be given up.

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16. Lord Carrington also had two meetings with HUANG Hua, who had little new to say except to ask whether the British had any concrete proposals. Lord Carrington said that he did not but repeated that there was a problem which required action to solve. He wished to convey the anxiety felt by the people of Hong Kong, and suggested that the way forward might be for both sides to reflect on possible solutions and then discuss the matter further.

17. During Lord Carrington's provincial tour, there was an informal discussion between Sir P Cradock and the Chinese Ambassador in London, KE Hua. Sir P Cradock asked for elucidation of HUANG's request for proposals when DENG had requested none, as well as of DENG's references to Tibet and Taiwan. KE said that DENG had been talking about general principles, on which the Chinese position had been consistent. But there would be merit in more detailed, informal discussion. The references to Tibet and Taiwan were, in KE's view, adduced as examples of Chinese willingness to live with different systems. In further conversation KE asked for proposals for a solution. Sir P Cradock said that since the Chinese had rejected the earlier proposals, we had not gone too far into the problem. But given cooperation and goodwill a solution acceptable to both sides could be agreed. KE made no comment, but undertook to report the conversation to the

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Foreign Minister.

Visit to Peking by the then Lord Privy Seal, Humphrey Atkins (February 1982)

18. Mr Atkins discussed the future with Vice Premier JI Pengfei and Premier ZHAO Ziyang. Mr Atkins rehearsed the problem in similar terms to those used with the Chinese at previous high level meetings. JI said that a decision on Hong Kong could not wait for 15 more years. China would preserve the interests of the business community in Hong Kong, and methods of achieving this aim would soon be put under study. The two sides could conduct talks on the matter and exchange views. ZHAO Ziyang said that China's general stand was:

(a) China would safeguard her sovereignty.

(b) The prosperity of Hong Kong would be maintained.

Hong Kong's prosperity depended on its role as a free port and a commercial centre, and this would not be changed. China would undertake very careful studies as to the forms a settlement of the issue might take, and would discuss the matter with "the various circles" in Hong Kong and all the parties concerned. China would take heed of

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their views. The nine point proposal on Taiwan was a guide to the Chinese Government's thinking. ZHAO reiterated that the problem would not be put on the shelf until 1997. He said that until a concrete formula had been worked out, neither side should do anything which could harm the prosperity of Hong Kong.

Visit to China by the Financial Secretary (March 1982)

19. During his meeting with Vice Premier GU Mu, Mr Bremridge underlined the problems for business confidence caused by the shadow of 1997. GU Mu referred to the explanations of China's position given by DENG Xiaoping and ZHAO Ziyang to previous visitors, adding that the current problem was that the authorities in Hong Kong, as well as businessmen there were anxious to know when "concrete measures" would be taken to stabilize the situation. The basic principles of a solution to the problem of Hong Kong and Macau already existed. Concrete measures remained for both sides to explore. GU Mu repeated remarks made to Mr Atkins about seeking and taking into account the views of people in Hong Kong, and about the need for both sides to avoid actions and words which might damage Hong Kong's prosperity.

Meeting between ../

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Meeting between Mr. Edward Heath and DENG Xiaoping (April 1982)

20. DENG used this meeting to spell out Chinese thinking on the future in greater detail than hitherto. DENG referred to China's nine-point proposal for Taiwan and said that, as applied to Hong Kong, this would mean that sovereignty over the whole of Hong Kong would belong to China; Hong Kong would be managed by its inhabitants, including such foreigners as were resident there. The new State Constitution would make provision for the creation of Special Administrative regions. The "various systems" would remain unchanged. Hong Kong could use the name "Hong Kong China" and could manage its own non-governmental trade and commercial arrangements with other countries. DENG stressed the importance of recovering sovereignty over the whole of Hong Kong, which would involve abrogating the unequal treaties. Mr. Heath said that he hoped the Chinese would show flexibility in the negotiations.

Farewell Call on Sir M MacLehose by Mr. WANG Kuang, (1st Director, NCNA Hong Kong) April 1982

21. WANG Kuang spoke along similar lines to those used by DENG with Mr. Heath. Sir M MacLehose sought to correct the mistaken impression that Hong Kong paid taxes to the UK (DENG had referred to this with Mr. Heath). In order to preserve Hong Kong's prosperity, it would be important to have a proper understanding of what contributed to it. Sir M MacLehose outlined the main elements in Hong Kong's success, and the factors making for prosperity.

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VISIT TO PEKING BY THE PRIME MINISTER, THE RIGHT HONOURABLE MARGARET THATCHER (SEPTEMBER 1982)

22. The Prime Minister discussed the future of Hong Kong at the second of her two sessions of talks with ZHAO Ziyang and during her meeting with DENG Xiaoping. The Prime Minister recalled what ZHAO had told Mr Atkins in January 1982 and DENG's remarks to Mr Heath in April. She described the fundamental elements on which confidence in Hong Kong depended and said that these had been provided by British administration. The following are the main points which she made in further discussion:

(a) The changes envisaged by DENG would, if implemented or even announced as a decision of the Chinese Government, have a disastrous effect upon confidence in Hong Kong. The ~~main~~ common objective of the two sides to maintain the prosperity of Hong Kong could only be achieved if people believed that the present arrangements for administering Hong Kong would continue for a long time beyond 1997.

(b) Early action was needed: the problem was not what would happen in 1997 but what people believed now would happen.

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(c) The Prime Minister could only make recommendations to her Government on sovereignty if there was agreement between the two sides on concrete arrangements for the administration and control of Hong Kong which she was satisfied would command the confidence of the people of Hong Kong.

(d) Official talks should be held to seek agreement on arrangements which would meet the wishes of China, Britain and of the people of Hong Kong; these talks should begin at an early date; and there should be a public announcement to this effect before she left Peking.

23. After recalling the Chinese Government's basic position, ZHAO made the following points in reply:

(a) China had no alternative but to recover sovereignty over the whole of Hong Kong no later than 1997. Any Chinese Government which failed to recover sovereignty would not be able to account to its people.

(b) After recovery of sovereignty Hong Kong would become a special administrative zone administered by local people, and would maintain its existing economic and social

systems ../

systems and lifestyle. Hong Kong would remain capitalist, a free port and an international financial centre. The Hong Kong dollar would continue to be used and would remain convertible. British Government officials could remain at their posts.

(c) China could explore ways of maintaining and developing the prosperity of Hong Kong, but not at the expense of the recovery of sovereignty.

(d) Both sides should continue to discuss the recovery of sovereignty over Hong Kong, and on this premise, how to maintain the stability and prosperity of Hong Kong.

24. At the meeting with DENG Xiaoping the Prime Minister repeated, and in some cases expanded the points which she had made to ZHAO Ziyang, adding that there was not enough time during her visit to reconcile the differences between the two sides but that she believed the differences could be reconciled through talks.

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25. DENG said that ZHAO had already explained the Chinese basic position. In addition to reiterating a number of points already made by ZHAO he stated that:

(a) The Chinese Government would formally announce its decision to recover Hong Kong in no more than one or two years' time.

(b) He did not agree that Hong Kong's prosperity could only be maintained under British administration: its maintenance would depend on the policy pursued by China towards Hong Kong after it had recovered sovereignty.

(c) If there were serious disturbances China might be compelled to reconsider the timetable for recovery of sovereignty.

(d) The two Governments should not do anything to harm prosperity and should prevent businessmen from doing so.

(e) Chinese resumption of sovereignty over Hong Kong would benefit Britain by bringing to an end the period of colonialism.

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(f) Discussions should start through the diplomatic channel on the pre-condition that China would recover sovereignty in 1997.

26. After further discussion, during which the Prime Minister rebutted some of DENG's contentions, and reiterated that she was not free to abrogate treaties without reference to her Cabinet and Parliament, the joint statement was agreed.

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Meetings between Sir Percy Cradock and Vice Foreign Minister ZHANG Wenjin

Meeting on 5 October

27. Sir P Cradock suggested that talks should be conducted in the first instance by a small team led by Sir P Cradock himself with a corresponding team on the Chinese side. The British team would be supplemented as necessary by officials from Hong Kong, including from time to time the Governor.

28. ZHANG said that the first requirement was to agree that the premise for the talks should be recovery of sovereignty by China. If this was tackled it would be easy to discuss stability and prosperity. Administration and sovereignty could not be separated; there could be no question of continuing British administration after China had recovered sovereignty. Sir P Cradock/asked whether it was an absolute precondition for the talks that there should be agreement on sovereignty. ZHANG replied that although there were differences talks could begin, but that the premise problem would have to be solved. Sir P Cradock said that for the Chinese side to insist on a precondition not mentioned in the joint statement would be inconsistent with the aim agreed by the two sides's leaders and frustrate their intentions.

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Meeting on 19 October

29. Sir P Cradock made the following points:

(a) the joint statement agreed by the Prime Minister and DENG should be the basis of the talks;

(b) DENG had said that the talks should among other matters cover arrangements post 1997. The British side proposed that the next stage should be an exchange of views on the practical arrangements for administration. They wished to hear more about Chinese ideas in order to see whether they met the requirements of stability and prosperity.

Substantive talks should begin very soon in spite of differences on certain basic points. It was not the intention of the British Government to put aside the question of sovereignty. They were well aware of the Chinese position.

30. In undertaking to report the proposals, ZHANG said that the Chinese position had been made very clear. The Chinese side attached great importance to the talks and would adopt a forthcoming and constructive attitude. He hoped that the talks would be successful in resolving the differences between the two sides.

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31. Sir P Cradock took the opportunity to complain about statements by Chinese officials to the press reflecting substantive points made to the Prime Minister during her visit to Peking. These were harmful to confidence in Hong Kong. ZHANG claimed that such statements had no direct bearing on the talks and that the Prime Minister's Hong Kong press conference and remarks on the treaties had given the Chinese "many headaches". China would certainly treat the talks as highly confidential.

Meeting over Lunch on 4 December

32. Sir P Cradock urged ZHANG Wenjin to agree to talks beginning very soon and made further representations about the damaging effect of the Chinese propaganda campaign. ZHANG said that personnel changes in the MFA and the National People's Congress had contributed to the delay in responding to the proposals put by Sir P Cradock on 19 October. He stressed that the key to the matter was British acceptance that sovereignty would revert to China. He reiterated that there could be talks in any case but the talks could not make progress until the "premise" was solved. Sir P Cradock made it clear that an agreed package would be needed before the matter could be put to Parliament with any hope of passage.

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33. ZHANG raised the question of the treaties. Sir P Cradock replied that the treaties were a historical and legal fact. The British Government did not wish to revive or re-write history now. They wished to look to the future and to agree with the Chinese Government arrangements for the administration of Hong Kong acceptable to both Governments and to the people of Hong Kong. This implied agreement on replacing the treaties by something more in keeping with the times. ZHANG took careful note. On the question of the Chinese propaganda campaign, his response was again unsatisfactory.

SECRET

B/F

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10 DOWNING STREET

From the Private Secretary

15 April 1983

Future of Hong Kong: Prime Minister's Message

Thank you for your letter of 14 April reporting that the New China News Agency appear to have leaked the fact that the Prime Minister has sent a personal message to the Chinese and to have described the message as envisaging a concession by Britain of sovereignty over Hong Kong if the package was right.

As I told you last night, the Prime Minister agrees that we should meet initial press enquiries with a refusal to comment on the grounds that the talks with the Chinese should be kept confidential. But if the press begin to give the story prominence, or their enquiries become persistent, it will be necessary to make it clear that the Chinese have been told on several occasions that the question of sovereignty is not in the Government's gift and that Parliament alone has the power to decide on this.

B/F/ As regards the question of representations to the Chinese, I shall await your further advice.

A. J. COLES

John Holmes Esq
Foreign and Commonwealth Office.

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SECRET
FCO DESKBY 150900Z
PEKING DESKBY 150800Z
FM HONG KONG 150500Z APR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 513 OF 15 APRIL 1983
INFO IMMEDIATE PEKING AND BRUNEI (PERSONAL FOR PS/LORD BELSTEAD AND DONALD)

MY TELNO 508 AND YOUR TELNO 60 TO BRUNEI: FUTURE OF HONG KONG
PRIME MINISTER'S MESSAGE

1. THERE IS NO REPORT IN THE SOUTH CHINA MORNING POST (OR IN ANY OTHER LOCAL PAPER) TODAY. AS FAR AS WE CAN SEE THE FACT THAT A MESSAGE HAS BEEN SENT IS KNOWN (AT LEAST) TO HUTCHEON, HAL MILLER (YOUR TELNO 22 TO PEKING), LORD SHEPHERD AND FUNG KING HEY (YOUR TELNO 229 TO PEKING). THE MAIN BURDEN OF THE MESSAGE IS KNOWN TO MILLER AND HUTCHEON, AND NCNA AND/OR THE CHINESE EMBASSY COULD HAVE TOLD OTHERS: WE KNOW THAT NCNA HAVE BEEN BRIEFED BY PEKING ABOUT THE CONTENT OF THE MESSAGE BUT HAVE NOT BEEN GIVEN THE TEXT. IT THEREFORE SEEMS LIKELY THAT STORIES ABOUT THE MESSAGE WILL APPEAR IN THE PRESS SOONER RATHER THAN LATER, AND INDEED THIS MAY BE THE CHINESE INTENTION. THEIR AIM WOULD PRESUMABLY BE TO GIVE THE IMPRESSION THAT HMG HAVE NOW ACCEPTED THE CHINESE POSITION THAT SOVEREIGNTY OVER THE WHOLE OF HONG KONG WILL REVERT TO CHINA IN 1997, AND IF THE CHINESE AGREE TO SUBSTANTIVE TALKS THE TALKS WOULD TAKE PLACE ON THAT BASIS.

YOUDE

Repetition to BRUNEI
referred for departmental decision,
repeated as requested to other posts.

FUTURE OF HONG KONG

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MR COLES NO. 10. DOWNING ST

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Hong Kong

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10 DOWNING STREET

From the Private Secretary

15 April 1983

Future of Hong Kong: Possible Visit by EXCO Unofficials

Thank you for your letter of 14 April about the possibility of Sir Edward Youde bringing a group of Unofficials to London again in the relatively near future.

The Prime Minister agrees that we should not attempt to arrange a firm date at the moment; but the Governor could be instructed to tell EXCO, strictly for their own information, that he has been in touch about the possibility of taking Unofficials to London at some point in the next two or three months, and that this idea has been welcomed by Ministers in principle.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office

SECRET

57

Prime Minister

Agree to X below.

A. J. C. 14/4.

Yes - a remarkable over work as usual

Foreign and Commonwealth Office

London SW1A 2AH

14 April, 1983

Dear John,

Future of Hong Kong: Possible Visit by EXCO Unofficials

At the meeting on 9 March with Sir Edward Youde and Sir Percy Cradock the Prime Minister agreed that it would be useful if the Governor were to bring a group of Unofficials to London again before too long.

The Governor has now proposed (Hong Kong telegram number 478, copy enclosed) that he should invite all nine EXCO Unofficials to accompany him since it would be difficult to exclude some of them. He makes it clear that such a visit would not take place before the Chinese reply to the Prime Minister's message to Premier Zhao, but he hopes it could happen before June when a Chinese announcement is expected.

We welcome the idea of such a visit in principle, since it is clearly most important from the Hong Kong end that EXCO are seen to be closely consulted and kept in the picture, not just by the Governor but also by Ministers in London. We also agree that an attempt to bring a smaller party might create difficulties for both the Governor and for Sir S Y Chung, the Senior Unofficial.

However it is difficult to be definite at this stage over the timing. With Zhao Ziyang away in Australia and New Zealand until late April we may well not get a Chinese reply until the end of April or into May. If the reply is a favourable one, enabling us to get down to substantive talks, both we and EXCO might want to see how the talks went for a while and then have a meeting in London to discuss developments including a Chinese announcement. We should avoid having two high powered visits too close together. If on the other hand the Chinese reply is unhelpful it would probably be right to have an earlier EXCO visit, which could discuss among other things the way in which we should respond to a tougher Chinese announcement.

In short, we believe that we should not try to reach any conclusion yet on dates. Nonetheless we see no reason why the Governor should not be instructed to tell EXCO, strictly for their information only, that he has been in touch with those concerned about the possibility of taking Unofficials to London at some point in the next two or three months, and that this idea has been welcomed by Ministers in principle. If the

X

/Prime

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Prime Minister agrees we will reply to the Governor as above. We have told him that we will try to give him a reply before 20 April, when he is due to meet EXCO again.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

JR 350

SECRET

SECRET

FM HONG KONG 081025Z APR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 478 OF 8 APRIL
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

FUTURE OF HONG KONG: POSSIBLE VISIT TO LONDON BY EXCO UNOFFICIALS.

1. IT WAS AGREED AT THE PRIME MINISTER'S MEETING ON 9 MARCH THAT IT WOULD BE USEFUL IF I WERE TO TAKE A GROUP OF UNOFFICIALS TO LONDON AGAIN BEFORE TOO LONG. THE PRIME MINISTER SAW SIR S.Y. CHUNG WHEN HE VISITED LONDON PRIVATELY IN DECEMBER, AND SHE AND LORD BELSTEAD BOTH HAD MEETING WITH UMELCO DURING THEIR VISITS HERE. BUT IT IS NOW SEVEN MONTHS SINCE THE LAST VISIT BY UNOFFICIALS SPECIFICALLY TO DISCUSS THE FUTURE, AND IT IS PRESENTATIONALLY IMPORTANT FOR EXCO TO BE SEEN TO MAINTAIN REGULAR CONTACT WITH MINISTERS. FROM THE SUBSTANTIVE POINT OF VIEW SUCH A VISIT WOULD BE VALUABLE WHATEVER THE CHINESE RESPONSE TO THE PRIME MINISTER'S MESSAGE: WHETHER IT IS POSITIVE OR NEGATIVE MINISTERS WILL PRESUMABLY WISH TO HAVE UNOFFICIALS' VIEWS ON THE WAY FORWARD, AND THEY WILL CERTAINLY EXPECT TO BE CONSULTED.

2. ON THIS OCCASION I WOULD PROPOSE TO INVITE ALL (ALL) EXCO UNOFFICIALS TO ACCOMPANY ME. IT WOULD BE INVIDIOUS TO CHOOSE AMONG THEM, AND IT WOULD PROBABLY BE UNACCEPTABLE TO THE UNOFFICIALS THEMSELVES TO ATTEMPT TO DO SO. AT THE SAME TIME, I AM SURE THAT UMELCO AS A WHOLE WOULD UNDERSTAND THAT FRANK DISCUSSION WOULD BE INHIBITED IF NON-EXCO MEMBERS WERE TO BE INVOLVED.

3. THE TIMING OF SUCH A VISIT WOULD DEPEND ON A NUMBER OF FACTORS, NOT LEAST THE PRIME MINISTER'S PROGRAMME. IT SHOULD CLEARLY TAKE PLACE AFTER THE CHINESE HAVE REPLIED TO THE PRIME MINISTER'S MESSAGE TO ZHAO SO THAT DISCUSSIONS WITH MINISTERS COULD BE HELD IN THE LIGHT OF THE REPLY. ON THE OTHER HAND, THE VISIT SHOULD NOT BE DELAYED FOR TOO LONG, GIVEN THE RISK OF A CHINESE ANNOUNCEMENT OF THEIR PLAN AT THE NPC, WHICH SOME REPORTS SUGGEST COULD BE HELD EARLY IN JUNE. THESE CONSIDERATIONS SUGGEST THAT WE SHOULD BE THINKING IN TERMS OF AROUND THE MIDDLE OF MAY.

4. UNLESS YOU SEE OBJECTION, I PROPOSE TO TELL EXCO AT THEIR MEETING ON 13 APRIL THAT I AM IN TOUCH WITH THOSE CONCERNED ABOUT THE POSSIBILITY OF TAKING UNOFFICIALS TO LONDON AT SOME POINT IN THE NEXT MONTH OR SO, AND THAT THIS IDEA HAS BEEN WELCOMED BY MINISTERS IN PRINCIPLE. I WOULD NOT NEED TO SAY ANYTHING MORE SPECIFIC ABOUT DATES AT THIS STAGE.

YOUDE

FUTURE OF HONG KONG

LIMITED

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HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
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MR GIFFARD
MR DONALD

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MR FLOWER PUSD

SECRET

H-K : Future dr : Pt 5.

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SECRET

1957 - 1

A.J.C. 15/4

h.a.

RR HONG KONG
GRS 190
SECRET
DESKBY 150200Z APR 83
FM FCO 141615Z APR 83
TO IMMEDIATE BRUNEI
TELEGRAM NUMBER 60 OF 14 APRIL
INFO HONG KONG, PEKING
PERSONAL FOR PS/LORD BELSTEAD AND DONALD
FUTURE OF HONG KONG : PRIME MINISTER'S MESSAGE

1. HONG KONG HAVE REPORTED THAT A MEMBER OF THE NCNA HAS TOLD THE EDITOR OF THE SOUTH CHINA MORNING POST THAT THE PRIME MINISTER HAS SENT A PERSONAL MESSAGE TO THE CHINESE TO THE EFFECT THAT HMG WOULD CONCEDE SOVEREIGNTY OVER HONG KONG IF THE PACKAGE WAS RIGHT. THE NCNA OFFICIAL ADDED THE PERSONAL COMMENT THAT THERE SHOULD NOW BE PROGRESS IN THE TALKS BUT THAT THEY WOULD STILL BE LONG AND DIFFICULT.

2. THE SCMP MAY PUBLISH THIS ON 15 APRIL. IF ASKED ABOUT IT, WE AND THE HONG KONG GOVERNMENT WILL DECLINE TO COMMENT, STRESSING THAT WE REGARD ALL CONTACTS WITH THE CHINESE FOLLOWING THE PRIME MINISTER'S VISIT AS CONFIDENTIAL.

3. WE HAVE TODAY DRAFTED A PRIVATE SECRETARY LETTER TO NO 10 GIVING OUR INITIAL ASSESSMENT OF THE CHINESE AIMS AND RECOMMENDATIONS ON A POSSIBLE PUBLIC AND PRIVATE RESPONSE IF THE SITUATION DEVELOPS. WE SHALL OF COURSE NEED TO CONSULT PEKING AND HONG KONG BEFORE FINAL DECISIONS ARE TAKEN.

PYM

FUTURE OF HONG KONG

LIMITED

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MR FLOWER PUSD
MR COLES NO10 DOWNING ST

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55

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GR 80

SECRET
DESKBY 141100Z
FM HONG KONG 140950Z APR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 508 OF 14 APRIL
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

FUTURE OF HONG KONG: PRIME MINISTER'S MESSAGE.

1. WE HAVE HAD IT ON GOOD AUTHORITY THAT A MEMBER OF THE NCNA HAS TOLD THE EDITOR OF THE S.C.M.P. THAT THE PM HAS SENT A PERSONAL MESSAGE TO THE CHINESE TO THE EFFECT THAT BRITAIN WOULD CONCEDE SOVEREIGNTY OVER HONG KONG ~~OF~~ (IF!) THE PACKAGE WAS RIGHT.

2. THE NCNA OFFICIAL ADDED THE PERSONAL COMMENT THAT THERE SHOULD NOW BE PROGRESS IN THE TALKS BUT THAT THEY WOULD STILL BE LONG AND DIFFICULT.

3. IF THERE ARE PRESS ENQUIRIES WE SHALL DECLINE TO COMMENT.

YOUDE

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
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HD/PUSD
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SECRET

54

Foreign and Commonwealth Office

London SW1A 2AH

14 April 1983

Dear John,

Future of Hong Kong: Prime Minister's Message

attached.

Hong Kong telegram number 508 reported that the New China News Agency (NCNA) in Hong Kong had told the editor of the South China Morning Post that the Prime Minister had sent a personal message to the Chinese to the effect that Britain would concede sovereignty over Hong Kong if the package was right. The NCNA official added his personal comment that there should now be progress in the talks but that they would still be long and difficult. This is likely to appear in the paper on 15 April.

Hong Kong will decline to comment in answer to press enquiries and we have agreed that we should try to do the same, referring to the need to keep the talks with the Chinese confidential. But depending on how the story is reported, it may be difficult to hold to this comment, especially if the report is raised in Parliament. We recommend that, if this happens, we should emphasise that we had made it absolutely clear to the Chinese that the question of sovereignty was not in the Government's gift, and that Parliament alone had the power to decide on this. Beyond this we should not comment and should reiterate our adherence to confidentiality.

Chinese Aims

This is not the only occasion on which the Chinese have told third parties about the Prime Minister's letter. Liao Chengzhi, the Politburo member directly responsible for Hong Kong, passed a message about it to Mr Hal Miller MP, who has been invited to visit China, and gave him a pretty full account of the contents. Liao also told Fung King-Hey, Chairman of Sun Hung Kai Ltd, a leading Hong Kong company, when Fung visited Peking earlier this month.

We believe that the main aim of these breaches of confidence by the Chinese is to spread the idea publicly that we are prepared to concede sovereignty, in order to make it impossible for us to withdraw from this position and to reinforce the impression that it is useless to attempt to resist the idea of Hong Kong becoming a Special Administrative Region of China. They may be trying also

/to persuade

to persuade public opinion in Hong Kong that HMG is making important concessions without consulting it, thus undermining our position in Hong Kong. As far as the talks are concerned, they may either be trying to send a message that the Prime Minister's letter has helped to ease the situation (and this is corroborated by remarks made to Mr Miller and Mr Fung and by secret reports), or to soften us up for a response that reiterates their position that talks can only take place on the premise that China recovers sovereignty over Hong Kong.

Recommendations

It is for consideration whether we should make representations to the Chinese about the leak. This would show our displeasure at the Chinese action (which follows other, less serious breaches of confidentiality) in an effort to dissuade them from similar behaviour in future, and reiterate for the record the actual terms of the Prime Minister's message. On the other hand, no reply to the letter has yet been received and a dispute about confidentiality might possibly make it more difficult to reach agreement to hold substantive talks. But we do not in fact rate that risk highly. The Chinese are not likely, on past form, to allow firm handling to affect their decisions. The preliminary view here is that the balance of advantage is in favour of instructing the Ambassador to make representations. But we have not yet been able to consult the Ambassador and the Governor of Hong Kong. Mr Pym has also not been able to consider this. I will therefore write again with our considered view.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

CC RS

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Copy No 1 of 4 Copies

MO 5/14

Prime Minister

PRIME MINISTER

A.J.C. 15/4

HONG KONG

In your Private Secretary's letter of 28th March you asked for my further views on the meaning of the phrase "to identify such aggression" in the current directive to our Force Commander in Hong Kong and on whether it would be appropriate to provide more detailed guidance on how the garrison should resist a Chinese attack.

2. There is an important distinction between the narrow instructions to which your initial question relates and the possibility of providing more detailed guidance which would seek to cover every eventuality. We could not in advance anticipate all of the possibilities for Chinese attack and the political circumstances in which they might take place and lay down meaningful responses to them. In practice the standing-start invasion is a remote possibility (though one against which we must guard) and it is much more likely that the run up to a Chinese attack would have been preceded by a number of actions and signals by the Chinese on which the Governor would have sought our directions. The crucial point is to have excellent communications both with the Governor and with the Commander British Forces Hong Kong.

3. You will remember from my letter of 18th March that I was particularly concerned to discuss this and other aspects of the issue personally with our Commander - General Boorman - which I have

now done. As to the meaning of his instructions in the context of a physical attack in strength by the Chinese, General Boorman is quite clear that his initial task is to show up such a step for what it is - an act of unprovoked aggression. Visual and electronic intelligence would be used to identify the size and composition of the attacking force and its supporting arms, as well as the time and place of attack. Secondly, our forces would physically engage the enemy so as to check the scale and depth of assault. Such action would of course involve casualties - to both sides. It would be intended to confirm that we faced a sustained assault and not a maverick raid. All of this action would be designed to provide us here as a matter of urgency with convincing and factual evidence on which to base decisions and for use in the international arena.

4. I have also discussed with General Boorman the second aspect of the need for further military detailed guidance. He is, of course, rightly conscious of the limits to his ability to wage conventional battle with a force structured for internal security duties as well of the dangers of attempting to deal with external aggression and internal unrest at the same time. Nevertheless he is quite clear that his task is to deter any Chinese aggression by ensuring that China perceives that any assault, whilst it would be successful in the end, would meet determined resistance and would thus involve the use of force by the Chinese at a high profile. Should China accept this risk then his task would become that of resisting the aggression and of rapid reporting back to us in London. At this stage his aim, pending further direction, would be to hold out long enough to meet the likely political requirement to show that we had supported our rights and obligations and that the Chinese had acted forcibly and illegally. Resistance would continue for as long as possible or until the Governor as Commander-in-Chief ordered a halt.

5. As to whether further direction is desirable, I believe that the present directive meets the proper need for the Commander on the spot to have, under the Governor's direction, the authority to decide upon the precise action to be taken in response to aggression, while making it clear that it will be for the Government to issue at the time directions to the Commander-in-Chief and through him, to the Commander, which take account of the circumstances then prevailing.

6. I am copying this minute to the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

Ministry of Defence
14th April 1983

H-K : future dr : Pt 5.

1969 - 1

PP PEKING
GRS 375
CONFIDENTIAL
FM FCO 141645Z APR83
TO PRIORITY PEKING
TELEGRAM NUMBER 229 OF 14 APR
AND TO PRIORITY HONG KONG
LORD SHEPHERD

To see paras 1 and 2.

MT

1. LORD SHEPHERD HAS WRITTEN TO LORD BELSOEAD ON HIS RETURN TO UK TO REPORT ON FUNG KING-HEY'S RECENT VISIT TO PEKING. FUNG APPARENTLY RETURNED TO HONG KONG ON 12 APRIL.

2. FUNG SAW LIAO CHENGZHI WHO TOLD HIM ABOUT THE PRIME MINISTER'S LETTER AND SAID THAT IT WAS BEING VERY CAREFULLY CONSIDERED AND DISCUSSED AND THAT IT MIGHT BE SOME TIME BEFORE A FIRM REACTION TO IT WAS GIVEN. FUNG DID NOT SEE LETTER, BUT FELT IT MIGHT HAVE EASED DIFFERENCES BETWEEN TWO GOVERNMENTS. HE ALSO HAD VERY STRONG IMPRESSION IN DISCUSSIONS WITH OTHER OFFICIALS THAT THEY WERE NOW SPEAKING WITH A GREAT DEAL MORE CAUTION AND LESS PROVOCATIVELY THAN EARLIER IN THE YEAR, UNDER INSTRUCTIONS FROM THE TOP. FUNG HAD GONE TO PEKING WITH CONSIDERABLE ANXIETY, BUT CAME AWAY FEELING MUCH MORE CONFIDENT THAT THERE WAS A GREATER UNDERSTANDING OF THE HONG KONG PROBLEM ON THE QUESTION OF CONFIDENCE AND THAT STEPS HAD AND WOULD CONTINUE TO BE TAKEN TO TO COOL THE ATMOSPHERE.

3. FUNG ALSO SAID THAT XU JIA-TUN, FIRST SECRETARY OF JIANGSU PARTY COMMITTEE FROM 1977, AND A MEMBER OF THE PARTY CENTRAL COMMITTEE, HAD BEEN APPOINTED PERSONALLY BY DENG AND LIAO TO TAKE OVER NCNA IN HONG KONG. HE IS DESCRIBED AS A PROFESSOR OF FOREIGN AFFAIRS AND LANGUAGES, BUT APPARENTLY SPEAKS NEITHER ENGLISH NOR CANTONESE. THE NUMBER 2 IN NCNA WOULD BE LI CHU-WEN, WHO IS DIRECTOR OF THE SHANGHAI FOREIGN AFFAIRS OFFICE. LI IS FROM CHEJIANG AND AGED 65: HE WAS A DELEGATE TO THE 12TH PARTY CONGRESS. BOTH ARE WELL KNOWN TO FUNG, WHO SPEAKS HIGHLY OF THEM AND SEES THEIR APPOINTMENT AS A MEANS OF PROVIDING THE PRC WITH A CLOSER AND MORE INTIMATE UNDERSTANDING OF THE PROBLEMS OF HONG KONG. RESEARCH DEPARTMENT'S VIEW IS THAT THE APPOINTMENT OF XU

AND LI WOULD MEAN AN UPGRADING OF THE NCNA POSTS.

4. LIAO AND OTHER OFFICIALS APPARENTLY EXPRESSED AN INTEREST IN SHEPHERD VISITING CHINA IN THE COURSE OF HIS TRADING INTERESTS WITH SUN HUNG KAI GROUP. SHEPHERD FEELS THAT THIS WOULD NOT BE DESIRABLE AT PRESENT BUT FORESEES PRESSURE FROM FUNG TO MAKE SUCH A VISIT. HE WILL KEEP LORD BELSTEAD INFORMED AND WILL CONSULT WITH HIM BEFORE TAKING ANY DECISION.

5. COPY OF LETTER FOLLOWS BY BAG.

PYM

FUTURE OF HONG KONG

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MR FLOWER PUSD
~~MR~~ COLES NO 10 DOWNING ST

HL

14 April 1983

Future of Hong Kong: Views of the Singapore Prime Minister

The Prime Minister has read with interest your letter of 12 April and the enclosed letter from the Governor of Hong Kong about his talks with the Prime Minister of Singapore.

JOHN COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

NR

The National Archives

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AK

10 DOWNING STREET

PRIME MINISTER

Sir Y.K. Pao will be here on 4,5,6 May.

Would you like to see him?

CS. Yes mt

cc. please file
arranged for
9.15. on
Friday 6th May.
CS 13/4

12 April 1983

Mr. Moyle's visit may lead the Opposition to raise Hong Kong in the House.

A.J.C. 13/4

GPS225 RESTRICTED

RESTRICTED

FM HONG KONG 120740Z APR 83

TO PRIORITY FCO

TELEGRAM NUMBER 493 OF 12 APRIL

INFO PRIORITY PEKING

FUTURE OF HONG KONG: PRESS CONFERENCE BY MR ROLAND MOYLE, MP.

MR ROLAND MOYLE, M.P., GAVE A PRESS CONFERENCE ON 9 APRIL BEFORE HIS DEPARTURE FROM HONG KONG. HIS REMARKS WERE GIVEN WIDESPREAD AND PROMINENT COVERAGE BOTH IN THE ENGLISH AND CHINESE LANGUAGE PRESS. (TRANSCRIPT OF PRESS CONFERENCE FOLLOWS BY BAG TO HKGD). THE MAIN POINTS MADE BY MR MOYLE ON THE FUTURE WERE AS FOLLOWS:

A) CHINA WAS SINCERE IN ITS INTENTION TO MAINTAIN HONG KONG'S PROSPERITY AND STABILITY.

B) THE DIFFERENCES BETWEEN CHINA AND BRITAIN COULD BE RECONCILED.

C) THE PRIME MINISTER HAD DWELT TOO MUCH ON THE VALIDITY OF THE TREATIES. THE EMPHASIS IN FUTURE, SHOULD BE ON HONG KONG'S ECONOMIC VALUE TO CHINA.

D) CHINESE LEADERS HAD LITTLE UNDERSTANDING OF WHAT MADE HONG KONG WORK.

E) THE CHINESE GOVERNMENT WAS INSISTENT THAT SOVEREIGNTY WAS NON-NEGOTIABLE.

F) CHINA'S SELF-RULE PROPOSITIONS DID NOT NECESSARILY MEAN DEMOCRATIC GOVERNMENT.

2. THERE HAVE SO FAR BEEN ONLY TWO EDITORIAL COMMENTS. THE COMMUNIST TA KUNG PAO DESCRIBED MR MOYLE'S APPROACH AS PRAGMATIC AND SENSIBLE AND SAID THAT FURTHER DEVELOPMENT OF SINO-BRITISH RELATIONS WOULD ONLY BE POSSIBLE IF THERE WAS AN EARLY SOLUTION TO THE 1997 PROBLEM. THE FINANCIAL DAILY (INDEPENDENT) DREW ATTENTION TO MR MOYLE'S POSITION AS DEPUTY SPOKESMAN ON FOREIGN AFFAIRS FOR THE LABOUR PARTY AND SAID THAT HIS REMARKS SHOULD CARRY WEIGHT. THE MOST SIGNIFICANT POINT IN MR MOYLE'S REMARKS WAS THAT THE DEVELOPMENT OF CLOSE ECONOMIC RELATIONS BETWEEN BRITAIN AND CHINA SHOULD ENABLE DISPUTES OVER POLITICS, SOVEREIGNTY AND THE TREATIES GOVERNING HONG KONG TO BE FORGOTTEN. THIS WOULD PUT DIPLOMATIC TALKS ON THE RIGHT TRACK FOR A COMPROMISE SOLUTION.

YOWDE

FUTURE OF HONG KONG

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52

Prime Minister

This full account is worth reading.

A.J.C. 13/4.

Foreign and Commonwealth Office

London SW1A 2AH

12 April 1983

Dear John,

Future of Hong Kong: Views of the Singapore Prime Minister

In his letter of 31 March, John Holmes reported the main points made by Mr Lee Kuan Yew about Hong Kong over a dinner with the Governor on 23 March. I now enclose a copy of a letter from the Governor reporting on this conversation in more detail. It illustrates the basis of Lee's views very well and gives a helpful summary of his ideas on how the minds of the Chinese leadership may be working.

Yours ever

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

SECRET

PERSONAL

香港總督府

GOVERNMENT HOUSE
HONG KONG

28 March 1983

Dear Dick,

VISIT OF THE SINGAPORE PRIME MINISTER:
FUTURE OF HONG KONG

In my Telegram 415 of 25 March, I promised to send a fuller account of my talk with the Prime Minister of Singapore on the future of Hong Kong. Our talk took place in private over dinner at Fanling.

2. During the evening, Lee Kuan Yew told me a lot about his experiences with the Chinese on his visits to China and during the visit of Deng Xiaoping to Singapore. From these experiences he had concluded that Hua Guofeng was a bureaucratic secret policeman fixed in his ideology. Deng, on the other hand, was a man of authority who could take difficult decisions but even he was constrained by the system, especially in matters of domestic policy. He thought it would take a long time to bring about change on the Mainland, given the vested interests which had grown up during the Cultural Revolution. The Chinese would need to open their doors even wider to the outside world and this would have risks for the system. For example, if Taiwan rejoined the Mainland the Chinese would benefit from the experience of large numbers of people who understood the industrial and financial operations of the outside world; but if that experience were spread over the Mainland

/ 2 .....

R D Clift Esq
Hong Kong and General Department
Foreign and Commonwealth Office

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it would have incalculable consequences for the domestic political scene.

3. But whatever the constraints, Deng now had authority and was probably the only one who could, if he chose to do so, take difficult decisions in foreign policy matters. His chosen heirs, Hu Yaobang and Chao Ziyang, were unlikely to have had time to establish a national political base and would therefore not have his stature in the Chinese political scene.

4. During our discussion on Hong Kong, he was most concerned aboutthe future of the professional, industrial and technically-minded younger and middle generations who are now essential to Hong Kong's modernised economy. Given their qualifications, they are internationally mobile; if the future became too uncertain they would move and there are many places which would welcome them. He had been impressed by the number of applications which Singapore had received from engineers and others experienced in the construction of the Mass Transit Railway who were ready to work on the Singapore Mass Transit system. He drew a comparison with Jamaica. On his visit there he had been impressed by the departure of the professional classes, with the result that the Jamaican economy had gone into decline.

5. In Hong Kong there were many industrialists who had started life in Shanghai and had personal experience of what had happened to their assets in that city. They, and many others in Hong Kong, had seen the changes and campaigns on the other side of the border and were aware of the humiliation and sufferings of intellectuals during the Revolution. It was one thing to tell them that it would not happen again and another to convince them of it. They had settled in Hong Kong because there was an insulator (at one stage he also referred to a "fuse") between them

/ 3 .....

and the Mainland which ensured that the great political campaigns did not wash over into Hong Kong. If that insulator were removed they would want to go, and once gone they would not come back. He thought, therefore, that any settlement would have to contain a guarantee to them that if there were to be any change they would get 3 to 5 years notice of it. I told him that I believed they would want a lot more than that. Proposals put forward from people in Hong Kong, such as the Reform Club and the Chairman of the Urban Council, had spoken of the need for decades - 20 to 30 years.

6. He thought this unrealistic; it would be impossible for the Chinese to commit themselves specifically for such long periods. It would be exceedingly difficult for the Chinese to accept the need for an insulator and a period of notice in its removal. They could not possibly do so without something substantial to show to their own people in return. This would have to be British acceptance that Hong Kong is Chinese territory which they are in a position to recover at any time. The reunification issue is deep in the Chinese national consciousness whether the Chinese be Nationalist or Communist.

7. On the question of notice, I said that there was a school of thought in Hong Kong which believed that confidence now rested on a belief that however things turned out there would be no change until 1997, because the Chinese had said so. If we moved to something indefinite, even in order to remove the date of 1997, that belief might no longer be valid. He said people had to look at the realities. The hand had been dealt and it was no longer possible to reshuffle the pack. The Chinese could recover Hong Kong at any time they wished and there was no evidence that they could compromise on the proposition that Hong Kong was Chinese territory.

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There would be risks in whatever settlement was reached but the need for one was obvious. The professional and industrial classes were looking for an answer and if they did not get it in the next 2 or 3 years they would leave anyway.

8. Although I talked to Lee Kuan Yee about my own experiences in China and how I saw the prospects for the future there, I did not seek to prompt him in any way on the issue of Hong Kong except to question him at one or two points on the validity of his propositions. The above, therefore, could I think be taken as an unvarnished expression of his views.

Yours ever

Teddy

c.c. Sir P Cradock KCMG, Peking
Sir Peter Moon KCVO, CMG, Singapore

51

GRS 530

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FROM PEKING 120845Z APR 83

TO PRIORITY FCO

TELEGRAM NUMBER 328 OF 12/4/83

APL 13/4

REPEATED FOR INFO TO PRIORITY HONG KONG

MY TWO IPTS: FUTURE OF HONG KONG: DRAFT PRESENTATION

1. FOLLOWING ARE MY DETAILED COMMENTS:

(A) PARAGRAPHS 1-5 . NO OBJECTIONS.

(B) PARAGRAPH 6, THIRD SENTENCE. THE USE OF THE PHRASE ''CONSTITUTIONAL LINK'' IS DANGEROUS, FOR THE REASONS GIVEN IN PARAGRAPH 2 OF MY FIRST IPT. I SUGGEST THAT THE WORD ''CONSTITUTIONAL'' SHOULD BE DROPPED.

(C) PARAGRAPH 6, FIFTH AND SIXTH SENTENCES.
THIS READS VERY STARKLY. I SUGGEST A REDRAFT TO READ ''MOREOVER IT IS NOT EASY TO SEE HOW A LIBERAL, CAPITALIST SYSTEM CAN SUCCESSFULLY EXIST WITHIN A COUNTRY OPERATING A SOCIALIST SYSTEM. THE PEOPLE OF HONG KONG WOULD NEED TO SEE A LONG PERIOD OF STABILITY AND SUSTANIED ECONOMIC FLEXIBILITY IN CHINA BEFORE THEY MIGHT OVERCOME THE GRAVE RESERVATIONS WHICH THEY HAVE TODAY ABOUT A FUTURE UNDEFFTHE ULTIMATE AUTHORITY OF A SOCIALIST ADMINISTRATION. THESE DOUBTS ARE REINFORCED BY RECENT CHINESE HISTORY AND IN PARTICULAR THE MEMORIES OF SOME HONG KONG INDUSTRIALISTS OF EVENTS IN SHANGHAI AND THE EXPERIENCE OF THE CULTURAL REVOLUTION.

(D) PARAGRAPH 7. WE CANNOT TALK ABOUT THE ''VITAL IMPORTANCE'' OF THE UK LINK, WHEN WE INCLUDE THE CONSTITUTIONAL LINK AS PART OF THAT, WITHOUT APPEARING TO GO AGAINST THE ASSURANCE IN MRS THATCHER'S MESSAGE. I PROPOSE THAT PARAGRAPH 7 SHOULD BEGIN ''THE UK LINK HAS HITHERTO PLAYED A VITAL ROLE AS A GUARANTEE AGAINST CHANGE, AND THEREFORE IN PRESERVING CONFIDENCE AS CAN BE ILLUSTRATED BY A NUMBER OF EXAMPLES.....''. THE ORDER OF EXAMPLES SHOULD BE CHANGED TO (C), (D), (B) AND FINALLY (A). IN (A) I SUGGEST SUBSTITUTUON OF ''HAS BEEN'' FOR ''IS'' IN LINE 10.

SECRET

/(E)

(E) PARAGRAPH 8. I SHOULD PREFER A CONCLUSION ALONG THE FOLLOWING LINES (TAKEN IN PART FROM FCO TEL NO 914): ''THE FOREGOING REPRESENTS ONLY A VERY BRIEF AND GENERAL PICTURE OF THE WAY IN WHICH THE LINK BETWEEN HONG KONG AND THE UK PRESENTLY OPERATES. THIS LINK, AND THE BRITISH ROLE IN THE ADMINISTRATION OF THE TERRITOY, AS PRESENT PROVIDE A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. IN OUR VIEW, WE SHOULD IN SUCCEEDING MEETINGS EXAMINE IN DETAIL THE MORE IMPORTANT ASPECTS OF THE ADMINISTRATIVE STATUS QUO IN HONG KONG, SUCH AS THE FINANCIAL, FISCAL AND LEGAL SYSTEMS AND THE FABRIC OF TREATIES AND AGREEMNNTS ON WHICH HONG KONG'S ROLE AS A FINANCIAL AND COMMERCIAL CENTRE DEPENDS. THESE DISCUSSIONS SHOULD BE CARRIED OUT BY EXPERTS FROM BOTH SIDES. OUR OBJECTIVE SHOULD BE TO DETERMINE WHAT DEGREE OF CHANGE TO THE STATUS QUO COULD BE MADE WITHOUT IRREVERSIBLE DAMAGE BEING DONE TO CONFIDENCE AND THEREFORE TO THE STABILITY AND PROSPERITY OF THE TERRITORY''.

CRADOCK

FUTURE OF HONG KONG

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MIPT: FUTURE OF HONG KONG: DRAFT PRESENTATION

1. THE FOLLOWING IS PREDICATED ON THE HYPOTHESIS THAT THE CHINESE BOTH RESPOND POSITIVELY TO THE PRIME MINISTER'S MESSAGE TO ZHAO AND AGREE TO THE MODALITIES WE PUT TO THEM LAST OCTOBER (THAT THE TALKS SHOULD BE CONDUCTED HERE, INITIALLY BY SMALL TEAMS AT AMBASSADOR-VICE MINISTER LEVEL, AND THE THE GOVERNOR MIGHT ATTEND AS REQUIRED). I AM NOT CONFIDENT THAT THEY WILL.

2. AS I SEE IT OUR AIM IN THE FIRST ROUND OF THE TALKS, WHICH THE GOVERNOR SHOULD ATTEND AND WHICH WOULD PERHAPS LAST ONE OR TWO DAYS, SHOULD BE TO STEER AWAY FROM MATTERS OF PRINCIPLE, ON WHICH THE EXCHANGE WOULD AT BEST BE STERILE AND AT WORST DOWNRIGHT CONFRONTATIONAL, AND TO POINT THE WAY TOWARDS AREAS WHERE DETAILED WORK SHOULD BE CONDUCTED IN SUBSEQUENT MEETINGS. AS YOU PUT IT IN FCO TELNO 914, WE SHOULD AIM IN THESE FIRST TALKS TO ''CONCENTRATE ON RELATIVELY UNCONTENTIOUS POINTS''.

3. THE FIRST ROUND WOULD ALMOST CERTAINLY BEGIN WITH A LENGTHY REHEARSAL BY THE CHINESE OF THEIR FORMAL POSITION ON SOVEREIGNTY. THIS WOULD PROBABLY FOLLOW FAMILIAR LINES, INCLUDING THE POINT THAT SOVEREIGNTY AND ADMINISTRATION WERE INDIVISIBLE AND THAT CHINA COULD NOT ALLOW OTHERS TO ADMINISTER HONG KONG ON ITS BEHALF. THE CHINESE MIGHT GO ON TO LAY DOWN SOME OF THEIR GENERAL PRINCIPLES FOR A FUTURE SETTLEMENT, IE. THAT HONG KONG PEOPLE SHOULD GOVERN HONG KONG, THAT A SPECIAL ADMINISTRATIVE REGION SHOULD BE ESTABLISHED AND THAT CERTAIN SYSTEMS WOULD REMAIN UNCHANGED. I DOUBT THAT THIS OPENING STATEMENT WOULD CONTAIN MAJOR NOVELTIES.

4. I SHOULD THEN RESPOND TO THIS STATEMENT, ALSO IN GENERAL TERMS, WITH A THREEFOLD OBJECTIVE:
(A) TO INDICATE A FULL GRASP OF THE CHINESE POSITION:
(B) TO MAKE CLEAR THE BRITISH POSITION IE. THAT WE CAN BE FLEXIBLE ON SOVEREIGNTY PROVIDED THE REST OF THE PACKAGE WAS SATISFACTORY:
(C) TO MAKE PROPOSALS ON HOW THE TALKS SHOULD PROCEED.

5. IN ESSENCE, (A) AND (B) ABOVE WOULD BE A REAFFIRMATION OF THE MESSAGE IN THE PRIME MINISTER'S LETTER TO ZHAO. A PASSAGE TO THE EFFECT THAT WE WERE NOT LOOKING TO THE PAST (IE. THE TREATIES) BUT TO THE FUTURE WOULD ALSO BE USEFUL AT THIS STAGE, TO UNDERLINE THAT WE WERE ENTERING INTO TALKS WITH A SINCERE AND CONSTRUCTIVE ATTITUDE.

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/6. IT

6. IT WOULD BE AT STAGE (C) OF THE STATEMENT THAT I WOULD PROPOSE TO INVITE THE GOVERNOR TO DELIVER HIS PRESENTATION. IN DOING SO I MIGHT USE SOMETHING ALONG THE LINES OF THE FOLLOWING FORMULA: BEGINS: WE HAVE LISTENED WITH INTEREST TO WHAT THE CHINESE SIDE HAS SAID ABOUT THE FUTURE ADMINISTRATION OF HONG KONG AND WE SHOULD LIKE IN DUE COURSE TO DISCUSS THE QUESTION OF ADMINISTRATIVE CHANGES IN MORE DETAIL. TO TAKE ONE ELEMENT OF WHAT YOU HAVE SAID, ''HONG KONG PEOPLE SHOULD RUN HONG KONG'', THAT IS A PROPOSITION TO WHICH WE HAVE NO OBJECTION IN PRINCIPLE. INDEED, IF HISTORICAL AND POLITICAL CIRCUMSTANCES WERE DIFFERENT, HONG KONG WOULD LONG AGO HAVE BECOME INDEPENDENT, JUST AS 45(?) FORMER BRITISH DEPENDENCIES HAVE ALREADY DONE. BUT HONG KONG IS A SPECIAL CASE AND ITS UNIQUE STATUS IS SOMETHING THAT BOTH SIDES SHOULD EXAMINE TOGETHER IN THE COURSE OF THESE TALKS. AS A FIRST STEP, I SHOULD LIKE TO ASK THE GOVERNOR OF HONG KONG TO DELIVER A SHORT PRESENTATION ON HOW HONG KONG WORKS. ENDS.

7. THE GOVERNOR COULD THEN SPEAK (SEE MIFT FOR MY DETAILED COMMENTS ON THE PRESENT DRAFT), AFTER WHICH I MIGHT CONCLUDE WITH A PASSAGE ON THE FOLLOWING LINES: BEGINS. BOTH SIDES AGREE THAT A SOLUTION TO THE PROBLEM OF THE FUTURE OF HONG KONG SHOULD BE SUCH AS TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG. SINCE THE CHINESE SIDE HAS STATED THAT IN ITS PROPOSALS THE ''SYSTEMS'' OF HONG KONG WOULD REMAIN UNCHANGED, WE ASSUME THAT THE CHINESE SIDE RECOGNISE THAT THIS IS ESSENTIAL IN ORDER TO OBTAIN THIS OBJECT.
(B) A SIMPLE TRANSFER OF CONTROL OVER HONG KONG TO PEKING WOULD NOT ENABLE CONFIDENCE TO BE MAINTAINED IN THE HONG KONG ECONOMY, AND THIS WOULD NOT ENABLE PROSPERITY AND STABILITY TO BE MAINTAINED. THERE ARE TOO MANY DOUBTS ABOUT THE CONTINUITY OF CHINESE POLICY WHICH ARE FOUNDED IN RECENT CHINESE HISTORY AND IN PARTICULAR THE EXPERIENCE OF THE CULTURAL REVOLUTION. THERE ARE ALSO DOUBTS WHETHER A COUNTRY WITH A SOCIALIST SYSTEM COULD CO-EXIST WITH A REGION WITH A LIBERAL CAPITALIST SYSTEM. IT IS NOT SUGGESTED THAT THIS CONSIDERATION WILL APPLY FOR EVER: BUT IT CERTAINLY DOES APPLY AT PRESENT.
(C) THE QUESTION THEREFORE IS HOW TO GUARANTEE THE CONTINUITY OF THE SYSTEMS AFTER 1997. THE BRITISH SIDE CANNOT SEE HOW A SUFFICIENT GUARANTEE CAN BE GIVEN UNLESS AN ARRANGEMENT IS REACHED WHICH ALLOWS THE UK A CONTINUING ADMINISTRATIVE ROLE IN HONG KONG SUFFICIENT TO INSPIRE CONFIDENCE THAT THE SYSTEMS WILL NOT BE

/CHANGED

CHANGED. THAT WAS WHY MRS THATCHER PROPOSED A CONTINUATION OF BRITISH ADMINISTRATION, THOUGH IT IS RECOGNISED THAT TO MAKE THIS ACCEPTABLE TO THE CHINESE GOVERNMENT IT WOULD HAVE TO BE COUPLED TO AN ACCEPTANCE BY BRITAIN OF CHINESE SOVEREIGNTY OVER THE WHOLE OF HONG KONG. OUR VIEW REMAINS THAT THIS IS THE ONLY WAY TO GUARANTEE CONTINUITY.

(D) IT IS CLEAR TO US THAT THIS VIEW CAUSES DIFFICULTY TO THE CHINESE GOVERNMENT. THE CHINESE SIDE HAS SUGGESTED THAT SOVEREIGNTY AND ADMINISTRATION ARE INDIVISIBPE. WE DO NOT THINK THAT THIS IS NECESSARILY SO (? QUOTE EXAMPLES) BUT WE WISH TO DISCUSS WITH THE CHINESE SIDE TWO THINGS:

(I) WHAT PRACTICAL CHANGES THEY FEEL ARE NECESSARY IN HONG KONG IN SPECIFIC AREAS EG. CURRENCY, LAWS, TRADE, SOCIAL SYSTEM AND WAY OF LIFE ETC.:

(II) HOW GUARANTEES COULD BE GIVEN FOR THE FUTURE CONTINUITY OF THOSE SYSTEMS IN HONG KONG.

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FUTURE OF HONG KONG: DRAFT PRESENTATION

1. MCLAREN'S LETTER OF 25 MARCH TO CLIFT ENCLOSED A COPY OF THE DRAFT PRESENTATION ''WHY IS CONTINUING BRITISH ADMINISTRATION NECESSARY'', PUT TO EXCO ON 23 MARCH. WE HAD CORRESPONDENCE ABOUT THIS LAST YEAR, RESTING WITH FCO TELNO 914 OF 29 OCTOBER, WHICH SET OUT YOUR THINKING ON THE BEST FORM FOR SUCH A PRESENTATION. I HAVE SEEN NO FURTHER CORRESPONDENCE ON THE MATTER TILL NOW AND I AM CONCERNED TO FIND THAT THE PAPER HAS GONE THIS FAR IN A FORM ABOUT WHICH I HAVE VERY SERIOUS RESERVATIONS.

2. I AM CONVINCED THAT, IF WE WERE TO SPEAK ON THESE LINES IN THE OPENING ROUND OF TALKS, THERE IS A SERIOUS RISK THE CHINESE WOULD BREAK OFF THE NEGOTIATIONS. I REFER IN PARTICULAR TO THE ARGUMENT IN PARARGRAPHS 6 AND 7 ABOUT THE ''VITAL IMPORTANCE'' OF THE CONSTITUTIONAL LINK WITH BRITAIN. AS EXPRESSED IN THE PAPER THIS IS OR WILL APPEAR NOT AN ADMISTRATIVE POINT BUT ONE OF SOVEREIGNTY. MOREOVER, TAKEN TOGETHER WITH THE FIRST SENTENCE OF PARAGRAPH 8 (''FOR THE FORESEEABLE FUTURE ... CONFIDENCE IS DEPENDENT ON THE PRESERVATION OF THE PRESENT ARRANGEMENTS ...'') IT WOULD GIVE THE CHINESE GROUNDS TO SAY THAT WE WERE GOING BACK ON MRS THATCHER'S MESSAGE TO ZHAO ZIYANG, IN WHICH SHE STATED IN PLAIN TERMS THAT SHE WOULD BE PREPARED TO RECOMMEND CHANGE ON THIS VERY POINT, PROVIDED OTHER ARRANGEMENTS WERE RIGHT. IF, REPEAT, IF, WE GET OUR TALKS IN THE NEAR FUTURE IT WILL BE BECAUSE OF THAT MESSAGE, AND ONLY AFTER MUCH SUCKING OF TEETH ON THE PART OF THE CHINESE, ON WHOSE SIDE THERE WILL CERTAINLY REMAIN A GOOD DEAL OF SUSPICION ABOUT BRITISH INTENTIONS AND PERHAPS DOUBT ABOUT THE WISDOM OF TALKING TO US AT ALL: IN SUCH CIRCUMSTANCES IT WOULD BE DISASTROUS TO TAKE A LINE, PARTICULARLY IN THE OPENING ROUND, WHICH MIGHT BE SEEN TO CAST DOUBT ABOUT THE SICERITY OF THE PRIME MINISTER'S MESSAGE.

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/3. I SEE

3. I SEE MERIT IN A PRESENTATION BUT ITS PURPOSE SHOULD BE, AS I SAID IN MY TELNO 699 OF 27 OCTOBER, TO STEER THE TALKS AWAY FROM CONFRONTATION ON MATTERS OF PRINCIPLE AND ON TO A CONSTRUCTIVE PLANE, IE. EXAMINATION OF THE FACTS. IT SHOULD THUS TAKE THE FORM OF A BROADBRUSH DESCRIPTION OF HOW HONG KONG WORKS AND THE ROLE OF THE BRITISH LINK AND, MOST IMPORTANT, IT SHOULD SEEK TO SHOW THAT MUCH DETAILED DISCUSSION OF THE ADMINISTRATIVE FACTS OF LIFE WAS NEEDED BEFORE THE MAIN LINES OF A SETTLEMENT COULD BE LAID DOWN. THESE GENERAL VIEWS WERE ENDORSED IN FCO TELNO 914. HOWEVER THE PAPER AS IT NOW STANDS, DESPITE SOME DRAFTING IMPROVEMENTS, STILL LIMITS ITSELF TO STRESSING THE BELIEF THAT MAJOR CHANGE AWAY FROM THE STATUS QUO WOULD DESTROY HONG KONG AND DOES LITTLE TO INDICATE HOW WE ENVISAGE OUR TALKS WITH THE CHINESE PROCEEDING. AS SUCH IT COULD NOT ACHIEVE ITS BASIC OBJECTIVE WHICH MUST BE TO PROPEL THE TALKS FORWARD.

4. IT IS TIME TO CONSIDER CAREFULLY HOW WE INTEND TO PLAY OUR HAND AT THE OPENING ROUND OF TALKS, AND HOW WE ENVISAGE THE PRESENTATION FITTING INTO THAT ROUND. I OFFER SOME VIEWS ON THIS IN MIFT, AND IN MY SECOND IFT I PROPOSE AMENDMENTS TO THE PRESENTATION ITSELF.

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TELNO 325 OF 12 APRIL
RPTD INFO IMMEDIATE HONG KONG.

HONG KONG TELNO 482: FUTURE OF HONG KONG

1. I SHOULD BE GRATEFUL TO SEE URGENTLY THE FULL TEXT OF THE PRIME MINISTER'S INTERVIEW WITH THE ASIAN WALL STREET JOURNAL. THERE IS EVERY LIKELIHOOD THAT WE SHALL BE ASKED ABOUT IT EITHER BY THE CHINESE OR BY DIPLOMATIC COLLEAGUES AND CORRESPONDENTS HERE. I SHOULD NOT LIKE TO APPEAR UNSIGHTED: I HOPE IN FUTURE I MAY BE FOREWARNED OF SUCH INTERVIEWS OR GIVEN A TELEGRAPHIC REPORT.

CRADOCK

A.S.C. 14/4.

Mr Coles The PM gave an interview on 29 March to the WSJ. HK was mentioned but was not included in the resulting article in the main US edition or the European edition. It did feature in the Asian Edition. A copy of the article is attached. It is unexceptional.
Had the interview revealed more or had been for an exclusively Chinese/HK audience Peking would certainly have been informed. As it was we only received a copy of the Asian edition today. MK 13/4

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HKGD have replied explaining the background.

Peter

With the compliments of

HONG KONG AND GENERAL DEPARTMENT

Rams. Here is the HK interview. It appeared in the Asian edition, but not in the US or European ones. (You may have to pass it to No 10) Warwick 12/4

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

NTARY
THE ASIAN WALL
Monday,

Sitting in her office in the House of Commons, British Prime Minister Margaret Thatcher last week discussed economic and other issues with Norman Pearlstine, editor and publisher of The Wall Street Journal/Europe and Alan L. Otten, European bureau chief of The Wall Street Journal. Here are excerpts from that interview.

* * *

WSJ: Since (last month's) European Community summit, there have been some very interesting developments in the foreign exchange market with regard to the pound, some questions about where interest rates are going, and at the same time, some quite cheering news from the latest British economic survey. And I thought perhaps you might give us your view of where you see the economy heading, whether you have concern about the state of the pound, whether you think intervention will have to be returning to sustain the pound or whether you are comfortable with the way things are going as they are right now.

Mrs. Thatcher: First, things didn't start at the summit. The dollar has been very strong against all European currencies for quite a time. During my period in office as prime minister, we've had two almost opposite phenomena to cope with – a very weak dollar, during which time the pound went up to $2.40 and over that, and then a very strong dollar. And I think eventually the dollar will weaken. It is strong at the moment partly because of the deficit and partly because people realize that in order to finance that deficit, they'll probably have to offer considerable interest rates to do it. And also because the money supply figures in your country have been such that people believe that with the deficit and the money supply, there is a chance of inflation rising. That tends to put up your interest rates and therefore money tends to go to the dollar.

There is always a background reason as well, why in times of uncertainty money tends to go to the dollar. That is because the United States being a free enterprise economy, a very strong powerful enterprising economy, whatever temporary problems they may have, there is an underlying strength in the American economy. There is no fear of a socialist government, and it is a politically stable country....

But it is very important for all of us to try to get and keep interest rates down. I cannot overstress that, it is so important.... If you don't keep them falling, then you shall just strangle your recovery. Your construction (firms) have got to have lower interest rates in order to give them confidence to go

[Given at the Hon
on 29/3/83.

AND ANALYSIS
STREET JOURNAL (Asia Edition – not in US or Europe
April 4, 1983

A Conversation With Margaret Thatcher

overcome any lack of running your own economy in a sound way – there's just no substitute. It's absolutely vital for us jointly to pursue policies which enable us to get and keep interest rates down and to keep inflation rates down.

WSJ: Are you thinking of any countries in particular that aren't running their economies in a sound way?

Mrs. Thatcher: We really have run our economy in a sound way. So, if I might say so, has Germany. Inflation down, public expenditure under control, the deficit reasonable, money supply reasonable.

WSJ: What about some of the other members? The United States, for example, still has very large deficits.

Mrs. Thatcher: The United States deficit causes problems – I indicated that right at the beginning. It's not for me to indicate how they should get it down. The president is the person most anxious to get it down. He says there are two ways of doing it. One is by reducing your expenditure as a propor-

on which the commercial banks will lend in addition to the IMF – that the regimes that are in difficulty should not conduct their affairs in the way that led them into difficulty, but should in fact conduct their affairs in a totally different way to restore them to solvency. And I think the IMF, the combination of that and the commercial banks, have made a very good job of it, in relation particularly to some of the Latin American countries.

You obviously have to watch very very warily indeed, and that again is why I'm anxious that one should try to do everything one can to stabilize the price of oil. We can't do it ourselves. You look at the market. Russia produced 11 million barrels of oil a day, the United States, eight million barrels, the Saudis about five and the Gulf considerably. Then I think we're about sixth –two million barrels a day. (We) can't affect the market. I'm sure that a falling oil price, as far as it has fallen, has been in the interests of the world, and

On Hong Kong's Future

WSJ: Over the last year, there has been a lot of questioning in Hong Kong about the status of negotiations with China. Is there anything you can tell us, about where the discussions with China are going, or about the future of Hong Kong?

Mrs. Thatcher: No, there is nothing further I can tell you. We had to open up the subject because the lease ends in 1997 and we were soon going to come to the time when people were going to worry about what the future was, particularly with property on the scheduled territories. We have to open up the dialogue now but there is nothing that I can tell you further than what was published in the communique at the time.

I do think that we are all very keen to keep the stability and prosperity of Hong Kong if we possibly can. That is compounded of these two remarkable things – the Chinese character and the present administration. That is where we have to start.

WSJ: Do you think the communique had a stabilizing effect?

did was to set out agreed objectives. The communique was agreed between Deng Xiaoping and myself; the statement was agreed to by the two of us after considerable discussions. The objectives still remain, and I just hope that we can reach agreement on how to do it because I believe it is in all our interests that we should. And really when you have got this remarkable thing, you would really think that both China and ourselves could reach some agreement

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of image? Does that play a role or is that overdone?

Mrs. Thatcher: I don't really think so. People have seen him on television frequently; he is a marvelous communicator, and usually manages to express himself in language which everyone understands. What happens is that the protesters get at it first and of course the protesters always get more publicity than those of us who come in to back up. I am saying every day in the House that you really ought to address your objections to the Soviet Union who won't take down the nuclear weapons, not to us – we are the genuine nuclear disarmers.

WSJ: The president last week talked about some futuristic defense against ballistic missiles. Did you have any advance word...

Mrs. Thatcher: No, it's not futuristic. It's a theory. It can be done in theory; in practice, you'll need years and years of research, and then we don't know whether it can be done.

WSJ: But I think the president himself made it sound a little more imminent than you are making it sound.

Mrs. Thatcher: Well, not really. He said, at my recollection, embarking on research to see if we can do this. Because if you can do it, there is no point in having these things. But the time scale we are talking about is 30, 40 years ahead.

WSJ: Assuming you win reelection, as the polls seem to suggest, what will be the shape of Britain after eight, nine or 10 years of Thatcher government?

Mrs. Thatcher: We will carry on in the course which we have already adopted. The fact was that in this country, we had gone very very much further toward socialism than most democratic countries in Europe – in the extent of the public sector, with the nationalized industries, and the amount of control, and to some extent in attitudes. We had to turn that back. In other words, the center is always the midway between two points, and the whole of the political debate had gone to the left, so the center had moved to the left and I think we are now well on the way to pulling it back toward the center. But one wishes to go further.

Some of the decisions we have to take about public sector industries are some which politicians ought never to have to take. You don't have to take them in your country because there aren't any big public sector monopolies, big nationalized industries. It's not a good way to run an industry. We've had to vary trade union law because there is not the slightest shred of doubt that the

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FUTURE OF HONG KONG : PRESS COVERAGE OF VISIT TO PEKING BY HONG KONG ACADEMICS.

TODAY'S PRESS HAS GIVEN WIDESPREAD AND PROMINENT COVERAGE TO THE RETURN FROM CHINA OF A GROUP OF HONG KONG ACADEMICS, WHO HAD BEEN RECEIVED TWICE BY LIAO CHENGZHI IN PEKING AS WELL AS VISITING A NUMBER OF PROVINCIAL CITIES. ONE OF THE DELEGATION MEMBERS, DR JOHN YOUNG OF THE DEPARTMENT OF EXTRA MURAL STUDIES AT HONG KONG UNIVERSITY, SPOKE TO THE PRESS. HE SAID THAT HONG KONG WOULD HAVE ITS OWN CONSTITUTION WHEN THE TERRITORY BECAME A SPECIAL ADMINISTRATIVE REGION OF CHINA AND THAT A GROUP OF LOCAL PEOPLE WOULD BE FORMED TO WORK ON THE CONSTITUTION. HONG KONG PEOPLE WOULD BE DEFINED AS THOSE WHO HAD LIVED IN HONG KONG FOR 7 YEARS OR MORE, AND WHO ACCEPTED THAT HONG KONG WAS PART OF CHINA AND THAT THE PEKING GOVERNMENT WAS THE ONLY LEGITIMATE CHINESE GOVERNMENT. DR YOUNG DID NOT REVEAL WHAT HE OR OTHER MEMBERS OF THE GROUP HAD SAID TO LIAO CHENGZHI. ACCORDING TO PRESS REPORTS, THE FIRST MEETING WAS DEVOTED TO A BRIEFING BY LIAO ON CHINA'S POSITION AND THE SECOND TO AN AIRING OF VIEWS.

2. THE TWO MAJOR COMMUNIST NEWSPAPERS DID NOT (NOT) COVER DR YOUNG'S REMARKS BUT REPORTED ONLY THAT CHINESE LEADERS HAD INDICATED TO THE DELEGATION CHINA'S DETERMINATION TO RESUME SOVEREIGNTY OVER HONG KONG NOT LATER THAN 1997. A COMMENTARY IN THE TA KUNG PAO ON 12 APRIL SAID THAT THE REMARKS MADE TO THE DELEGATION REFLECTED CHINA'S LONG ESTABLISHED POLICY. CHINA HAD ALWAYS SAID THAT THE HONG KONG ISSUE WOULD BE SETTLED WHEN THE TIME WAS RIPE. THE FACT THAT CHINA WAS NOW PREPARING A CONSTITUTION FOR HONG KONG AND PROVIDING FOR THE SETTING UP OF SAR'S DEMONSTRATED THAT THE TIME WAS NOW RIPE.

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/ 3. THE PRO-CHINA

3. THE PRO-CHINA TIN TIN DAILY NEWS IN AN EDITORIAL ON 12 APRIL SUGGESTED THAT LIAO'S REMARKS TO THE ACADEMICS' DELEGATION SHOWED THAT CHINA WAS MORE DETERMINED THAN EVER TO TAKE OVER HONG KONG. THE SINO/BRITISH TALKS ON HONG KONG'S FUTURE WOULD REMAIN DEADLOCKED IF LONDON REFUSED TO DISCUSS THE SOVEREIGNTY ISSUE. THE BRITISH SHOULD NOW GIVE WAY ON SOVEREIGNTY IN ORDER TO PROMOTE THEIR POLITICAL AND ECONOMIC RELATIONS WITH CHINA.

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AJC (or)

Mr Coles, Press Office No 10.

Herewith copies of telegrams in the 'Future of Hong Kong' series which you have not already received. Your name has now been restored to the distribution list. Pl accept FCO apologies for the lapse.

Christopher
COD WH101.

CODE
18-78
SS 11/78

GR 220

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FM HONG KONG 090440Z APR 83
TO PRIORITY FCO
TELEGRAM NUMBER 482 OF 9 APRIL
INFO PRIORITY PEKING

A.S.C. 11/4
h.a.

MIPT: FUTURE OF HONG KONG: CHINESE PRESS COMMENT.

1. THE COMMUNIST NEW EVENING POST CARRIED AN EDITORIAL ON 7 APRIL COMMENTING ON AN INTERVIEW WITH THE PRIME MINISTER IN THE ASIAN WALL STREET JOURNAL ON 4 APRIL. THE EDITORIAL SAID THAT THE INTERVIEW WAS SIGNIFICANT FOR WHAT THE PRIME MINISTER HAD NOT SAID. SHE HAD NOT REFERRED TO THE VALIDITY OF THE TREATIES, WHICH COULD BE SAID TO BE AN ENCOURAGING STEP FORWARD. BUT HER UNDERSTANDING WAS STILL IMPERFECT BECAUSE SHE HAD SAID THAT THE REASON FOR NEGOTIATING WAS THE EXPIRY OF THE LEASE IN 1997: THE TRUE REASON FOR NEGOTIATING WAS THAT SOVEREIGNTY OVER THE WHOLE OF HONG KONG BELONGED TO CHINA AND IT WAS THEREFORE NECESSARY TO EXAMINE WAYS OF ENDING BRITISH RULE WHILST MAINTAINING STABILITY AND PROSPERITY. THE PRIME MINISTER'S REFERENCE TO HONG KONG'S CHINESE CHARACTER AND PRESENT ADMINISTRATION AS THE STARTING POINT FOR THE DISCUSSIONS WAS DESCRIBED AS AMBIGUOUS. HONG KONG'S CHINESE CHARACTER WAS DUE TO THE FACT THAT IT WAS AN INALIENABLE PART OF CHINESE TERRITORY AND A SOCIETY OF CHINESE PEOPLE. ITS GROWTH AS A TRADING PORT AND FINANCIAL CENTRE WERE DEPENDENT ON CHINA. DISCUSSION OF STABILITY AND PROSPERITY COULD ONLY BE ON THE PREMISE THAT CHINA'S SOVEREIGNTY WAS RECOGNIZED. AS FOR ADMINISTRATION, IF THE PRIME MINISTER'S REMARKS MEANT PRESERVING THE GENERAL LEGAL AND ORGANISATIONAL CHARACTERISTICS OF THE PRESENT ADMINISTRATION, THIS WAS ACCEPTABLE. IF THEY MEANT THE PRESERVATION OF BRITISH CONTROL, THIS COULD NOT BE TOLERATED. THE PRIME MINISTER SHOULD LIVE UP TO THE CHINESE NAME WHICH HONG KONG PEOPLE HAD GIVEN HER (WHICH MEANS ''OUTSTANDING'') AND PUT AN END TO THE LAST REMAINING PROBLEM OF BRITISH COLONIAL RULE IN ASIA.

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FUTURE OF HONG KONG

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47

FM HONG KONG 281025Z APR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 478 OF 8 APRIL
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

FUTURE OF HONG KONG: POSSIBLE VISIT TO LONDON BY EXCO UNOFFICIALS.

1. IT WAS AGREED AT THE PRIME MINISTER'S MEETING ON 9 MARCH THAT IT WOULD BE USEFUL IF I WERE TO TAKE A GROUP OF UNOFFICIALS TO LONDON AGAIN BEFORE TOO LONG. THE PRIME MINISTER SAW SIR S.Y. CHUNG WHEN HE VISITED LONDON PRIVATELY IN DECEMBER, AND SHE AND LORD BELSTEAD BOTH HAD MEETING WITH UMELCO DURING THEIR VISITS HERE. BUT IT IS NOW SEVEN MONTHS SINCE THE LAST VISIT BY UNOFFICIALS SPECIFICALLY TO DISCUSS THE FUTURE, AND IT IS PRESENTATIONALLY IMPORTANT FOR EXCO TO BE SEEN TO MAINTAIN REGULAR CONTACT WITH MINISTERS. FROM THE SUBSTANTIVE POINT OF VIEW SUCH A VISIT WOULD BE VALUABLE WHATEVER THE CHINESE RESPONSE TO THE PRIME MINISTER'S MESSAGE: WHETHER IT IS POSITIVE OR NEGATIVE MINISTERS WILL PRESUMABLY WISH TO HAVE UNOFFICIALS' VIEWS ON THE WAY FORWARD, AND THEY WILL CERTAINLY EXPECT TO BE CONSULTED.

2. ON THIS OCCASION I WOULD PROPOSE TO INVITE ALL (ALL) EXCO UNOFFICIALS TO ACCOMPANY ME. IT WOULD BE INVIDIOUS TO CHOOSE AMONG THEM, AND IT WOULD PROBABLY BE UNACCEPTABLE TO THE UNOFFICIALS THEMSELVES TO ATTEMPT TO DO SO. AT THE SAME TIME, I AM SURE THAT UMELCO AS A WHOLE WOULD UNDERSTAND THAT FRANK DISCUSSION WOULD BE INHIBITED IF NON-EXCO MEMBERS WERE TO BE INVOLVED.

3. THE TIMING OF SUCH A VISIT WOULD DEPEND ON A NUMBER OF FACTORS, NOT LEAST THE PRIME MINISTER'S PROGRAMME. IT SHOULD CLEARLY TAKE PLACE AFTER THE CHINESE HAVE REPLIED TO THE PRIME MINISTER'S MESSAGE TO ZHAO SO THAT DISCUSSIONS WITH MINISTERS COULD BE HELD IN THE LIGHT OF THE REPLY. ON THE OTHER HAND, THE VISIT SHOULD NOT BE DELAYED FOR TOO LONG, GIVEN THE RISK OF A CHINESE ANNOUNCEMENT OF THEIR PLAN AT THE NPC, WHICH SOME REPORTS SUGGEST COULD BE HELD EARLY IN JUNE. THESE CONSIDERATIONS SUGGEST THAT WE SHOULD BE THINKING IN TERMS OF AROUND THE MIDDLE OF MAY.

4. UNLESS YOU SEE OBJECTION, I PROPOSE TO TELL EXCO AT THEIR MEETING ON 13 APRIL THAT I AM IN TOUCH WITH THOSE CONCERNED ABOUT THE POSSIBILITY OF TAKING UNOFFICIALS TO LONDON AT SOME POINT IN THE NEXT MONTH OR SO, AND THAT THIS IDEA HAS BEEN WELCOMED BY MINISTERS IN PRINCIPLE. I WOULD NOT NEED TO SAY ANYTHING MORE SPECIFIC ABOUT DATES AT THIS STAGE.

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FUTURE OF HONG KONG

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Mr Coles No 10.

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PRIME MINISTER

HONG KONG

Lord Carrington rang this afternoon to say that Henry Kissinger, who has recently been in Peking, had telephoned. He had had to speak rather guardedly but said that "what China was doing internally" entailed an independent Hong Kong. He had been told by the Chinese that existing legal systems could continue, provided there was no mention of The Queen, and provided that we did not make this an overt condition of transfer of sovereignty.

Kissinger said that the Chinese were "eager to settle" the Hong Kong issue.

I am afraid that the above is not very clear but I report the message as it was given to me.

A.J.C.

6 April 1983

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GR 100

SECRET
FM HONG KONG 081025Z APR 83
TO PRIORITY FCO
TELEGRAM NUMBER 480 OF 8 APRIL
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

YOUR TELNO 323: FUTURE OF HONG KONG: VISIT BY THE RT HON EDWARD HEATH MP.

1. I AGREE WITH THE VIEWS EXPRESSED BY THE AMBASSADOR IN HIS TELNO 312. GIVEN THE ACCESS WHICH THE CHINESE LEADERS HAVE ACCORDED TO MR HEATH ON HIS VISITS TO PEKING (AS I RECALL, HE HAS ALWAYS BEEN SEEN BY DENG XIAOPING AND ALSO WAW MAO WHEN MAO WAS ALIVE), THEY WILL UNDOUBTEDLY ATTACH MUCH WEIGHT TO WHAT HE SAYS AND THEY WILL PROBABLY SPEAK FULLY AND FRANKLY TO HIM.

2. AS REGARDS HIS VISIT TO HONG KONG IF MR HEATH WERE TO SPEAK HERE, EVEN PRIVATELY, OTHER THAN IN SUPPORT OF OUR POSITION IT WOULD CAUSE DISMAY AND CONFUSION, PARTICULARLY AMONG UNOFFICIALS. THIS ADDS TO THE ARGUMENTS IN FAVOUR OF MR HEATH BEING GIVEN A DETAILED BRIEFING.

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Mr Coles, No 10.

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MR COLES No 10.

45

SECRET

GR 170
SECRET
FM PEKING 070813Z APR 83
TO PRIORITY FCO
TELNO 312 OF 7 APRIL
RPTD INFO PRIORITY HONG KONG.

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YOUR TELNO 323: FUTURE OF HONG KONG: VISIT BY MR HEATH

1. I AGREE THAT THERE IS NO SENSE IN DECIDING NOW PRECISELY WHAT WE WOULD ASK MR HEATH TO SAY, SINCE IT WILL DEPEND ENTIRELY ON WHAT REPLY IS RECEIVED TO THE PRIME MINISTER'S MESSAGE. BUT WHATEVER THE SITUATION IN MAY, HIS VISIT IS BOUND TO HAVE A VERY IMPORTANT HONG KONG DIMENSION. HE WILL ALMOST CERTAINLY SEE THE TOP LEADERS, PROBABLY INCLUDING DENG, AND THIS IS LIKELY TO PROVIDE US WITH OUR ONLY ACCESS AT THIS LEVEL IN THE NEAR FUTURE. WE SHOULD MISS AN INVALUABLE UPPORTUNITY IF WE DID NOT MAKE FULL USE OF THE OCCASION TO DISCUSS HONG KONG. MOREOVER, THE CHINESE PROBABLY BELIEVE THAT MR HEATH IS FULLY IN TOUCH WITH THE SITUATION, AND IT WOULD BE PRSITIVELY DAMAGING IF HE FAILED TO SPEAK IN THE RIGHT WAY. THE CHINESE WILL CERTAINLY RAISE HONG KONG, AS THEY DID IN 1982. CONSEQUENTLY, MY PRELIMINARY VIEW IS THAT MR HEATH MUST BE GIVEN A PRETTY DETAILED BRIEFING.

CRADOCK

FUTURE OF HONG KONG

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THIS TELEGRAM WAS NOT ADVANCED-

SECRET

VC

5 April 1983

Future of Hong Kong: Views of Singapore Prime Minister

Thank you for your letter of 30 March reporting Mr. Lee Kuan Yew's views, as recently conveyed to the Governor of Hong Kong, on the future of the territory. The Prime Minister read this with interest.

AJC

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

SECRET

10 DOWNING STREET

From the Private Secretary

6 April 1983

Future of Hong Kong: Contingency planning for an announcement by the Chinese in June of their proposals for Hong Kong

The Prime Minister was grateful for your letter of 5 April with which you enclosed a contingency paper covering the action which we might take if the Chinese announced their "plan" for Hong Kong in June. She has commented that this paper is a useful beginning. When more is known of likely Chinese intentions, the Prime Minister will wish to consider the paper jointly with some of her Ministerial colleagues.

I note that you now propose to send the paper to the Governor of Hong Kong and the Ambassador in Peking and also that the Governor may discuss with his Executive Council the general question of a Chinese statement and our possible response, but without putting a precise text to them.

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

SECRET

44C

S E C R E T

PP HONG KONG

GRS 1745
SECRET
FM FCO 061600Z APR 83
TO PRIORITY HONG KONG
TELEGRAM NUMBER 331 OF 6 APRIL 1983,
AND TO PEKING (PERSONAL FOR AMBASSADOR).
FUTURE OF HONG KONG : CONTINGENCY PLANNING FOR AN ANNOUNCEMENT BY THE CHINESE IN JUNE ON THEIR PROPOSALS FOR HONG KONG: SEE MIPT.
TEXT OF PAPER AND ANNEX ARE AS FOLLOWS:
''1. WE CAN ONLY SPECULATE AS TO THE LIKELY NATURE OF SUCH AN ANNOUNCEMENT. THE CHINESE GOVERNMENT MIGHT REVEAL THEIR INTENTIONS PIECEMEAL

OVER THE PERIOD OF THE 6TH NATIONAL PEOPLE'S CONGRESS WHICH IS EXPECTED TO MEET IN MAY OR JUNE. THIS COULD ARISE IN THE CONTEXT OF THE APPLICATION OF ARTICLE 31 OF THE CONSTITUTION. A FORMAL STATEMENT RROM THE MINISTRY OF FOREIGN AFFAIRS SHOULD NOT BE EXCLUDED, BUT IS LESS LIKELY.
ELEMENTS OF CHINESE ANNOUNCEMENT
2. ON THE ASSUMPTION THAT THE ANNOUNCEMENT TAKES AN OFFICIAL AND PUBLIC FORM, IE CLEARLY REPRESENTS THE CHINESE GOVERNMENT'S OFFICIAL POSITION, IT COULD CONTAIN ANY OR ALL OF THE FOLLOWING ELEMENTS:
(A) AN ACCOUNT OF THE POSITION TAKEN BY THE CHINESE SINCE THE TALKS FIRST BEGAN, (IE GOING BACK TO 1979) AND IN PARTICULAR IN THE TALKS WITH THE PRIME MINISTER AND THE AMBASSADOR SEMI COLON THIS MIGHT INCLUDE:
(B) A STATEMENT THAT NO PROGRESS HAD BEEN MADE IN THE TALKS SO FAR, OR THAT THERE HAD BEEN NO SUBSTANTIVE TALKS BECAUSE OF BRITISH INTRANSIGENCE.
(C) A SUMMARY, WITH MORE OR LESS DETAIL, OF THE CHINESE PLAN FOR HONG KONG AFTER 1997.
(D) A STATEMENT THAT THE CHINESE POSITION ON SOVEREIGNTY IS FIXED AND IRREVOCABLE AND THAT TALKS CAN ONLY BE HELD ON THE

S E C R E T

PREMISE THAT SOVEREIGNTY OVER THE WHOLE OF HONG KONG IS ACKNOWLEDGED TO BE CHINESE.

(E) A STATEMENT THAT CHINA WILL NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF NOR PLACE HONG KONG UNDER THE TRUSTEESHIP OF OTHERS.

(F) A STATEMENT THAT IF THERE IS UNREST IN HONG KONG THE CHINESE TIMETABLE FOR RECOVERY OF SOVEREIGNTY MIGHT BE ADVANCED.

POSSIBLE DETAILS OF CHINESE PLAN

3. DESPITE UNCERTAINTY, WE NEED TO PREPARE FOR A FAIRLY DETAILED EXPOSITION OF THE CHINESE PLAN.

IT IS POSSIBLE TO SURMISE AN OUTLINE AS FOLLOWS:

(I) RESUMPTION OF CHINESE SOVEREIGNTY OVER THE WHOLE OF HONG KONG BY L997 AT THE LATEST.

(II) ABSORPTION OF HONG KONG AS A SPECIAL ADMINISTRATIVE REGION OF THE PEOPLES REPUBLIC OF CHINA UNDER THE PROVISIONS OF ARTICLE 3L OF THE CONSTITUTION.

(III) THE CHINESE FLAG TO FLY OVER HONG KONG.

(IV) THE GOVERNOR TO BE A LOCAL HONG KONG PERSON AND THE TERRITORY TO BE ADMINISTERED BY HONG KONG PEOPLE.

(V) THE PRESENT SYSTEM OF LAW TO CONTINUE BUT WITH LINKS TO THE UK, SUCH AS APPEALS TO THE PRIVY COUNCIL, ENDED, (THERE MIGHT BE SOME REFERENCE TO MINOR AMENDMENTS TO THE LAWS AND PROHIBITION ON ANY ENACTMENT HOSTILE TO THE PRC).

(VI) CONTINUATION OF THE CURRENT CAPITALIST ECONOMIC SYSTEM:

(VII) PRC RESPONSIBLE FOR EXTERNAL RELATIONS BUT PROVISION FOR HONG KONG TO MAINTAIN OVERSEAS COMMERCIAL REPRESENTATION AND MEMBERSHIP OF INTERNATIONAL ECONOMIC ORGANISATIONS.

(VIII) BRITISH PERSONNEL TO REMAIN FOR THE TIME BEING IN SOME SENIOR CIVIL SERVICE POSTS SEMI COLON THERE MIGHT BE A REFERENCE TO A BRITISH 'DEPUTY GOVERNOR' SEMI COLON BUT IT WOULD PROBABLY BE SPECIFICED THAT NO BRITISH PERSONNEL WOULD BE APPOINTD BY LONDON OR BE MEMBERS OF THE BRITISH GOVERNMENT SERVICE.

POSSIBLE RESPONSE BY HMG

4. IN ALL THE POSSIBLE RESPONSES, WE SHOULD AIM TO SUGGEST THAT WE FAVOUR COOPERATION WITH CHINA FOR HONG KONG'S BENEFIT, RATHER THAN CONFRONTATION. TAKING THE POSSIBLE ELEMENTS IN THE CHINESE

ANNOUNCEMENT, 2(A) AND (B) NEED TO BE TAKEN TOGETHER, BEING VARIATIONS IN DERREE ON THE SAME PROBLEM. WE SHOULD CERTAINLY NEED TO COMMENT, PREFACING WHATEVER WE SAID WITH A FIRM STATEMENT OF OUR VIEW THAT THE CONTENT OF THE DIPLOMATIC EXCHANGES SHOULD REMAIN CONIIDENTIAL. WE SHOULD HHEN PROBABLY NEED TO EXPRESS REGRET THAT THE CHINESE HAD TAKEN UNILATERAL ACTION OF THIS KIND OUTSIDE THE TALKS. WE SHOULD MAKE IT CLEAR THAT ALTHOUGH WE WERE READY AND WILLING TO ENGAGE IN SUBSTANTIVE TALKS ON THE BASIS AGREED BY THE PRIME MINISTER NND DENG XIAOPING, WE WERE NOT ABLE TO ACCEPT A PRECONDITION WHICH WAS NOT IN THE AGREED STATEMENT AND WHICH APPEARED TO PREJUDGE THE OUTCOME OF THE TALKS. WE SHOULD PROBABLY ALSO MAKE CLEAR THAT THE PRIME MINISTER HAD MADE EVERY EFFORT TO SHOW FLEXIBILITY WITHIN THAT CONSTRAINT.

5. ON 2(C) WE SHOULD NEED TO CONSIDER WHETHER TO OFFER ANY COMMENT ON THE CHINESE PLAN. ANY SUCH COMMENT WOULD NEED TO BE VERY CAREFULLY DRAFTED TO AVOID THE RISKS OF EITHER GIVING THE IMPRESSION THAT THE CHINESE PLAN COULD BE ACCEPTABLE IN CERTAIN CIRCUMSTANCES OR DISMISSING IT AS TOTALLY UNACCEPTABLE. WE COULD PERHAPS DESCRIBE IT AS INSUFFICIENT OR INADEQUATE, AND POINT TO THE ABSENCE OF GUARANTEES OF CONTINUITY AS A FUNDAMENTAL DEFECT. WE SHOULD STRESS THE IMPORTANCE WE STILL ATTACHED TO TALKS, BUT WE SHOULD NEED TO HAVE SOMETHING TO SAY OURSELVES ABOUT FUTURE ARRANGEMENTS, AND TO COMMENT ON THE CHINESE INSISTENCE ON SOVEREIGTTY. WE SHOULD EMPHASISE THE IMPORTANCE OF A SOLUTION WHICH WAS ACCEPTABLE TO THE PEOPLE OF HONG KONG.

6. 2(D) WOULD BRING US UP AGAINST THE SOVEREIGNTY POINT MORE IMMEDIATELY. WE COULD SAY THAT THE QUESTION OF THE FUTURE CAN ONLY BE RESOLVED BY AGREEMENT BETWEEN THE TWO GOVERNMENTS AND THAT IT IS INCONCEIVABLE THAT AGREEMENT WILL NOT EVENTUALLY BE REACHED WHEN A SETTLEMENT IS SO VERY MUCH IN THE INTERESTS OF ALL CONCERNED. HOWEVER, WE SHOULD NEED TO MAKE CLEAR OUR POSITION ON THE SUPREMACY OF PARLIAMENT. WE COULD ADD A REFERENCE TO HMG'S WILLINGNESS TO BE FLEXIBLE IN WORKING FOR A SOLUTION WHICH COULD BE RECOMMENDED TO PARLIAMENT.

7. 2(E) SHOULD BE MET BY ARGUMENTS IN FAVOUR OF THE PRESENT SYSTEMOF ADMINISTRATION. 2(F) SHOULD BE COUNTERED BY EXPRESSING

CONFIDENCE THAT THE HONG KONG ADMINISTRATION CAN BE MAINTAINED AND REGRET THAT THE CHINESE SHOULD PUT THAT AT RISK.

8. FOR ILLUSTRATIVE PURPOSES, ANNEX A CONTAINS THE DRAFT OF A POSSIBLE STATEMENT TO MEET A COMBINATION OF ALL THE POSSIBLE ELEMENTS IN A CHINESE ANNOUNCEMENT, INCLUDING A FAIRLY DETAILED OUTLINE PLAN. THIS IS BASED ON HMG'S PRESENT STRATEGY. IT WOULD NEED REVISION TO TAKE ACCOUNT OF ANY CHANGES IN OUR OWN POSITION.

POSSIBLE FORM OF A RESPONSE BY HMG

9. APART FROM THE CONTENT, WE SHOULD ALSO NEED TO CONSIDER WHAT FORM OUR RESPONSE MIGHT TAKE. AN INSPIRED PQ OR STATEMENT IN THE HOUSE MIGHT BE APPROPRIATE. ON THE OTHER HAND, DEPENDING ON THE NATURE OF THE CHINESE ANNOUNCEMENT, A FORMAL RESPONSE FROM THE AMBASSADOR TO THE CHINESE FOREIGN MINISTRY, A STATEMENT ISSUED BY THE FOREIGN AND COMMONWEALTH OFFICE, A HIGH LEVEL VISIT ORMESSAGE, CALLING ON THE CHINESE AMBASSADOR, OR PERHAPS A COMBINATION OF THEE, ONE FOR PUBLIC CONSUMPTION AND ONE FOR USE THROUGH CONFIDENTIAL CHANNELS, COULD BE CONSIDERED.

LINE FOR USE WITH MPS AND THE PRESS

10. WE SHOULD ALSO NEED TO HAVE A COMMON PRESS LINE FOR USE IN LONDON, PEKING AND HONG KONG, TO BE PREPARED FOR SOME PARLIAMENTARY PRESSURE, AND TO CONSIDER SPECIAL BACKGROUND BRIEFING FOR SELECTED MPS AND JOURNALISTS. THIS WOULD BE BASED ON THE DRAFT AT ANNEX A WITH APPROPRIATE EXPANSION DEPENDING ON THE AUDIENCE.

CONFIDENCE IN HONG KONG

11. THERE WOULD ALMOST CERTAINLY BE DAMAGE TO CONFIDENCE INHONG KONG, VARYING IN DEGREE ACCORDING TO THE NATURE OF ANY ANNOUNCEMENT. HONG KONG ARE WORKING ON CONTINGENY PLANS COVERING ANNUMBER OF AREAS, IN CONSULTATION WITH THE FCO.

REVIEW

12. VERY CAREFUL MONITORING OF CHINESE INTENTIONS WILL BE NEEEED IN ORDER TO KEEP TEE RESPONSE UNDER CONSTANT REVIEW.

ANNEX A

POSSIBLE STATEMENT IN REPLY TO A CHINESE ANNOUNCEMENT OF THEIR PLAN.

HMG HAVE NOTED THE STATEMENT OF SQUARE BRACKETS BEGIN DETAILS/ DATE SQUARE BRACKETS END BY THE CHINESE GOVERNMENT ON THE FUTURE OF HONG KONG. THE BRITISH GOVERNMENT'S POSITION ON THIS QUESTION IS BASED ON THE AGREEMENT REACHED IN SEPTEMBER 1982 IN PEKING BETWEEN THE PRIME MINISTER AND CHINESE LEADERS TO ESTABLISH TALKS THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG. MEETINGS HAVE BEEN TAKING PLACE SINCE OCTOBER SQUARE BRACKETS BEGIN AND ARE CONTINUING SQUARE BRACKETS END. IT IS HMG'S VIEW THAT DECISIONS ON HONG KONG CAN ONLY EFFECTIVELY BE TAKEN AFTER THOROUGH DISCUSSION. IT IS THEIR INTENTION THEM AND THEY DO NOT REGARD ANYTHING SAID OUTSIDE THEM AS BINDING ON HMG.

IT IS THUS NOT THE INTENTION OF HMG TO COMMENT IN PUBLIC AND IN DETAIL ON THE SQUARE BRACKETS BEGIN PROPOSALS/PLAN SQUARE BRACKETS END OUTLINED BY THE GOVERNMENT OF THE PRC. HOWEVER, IT IS IMPORTANT TO MAKE CLEAR THAT SQUARE BRACKETS BEGIN THEY/IT SQUARE BRACKETS END APPEAR(S) TO LACK A NUMBER OF ELEMENTS WHICH WOULD BE ESSENTIAL FOR THE CONFIDENCE WHICH IS THE BASIS OF FURTHER STABILITY AND PROSPERITY. IT RELIES ON ASSURANCES BY THE CHINESE GOVERNMENT THAT THE AUTONOMY OF HONG KONG WOULD BE RESPECTED BUT GIVES NO DETAILS GUARANTEES TO UNDERPIN THOSE ASSURANCES. IN THE VIEW OF HMG THE PRESENT SYSTEM OF ADMINISTRATION PROVIDES THE BEST GUARANTEES. FURTHER ARRANGEMENTS SHOULD CONTAIN DEFINED PROVISIONS FOR CONTINUITY BASED ON MORE THAN UNILATERAL ASSURANCES.

SQUARE BRACKETS BEGIN IF THE CHINESE STATEMENT SUGGESTS THAT HMG ARE RESPONSIBLE FOR DEADLOCK IN THE TALKS SQUARE BRACKETS END. HMG HAVE MADE AND WILL CONTINUE TO MAKE EVERY ENDEAVOUR TO REACH A SUCCESSFUL CONCLUSION TO THE TALKS.

WE HAVE APPROACHED THEM WITH THE UTMOST FLEXIBILITY CONSISTENT WITH OUR OBLIGATION TO HONG KONG AND THE CONSTITUTIONAL RESPONSIBILITIES OF THE BRITISH PARLIAMENT. THERE HAS BEEN NO QUESTION OF OUR ADOPTING A DOGMATIC APPROACH TO THE CONSTITUTIONAL STATUS OF HONG KONG. WE UNDERSTAND THE CHINESE POSITION ON TEE QUESTION OF SOVEREIGNTY. WE TAKE A DIFFERENT VIEW, AND HAVE MADE CLEAR THAT IT IS FOR PARLIAMENT ALONE TO

DECIDE THE QUESTION. HOWEVER, WE HAVE ALSO STRESSED THAT WE WOULD NOT EXCLUDE ANY SETTLEMENT WHICH WAS ACCEPTABLE TO PARLIAMENT AND TO THE PEPPLE OF HONG KONG AS WELL AS TO THE CHINESE GOVERNMENT.

(IN RESPONSE TO A STATEMENT ABOUT A TAKE-OVER BEFORE 1997)

HONG KONG HAS AN IMPRESSIVE RECORD OF STABILITY AND ECONOMIC PROGRESS IN THE EAST ASIAN REGION. IT IS IMPORTANT FOR ALL IN THE AREA, BUT ABOVE ALL FOR THE PEOPLE OF HONG KONG, THAT THAT STABILITY SHOULD NOT BE DAMAGED BY HASTY ACTION, OR BY STATEMENTS WHICH MIGHT DAMAGE CONFIDENCE IN THE TERRITORY. HMG WILL CONTINUE TO DISCHARGE THEIR RESPONSIBILITIES FOR THE TERRITORY. THEY LOOK FORWARD TO CONTINUING COOPERATION WITH THE CHINESE GOVERNMENT IN SEEKING A SETTLEMENT WHICH WILL MEET THE INTERESTS OF THE BRITISH AND CHINESE GOVERNMENTS AND THE PEOPLE OF HONG KONG''.

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FUTURE OF HONG KONG

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GRS 166
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FM FCO 061700Z APR 83
TO PRIORITY HONG KONG
TELEGRAM NUMBER 330 OF 6 APRIL 1983,
AND TO PRIORITY PEKING (PERSONAL FOR AMBASSADOR).
FUTURE OF HONG KONG : CONTINGENCY PLANNING FOR AN ANNOUNCEMENT BY THE CHINESE IN JUNE ON THEIR PROPOSALS FOR HONG KONG

1. MIFT CONTAINS THE TEXT OF A PAPER AND ANNEX WHICH WE HAVE SENT TO NO 10 IN RESPONSE TO THE PRIME MINISTER'S REQUEST AT THE MEETING ON 7 MARCH. THE PAPER TAKES ACCOUNT OF POINTS MADE BY YOU EARLIER.

2. WE HAVE MADE CLEAR THAT GIVEN VARIOUS UNKNOWN FACTORS AND POSSIBLE DEVELOPMENTS OVER THE NEXT COUPLE OF MONTHS, THE PAPER CAN AT THIS STAGE BE ONLY VERY SPECULATIVE. IT WILL HAVE TO BE REFINED, UPDATED AND POSSIBLY RADICALLY ALTERED AS CHINESE INTENTIONS BECOME CLEARER. MEANWHILE WE SHOULD BE GRATEFUL FOR YOUR COMMENTS ON THE PRESENT VERSION.

3. THE PRIME MINISTER HAS AGREED TO THE GOVERNOR NOW DISCUSSING WITH EXCO THE GENERAL QUESTION OF A CHINESE STATEMENT AND OUR POSSIBLE RESPONSE, THOUGH WITHOUT PUTTING ANY PRECISE TEXT TO THEM AT THIS STAGE.

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FUTURE OF HONG KONG

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GRS 200

SECRET
FM FCO 061029Z APR 83
TO PRIORITY HONG KONG
TELEGRAM NUMBER 323 OF 6 APRIL
AND TO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)
FCO TELNO 195 TO PEKING: FUTURE OF HONG KONG: VISIT BY RT HON EDWARD HEATH MP

1. THIS VISIT, WHICH WILL NO DOUBT INCLUDE MEETINGS WITH DENG AND/OR ZHAO, IS LIKELY TO COME AT AN INTERESTING TIME. NO 10'S INITIAL VIEW IS THAT, WHILE OBVIOUSLY MUCH WILL DEPEND ON THE SITUATION AT THE TIME, WE SHOULD PROVIDE MR HEATH WITH GENERAL GUIDANCE BEFORE HIS DEPARTURE BUT NOT GIVE HIM A DETAILED ACCOUNT OF THE NEGOTIATIONS.

2. WE SHALL HAVE TO SUBMIT DETAILED ADVICE BY MID-MAY AT THE LATEST, IN THE LIGHT OF DEVELOPMENTS AND THE LIKELY CHINESE ATTITUDE TO THE VISIT. WE CAN EXPECT THEM TO ATTACH IMPORTANCE TO IT. THEY MAY WELL SEE MR HEATH AS A POTENTIAL CHANNEL AND TRY TO PASS A MESSAGE AS THEY DID IN APRIL 1982. WE SHALL SEEK YOUR VIEWS NEARER THE TIME. BUT YOUR PRELIMINARY THOUGHTS WOULD BE WELCOME NOW.

3. AS REPORTED IN MISS MARLES' TELELETTER OF 29 MARCH TO HIGGINSON, MR HEATH ALSO INTENDS TO VISIT HONG KONG. THE DATES GIVEN THERE FOR HONG KONG (27 TO 30 MAY) MAY BE ALTERED IF THE CHINA VISIT IS BROUGHT FORWARD AS MENTIONED IN TUR.

PYM

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

COPIES TO:

SIR I SINCLAIR LEGAL ADVISER
MR BURROWS LEGAL ADVISER
MR ROBERTS NEWS DEPT
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE
MR FLOWER PUSD

SECRET

Mr Coles, No 10 DS.

GR 210

RESTRICTED

RESTRICTED

FM PEKING 050805Z APR 83

TO ROUTINE FCO

TELNO 303 OF 5 APRIL

RPTD INFO HONG KONG.

FUTURE OF HONG KONG: TUC DELEGATION

1. WHEN I ACCOMPANIED THE DELEGATION TO SEE VICE PREMIER WAN LI ON 30 MARCH, LEN MURRAY TOLD ME THAT ASSISTANT FOREIGN MINISTER ZHOU NAN HAD TREATED THEM TO A HARANGUE ON HONG KONG WHEN THEY HAD CALLED ON THE MFA ON 29 MARCH. ZHOU HAD ASKED HOW MURRARY SAW THE SITUATION.

2. MURRAY SAID HE HAD TOLD ZHOU THAT HE WAS AWARE THAT DELICATE NEGOTIATIONS WERE GOING ON AND HE DID NOT WISH TO BE DRAWN ON THE QUESTION, BUT HE THOUGHT IT COULD BE SETTLED AMICABLY BY THEY TWO SIDES: THERE WAS TIME ENOUGH TO REACH A SETTLEMENT. HE WAS PLEASED THAT THE CHINESE HAD STRESSED THE NEED TO MAINTAIN PROSPERITY. AS TRADE UNIONISTS, HIS DELEGATION WERE INTERESTED IN THE WELFARE OF THE HONG KONG WORKERS.

3. I HAD NO OPPORTUNITY TO HEAR FROM MURRAY EXACTLY WHAT ZHOU HAD SAID TO HIM ABOUT HONG KONG. PERHAPS SOMEONE COULD SPEAK TO MICHAEL WALSH, THE DELEGATION SECRETARY (WHO TOOK A RECORD) WHEN THEY RETURN TO LONDON.

4. WE MUST EXPECT ALL BRITISH VISITORS CALLING ON THE MFA TO RECEIVE A LECTURE ON HONG KONG IN PRESENT CIRCUMSTANCES.

CRADOCK

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

COPIES TO

SIR IAN SINCLAIR
MR BURROWS } LEGAL ADVISERS
MR ROBERTS NEWS D

MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE
MR FLOWER, PUSD

THIS TELEGRAM WAS NOT ADVANCED

RESTRICTED

Mr Coles, No 10.

43

Prime Minister.

You will wish to know that this contingency planning is in hand

A.S.C. 5/4

Foreign and Commonwealth Office

London SW1A 2AH

5 April 1983

A useful beginning

When we know more we shall need to consider joining up

Dear John,

Future of Hong Kong: Contingency Planning for an Announcement By the Chinese in June of their Proposals for Hong Kong

In your letter of 7 March you said that the Prime Minister had asked for a contingency paper covering the action we might take if the Chinese announced their 'plan' for Hong Kong in June.

It is obviously very difficult to prepare such a paper without knowing for certain that the Chinese will make any statement in June, or what it might contain. Our judgement is that the Chinese are on the whole more likely to continue to let their plans for the future of Hong Kong dribble out bit by bit than to go for a one-off announcement of a firm and coherent plan. We may get a clearer indication of Chinese intentions during the next two months or so. Furthermore, President Zhao's reply to the Prime Minister's personal message and possible further meetings between the Ambassador and Vice Foreign Minister Yao may give us a clearer picture of the way things are going and what the Chinese have in mind.

Mr Pym entirely agrees, nevertheless, that we must not be caught out by any statement that the Chinese might make. We have therefore prepared the attached paper. You will see that this includes, mainly for illustrative purposes, an outline of the possible content of a Chinese plan for the future of Hong Kong, and a first shot at the sort of things we might say in response to it, either in Parliament or to the press or possibly in a statement by the Governor. Inevitably this is all very speculative. It is not possible to be more precise in the circumstances. The exercise may turn out to be of limited value, but Mr Pym hopes the Prime Minister will find it helpful. The paper and the draft British statement will of course need to be refined, up-dated, and possibly radically altered as Chinese intentions become clearer.

/If the

If the Prime Minister thinks that the paper is on the right lines we propose to send it to the Governor of Hong Kong and the Ambassador in Peking for their further comments. We also think that it would be helpful if the Governor were to discuss with the Executive Council the general question of a Chinese statement and our possible response, though without putting any precise text to them. Such a discussion, however, could be helpful in the process of preparing and refining our response, and would also make the members of the Executive Council feel that they are involved in the process of consultation. As you know, the Governor considers that their discretion can be relied upon.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

FUTURE OF HONG KONG

CONTINGENCY PLANNING FOR A STATEMENT OR ANNOUNCEMENT BY THE CHINESE IN JUNE ON THEIR PROPOSALS FOR THE FUTURE

1. We can only speculate as to the likely nature of such an announcement. The Chinese Government might reveal their intentions piecemeal over the period of the 6th National People's Congress which is expected to meet in May or June. This could arise in the context of the application of Article 31 of the Constitution. A formal statement from the Ministry of Foreign Affairs should not be excluded, but is less likely.

Elements of Chinese announcement

2. On the assumption that the announcement takes an official and public form, ie clearly represents the Chinese Government's official position, it could contain any or all of the following elements:

(a) An account of the position taken by the Chinese since the talks first began, (ie going back to 1979) and in particular in the talks with the Prime Minister and the Ambassador; this might include:

(b) A statement that no progress had been made in the talks so far, or that there had been no substantive talks because of British intransigence;

(c) A summary, with more or less detail, of the Chinese plan for Hong Kong after 1997;

(d) A Statement that the Chinese position on sovereignty is fixed and irrevocable and that talks can only be held on the premise that sovereignty over the whole of Hong Kong is acknowledged to be Chinese;

(e) A statement that China will not let others administer Hong Kong on its behalf nor place Hong Kong under the trusteeship of others;

(f) A statement that if there is unrest in Hong Kong the Chinese timetable for recovery of sovereignty might be advanced.

Possible Details of Chinese Plan

3. Despite uncertainty, we need to prepare for a fairly detailed exposition of the Chinese plan. it is possible to surmise an outline as follows:

(i) Resumption of Chinese sovereignty over the whole of Hong Kong by 1997 at the latest;
(ii) Absorption of Hong Kong as a Special Administrative Region of the Peoples Republic of China under the provisions of Article 31 of the Constitution;
(iii) The Chinese flag to fly over Hong Kong;
(iv) The Governor to be a local Hong Kong person and the territory to be administered by Hong Kong people;
(v) The present system of law to continue but with links to the UK, such as appeals to the Privy Council, ended; (there might be some reference to minor amendments to the laws and prohibition on any enactment hostile to the PRC);
(vi) Continuation of the current capitalist economic system;
(vii) PRC responsible for external relations but provision for Hong Kong to maintain overseas commercial representation and membership of international economic organisations;
(viii) British personnel to remain for the time being in some senior Civil Service posts; there might be a reference to a British "Deputy Governor"; but it would probably be specified that no British personnel would be appointed by London or be members of the British Government Service.

Possible Response by HMG

Hong Kong

4. In all the possible responses, we should aim to suggest that we favour cooperation with China for Hong Kong's benefit, rather than confrontation. Taking the possible elements in the Chinese announcement, 2(a) and (b) need to be taken together, being variations in degree on the same problem. We should certainly need to comment, prefacing whatever we said with a firm statement of our view that the content of the diplomatic exchanges should remain confidential. We should then probably need to express regret that the Chinese had taken unilateral action of this kind outside the talks. We should make it clear that although we were ready and willing to engage in substantive talks on the basis agreed by the Prime Minister and Deng Xiaoping, we were not able to accept a precondition which was not in the agreed statement (and which appeared to prejudge the outcome of the talks). We should probably also make clear that the Prime Minister had made every effort to show flexibility within that constraint.

5. On 2(c) we should need to consider whether to offer any comment on the Chinese plan. Any such comment would need to be very carefully drafted to avoid the risks of either giving the impression that the Chinese plan could be acceptable in certain circumstances or dismissing it as totally unacceptable. We could perhaps describe it as insufficient or inadequate, and point to the absence of guarantees of continuity as a fundamental defect. We should stress the importance we still attached to talks, but we should need to have something to say ourselves about future arrangements, and to comment on the Chinese insistence on sovereignty. We should emphasise the importance of a solution which was acceptable to the people of Hong Kong.

6. 2(d) would bring us up against the sovereignty point more immediately. We could say that the question of the future can only be resolved by agreement between the two Governments and that it is inconceivable that agreement will not eventually be reached when a settlement is so very much in the interests of all concerned. However we should need to make clear our position on the supremacy of Parliament. We could add a reference to HMG's willingness to be flexible in working for a solution which could be recommended to Parliament.

7. 2(e) should be met by arguments in favour of the present system of administration. 2(f) should be countered by expressing confidence that the Hong Kong administration can be maintained and regret that the Chinese should put that at risk.

8. For illustrative purposes, Annex A contains the draft of a possible statement to meet a combination of all the possible elements in a Chinese announcement, including a fairly detailed outline plan. This is based on HMG's present strategy. It would need revision to take account of any changes in the Chinese position, and any developments in our own.

Possible form of a response by HMG

9. Apart from the content, we should also need to consider what form our response might take. An inspired PQ or statement in the House might be appropriate. On the other hand, depending on the nature of the Chinese announcement, a formal response from the Ambassador to the Chinese Foreign Ministry, a statement issued by the Foreign and Commonwealth Office, a high level visit or message, calling in the Chinese Ambassador, or perhaps a combination of these, one for public consumption and one for use through confidential channels, could be considered.

Line for use with MPs and the Press

10. We should also need to have a common press line for use in London, Peking and Hong Kong, to be prepared for some Parliamentary pressure, and to consider special background briefing for selected MPs and journalists. This would be based on the draft at Annex A with appropriate expansion depending on the audience.

Confidence in Hong Kong

11. There would almost certainly be damage to confidence in Hong Kong, varying in degree according to the nature of any announcement. Hong Kong are working on contingency plans covering a number of areas, in consultation with the FCO.

Review

12. Very careful monitoring of Chinese intentions will be needed in order to keep the response under constant review.

Foreign and Commonwealth Office
29 March 1983

ANNEX A

FUTURE OF HONG KONG

POSSIBLE STATEMENT IN REPLY TO A CHINESE ANNOUNCEMENT OF THEIR PLAN

HMG have noted the statement of [details/date] by the Chinese Government on the Future of Hong Kong. The British Government's position on this question is based on the agreement reached in September 1982 in Peking between the Prime Minister and Chinese leaders to establish talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong. Meetings have been taking place since October [and are continuing]. It is HMG's view that decisions on Hong Kong can only effectively be taken after thorough discussion. It is their intention to pursue them and they do not regard anything said outside them as binding on HMG.

? the talks

It is thus not the intention of HMG to comment in public and in detail on the [proposals/plan] outlined by the Government of the PRC. However, it is important to make clear that [they/it] appear(s) to lack a number of elements which would be essential for the confidence which is the basis of further stability and prosperity. It relies on assurances by the Chinese Government that the autonomy of Hong Kong would be respected but gives no details of guarantees to underpin those assurances. In the view of HMG the present system of administration provides the best guarantees. Further arrangements should contain defined provisions for continuity based on more than unilateral assurances.

[If the Chinese statement suggests that HMG are responsible for deadlock in the talks]. HMG have made and will continue to make every endeavour to reach a successful conclusion to the talks. We have approached them with the utmost flexibility consistent with our obligation s? to Hong Kong and the constitutional responsibilities of the British Parliament. There has been no question of our adopting

a dogmatic approach to the constitutional status of Hong Kong. We understand the Chinese position on the question of sovereignty. We take a different view, and have made clear that it is for Parliament alone to decide the question. However, we have also stressed that we would not exclude any settlement which was acceptable to Parliament and to the people of Hong Kong as well as to the Chinese Government.

[In response to a statement about a take-over before 1997.]

Hong Kong has an impressive record of stability and economic progress in the East Asian region. It is important for all in the area, but above all for the people of Hong Kong, that that stability should not be damaged by hasty action, or by statements which might damage confidence in the Territory. HMG will continue to discharge their responsibilities for the Territory. They look forward to continuing cooperation with the Chinese Government in seeking a settlement which will meet the interests of the British and Chinese Governments and the people of Hong Kong.

Hong Kong! Future of!, pt 5

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42A

Foreign and Commonwealth Office

London SW1A 2AH

30 · 3 · 83

This is initially the same argument as the one we are using. MT

Prime Minister

A.J.C. 31/3

Dear John,

Future of Hong Kong: Views of Singapore Prime Minister

We spoke on the telephone last week about Lee Kuan Yew's visit to Hong Kong. The Governor has now reported that he gave Lee Kuan Yew dinner on 23 March. Lee spoke at length about his experiences in China and got on to the subject of the future of Hong Kong. The Prime Minister might be interested in an account of Lee's personal views of how he would handle the Chinese. A full record is coming by bag but these are the main points:

(i) He would put it to the Chinese that Hong Kong could not remain the success it has become without the talented professional, industrial and technically-minded young and middle generations who now service Hong Kong's modernised economy. Given their qualifications they are internationally mobile and would leave if they saw a real danger of change.

(ii) Their confidence had been maintained because there had been an insulator between Peking and Hong Kong which had ensured that political changes in Peking had not washed over into Hong Kong. If this insulator were removed the professional classes and industrialists would not stay.

(iii) They must therefore be given an assurance that the insulator will remain and that if there were any intention to remove it they would be given sufficient time to make their dispositions: (most of them would want to go). He suggested that they would want three to five years' notice of change (the Governor told him that he did not think that would be enough).

(iv) He accepted that it would be extremely difficult to get the Chinese to accept this. They certainly would not do so without something substantial in return to present to their own people. This would have to be British acceptance that Hong Kong is Chinese territory which they are in a position to recover at any time.

(v) He recognised that there would be risks in such an arrangement but given the way the cards are stacked he thought risks inevitable. It was his impression that the young professionals were already looking

/around:

around: and if they are given no assurance about the future in the next two or three years, they will leave anyway and once gone they will not come back.

(vi) In his view, the period during which Deng Xiaoping is in power is as good as we shall get in which to seek a settlement. He saw no reason to think that Deng's successors would have his stature in the Chinese political scene and thus his ability to take difficult decisions.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

Hong Kong Future Pts

3

SUBJECT

cc Master

file

42

10 DOWNING STREET

From the Private Secretary

30 March 1983

FUTURE OF HONG KONG: CALL ON THE PRIME MINISTER BY CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS & TRADE

Madame Chen Muhua called on the Prime Minister today. This letter records the brief exchange on the question of the future of Hong Kong. It should, however, be read together with my letter of today's date to John Rhodes about the rest of the conversation, during which the Prime Minister laid considerable emphasis on our desire for good relations with China.

The Prime Minister recalled that she had recently sent a letter to Zhao Ziyang expressing her concern that substantive talks about the future of Hong Kong had not yet begun. It was important for both China and Britain that talks began and arrived at a conclusion satisfactory to China, ourselves and Hong Kong. Both we and China recognised the importance of stability and prosperity in Hong Kong. Given good will between us, it should be possible to maintain this stability and prosperity. We were the first to recognise the sensitivity of the issue for China. In her letter to Zhao Ziyang she had gone as far as she could to meet China's sensitivities. We hoped that it would now be possible to commence substantive talks. All this should be seen within a context of friendship between our two countries which we valued and wished to preserve.

The Prime Minister asked that Madame Chen should give Zhao Ziyang an account of this conversation. Madame Chen promised to do so. The Prime Minister said that she understood that Zhao Ziyang had not been able to take personal delivery of her letter because of impending overseas visits. But she hoped for a helpful reply on his return. Madame Chen said that she was sure that the Prime Minister's letter would be carefully studied. She then moved on to other subjects.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

John Coles Esq
No 10

CABINET OFFICE

With the compliments of

This may be of interest
Arnold C Smith
17/4

70 Whitehall, London SW1A 2AS
Telephone 01 233

Has Hongkong had it?

Expiration of Britain's lease on the territory is still fifteen years in the future. But the smart money is already looking for new havens.

by Kevin Rafferty

Fung King Hey is one of the richest and shrewdest operators in Hongkong. Last May Fung, who is chairman of Sun Hung Kai Bank and Sun Hung Kai Securities, made headlines with a share swap that gave him a 4 percent stake in Merrill Lynch & Co. Overnight Fung became the largest individual shareholder in America's biggest brokerage firm and transferred assets to the U.S. worth more than $100 million on paper.

The career of Li Ka-shing represents the classic rags-to-riches fairytale of a Hongkong entrepreneur. Li began making plastic flowers and is today one of the biggest property barons in Hongkong and chairman of both Cheung Kong (Holdings) and Hutchison Whampoa. Yet for a man of his flair, Li has done remarkably little in the crown colony since 1981. Analysts say he has not been idle, however, but has been picking up assets in the U.S. and Canada, including 10 percent of Kaiser Cement Corp., real estate in California, a hotel, various holdings in Canada and other properties in North America.

These moves raise an intriguing, indeed critical, question: Do they represent the healthy diversification of mature Hongkong businesses, or do they signal the beginning of the end of one of the last capitalist paradises on earth as the smartest and biggest players start to bail out?

In the last few months, the mood of the tiny city-state of 1,061 square kilometers and 5.5 million people has darkened abruptly. Only a year ago Hongkong was poised to become *the* international city, not only of Asia but of the whole world. The cosmopolitan colony, already the world's third largest financial center after London and New York, saw banks from every country clamoring to set up offices and prepared to pay the highest rent in the world for the privilege. With the economy steaming along at more than 10 percent a year in real terms, the future seemed secure.

A landslide

Today, the economic skyscraper of Hongkong looks like a house of cards suffering from a landslide. Growth slumped in 1982 to 4 percent. Some well-known

property companies are tottering, causing a number of major banks to suffer losses. Authorities are praying that a secondary banking crisis has been averted. Yesterday's property lions look like shorn lambs in the chillier economic climate. Despite the recent boom on Wall Street, the Hongkong stock market has plummeted and the Hongkong dollar has reached new lows.

But most damaging of all, comments from Beijing that China intends to regain sovereignty over Hongkong have created alarm and widespread speculation about *when* — not if — the People's Republic will gobble up the colony. The opening of formal discussions between the U.K. and China about the territory has further frayed local nerves.

Official statements about Hongkong's future have none of this air of panic. On the contrary: Beijing, Whitehall and Hongkong have all offered bland assurances that all will be well. China's strongman, Deng Xiaoping, has told Hongkong investors to "set their hearts at ease." Premier Zhao Ziyang and Britain's Margaret Thatcher issued a joint statement in Beijing last September pledging to maintain "the stability and prosperity of Hongkong." And when he visited the territory in January, Minister of State for Trade Peter Rees told Hongkong to plan for a rosy future.

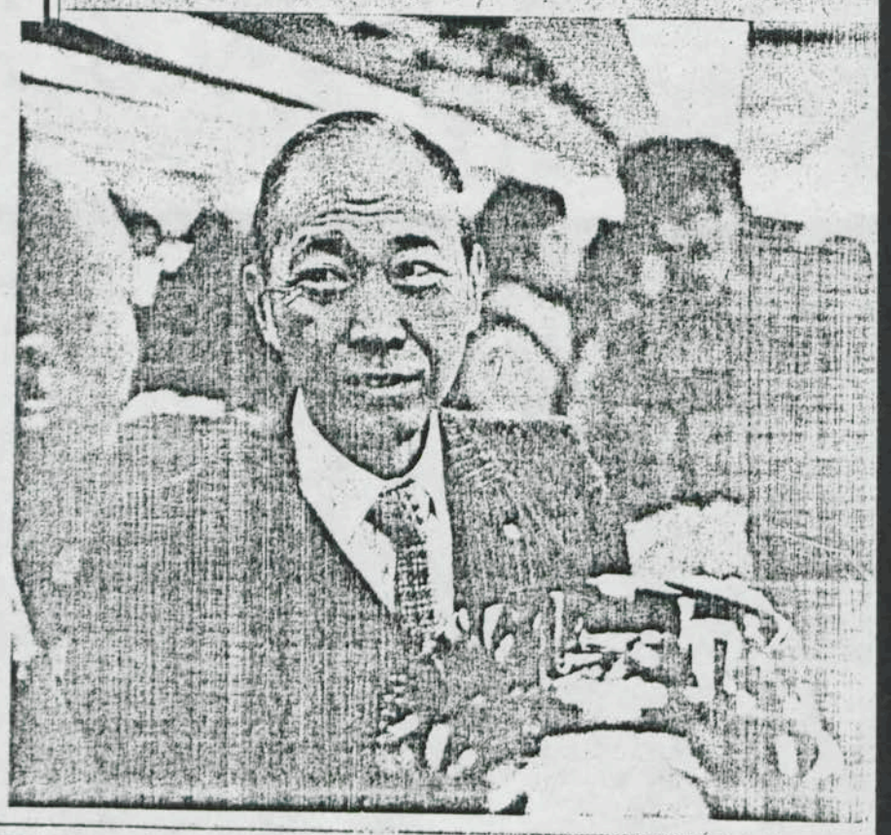
"It is unthinkable that Hongkong won't be in business in 1998," the year after Britain's lease on 90 percent of the territory expires, insists Michael Sandberg, chairman of the Hongkong and Shanghai Banking Corp. "We have put our money where our mouth is. We are rebuilding our head office in Hongkong into what will probably be one of the most spectacular buildings in the world." Fung King Hey also professes confidence that "an arrangement will be made that will preserve Hongkong's role as a trading and financial center and also guarantee its stability and prosperity." Hongkong, he adds, "has never feared change and has prospered because of change. Those who have confidence will prosper; those who do not are not worth talking about." Will Fung leave Hongkong? "The answer is a 'No.' "

Besieged consulates

Such sentiments are not echoed among hundreds of middle-class Hongkong residents, however. Consulates of Australia, Canada, the U.S. and other Western countries have been besieged by local Chinese, all asking the same question: How do we qualify for residence or citizenship in your country?

One middle-ranking executive comments pithily, "Of course the big shots express confidence; they want to protect their current investments. Besides, they won't have any problem in getting out; they

Sun Hung Kai's Fung: He has transferred assets worth $100 million to the U.S. Will he leave Hongkong? "The answer is a definite 'No.' " However he cautions that if negotiations between China and Britain "go beyond the end of 1983 without any sort of announcement to clarify uncertainties, it will be bad for the economy"



HKSBC's Sandberg: He asserts that "it is unthinkable that Hongkong won't be in business in 1998." But he also concedes that "people have got to be confident that if they invest in Hongkong, the terms under which they put their capital in will still be preserved X years later, that the rules of the game don't change halfway through. It does no good making promises one year if the whole structure and philosophy change three or four years later"

Lincoln Potter

Far East Stock Exchange's Li: "They should hold a very nice ceremony in which England will surrender sovereignty of the whole territory back to China, and China should lease the whole lot back to England," he says. London, however, should be given full control: "You cannot run a bus with a backseat driver"

have their foreign passports." A prominent local Chinese banker adds, "If I left it would start a run on the bank. But if the [PRC] takes over, Hongkong will not survive long as a financial center, as a capitalist city or as a good place to live."

In spite of statements from the Hongkong Bank that there has been no capital flight, one estimate is that $1 billion has already been invested in the U.S. Other money has gone to Southeast Asia. Funds from Hongkong to Thailand, for example, previously averaging only US$43,000 a month, jumped to US$17 million in September, according to a Bank of Thailand report. Singapore has received hundreds of inquiries about residence, which could cost US$1 million per family. The head of one Hongkong company with annual sales of US$1 million says, "I am setting up a company in the States. I must have insurance: I don't want my children to be caught." Other Hongkong Chinese say they are keeping their money in U.S. dollars, ready to be moved quickly if necessary.

Other countries have been gathering like vultures, hoping to take rich pickings from Hongkong's carcass. Philippine President Ferdinand Marcos has changed local laws to allow anyone investing US$200,000 automatic residency rights. Some Caribbean islands have offered passports for the right price (US$200,000 in some cases). The Northern Marianas have also proffered residence permits for a mere US$100,000 — *if* it is part of a US$9 million venture. Individual applicants are charged US$250,000.

But perhaps the most ingenious scheme has been devised by a Hongkong group with the special blessing of Portugal. Under the scheme, people buying apartments in the Portuguese-run territory of Macao can gain residency rights and, after six years, citizenship in Portugal. Technically, in order to gain the right to live in Portugal, the applicant has to invest US$30,000 in that country. But, in fact, this is covered by the HK$600,000 to HK$850,000 purchase price of each of the 10,000 apartments. Lisbon altered existing legislation to accommodate the venture.

None of the apartments will be ready until the mid-1980s, so they are being sold off the drawing board. Even so, says John Wu, managing director of Hongkong's Trafalgar Housing and executive director of Portuguese Investment Associates, the group channeling the money to Portugal, the initial batch of flats "are selling like hot cakes." Promotional literature points out that Portugal expects to join the European Economic Community in 1985 and that the community permits free movement of labor. This would be an ironic bonus, given that Britain has just amended its citizenship laws, effectively making 2.5 million Hongkong British passport holders second-class Britons and barring them from settling in the U.K.

An exodus to such exotic locales is not

as fanciful as it may sound. The people of Hongkong — if they are allowed any say in their own future — would also prefer that the status quo be preserved. In mid-1982, a poll conducted by the Hongkong Observers, a local pressure group, revealed that 69 percent of the people preferred that things should continue as they are. More than half of those polled said that the return of Hongkong to China was their "least preferred" solution. If China took over, 22 percent said they would "try every means to leave"; of the remainder, 53 percent said they would leave if given the chance.

Other observers note that the present uncertainty has already led to a faltering in Hongkong's growth as a financial center. Y.S. Wong, vice president and chief foreign exchange dealer for Citibank in the colony, says that immediately after the 1982 budget, when the interest withholding tax on foreign currency deposits was removed, "in the euphoria we saw Hongkong catching up and passing Singapore as the Asiadollar funding center within two years." Now he says, although there is a lack of statistics, Hongkong is standing still, about $20 billion behind Singapore. But official figures indicate that Hongkong may have nearly closed the gap on Singapore's Asiadollar market of more than US$100 billion. Wong says that many Hongkong residents have switched their assets from Hongkong dollars to U.S. dollars, although they are still keeping the dollars based in Hongkong. But other customers are so nervous about the future that they have rebased their accounts in Singapore or Guam.

In political terms, just what is at issue? Simply put, Hongkong is the product of historical anomalies whose time is liter-

An economy under pressure

Many bankers argue that Hongkong's current crisis of confidence (story) would not have erupted without the sharp downturn in the economy. According to Kent Price, senior vice president and country corporate manager for Citibank, "In cynical Hongkong terms, fifteen years is a long time, time for two fortunes to be made and lost."

François de Lajugie, chief executive manager of Banque Nationale de Paris, points out that "under normal economic conditions, light industrialists look to recover their capital in a maximum of five or six years." And Robert Valentine, senior vice president and general manager for Republic National Bank of New York in the colony, adds: "Hongkong traditionally operates on the basis of 'another day, another dollar.' So why is there a sudden fuss about what will happen fifteen years hence? In any case, there is more immediate political uncertainty about some other countries in the region."

Poorer economic performance has undoubtedly abetted the uncertainty. However, a quick look at the general figures shows that Hongkong has not done too badly. Real growth of 4 percent in 1982, notes Citibank's Price, "can be regarded as a phenomenal performance at the time of the worst recession since the 1930s." (Later estimates, however, put real growth at a less phenomenal 2.4 percent.) Unemployment has only risen from 3.4 percent in early 1982 to 4 percent. Inflation is down to 10 percent (although still annoyingly high).

But Hongkong faces more worrisome pressures. For the first time since the mid-1970s, the territory will record a budget deficit rather than the HK$2.3 billion surplus that Financial Secretary John Bremridge envisaged in his February 1982 budget. Figures for the full fiscal year running to the end of this month were not in as this issue went to press, but forecasts for the deficit ranged from HK$3 billion to HK$7 billion or higher.

A single year's deficit is not too much of a worry. The previous deficit was a tiny one, and since then the government has been storing away reserves — now more than HK$20 billion. "They were saved for a rainy day, and it's raining now," Bremridge says laconically. Hongkong and Shanghai Banking Corp. chairman Michael Sandberg also comments: "The deficit in Hongkong is a bit of a misnomer because they put everything into current expenditure, which normally one would not do in modern accounting. Even capital expenditure of enormous amounts goes bang into government expenditure for that year." Moreover, he adds, "If Hongkong ran its books as other places do, it would show that on recurrent income and expenditure it was actually in the black."

But the problem will come this year and next. For a supposedly laissez-faire economy, Hongkong's government has been spending freely, and public expenditure today totals about 25 percent of gross domestic product. Bremridge himself talks of the "prolific and weedlike growth in expenditure."

Over the past few years, the government has become dependent on income from land sales to support its heavy spending. The financial secretary admits that this was a bad thing, but in his budget of February 1983, Bremridge is still banking on income of more than HK$12 billion from land sales in fiscal 1982–1983. In the first half of the year, however, only HK$3.8 billion had been raised from land, and the property slump caused the government to lose another HK$4 billion of expected income in the second half. Land sales are obviously not going to pick up quickly despite Bremridge's anxiety to get back to a situation where land sales revenues can be regarded as windfall gains, not a prop for heavy spending. But some economists say the 1983–1984 deficit will be even larger than the previous year's.

Bremridge expects the economy to pick up during 1983; in his February budget speech he estimated that growth would be 4 percent. Most other economists say this is fairly realistic, although Lawrence Toal, senior vice president and general manager for the Chase Manhattan Bank in Hongkong, predicts 7 percent growth for 1983. Bremridge himself says his forecast is based on U.S. growth of 2.5 percent in the current year.

Financial Secretary Bremridge: Reserves "were saved for a rainy day. It's raining now"

It is not just recession that is squeezing Hongkong, however, protectionism is also. Although the tiny territory pursues free-trade policies, it is not allowed the same indulgence in its relations with industrial countries. Last year saw the squeeze applied even more intensely, particularly on Hongkong's sales of textiles and garments, which each account for about 35 percent of employment in manufacturing and exports. The U.S. has negotiated a tough deal allowing for a small growth in imports from the colony, but Hongkong's real curses are saved for the European Economic Community, the world's biggest trading bloc.

Last November, Hongkong agreed to a deal with Brussels that actually

Kevin Rafferty

ally running out. What is now the British crown colony of Hongkong (the expression is in [illegible] seldom used in order to spare China insult) was built up in three parts. The 78 square-kilometer Hongkong island itself was ceded to the British "in perpetuity" as a result of the skirmishes known as the First Opium War; Stonecutters Island and the Kowloon peninsula as far as Boundary Street (a mere 11.23 square kilometers in area) were yielded by China in 1860. The largest part of Hongkong, consisting of the rest of Kowloon and the New Territories, was not

demands cutbacks in sales of certain sensitive or high-selling categories of garments. Previously, all agreements allowed limited annual growth of between 1 to 6 percent. "We will not feel the cutbacks now," says Bill Dorward, director for trade, industry and customs. "But when we come out of recession, we will be handicapped by not being able to take advantage of the growth opportunities." France also angered Hongkong by unilaterally cutting back Hongkong sales of watches contrary to GATT rules.

Hongkong goods are no longer nameless cheap shirts and trousers. The territory has spawned its own designers and is making goods under local labels to sell to Harrods, Neiman-Marcus Co. and New York's Fifth Avenue stores. In addition, other factories are producing goods for U.S. and European stores and mail order companies for sale under their labels.

In the same way, other manufacturers are moving out of the sweatshops and into quality production. Hongkong manufacturers are small — the territory has more than 46,000 manufacturing establishments — and not strong on research and development, but they are quick learners and, when necessary, good imitators. "We are out of the hairy covered wagon days," says Dorward, "where seat-of-the-pants entrepreneurs moved quickly with the market fad of the moment and could switch from flowers to wigs and so on. This is the age of the technocrat, and the entrepreneur starting a company today has a skill."

Hongkong printers produce books for the big university publishing houses of the West. In electronics, some producers are making minicomputers and IC chips. One of the early local makers of rubber boots, toothbrushes and wigs has successfully graduated to making Kodak disc cameras under license.

So far, so good? Perhaps. But for the moment, Hongkong's future is in the hands of others, specifically, negotiators in London and Beijing.

ceded but leased to Britain for 99 years from July, 1898. Even under the best of circumstances, Britain will have to hand back 90 percent of Hongkong's territory.

An additional complication is that China does not recognize any of the treaties, describing them as "unequal" and therefore invalid. Hongkong, in Beijing's view, is Chinese territory to be recovered in its entirety at the best opportunity. Britain and the fabric of law in the territory are bound by the 1997 expiration date, and land leases in the New Territories are awarded until June 27, 1997, at the latest (the extra days being needed to recover the land) — hence the time bomb steadily eroding confidence.

Lost glamor

Clearly the most dramatic indicator of declining confidence has been the plummeting of property values, which began late last year. In the last two years, property had become *the* glamor area. Indeed, before the slump began, land had become so expensive that four-by-ten-foot grave sites were going for HK$200,000. According to D.K. Patel, market research manager at the Hongkong Bank, "developers, bankers and the government all thought they were smart and could judge the right moment to get out of the market." In the process, however, many bankers apparently suspended their belief in (or forgot about) the normal laws of supply and demand as they pumped money into the system and helped build speculative skyscrapers. In the fierce competition, prudent limits went out of the window. In 1980 and 1981 property-related companies had raised HK$10.6 billion in syndicated loans, equal to the amount raised through stock market issues.

Then, as recession began to bite, the crash came abetted in no small part by fears of a Chinese takeover. In central Hongkong monthly rents fell from about HK$35 per square foot to HK$15 or HK$20. Some industrial property prices fell to a twentieth of their former values.

The fallout occurred in November as a number of deposit-taking companies and property concerns found themselves unable to meet their liabilities. The roll call of banks involved through outstanding loans was an impressive testament to their greediness for a slice of the action. Most of them were newcomers to Hongkong, but the list also included the giant Hongkong Bank group and the twelve Chinese Communist banks that had been busy fueling speculation until very late in the cycle. Hongkong Land helped keep the property market up last year by paying HK$4.7 billion for the site of the new Hongkong stock exchange.

Caught short

One of the casualties was the Carrian Group, part of the speculative appeal of which was that it was supposed to have secret Southeast Asian money behind it. The names of the Marcos family and leading Indonesian figures were mentioned frequently, although connections were never firmly established. And Hongkong Bank's Sandberg, whose merchant bank subsidiary Wardley is putting together a rescue package, says as far as he knows only the Tan family is involved. One of the surprises was that Bank Bumiputra Malaysia Berhad's local subsidiary had been caught short lending heavily to Chinese concerns. In the panic reaction, rumors circulated about even the biggest of companies; Hongkong Land itself at the end of January negotiated a record HK$4 billion eight-year syndicated loan largely to refinance short-term borrowings facing a cash-flow squeeze.

According to François de Lajugie, chief executive manager of Banque Nationale de Paris in Hongkong, his bank and other well-established foreign banks have stayed clear of property lending. "Lending to real estate accounts for less than 8 percent of our portfolio," he notes. "After deducting expenses, you get perhaps a half of one percent on, say, $100 million. The same $100 million put into financing trade will generate a much greater turnover and the chance of new customers." Other major foreign banks in Hongkong, including Citibank and Bank of America, say they have limited exposure to

The Hongkong dollar's slide

In the balmier days of 1982, before Hongkong began to fear that China might actually take back the territory (story), the local dollar actually strengthened against its American counterpart. But since mid-1982, the Hongkong dollar has been heading down the slippery path of nerves created by doubts about the colony's future.

The decline actually started before British Prime Minister Margaret Thatcher visited China in September 1982. One event that sent the currency skidding was the sale of a central Hongkong site to the Bank of China for a new headquarters at a price 40 percent below the then prevailing market rate and on soft, deferred terms. The sale came soon after the government had given a helping hand to another Communist Chinese property scheme. As a result, the Hongkong unit weakened to six to the U.S. dollar. Par had historically been in the five to 5.20 range, although the last year or so has seen a gentle slippage.

But worse was to follow. Much was expected of the Thatcher visit to China, and indeed, immediately afterwards, things did not look too bad. Britain and China had agreed to negotiations over Hongkong. But no sooner had the British leader reached home than China lambasted Thatcher for her defense of the treaties ceding Hongkong to Britain. The Hongkong dollar suffered, slumping to a record low and closing at 6.93 against the U.S. currency in October. Since then it has strengthened somewhat, and by mid-February 1983 was trading around 6.62 against a weakened U.S. dollar.

But the overall weakness of the Hongkong dollar is shown by comparing it to the trade-weighted basket of currencies. In the early days of the skid against the U.S. dollar, local officials were able to blame the fall on "rumor mongering" and point to continued strength against the basket of currencies. Before the Thatcher visit, the local dollar had remained at about 85 percent of the 1973-based basket, but by early 1983 the all-around weakness had led to a fall to 78.6 percent, a new low.

Prospects are that the Hongkong unit will strengthen slightly against the American dollar, according to Y.S. Wong, vice president of Citibank, one of the larger currency dealers. "During 1983 it may strengthen to 6.20 against the American dollar," he says, "but most trading will be in the 6.30 to 6.50 range, and we expect it to close at 6.45 to 6.50." Britain's Henley Centre for Forecasting is gloomier still, predicting that the Hongkong currency will be at seven to the U.S. dollar by year-end. Trading in Hongkong dollars is thin and volatile compared to overall currency trading in the territory, accounting for only $700 million out of daily total turnover in the $7 billion to $8 billion range. But since the U.S. dollar is expected to continue to remain under pressure because of American trade and current account deficits, there will be little relief for the Hongkong dollar against the basket of currencies. Wong thinks that by year-end the local dollar may fall to 75 percent of the basket.

And all this is subject to the proviso that there is no further slump in confidence in Hongkong's future — in which case the drop could be steeper.

property.

By mid-November there was so much uncertainty that the government, which many bankers had scored for its inaction, brought together leading bankers, and the Hongkong Bank issued a statement offering in effect to act as lender of last resort to soundly based and well-managed deposit-taking companies. William Purves, the bank's executive director, was put in charge of Wardley to help in the sort-out.

Critics argue that the government should have foreseen the trouble ahead as DTCs were competing aggressively for short-term deposits and then on lending long term. Some DTCs were local nonbank operators, but some of the more aggressive companies were subsidiaries of foreign banks denied local licenses. Bankers meanwhile looked hard at the property companies to see which of the casualties could be rescued.

And there may well be more trouble ahead. According to HKSBC's Sandberg, "It would be a brave man to say that nothing else will come crawling out of the woodwork. If we can help to tide over companies that are going through a temporary period of illiquidity but which are solvent, we will do so. But it is a fundamental philosophy in Hongkong that you can't revive ducks that are dead." Moreover, continuing gloomy predictions about the prospects for both the local property market and for the economy (see box, page 96) make it unlikely that Hongkong will be able to shrug off its bout of nerves over 1997.

Sacred mission?

In spite of the gloom, however, Hongkong still has its share of optimists who assert that 1997 is a bogus problem. This optimism is particularly prevalent in the banking community. Kent Price, Citibank senior vice president and country corporate manager, points out correctly that it would not be difficult for China to reclaim Hongkong. "But in the 32 years since the Communists took over," says Price, "even during the period of the crazy people, they have taken a very pragmatic position. After all, all China has to do is shut off Hongkong's water supplies, call 10 Downing Street and say 'How about the keys to Hongkong?' and that would be it. But they have not done it." In other words, if China has not demanded Hongkong so far, why worry about 1997?

But 1997 *is* a problem because it is a problem for the United Kingdom. For Britain to abrogate the lease on the New Territories or unilaterally to extend or remove the troublesome date would be another slap in the face, which Beijing could not tolerate. Prime Minister Thatcher, under pressure from a nervous Hongkong, has forced the issue into the open, and China has publicly responded that it must recover sovereignty by 1997 "at the latest." Indeed, one official spoke recently of China's "sacred mission" to recover its territories.

"If China wants to show that it can run a free enterprise zone, let it do its experiments elsewhere rather than muck it up here."

Some bankers claim, however, that a transfer of sovereignty might not involve any real changes in the way Hongkong is run. Thomas Swidler, senior vice president and area general manager of the Far East for Bank of America, eloquently expresses the case for China to leave Hongkong undisturbed and to allow Britain to continue to manage the territory. "We believe that the administration of Hongkong will be similar to what it is now until well into the 21st century," says Swidler. He argues that there are a number of reasons why China will not *want* to change the administration of Hongkong. "Politically, as has been a problem for hundreds of years, the Chinese government is struggling with a very varied population within the present borders of China," he points out. Absorbing another 5.5 million Hongkong citizens would "add a significant dimension to an already burdensome problem. In addition, China is keener to absorb Taiwan before it takes back Hongkong, which could lead to economic collapse and new boat people."

"Militarily," continues Swidler, "Hongkong in its present state does not have to be defended by China, nor do the sea lanes. It is a buffer that poses no threat. If it were part of China, it would have to be defended." Finally, he concludes, Hongkong is not China's main priority: "Uncertainty in Hongkong forced the U.K. to bring the issue up with a reluctant China. China would probably like to settle the Hongkong question and then get back to other more important issues."

Some officials and bankers argue that economic factors are the most powerful reasons of all for China to be gentle with Hongkong. As Financial Secretary John Bremridge puts it, "In the Middle Ages, alchemists tried to find a magic formula that would convert base metal into gold. In the 1980s, China has discovered the secret: It's not metal but cabbage that China turns into gold. China sells cabbage and other food and vegetables to Hongkong and in return gets Hongkong dollars, vital hard-currency earnings. If Hongkong were part of China, it would lose this income."

There is disagreement about just how much China in fact earns from Hongkong. Thatcher has put the proportion at 40 percent of China's hard-currency earnings, while Sandberg has estimated 33 percent; hard figures are not available. Exports to Hongkong are running at about US$5.5 billion a year, but only just over $3 billion are attributable directly to Hongkong. In addition, there are earnings from Chinese banks and trading companies in the territory, which may amount to $1 billion or more; earnings from Hongkong tourists and remittances from Hongkong and overseas Chinese; and investments by Hongkong businessmen in China.

Altogether China probably does get between 33 and 35 percent of its foreign currency earnings (or $8 billion) a year because of Hongkong, much of which would indeed disappear with the Hongkong dollar if the colony were to be absorbed by the PRC. But the usefulness of the tiny territory is more than money. China has invested between $2 billion to $4 billion in Hongkong in companies and property. The enclave offers them a neutral territory where they can learn about doing business the capitalist way without tainting their own system.

Ideological contrast

"China has a declared interest in moving into the next century, in catching up on Western technology," points out Lord Kadoorie, Hongkong's first life peer and chairman of China Light and Power Co. "This great city has become the free zone of China, the neutral point of contrast between two ideologies. Hongkong exists because it is needed and because, under an efficient administration and a sound legal system, it can provide those services essential for the modernization of China." Kadoorie, who was born in Hongkong just before the New Territories lease was signed, is bullish about Hongkong's future: "With the will to make it work, Hongkong could become the greatest single trading center the world has ever known, radiating prosperity, providing employment and setting new standards of life." And according to Kadoorie, "We are here because we are wanted and because our people combine that unique blend of skills, technology and understanding, so rare yet so essential to world peace."

Whether or not the people of Hongkong — 98.1 percent of whom are Cantonese-speaking Chinese — "want" the British, they do recognize the stability and opportunities under British rule. "I am a proud Chinese," declares one prominent citizen, "but one has an identity and a lifestyle under British rule. Hongkong has seen a continuously rising standard of living. It is a place where Chinese entrepreneurial spirit has been able to flourish." And he adds that "Hongkong is a refugee population. Half of the people here came from China. All could go back, but they prefer to stay in Hongkong."

It is not clear whether Beijing is listening or whether it doesn't know (or merely doesn't care) what makes Hongkong successful. Whereas British and Hongkong officials have maintained silence, invoking the confidentiality of discussions about the territory's future, Chinese officials have

showered visiting Hongkong delegations with suggestions, most of them indicating that Beijing wants more active control than optimistic bankers believe.

And some officials have indicated that Chinese determination to recover its territory in the end counts more than Hongkong's economic well being. Even those who claim that Beijing wants to maintain Hongkong's prosperity and its capitalist way of life point out that China would have to change some things. For example, one vice minister indicated that pro-Taiwan newspapers and Wanchai girlie bars would not be popular. There have also been hints that China might try to curb some of the speculative excesses, an indication that China heavy-handedly does not understand Hongkong's ways.

Another leading Chinese — reported to be Gu Mu, former vice premier and now state counselor — told another group of visitors that China wouldn't have difficulty in running Hongkong since it had shown it could rule Shanghai. Yet such a statement reveals the vast gulf between Hongkong as it is and Hongkong as seen through Chinese eyes.

Indeed, a critical consideration often overlooked is that Hongkong represents the very antithesis of Chinese Communism and China's tightly controlled political and social system. It is ironic that the Chinese mention Shanghai, whose effective demise thrust Hongkong to the fore as a truly international city. In Shanghai there has been virtually no new building; everything has been patched up and multilet under the pressure of increasing population. Even in 1982 and 1983, when some of the old capitalists (those, of course, who had not fled abroad or to Hongkong) are allowed out of the woodwork, life in Shanghai is still controlled to an extraordinary degree by Beijing.

The extraordinary freedom in Hongkong, on the other hand, stands in marked contrast. As Willard Sharpe, area economist for Chase Manhattan Bank, puts it, "Individuals and companies, whether local or foreign, are free to establish businesses that can buy, sell, hire, fire, lend, borrow, manufacture or perform services and go out of existence, substantially unhindered." Sharpe lists ten ingredients making up the recipe for Hongkong's success: free enterprise, market-determined pricing, free movement of goods and people, market access for Hongkong goods, the British legal system, freedom of information, free movement of funds and independent currency, a range of financial institutions and a simple tax structure with low rates.

Confidence question

What Sharpe omits is perhaps the most important factor underpinning all these considerations: confidence in the system of government. In the words of one Hongkong official, "A Hongkong citizen can be sure that although Sir Y.K. Pao may be a friend of Margaret Thatcher, he won't be able to use his influence to get a decision reversed that he dislikes." In China, on the other hand, "what counts most is *guanxi* or connections — which is why a Hongkong citizen could have very little confidence that a rich businessman who is a friend of Deng Xiaoping would not use his influence to get an unpopular decision reversed."

For the same reason, the suggestion, made by several ranking Chinese (including Liao Chengzhi, a Politburo member and director of the State Council's Overseas Chinese Affairs Office), that Hongkong after 1997 would be run by "Hongkong people" is distinctly unsettling. "On the surface, it's highly appealing. There are plenty of competent Chinese," says a prominent Hongkong Chinese. "But what does it mean? Even if it intends to, China can't guarantee that Hongkong will be run independently. And even if it does guaran-

"Those who have confidence will prosper; those who do not are not worth talking about."

tee it, you can't believe them. The People's Republic has had four different constitutions and several changes of course in its short life."

A senior Hongkong official adds that "whoever was put in as governor or mayor — and presumably he would not be elected as that would set a difficult precedent for China itself — would have to spend time in learning to govern and time in fighting off the rivals and power factions who would not hesitate to appeal to Beijing if it suited them. And would investors keep their confidence and their assets in Hongkong while they were waiting to find out if the new governor could govern? By then it would be too late."

Few prominent Hongkong figures are willing to go on the record as to how the 1997 issue should be resolved, but most say privately that any Chinese interference could be disastrous. According to Sandberg, "It comes back again to this rather overused word, 'confidence.' People have got to be confident that if they invest in Hongkong, the terms under which they put their capital in will still be preserved *X* years later, that the rules of the game don't change halfway through. It does no good making promises one year if the whole structure and philosophy change three or four years later."

As for the question of administration, Sandberg argues that "what Hongkong needs is its own civil service, made up of *any* nationality. That civil service must be responsible to the governor of Hongkong." Beyond this, Sandberg remains reticent. "It doesn't really help the situation by expressing specific thoughts," he says, "saying that this must happen or this must not happen. I think one has to allow the negotiations to take place and see how they work out. A good deal of common sense will be needed and a good deal of goodwill on both sides."

Bareboat charter

But one person prepared to be specific — and blunt — is Ronald Li, chairman of the Far East Stock Exchange, the largest of the four exchanges in Hongkong and chairman of the territory's new unified stock exchange. Li's recipe: "They should hold a very nice ceremony in which England will surrender sovereignty of the whole territory back to China, and China should lease the whole lot back to England for a period of years, renewable." Li is adamant that London should be given full control, including flying of the British rather than the Chinese flag. "You cannot run a bus with a backseat driver," he comments.

Li points out that "the British have a track record. They have run Hongkong well. China has not got a track record; China hasn't even got a proper legal system. If China wants to show that it can run a free enterprise zone, let it open up Amoy or Shanghai and do its experiments elsewhere rather than muck it up here."

"It would be a brave man to say that nothing else will come crawling out of the woodwork."

For all these strong words, however, Li insists that he is a good Chinese and says that "there should be no shame in allowing Britain to manage Hongkong. Britain is leasing bases to the U.S.; so is Germany, so is the Philippines. So if these rich countries can do it, why should China be ashamed? It should treat Hongkong like a bareboat charter: If a company takes a bareboat charter, it has the right to put its own flag on the funnel. Does the owner of the boat suffer shame thereby?" But Li also has sharp words for Britain, warning that it "should not treat the people of Hongkong like whores by selling them down the drain."

So far, Britain and China have not got very far in their negotiations, and London's silence and Beijing's chatter have only added to the public unease. Hongkong officials say that Beijing is using the 1997 deadline to squeeze Britain. They are not optimistic about an exchange of sovereignty for continued British administration. The local left-wing press, which is close to Beijing, howled when a visiting British MP made such a suggestion. There is, however, a common feeling that if Britain and China do not reach agreement in the next year, the lack of confidence could snowball and damage Hongkong irreparably. Sun Hung Kai's Fung is optimistic that "China depends on Hongkong for the success of its 'Four Modernizations' and has indicated its willingness to compromise." But he concedes that "if the talks go beyond the end of 1983 without any sort of announcement to clarify uncertainties, it will be bad for the economy."

Some foreigners blithely insist that Hongkong as an international financial center can withstand economic uncertainty. One rather glibly notes he wouldn't mind if China took over completely, "as then we will have full branches inside China rather than on the doorstep," conveniently forgetting that China allows foreign banks only a limited role (*Institutional Investor*, February 1983). Robert Valentine, senior vice president and general manager of Republic National Bank of New York, also draws some hard-headed distinctions. "The impact of the Chinese 'takeover' is mainly on the Chinese middle class," he says. "The majority of the people of Hongkong know that they cannot get out anyway. This is certainly an emotive issue, but it is irrelevant to foreign bankers. In addition, certain businesses will prosper, particularly the China trading business. Many banks will be happy to have a new China office."

Finally, asserts Valentine, "Even if bad handling of the 1997 issue precipitates some financial calamity, the impact on the balance sheet of a foreign bank should be equal on both sides: If the value of a bank's assets collapses, this should be compensated for by a steep fall in the value of liabilities denominated in Hongkong dollars. This assumes that banks are fully matched — as they should be." Valentine says that the only way a bank could be caught would be if Hongkong collapsed but the Hongkong dollar remained strong, a virtually unthinkable scenario.

However, other prominent figures are far more cautious. Financial Secretary Bremridge points out that Hongkong's commanding position as an economy and as a financial center has been provided by "perhaps 150,000 bright people" — precisely those people now considering leaving. BNP's de Lajugie claims that what makes Hongkong stand out from potential rivals as a financial center is "the brains, the merchant banks here. This brain center is very vulnerable. All other countries that would like to be financial centers are small countries with strong police and strong government. You need a free mind for these types of financial business." The Frenchman also warns that at the moment not all foreign banks are fully matched and that a lot of U.S. dollar loans were taken during the property boom for conversion to local dollar lending.

Republic's Valentine doesn't think that foreign bankers would weep many real tears if Hongkong disappeared as a financial center. "If bankers say they're in love with Hongkong, they're distorting the truth," he claims. "They are here because it is profitable for them, and if it ceases to be so, they move on somewhere else." But if Hongkong were absorbed into the great maw of China, several million people would be uprooted and the last freewheeling cosmopolitan city of Asia will have vanished. Perhaps the only card the British have is that a Chinese takeover that unsettled Hongkong would cost China loss of face as well as its chances of wooing Taiwan back into the fold.

Unless China can make a quantum leap in imagination, the prospects for Hongkong are grim. Some foreign bankers express naive optimism, but the local Hongkong Chinese are down-to-earth. "Sovereignty can be conceded," says one leading Chinese businessman, "but administration must be left with the British. It's not because they are best — after all, this place *is* a Chinese city — but they guarantee that Hongkong can live its own life." But virtually every statement so far from Beijing has spoken of China taking active sovereignty over Hongkong. "In which case," says the Chinese businessman, "it's goodbye. We just can't trust Beijing." ii

Hong Kong

SECRET - UK EYES 'A'

41

10 DOWNING STREET

From the Private Secretary

30 March, 1983

Future of Hong Kong: Briefing the Australians

Thank you for your letter of 29 March.

The Prime Minister agrees that the Australians should be given a general briefing about Hong Kong on the lines you suggest and that they should not be given details of the Prime Minister's talks with the Chinese. The Prime Minister thinks it would be unwise to pass too much information to the new Australian Government, since we have, as yet, no idea as to how they would handle information of this kind.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office

SECRET - UK EYES 'A'

cc PNSS 04

40A

Foreign and Commonwealth Office

London SW1A 2AH

29 March 1983

Dear John,

Future of Hong Kong: Call on the Prime Minister by Madame Chen Muhua, Chinese Minister of Foreign Economic Relations and Trade 30 March

Madame Chen Muhua is due to call on the Prime Minister at 0900 hours on Wednesday 30 March. She is the first senior Chinese Minister to visit Britain since the Prime Minister's visit to China in September. She is an alternate member of the Politburo and, according to secret sources, was quite recently and may still be a member of a policy group on Hong Kong under the Politburo.

Flag A+B

The Secretaries of State for Trade and Industry have been given defensive briefing only on Hong Kong's future, but HMA Peking takes the view (Peking telnos 205 and 254) that it would be unnatural for the Prime Minister not to raise the subject. Mr Pym agrees.

The Ambassador delivered the Prime Minister's message to Premier Zhao, via Vice Foreign Minister Yao, on 23 March. It is most unlikely that a reply will have been received by 30 March. It is possible that the Chinese may wait to see what if anything is said to Mme Chen before considering their reply.

On the assumption that no reply has been received by 30 March, it would be helpful to stress the need to begin substantive talks, say how important the message to Zhao is, and that it goes as far as the Prime Minister can go constitutionally to meet the Chinese 'premise'.

If a reply to the Prime Minister's message has been received by then we will of course need to reconsider what the Prime Minister says.

/A suggested

/ A suggested line to take with Madame Chen is attached.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

CALL ON THE PRIME MINISTER BY MADAME CHEN,
CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS
AND TRADE, 30 MARCH.

LINE TO TAKE

1. Matter of much regret that substantive talks on future of Hong Kong, agreed with Chairman Deng and Premier Zhao, have not begun.

2. Whatever differences may exist between us there is much common ground. In both our interests, and of course Hong Kong's, that we work towards an agreement. The talks will enable us to do that.

3. As you may know, I have sent a personal and confidential message to Premier Zhao. In it I have gone so far as I can to get the talks going. On the question of sovereignty, it represents the limit to which I can go, given the overriding power of Parliament in such matters.

4. A satisfactory agreement would be a milestone in our relationship and a great boost to the further development of cooperation and good relations between us. I hope Chinese leaders are giving as much careful thought to this message as I have done, and that substantive talks on this issue can soon begin.

5. (If specifically asked)
As I said in my message to Premier Zhao, it is not in my power as Prime Minister acting alone to agree to the transfer of sovereignty; that is a matter which I have to refer to Parliament which alone has the power to decide. Provided that agreement could be reached between the British and Chinese Government on administrative arrangements for Hong Kong which would guarantee the future

/prosperity

prosperity and stability of Hong Kong, and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, I would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China.

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FROM PEKING 030825Z MAR 83

TO ROUTINE FCO

TELEGRAM NUMBER 205 OF 3/3/83

REPEATED FOR INFO TO HONG KONG

FUTURE OF HONG KONG:

VISIT TO UK BY MADAME CHEN MUHUA

1. WE SHOULD CONSIDER WHAT IF ANYTHING SHOLD BE SAID TO MEE CHEN ABOUT THE FUTURE OF HONG KONG WHEN SHE VISITS THE UK FROM 24-31 MARCH. SHE IS AN ALTERNATE MEMBER OF THE POLITBURO.

2. MY FIRST THOUGHTS ARE THAT IT WOULD BE UNNATURAL TO SAY NOTHING AT ALL TO HER AND THAT THE BEST OPPORTUNITY TO RAISE THE MATTER WOULD BE WHEN SHE CALLS ON THE PRIME MINISTER ON 30 MARCH. EXACTLY WHAT MIGHT BE SAID WILL DEPEND ON DEVELOPMENTS BETWEEN NOW AND THEN.

3. WE COULD DISCUSS THIS WHEN I AM IN LONDON NEXT WEEK

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TELEGRAM NUMBER 254 OF 21/3/83

REPEATED FOR INFO TO HONG KONG

YOUR TELNO 172: FUTURE OF HONG KONG: CHEN MUHUA

1. I AGREE THAT LORD COCKFIELD AND MR JENKIN NEED ONLY HAVE DEFENSIVE BRIEFING. HOWEVER, I FEEL THAT THE PRIME MINISTER SHOULD RAISE THE SUBJECT WITH MADAME CHEN: AS I SAID IN MY TEL NO 205, IT WOULD BE UNNATURAL NOT TO.

2. IT IS VERY UNLIKELY THAT WE SHALL HAVE RECEIVED A REPLY TO THE PM'S MESSAGE BY 30 MARCHN EXACTLY ONE WEEK AFTER MY CALL ON YAO GUANG TO DELIVER IT. I THEREFORE AGREE THAT THE PRIME MINISTER SHOULD STRESS THE NEED TO BEGIN TALKS SOON. I RECOMMEND SHE REFER TO THE MESSAGE , SAY HOW IMPORTANT IT IS AND THAT IT IS AS FAR AS SHE CAN CONSITUTIONALLY GO TO MEET THE CHINESE ''PREMISE''. IT IS THIS LATTER POINT WHICH PARTICULARY NEEDS STRESSING. (IN THE MOST UNLIKELY EVENT THAT A REPLY HAD BEEN RECEIVED FROM ZHAO, THE LINE WOULD NEED TO BE CHANGED ACCORDINGLY).

3. I WOULD ADVISE STRONGLY THAT THE OCCASION SHOULD NOT REPEAT NOT BE USED TO INSTRUCT MADAME CHEN IN GENERAL ECONOMIC AND POLITICAL REALITIES. THE OVERRIDING OBJECTIVE MUST BE TO FOCUS ATTENTION ON THE MESSAGE AND ITS IMPORTANCE, AND THEREBY TO IMPROVE THE CHANCES OF A POSITIVE RESPONSE.
THE CHINESE MAY WELL WAIT TO SEE WHAT IS SAID TO MADAME CHEN BEFORE REPLYING. WE ARE AT A DELICATE JUNCTURE. AN EDUCATIVE LECTURE WOULD DETRACT FROM THE MAIN POINT OF THE MESSAGE AND, SINCE IT WOULD INEVITABLY CONTAIN TRUTHS WHICH THE CHINESE WOULD NOT LIKE TO HEAR, IT COULD ALSO DO POSITIVE HARM.
THIS IS NOT THE MOMENT FOR IT.
CRADOCK

FUTURE OF HONG KONG

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ADVANCED

SECRET

2 pp's

Prime Minister

Agree that the Australians should be given a general briefing about Hong Kong but should not be given details of our talks with the Chinese?

A. J. C. 29/3.

Foreign and Commonwealth Office

London SW1A 2AH

40

29 March 1983

Yes. Nothing must not be told too much. We have as yet no idea about how they would handle information when said not

Dear John,

Future of Hong Kong: Briefing the Australians prior to Premier Zhao's visit to Australia

The Chinese Premier, Zhao Ziyang, is visiting Australia from 17 to 23 April, following a visit to New Zealand.

Australia has an important relationship with China and at the same time has considerable business interests in Hong Kong. We have therefore been considering:

a. offering the Australians some up-to-date briefing, and

b. asking whether they would be prepared to make some general points to the Chinese.

Sir John Mason has reported that Hong Kong is very likely to come up in discussion and has suggested that the Australians would welcome a briefing on Chinese intentions, with defensive talking points. He also thinks that they would be willing to make general points about, eg the need to ensure the continuing stability of Hong Kong. However, he has cautioned against going too far in telling them about our talks with the Chinese or in any way appearing to involve them in the negotiating process. We strongly agree with this. We believe that we should give the new Australian Government a general picture of the background to the Hong Kong problem, with enough information to show that we recognise that they have important interests in Hong Kong. If we do not do something on these lines they will only have the Chinese side of the story. But it would be a mistake to go further. We should concentrate on our assessment of the Chinese ideas on Hong Kong and why they are viewed with so much scepticism, both in London and in Hong Kong. Points we should like the Australians to make, if they consider it appropriate, would focus on why and how Hong Kong works as successfully as it does, and how vital the present systems are to its continued stability and prosperity.

/As the

In addition we suggest that it would be helpful if Sir John Mason were authorised to brief the appropriate top officials (Sir G Yeend and Messrs Henderson and Cook) and, if possible, the new Foreign Minister, Mr Hayden, on the lines described above. This would of course need to be done in the strictest possible confidence as was the case when the previous Australian Administration was briefed.

I should be grateful to know whether the Prime Minister agrees with this proposal.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

The National Archives

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FM HONG KONG 280949Z MAR 83
TO ROUTINE F C O
TELEGRAM NUMBER 427 OF 28 MARCH
INFO PEKING

YOUR TELNO 286 : FUTURE OF HONG KONG

1. WE AGREE WITH YOUR PROPOSED REPLIES TO PRESS ENQUIRIES ON THE SUBJECTS LISTED IN PARA 1 OF TUR.

2. WE HAVE NOT OURSELVES BEEN QUESTIONED ON THESE SUBJECTS. WE ARE HOWEVER ASKED REGULARLY WHETHER I AM ABOUT TO GO TO PEKING TO TAKE PART IN THE TALKS. OUR RESPONSE IS SIMILAR TO YOURS.

YOUDE

THIS TELEGRAM
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FUTURE OF HONG KONG

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MR FLOWER PUSD

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Mr Coles No 10

39

10 DOWNING STREET

From the Private Secretary
SIR ROBERT ARMSTRONG

The Future of Hong Kong

The Prime Minister has noted the contents of your minute of 25 March and the accompanying JIC assessment

A. J. COLES

28 March, 1983

FILE

TOP SECRET UK EYES A

RM

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38

10 DOWNING STREET

B/C R. Jackling

From the Private Secretary

28 March, 1983

HONG KONG

The Prime Minister has read your Secretary of State's minute of 18 March and the enclosed paper on Chinese capabilities and options for military action against Hong Kong, as well as the possible British options.

The Prime Minister agrees with Mr. Heseltine that it would not be wise, at this time, to widen the circle of those involved in military contingency planning.

There is one aspect of the paper on which the Prime Minister would be grateful for your Secretary of State's further views. Paragraph 18 considers the contingency of a standing start invasion by the Chinese and states that the garrison would "fight in accordance with their current directive". That directive states, in paragraph 2(c), that the task of the garrison is "to identify such aggression and to offer such resistance as may be appropriate in the circumstances then prevailing in accordance with political direction at the time". Mrs. Thatcher is inclined to question whether, particularly given that an invasion could take place at short notice, this is sufficiently precise guidance for the garrison. She would be grateful for a comment on the meaning of the phrase "to identify such aggression". She would also welcome your Secretary of State's advice on whether it would not be appropriate to provide more detailed guidance on how the garrison should resist a Chinese attack (Mrs. Thatcher has, of course, noted the guidance contained in the last three sentences of paragraph 18 of the paper).

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

A. J. COLES

R. Mottram, Esq.,
Ministry of Defence

The National Archives

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10 DOWNING STREET

From the Private Secretary

25 March 1983

HONG KONG

You asked me whether an article in the Hong Kong Standard of 16 March, reporting that during his visit to London Dr Mahathir warned the Prime Minister about the way we were handling our talks with the Chinese over the future of Hong Kong, is consistent with the facts.

As you know from the record I provided at the time, this matter was not raised in the talks between the two Prime Ministers. Mrs. Thatcher has since told me that the only point made by Dr. Mahathir on Hong Kong in the course of his visit was that something would be necessary to save Chinese face.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

10 DOWNING STREET

From the Private Secretary

25 March, 1983

The Prime Minister has asked me to thank you for your letter of 2 March setting out the views of the Heung Yee Kuk on the maintenance of the stability and prosperity of Hong Kong. The contents of your letter are being studied and a reply will be sent to you in due course.

A. J. COLES

Mr. Lau Wong-fat

821

10 DOWNING STREET

From the Private Secretary

25 March, 1983

Hong Kong

Thank you for your letter of 24 March about the letter to the Prime Minister from the Heung Yee Kuk. I enclose an acknowledgment and should be grateful if you would send it to the Governor of Hong Kong for onward transmission. With regard to the substantive reply, I agree that it would be appropriate for a reply to be sent by the Governor on behalf of the Prime Minister.

A. J. COLES

John Holmes, Esq.,
Foriegn and Commonwealth Office

TOP SECRET

Hongkong 36

COPY NO. 3 OF 3

10 DOWNING STREET

From the Private Secretary

25 March, 1983

Future of Hong Kong: Civil Contingency Planning

Thank you for your letter of 22 March.

The Prime Minister agrees that, for the purpose of the civil contingency planning which you describe, other Departments may be consulted as necessary at the level of Permanent Under-Secretary. Mrs. Thatcher wishes the planning to be done in the smallest possible circle with strict control over the copying of any documents.

I am copying this letter to Richard Mottram (Ministry of Defence).

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office

TOP SECRET

PRIME MINISTER

Hong Kong

You minuted on the attached papers that paragraph 2c of Annex A needed further thought. Could you tell me what you had in mind - so that I can commission further work?

A. S. C.

24 March 1983

S/S Defence
PM 18/3

Foreign and Commonwealth Office

London SW1A 2AH

24 March, 1983

Dear Tony,

Hong Kong

Filed date order 2.3.83

I enclose a petition to the Prime Minister from the Heung Yee Kuk in Hong Kong asking the Hong Kong Government to inform the Kuk of the progress of talks on the future of Hong Kong. The petition was sent to us through the Governor's office.

You may like to acknowledge it in the normal way, sending your letter back to us for onward transmission to the Governor. I should also be grateful if we could have a word about how the substantive reply should be handled. The Department suggest that, since the Heung Yee Kuk is a statutorily established body in Hong Kong, with some prestige in the Territory, it would be appropriate for a reply to go from the Governor on behalf of the Prime Minister. (The Prime Minister met representatives of the Heung Yee Kuk at the reception at Government House during her visit to Hong Kong in September 1982). If you agree the Department will draft accordingly.

Yours ever

Roger Bone

pp. (J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Dowing Street

35

GR 600

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SECRET

FM PEKING 230926Z MAR 93

TO IMMEDIATE FCO

TELNO 269 OF 23 MARCH

RPTD IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

Read in full.

MY TELNO 253: FUTURE OF HONG KONG

1 I CALLED ON VICE FOREIGN-MINISTER YAO GUANG THIS AFTERNOON, HANDED OVER THE LETTER FOR TRANSMISSION TM ZHAO ZIYANG AND READ TO HIM THE CONTENT OF THE MESSAGE SLOWLY FROM MY COPY, CHECKING THAT THE INTERPRETER WAS GETTING IT RIGHT. I ADDED THAT THE PRIME MINISTER HAD ASKED ME TO SAY THAT SHE HAD MADE STRENUOUS EFFORTS TO GO AS FAR AS SHE COULD IN ORDER THAT THE TALKS, AGREED IN SPEPTEMBER AT THE HIGHEST LEVEL, MIGHT GET UNDER WAY. SHE HAD GIVEN A GREAT DEAL OF THOUGHT TO THE SITUATION AND WOULD BE GRATEFUL IF PREMIER ZHAO WOULD CONSIDER HER MESSAGE VERY CAREFULLY.

2. I SAID I SHOULD LIKE TO ADD AS A PERSONAL COMMENT THAT THE ASSURANCE IN THE MESSAGE REPRESENTED THE LIMIT OF WHAT THE PRIME MINISTER WAS EMPOWERED UNDER THE BRITISH CONSTITUTION TO AGREE TO ON HER OWN AUTHORITY. WE THEREFORE SAW IT AS A MOST IMPORTANT MESSAGE. WE HOPED THE CHINESE WOULD ALSO SEE IT AS SUCH AND AS A SIGN OF OUR SINCERITY IN SEEKING TO RESOLVE THE QUESTION OF THE FUTURE OF HONG KONG THROUGH FRIENDLY DISCUSSIONS WITH THE CHINESE GOVERNMENT.

3. I ASKED THAT IN VIEW OF ZHAO'S IMPENDING VISIT TO AUSTRALIA AND NEW ZEALAND, THE MESSAGE BE TRANSMITTED TO HIM AS QUICKLY AS POSSIBLE AND SHOULD RECEIVE THE MOST URGENT ATTENTION OF THE CHINESE AUTHORITIES. I ASKED FOR AN EARLY REPLY BEFORE ZHAO LEFT ON HIS TRAVELS.

4. FINALLY, I STRESSED THAT THE CONTENT OF THE MESSAGE AND ITS EXISTENCE SHOULD BE KEPT STRICTLY CONFIDENTIAL BY BOTH SIDES.

5. IN REPLY, YAO GUANG WELCOMED ME BACK AND SAID HE LOOKED FORWARD TO OUR WORKING TOGETHER. ZHAI ZIYANG KNEW OF MY WISH TO DELIVER THE MESSAGE PERSONALLY AND ''ATTACHED IMPORTANCE TO THIS QUESTION''. HOWEVER, HE WAS BUSY PREPARING FOR HIS JOURNEY ABROAD AND ALSO ON DOMESTIC MATTERS AND HAD ENTRUSTED YAO GUANG TO RECEIVE IT ON HIS BEHALF. YAO GUANG THANKED ME FOR READING THE MESSAGE AND FOR MY PERSONAL COMMENTS. HE SAID ''WE UNDERSTAND WHAT YOU SAID''. HE WAS CONFIDENT THAT ZHAO ZIYANG WOULD STUDY IT QUICKLY AND REPLY BEFORE LONG. HE THOUGHT HE AND I WOULD VERY SOON MEET AGAIN TO CONTINUE OUR WORK.

SECRET

/6. YM YAO

YM YAO CONTINUED THAT CHINA HAD ALL ALONG SEEN THE SINO-BRITISH RELATIONSHIP AS A FRIENDLY ONE. RELATIONS BETWEEN OUT TWO COUNTRIES HAD DEVELOPED FAIRLY WELL. CHINA WAS READY TO COOPERATE WITH US IN REACHING A GOOD SETTLEMENT OF THE HONG KONG ISSUE WHICH HAD BEEN LEFT OVER FROM HISTORY. LIKE US, CHINA ATTACHED IMPORTANCE TO DEVELOPING GOOD BILATERAL RELATIONS. OF COURSE, SPEAKING FRANKLY, THERE WERE DIFFERENCES, EVEN SERIOUS DIFFERENCES, ON THE HONG KONG ISSUE. BUT HE BELIEVED THAT THROUGH OUR RECENT CONTACTS WE HAD ENHANCED OUR UNDERSTANDING OF EACH OTHERS PROSITIONS. THE QUESTION WAS A DIFFICULT ONE BUT HE WAS CONFIDENT THAT THROUGH CONCERTED EFFORTS DIFFERENCES COULD BE NARROWED AND A SATISFACTORY SOLUTION ATTAINED.

7. I THANKED YAO AND SAID THAT WE TOO SHARED HIS CONFIDENCE THAT BY WORKING TOGETHER WE COULD OVERCOME OUR PROBLEMS. I HOPED THAT IN THAT SPIRIT WE COULD EXPECT AN EARLY AND POSITIVE REPLY TO THE PRIME MINISTER'S MESSAGE. YAO SAID ''YOU WILL NOT BE DISAPPOINTED''.

8.
COMMENT

I HAVE NO DOUBT THE MESSAGE GOT ACROSS AND WAS UNDERSTOOD. THERE WAS SOME DISCUSSION OF THE PRECISE CHINESE TRANSLATION OF THE KEY SENTENCE WHICH ALLOWED US TO STRESS ITS POSITIVE SIGNIFICANCE. YAO GUANG WAS ALSO SURPRISINGLY POSITIVE IN HIS RESPONSE, THOUGH I WOULD HESITATE TO ATTACH MUCH IMPORTANCE TO THAT.

CRADOCK

FUTURE OF HONG KONG

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34

GR 350
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FM PEKING 230300Z MAR 83
TO PRIORITY FCO
TELNO 263 OF 23 MARCH
RPTD INFO PRIORITY HONG KONG.

Read in full.
MT

FUTURE OF HONG KONG

1. CHEN ZHAOYUAN, PRC AMBASSADOR-DESIGNATE TO LONDON, HAD LUNCH WITH ME ON 22 MARCH. HE ASKED ABOUT MY RECENT TRIP TO LONDON, AND I TOLD HIM THAT I HAD RETURNED WITH A PERSONAL MESSAGE FROM MRS THATCHER TO PREMIER ZHAO. I WOULD DELIVER THE MESSAGE TO YAO GUANG ON 23 MARCH AND DID NOT WISH TO ANTICIPATE ITS CONTENT, BUT I COULD SAY THAT WE THOUGHT IT WAS A HELPFUL STEP AND WE HOPED THAT THE CHINESE WOULD SEE IT AS SUCH. IT WOULD CERTAINLY DEMONSTRATE OUR SINCERITY IN SEEKING AN AMICABLE NEGOTIATED SETTLEMENT. BUT THE CHINESE MUST REALISE THE CONSTITUTIONAL RESTRAINTS ON MRS THATCHER'S POWERS.

2. I TOLD CHEN THAT IT WOULD BE HIS JOB AS AMBASSADOR TO ENSURE THAT CHINESE LEADERS WERE MADE AWARE OF THE CONSTITUTIONAL REALITIES IN LONDON. HE ACCEPTED THIS, BUT REPLIED THAT I SHOULD INFORM MY GOVERNMENT ABOUT CHINESE REALITIES. I COMMENTED THAT THIS WOULD BE AN EASIER TASK IF THE CHINESE COULD TELL ME IN PLAIN TERMS WHAT THEIR DIFFICULTIES WERE.

3. FINALLY? I STRESSED THE NEED FOR CONFIDENTIALITY. WENG BENZUO (DIRECTOR OF WED) REHEARSED THE USUAL CHINESE RESPONSE, CLAIMING THAT THE CHINESE COULD NOT DECLINE TO STATE THEIR BASIC POSITION IN RESPONSE TO QUESTIONS FROM HONG KONG COMPATRIOTS (SEMICOLON) BUT THEY HAD NOT REVEALED THE CONTENT OF THE TALKS. WE AGREED TO DIFFER ON THIS POINT, BUT I WARNED THE CHINESE THAT DISCLOSURES COULD BE MISUNDERSTOOD OR DISTORTED BY THE PRESS, PARTICULARLY THE HONG KONG PRESS. I ADDED THAT THERE WAS GREAT PARLIAMENTARY PRESSURE ON MRS THATCHER TO REVEAL OUR POSITION. EVERY LEAK INCREASED THIS. A PUBLIC AIRING OF DIFFERENCES WOULD NOT BE HELPFUL TO PROSPERITY AND STABILITY IN HONG KONG.

4. CHEN HIMSELF SAID NEXT TO NOTHING ON THE SUBJECT OF HONG KONG EXCEPT THAT WE MUST WORK FOR AN AGREED SOLUTION. I ASSUME HE HAD MERELY BEEN INSTRUCTED TO FIND OUT WHAT HE COULD ABOUT THE MESSAGE.
CRADOCK

FUTURE OF HONG KONG

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33

Prime Minister

I think we shall be remiss if we do not carry out this planning. May Sir Antony Acland consult other PUS's where necessary (keeping knowledge of the planning to the absolutely essential minimum of people)?

A.J.C. 23/3.

PUS's yes. But the planning must be done in the smallest possible circle with strict control over the copying of any documents. MT

Foreign and Commonwealth Office
London SW1A 2AH

22 March 1983

Dear John,

Future of Hong Kong: Civil Contingency Planning

In my letter of 3 February I asked if the Prime Minister was content for the FCO to approach several other Government Departments on various aspects of civil contingency planning. In your reply of 9 February you said the Prime Minister was not then persuaded that these steps were necessary and wanted first to consider the MOD's military assessment.

The Hong Kong Government are now approaching the point in their own contingency planning where they need help from the London end. In order to provide this we need advice, on the most restricted basis, not only from the MOD, but also from the Home Office, the Treasury and Bank of England (as outlined in my letter of 3 February), and the DOT (on shipping and aviation matters). In due course one or two other Departments may need to be involved.

Perhaps I should add that the purpose of this contingency planning is to ensure that Hong Kong is given the necessary help in meeting a worst case situation which might arise if the negotiations with China over Hong Kong's future run into difficulties. Important areas include control of immigration; public order; the maintenance of confidence and loyalty of the Hong Kong Civil Service, of the Police and Unofficials; ensuring food, water and oil supplies; dealing with aircraft and shipping interference by China; and the requisitioning of shipping and aircraft for supply purposes. They are an essential complement to our strategy on handling the negotiations.

/Given the

Given the stage reached in the Hong Kong Government's own planning, I should be grateful to know whether the Prime Minister can now agree to our consulting other Government Departments through the channel proposed in my letter of 3 February and on a strict 'need to know' basis. This is of course a different exercise from the sort of military contingency planning mentioned in the Defence Secretary's minute of 18 March.

I am sending a copy of this letter to Richard Mottram (Ministry of Defence).

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

GRS 250

SECRET

32

SECRET

FROM PEKING 210745Z MAR 83

TO IMMTDIATE FCO

TELEGRAM NUMBER 253 OF 21/3/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TELNO 252: FUTURE OF HONG KONG.

1. WESTERN EUROPEAN DEPARTMENT INFORMED US ON SATURDAY THAT PREMIER ZHAO WAS TOO BUSY TO SEE ME AND THAT HE HAD INSTRUCTED YAO GUANG TO RECEIVE THE MESSAGE ON HIS BEHALF. YAO WOULD LET US KNOW WHEN HE COULD RECEIVE ME.

2. IN REPLY , WE TOLD WED THIS MORNING THAT I WAS VERY DISAPPOINTED THAT A PERSONAL MESSAGE FROM MY PRIME ~~MESSAGE~~ MINISTER HAD BEEN TREATED IN THIS WAY. SINCE IT WAS, HOWEVER, OF PARAMOUNT IMPORTANCE THAT THE MESSAGE SHOULD BE DELIVERED WITHOUT DELAY , I WOULD AGREE TO GIVE IT TO YAO AND SHOULD LIKE TO DO SO AS SOON AS POSSIBLE. I HAVE BEEN ASKED TO CALL AT 4 P.M. ON WEDNESDAY 23 MARCH.

COMMENT

3. IT WAS PREDICTABLE THAT ZHAO WOULD AVOID SEEING ME FOR AN INTERVIEW ABOUT A MESSAGE WITHOUT PRIOR WARNING OF THE CONTENTS AND I JUDGED IT ILL-ADVISED TO HOLD OUT FOR A HIGHER LEVEL WHEN OUR MAIN OBJECTIVE MUST BE TO GET THE MESSAGE ACROSS AS QUICKLY AS POSSIBLE AND TO GIVE IT THE BEST CHANCE OF FAVOURABLE CONSIDERATION. NEVERTHELESS CHINESE BEHAVIOUR HAS BEEN DISCOURTEOUS AND I INTEND, IN DUE COURSE,TO DRAW MFA'S ATTENTION TO THE CONTRAST BETWEEN THIS TREATMENT AND THAT ACCORDED THE CHINESE AMBASSADOR IN LONDON.

CRADOCK

FUTURE OF HONG KONG

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PEJABAT PESURUHJAYA TINGGI MALAYSIA, LONDON

(1).

Mr Coles (NO10) we spoke. Text of article as sent to Malaysian High Commission here. Perhaps you could let Reze Bunt know if it reflects any real exchange.

PERINGKAT KEUTAMAAN

PERINGKAT KESELAMATAN

TALIGERAM MASUK UNCLAS

Daripada: WISMA PUTRA KUALA LUMPUR

Tarikh: March: 19th, 1983

Kepada: MALAWAKIL LONDON

Prime Minister

Tal. No. 200

No - he did Dr. Mahathir speak in these terms to you? (see second page as well).

MHdes 22/3.

For Lily from Dennis.

A.J.C. 23/3

We have received the following telex from Hong Kong:-

"For your information, Hongkong Standard of March 16 carried a report by Ray Hearn from London about YAB PM's "Stern warning" to Thatcher over future of Hong Kong". Appended below is full text of reports:-

"Tread softly, Thatcher told"

A stern warning over the future of Hong Kong has been delivered to Prime Minister Margaret Thatcher by her Malaysia counterpart, Datuk Seri Dr Mahathir Mohamad. On a visit to Britain the Malaysian Prime Minister said, "Be careful, other Southeast Asian countries are concerned over the future of the territory." Downing Street sources say that in private talks, Dr Mahathir voiced his country's worries over the "Problem" of Hong Kong and how the British Government has so far handled it. He told of Malaysia business interests in the territory and what might happen to these in 1997.

Pembahagian

TYT
TPT
KC
Float
Log
File.....

...../2

It is believed that Mrs Thatcher was told of Malaysian dismay at the way in which the talks with the Chinese leaders had been handled, and the subsequent business chaos in Hong Kong. The tremors from this had been felt throughout Southeast Asia. It is also understood that Mrs Thatcher has heeded the Malaysian leader's warning, and will possible "Tread softly" in future. Dr Mahathir was in Britain ostensibly for trade talks with the British Government, but used the occasion to voice his fears over the future of Hong Kong. It is also understood that the Singapore Government is demonstrating similar fears as that expressed by the Malaysian leader. What is worrying both Singapore and Malaysian leaders is a mass exodus of rich Shinese capital from the area, which will take their money to the United States and Canada, rather than countries nearest to Hong Kong. The "Knock-on" effect for both Singapore and Malaysia if the wrong decisions are made, is thought to be "Devastating". Mrs Thatcher is being urged not to stress the "Legal" status of Hong Kong, and to attempt to work out a deal. - Ray Hearn in London".

MO 5/14

Copy No 1 of 4 Copies

PRIME MINISTER

HONG KONG

In his letter of 4th March your Private Secretary asked for a paper on the action that we should take if the Chinese attempted an armed invasion of Hong Kong at any time between now and 1997 and for a brief account of previous occasions when we had reinforced the Hong Kong garrison.

2. I attach a note which sets out some of the earlier history, present Chinese capabilities and options open to them, and possible British options. Paragraph 18 of the attachment and its annex describe the current position of our Commander in Hong Kong should the Chinese invade from a standing start - the point which you raised with me at our meeting. Our current reinforcement plan was set out in my earlier advice of 16th February: essentially it involves 3 infantry battalions which could reach Hong Kong quickly (one from Brunei within 24 hours).

3. We can take the consideration of military options somewhat further within the small circle I have involved here and bringing in - as I intend to - our Commander in Hong Kong, General Boorman, who will be in the UK after Easter. This will, however, fall short of the preparation of full contingency plans. To do that, we should need to involve a wider circle here and to bring in more people in Hong Kong, particularly to assess how we might respond to the options discussed in Paragraph 17 of the attachment. Subject to your views, I would not propose to widen the circle in this way given the risk of this leaking and being interpreted in ways which cut across our careful negotiating effort.

4. I am copying this minute and the attachment to the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

Ministry of Defence
18th March 1983

Hong Kong Hi

future

(NOT TO BE PHOTOCOPIED)

2051/1

HONG KONG

PRECEDENTS AND OPTIONS FOR MILITARY ACTION

INTRODUCTION

1. This note outlines precedents and options for military action in response to an external threat to Hong Kong. In particular, and as a preliminary, it briefly sets out the situation when Hong Kong was threatened by China at the end of its civil war and during the Korean war; notes some essential changes in the situation as between then and the current relative position today; and spells out a range of possible options for the future.

THE GARRISON IN THE PAST

2. In the late forties and early fifties it was thought possible that China would take military action against Hong Kong. The Chinese civil war had ended in favour of the Communists and they had closed up to the border. The Garrison, maintained at a strong level in the aftermath of the defeat of the Japanese in 1945, was therefore built up and plans were made to defend Hong Kong from attack. As the international situation further deteriorated with the Korean war, our own force level in Hong Kong was maintained at a high strength and defensive positions with wire and mines were prepared well forward near the border.

3. The general capability of our forces in the region at that time and other pertinent facts can be viewed under four main headings:

a. In Place Forces. The unreinforced garrison was of divisional size, with an armoured regiment, medium and field artillery, and heavy and light anti-aircraft regiments. The RAF had air defence and attack aircraft. The RN had a considerable number of ships on station supported by a major dockyard facility. The total garrison was over 25,000.

b. In Theatre Reinforcements. Substantial reinforcements of all three Services were in South East Asia, notable among which were the Far East Fleet based on Singapore and the airforces available in Singapore and Malaya.

c. Allied Forces. The United States Seventh Fleet dominated the Pacific. The United States was in direct confrontation with the Communist regime, controlled the China Sea and provided active protection for Taiwan, Quemoy and Matsu. The US was the only power with nuclear capable forces.

d. United Nations Forces. Communist China was not a member of the UN. The United Nations countries opposed to the invasion of South Korea (some 19 nations gave physical support) were committed to fight against Communist aggression outside China's borders.

4. It is not known, without further detailed research, to what extent the US or UN might have become involved, but China could not have been certain that they would not have done so; and the deterrent effect of this must have been considerable.

5. If these forces had been attacked, they would have fought and would certainly have done as well if not a great deal better than was done against the Japanese in 1941: and the battle might have taken much the same form with defensive engagements on at least two lines in the New Territories followed, if necessary, by a fighting withdrawal to a redoubt on Hong Kong Island. In this way time would have been gained during which it would have been hoped to invoke US and possibly UN intervention.

6. The only subsequent reinforcements which HMG have undertaken in Hong Kong are:

a. 1967/68. At the time of the Cultural Revolution one infantry battalion was sent from Singapore to reinforce the Garrison.

b. 1979/80. At the height of the illegal immigrant influx, companies from the infantry battalion in Brunei were brought up to Hong Kong, and an infantry battalion flew out from UK. In addition, a Royal Navy hovercraft, a fast patrol boat, a detachment of Royal Marines from the Raiding Squadron, and extra helicopters were sent from UK.

SOME CHANGED FACTORS: THEN AND NOW

7. There are three main changes which materially alter our military reactions to an external threat:

a. Military Balance. In the fifties our forces were strong, well structured with a full range of support weapons and supplied from well stocked bases in the same region: the Chinese army was basically infantry, slow moving and poorly supported. Now we have a garrison structured primarily for internal security with no other bases in region: China has emerged with much stronger forces including air and naval support and nuclear weapons systems. Although still less sophisticated than their western counterparts they can nevertheless pose a formidable threat if not matched by modern and sophisticated weapons on our side.

b. Allies. The United States, although strong in the area, could not now be counted on for physical support. Her forces are primarily matching and masking the greatly increased Soviet threat. She would at the very least discourage any entanglement by our forces with China which might disrupt stability and would almost certainly offer no aid.

c. Hong Kong Development. In 1950 the population was 2.5M of which 1M had recently fled from the revolution: it was largely anti-communist and nationalist in sentiment. It is now well over 5M with a significant pro-communist element as well as a residual nationalist faction. The majority may not wish to live under a communist regime, but they are all in awe of Peking. The population is urbanized, living in new townships of upwards of 100 thousand, some of which are located in areas close to the border where we would have been prepared to fight under previous plans. The sympathies of these people, once fighting was likely, could not be relied upon; moreover such a large population has become dependent upon sophisticated facilities which could be so easily knocked out early in any conflict.

CHINESE CAPABILITIES

8. The use of military force by China is only one of her options. She may do nothing or keep negotiations going inconclusively, in order to allow uncertainty to undermine our position. She may also orchestrate a massive influx of illegal immigrants, sabotage public utilities or instigate unrest. Nevertheless, she could in the last resort (although this is unlikely because it is altogether unnecessary) exercise the military option by first intimidating, then threatening the air, sea and land approaches and finally by invading to repossess Hong Kong. To do this China has adequate forces available close at hand in the GUANGZHOU Military Region.

9. GUANGZHOU Military Region (MR). This region which includes the provinces of GUANGDONG, GUANXI HUNAN and HAINAN island is the MR immediately adjacent to Hong Kong. Within the Region there are 20 Main Force Divisions which together with supporting arms total over 422,000 troops.

10. GUANDONG Military District (MD). There are 9 Divisions:

a. 42 Army (3 Divisions plus Artillery, Armour and Anti-aircraft units).

b. 55 Army (3 Divisions plus Artillery, Armour and Anti-aircraft units).

c. One Artillery Division Main Force (MF).

d. Two Lower Category Divisions.

Of these 42 Army is located immediately North of Hong Kong, within a geographical area of 350 miles by 150 miles.

11. Border Area. There are no MF units deployed along the frontier, since MF units are held in depth. The border itself is manned by troops of 116 Border Defence Regiment, supported by Public Security Bureau Troops and Customs Health and Immigration Officers.

12. Army Capability. The Chinese Communist Army remains an infantry force with little sophisticated equipment, and, although well equipped with light weapons, it is still comparatively weak in heavy armour and some artillery support. It is also short of wheeled vehicles, Armoured Personnel Carriers and adequate supporting vehicles. Nevertheless, its strength is very considerable.

13. Air Force (GUANGZHOU MR)

Bombers	- 76		
Air Defence	-	MIG 19-17	54 (all weather)
		MIG 15, 17, 19-21	617 (day)
			671
Ground Attack	-	MIG 15 and 45	27
TOTAL	801		

14. Navy (South China Sea Fleet)

Attack Submarines	13
DD	1
Frigates	7
Landing Ships	20
Missile Attack Craft	30
Small ships/craft	80

COURSES OPEN TO CHINA AND OUR MILITARY RESPONSE

15. In general terms there are four differing scenarios which may require a military response:

a. China contributes to rising tension by increasing military preparations in GUANGZHOU Military Region (sabre rattling).

b. China takes provocative action short of military invasion (closes road/rail links, cuts water, food and commodities or restricts sea or air access).

c. China invades with little or no warning using those forces close to Hong Kong in GUANDONG Military District (the "standing start" invasion).

d. China invades after a period of tension during which the UK would have had time to reinforce.

16. Period of Tension. China could create a period of tension by making provocative political initiatives or carrying out military manoeuvres within her borders. In such a period we for our part could show resolve or take action which might be termed as "raising the stakes" or a form of deterrence. Apart from political response, full deterrence would require massive

counter measures but for raising the stakes and making it clear that we could not be intimidated something less may be relevant. The range runs from a symbolic gesture of deploying some air defence equipment through to deploying a Fleet Task Force. All of these will require detailed research, and all will involve degrees of penalties for our forces elsewhere in the world. As examples, we could:

a. a. Set up a formal Intelligence Early Warning Indicator System: this is in hand now.

b. Institute regular Nimrod and Canberra early warning intelligence gathering flights from Kai Tak airport. If Kai Tak were obstructed, Nimrod only could be used with American help from the Philippines or from another base made available in South East Asia: this is unlikely.

c. Increase local exercises and reinforcement exercises: possible with considerable penalty.

d. Increase stockpiles of defence stores and ammunition including that required for heavier support weapons: possible but costly.

e. Set up stockpiles of heavy weapons, ie tanks, guns etc: very costly and to detriment of main roles in NATO.

f. Plan defensive positions and carry out command post exercises: possible but eventually overt.

g. Deploy air defence systems: possible with considerable detriment.

h. Construct defensive positions: this would be a highly overt move.

i. Deploy a Fleet Task Force either over the horizon or close at hand to Hong Kong. Currently a Fleet Deployment is planned for 83/84. To have it available in the Hong Kong area over a long period would entail delays to planned programmes and the deployment of additional logistic support - all to the continuing detriment of NATO forces.

17. Chinese Provocative Action Short of Invasion.

a. China could apply pressure on Hong Kong in numerous forms short of invasion. Examples range from closing Kai Tak International Airport, through a blockade of the sea approaches to a cut in road or rail links and the necessary food or water supplies. The effect of such restrictions in the highly urbanised society of Hong Kong could be quite out of proportion to the events themselves and could quickly lead to acute anxiety, internal disorder, a breakdown in confidence and a flight of capital. Such a course is highly unlikely to be adopted by the Chinese at present but it cannot be disregarded in the future.

b. If such a sequence of events became extended a severe strain would be placed upon the security forces and early

reinforcement would be required. The Hong Kong Government are already examining contingency plans for the civil emergencies. Joint Theatre Plans exist now for rapid reinforcement of the UK Garrison to cope with internal unrest and some refinements of these plans are in hand with Commander British Forces Hong Kong. Further detailed work has not been carried out on the particular problems of sea and air blockade: these will require wide range of consultation in order to produce realistic plans. The sensitivity of the subject precludes such action at present.

18. The Standing Start Invasion. Without a warning of aggression our current Garrison, organised as it is for internal security would fight in accordance with their current directive (relevant directive extracts are attached at Annex A). Initially their aim would be to define aggression in the border area. Subsequently, they would fight from strong points either in the hills or in the townships. They would continue for as long as possible or until the Governor as Commander-in-Chief ordered a halt. Realistically they could not hold out long.

19. The Invasion after Tension and Reinforcement.

a. Some or all of the action we would take during a period of tension might contribute to a pause in Chinese decision making and considerations: how long that pause would be is highly problematical. Nevertheless although the Chinese forces are formidable, all locally available and backed by much greater strength, the decision to commit them, accept casualties and engage in war as an aggressor still has to be taken and will be unpalatable in terms of international relations and the position over Taiwan.

b. For UK to resist aggression for more than a short period, and discounting any consideration of the effect on the civilian population, a force of the following general size would be the minimum needed:

(1) Land Forces

A divisional headquarters and signal regiment

An armoured reconnaissance regiment

Two armoured regiments

Two brigades complete, in addition to the existing and reinforced brigade

Medium and heavy artillery

An Air Defence Regiment and Blowpipe detachments

An Engineer Regiment

Divisional logistic units

(2) Air Forces

Two squadrons of attack aircraft

Two squadrons of air defence aircraft

Support units

(3) Naval Forces

One CVS Task Group

Six frigates FF/DD

One squadron of minesweepers

Four SSN

Amphibious support

c. The implications of deploying such a force need little emphasis but remain considerable. Units would have to be taken, for the most part, from our forces assigned to NATO. Movement and logistic support would entail the bulk of our available assets and would require substantial extra civilian resources, possibly over a protracted period. Finally, the sustainability of such a force would depend upon secure base facilities and stockpiles in the theatre.

ANNEX A TO
2051/1
DATED: 18 MAR 83

EXTRACTS FROM DIRECTIVE TO THE COMMANDER BRITISH FORCES HONG KONG

"STRATEGIC AIM

1. To maintain the British position in Hong Kong in accordance with the policy of HM Government.

TASK

2. Your task is to assist the Hong Kong Government to maintain stability and security and to sustain confidence in HMG's intention to maintain the British position in the Colony. You are:

a. to support the Civil Administration and Police:

(1) in the maintenance of law and order within the Colony and on its frontiers;

(2) in dealing with natural disasters and similar eventualities;

b. to be prepared, in the event of rising tension between the Hong Kong Government/HMG and the Chinese Government, to deploy such force as may be necessary to sustain confidence and discourage armed incursions or aggression, in accordance with p9litical direction at the time;

c. to be prepared, in the event of Chinese armed aggression, to identify such aggression and to offer such resistance as may be appropriate in the circumstances then prevailing in accordance with political direction at the time.

3. Where necessary to assist you in these tasks it will be the responsibility of the Chiefs of Staff to provide you with reinforcements, the scale of which will be as set out in the relevant contingency plan. You may make requests for reinforcements in addition to these, but there can be no guarantee that they will be made available. Your plans must therefore be based on the scale of reinforcements specified in the approved contingency plan."

10 DOWNING STREET

From the Private Secretary

MR. HATFIELD
Cabinet Office

Negotiations with the Chinese on Hong Kong

The Prime Minister has seen Mr. Savage's minute of 16 March and the attached containing comments by a senior Chinese official about the negotiations on the future of Hong Kong.

The Prime Minister regards this as a potentially very important report but is not clear as to how much reliance we can place on it. She would therefore be grateful for the most thorough possible assessment of the reliability of the report as an indication of the real intentions of Peking. I should be grateful if you could put this in hand.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and Richard Mottram (Ministry of Defence).

A. J. COLES

18 March, 1983

The National Archives

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10 DOWNING STREET

Prime Minister

This is a fascinating and potentially very important report. But it is not at all clear how much reliance we can place on it. I propose to ask for the most thorough possible assessment of the reliability of the report as an indication of the real intentions of Peking. Agree?

A. J. C. 15/3

Yes MT

Hong Kong

GRS 260 CONFIDENTIAL

CONFIDENTIAL

FM WASHINGTON 161830Z MAR 83

TO IMMEDIATE FCO

TELNO 645 OF 16 MAR 83

INFO PRIORITY PEKING GOV HONG KONG

M 17/3

FUTURE OF HONG KONG : AMERICAN VISITORS TO CHINA

1. A NUMBER OF AMERICAN CONGRESSMEN WILL BE VISITING CHINA DURING THE EASTER RECESS. IN PARTICULAR HOUSE SPEAKER TIP O'NEILL WILL VISIT CHINA FROM 25 MARCH TO 3 APRIL, AND, AFTER A VISIT TO SINGAPORE, WILL BE IN HONG KONG FROM 5 TO 8 APRIL. WE UNDERSTAND THAT A MEETING WITH SIR E YOUDE HAS ALREADY BEEN ARRANGED. IN PEKING THEY ARE THE GUESTS OF THE NATIONAL PEOPLE'S CONGRESS AND EXPECT TO SEE DENG XIAOPING AS WELL AS THE FOREIGN MINISTER.

2. THE NEW CHAIRMAN OF THE SENATE FOREIGN RELATIONS COMMITTEE EAST ASIA SUB-COMMITTEE, SENATOR MURKOWSKI, WILL BE IN CHINA AT THE HEAD OF AN ALASKAN TRADE DELEGATION FROM 3 - 10 APRIL, LEAVING VIA CANTON FOR HONG KONG AFTERWARDS.

3. CONGRESSMAN DINGELL (CHAIRMAN OF THE HOUSE ENERGY COMMITTEE) AND CONGRESSMAN PATTERSON (A MEMBER OF THE HOUSE BANKING COMMITTEE) WILL ALSO BE VISITING CHINA, PRIMARILY ON ECONOMIC BUSINESS.

4. WE HAVE NOT BEEN IN TOUCH WITH ANY OF THE ABOVE DIRECTLY AT THIS STAGE, BUT CONSIDER THAT IT WOULD BE WORTH OFFERING SOME GENERAL BRIEFING TO O'NEILL AND MURKOWSKI OR THEIR STAFFS ON THE CURRENT BACKGROUND TO OUR TALKS WITH THE CHINESE. IF WE ARE TO PUT THIS IN MOTION WE WOULD NEED TO APPROACH THEIR OFFICES SOON.

WRIGHT

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD HD/NAD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
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MR COLES NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE

CONFIDENTIAL

29

Copy SECRET UKEYES A

010

From the Secretary of the Cabinet

Mr Coles

You may wish to be aware of the attached CX report (for return pse).

28 (2)

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

A.J.C. 16/3.

15 March 1983

MT

Dear John,

Future of Hong Kong

Thank you for your letter of 14 March about a report in the Hong Kong press that China intends to resume sovereignty over Hong Kong in September.

We are asking Hong Kong and Peking if they have any further comments. Should they have anything to add to what is below we shall let you know.

We have seen no collateral whatsoever for this report. Its apparent source, 'Reference News', is a digest of foreign press news items translated into Chinese for readers with a particular need for knowledge of overseas events. It is not a mouthpiece of Party or Government. It is therefore a most unlikely vehicle for announcing what would be a major decision by China's central leadership.

It is significant that later the same day (11 March) the pro-Communist Hong Kong newspaper 'New Evening Post' described the report as 'a clumsy distortion' and 'a rumour ... far from the truth'. Aware of the harmful effect such a report can have on confidence, the 'New Evening Post' also said that the rumour ran contrary to the aim of maintaining Hong Kong's stability and prosperity. We know that rumours about a Chinese announcement in June have been circulating in Hong Kong and it is possible that this has been distorted and confused with China's plan to recover sovereignty at a specified date ie 1997.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

Hong Kong's Future, p45

GR 200

SECRET

27

SECRET

FM HONG KONG 151047Z MAR 83
TO PRIORITY F C O
TELEGRAM NUMBER 352 OF 15 MARCH
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

Read in full.

MT

MY TELNO 347 : FUTURE OF HONG KONG

AS I HAVE REPORTED IN MY TUR I INFORMED EXCO THIS MORNING OF THE MESSAGE FROM THE PRIME MINISTER TO PREMIER ZHAO AND OF THE REASONS FOR IT. THEY EXPRESSED THEIR SUPPORT FOR THE ACTION BEING TAKEN.

2. THE SENIOR UNOFFICIAL SAID THAT THE MESSAGE MIGHT BE INTERPRETED BY THE CHINESE AS A SIGN OF BRITISH IMPATIENCE OR POSSIBLY AS A STEP BACK ON THE SOVEREIGNTY ISSUE. IT COULD PROMPT A REPLY WHICH COULD WRITE IN THE CHINESE PRECONDITION FOR TALKS. ON THE OTHER HAND ARGUMENTS IN FAVOUR OF IT WERE THAT IT WOULD OFFER THE CHINESE A WAY OUT AND THUS ENABLE THE TALKS TO START AND AVOID CONFRONTATION. IT COULD ALSO DETER THEM FROM AN ANNOUNCEMENT OF THEIR PLANS IF THEY WERE THINKING OF MAKING ONE SEMI-COLON AND IN THE FINAL RECKONING IT WOULD SHOW THAT WE HAD DONE OUR VERY BEST TO GET THE TALKS GOING. ON BALANCE HE WAS PREPARED TO EXPRESS SUPPORT FOR THE MESSAGE.

3. MOST OF THE MEMBERS WERE MORE WHOLEHEARTEDLY IN FAVOUR OF IT AND THOUGHT IT WELL DRAFTED. ALL WERE READY TO BE ASSOCIATED WITH AN EXPRESSION OF SUPPORT.

4. IN CONSIDERING THE NEW FORMULA THEY NOTED IN PARTICULAR THE REFERENCE IN THE MESSAGE TO THE NEED FOR ARRANGEMENTS TO BE ACCEPTABLE TO THE PEOPLE OF HONG KONG BEFORE ANY RECOMMENDATION ON SOVEREIGNTY WAS MADE TO PARLIAMENT.

YOUDE

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
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SIR J BULLARD
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MR ROBERTS NEWS D
MR COLES NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE

THIS TELEGRAM WAS NOT ADVANCED

SECRET

26

SECRET

GR 30

A.S.C. 15/3

f.a.

SECRET
DESKBY FCO 150930Z
DESKBY PEKING 150600Z
FM HONG KONG 150355Z MAR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 347 OF 15 MARCH
INFO IMMEDIATE PEKING

YOUR TELNO 142 AND MY TELNO 341.
FUTURE OF HONG KONG.
WHEN I INFORMED EXCO THIS MORNING THEY EXPRESSED SUPPORT FOR THE ACTION BEING TAKEN.

YOUDE

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
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Foreign and Commonwealth Office

London SW1A 2AH

14 March 1983

Mr Coles
Mr Richards
I have slightly revised the line to take and suggest we should have it available for Tuesday and Thursday.
14.3

Dear John,

Future of Hong Kong: Prime Minister's Question Time

p.a.
A.J.C. 14.3

Following the visit to London by the Governor of Hong Kong and Sir Percy Cradock the Prime Minister may find it useful to have a line to use if asked in Parliament about the state of play on Hong Kong. I enclose a suggested form of words. Up to now we have confined Parliamentary statements to saying that meetings are continuing in Peking on the basis of the Prime Minister's agreement with Chinese leaders and that their content must be confidential. The draft goes further. It is obviously necessary to refer to the visit of the Governor and Ambassador and some confident conclusion would help. The reference to an agreement acceptable to Britain and China and the people of Hong Kong is similar to that used by Lord Belstead during his visit to Hong Kong and is in line with the wording of the Prime Minister's message to Zhao.

Yours ever
John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

FUTURE OF HONG KONG

The House will recall the agreement which I reached with the Chinese leaders in September last year that talks though diplomatic channels should be started with the common aim of maintaining Hong Kong's stability and prosperity. Meetings involving our Ambassador in Peking, Sir Percy Cradock, and the Chinese Ministry of Foreign Affairs have been taking place for some months and are continuing. Sir P Cradock and the Governor of Hong Kong, Sir Edward Youde visited London last week. The current position was fully reviewed ~~We had a very full review of the current position in Peking~~ and I heard the Governor's assessment of the views of Hong Kong people. We shall continue ~~As a result I am sure we must concentrate on direct talks with the Chinese Government in order~~ our efforts to achieve an agreement acceptable and to Britain and China ~~and~~ to the people of Hong Kong. ~~I have no doubt that such an agreement is possible.~~

Hong Kong Future, pt 5

SECRET AND PERSONAL

HL

cc CO 24

10 DOWNING STREET

From the Private Secretary

14 March 1983

Hong Kong

returned JC

The Prime Minister has read of 9 March. You should know that Mrs. Thatcher expressed interest in the idea, attributed by the report to "some Hong Kong people", that Hong Kong should have its own seat at the United Nations.

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

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

14 March 1983

Hong Kong

The Prime Minister has seen Hong Kong telegram No. 334 which describes a report in the Hong Kong press that an internal Chinese document circulating on the mainland reveals China's intention of resuming sovereignty in September this year.

Mrs. Thatcher has commented that this appears to be a completely new development. She has asked whether we can obtain any further information. I should be grateful for your early comments.

JOHN COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

23B

PP PEKING
GRS 557
SECRET
FM FCO 111300Z MAR 83
TO PRIORITY PEKING
TELEGRAM NUMBER 143 OF 11 MARCH
INFO PRIORITY HONG KONG.
PERSONAL FOR CHARGE.
MIPT : FUTURE OF HONG KONG.

A.J.C. 14/3
f.a.

1. PRIME MINISTER'S MESSAGE TO PREMIER ZHAO READS AS FOLLOWS:
'MY DEAR PRIME MINISTER,

I RECALL THE FAR RANGING AND IMPORTANT TALKS I HELD WITH YOU AND WITH CHAIRMAN DENG XIAOPING ON THE SUBJECT OF HONG KONG DURING MY VISIT TO PEKING IN SEPTEMBER OF LAST YEAR. AS YOU KNOW, AT THE CONCLUSION OF THE MEETING WITH CHAIRMAN DENG HE AND I AGREED ON A JOINT STATEMENT. IN THIS STATEMENT WE RECOGNISED THAT THERE WERE DIFFERENCES BETWEEN US BUT WE AGREED THAT TALKS SHOULD TAKE PLACE THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIM OF MAINTAINING THE FUTURE STABILITY AND PROSPERITY OF HONG KONG.

SINCE THEN VARIOUS MEETINGS HAVE TAKEN PLACE IN PEKING BETWEEN THE BRITISH AMBASSADOR AND SENIOR REPRESENTATIVES OF THE CHINESE MINISTRY OF FOREIGN AFFAIRS. IT IS A GREAT DISAPPOINTMENT TO ME THAT ALTHOUGH SIX MONTHS HAVE ELAPSED SINCE MY VISIT NO REAL PROGRESS HAS BEEN MADE THROUGH THESE CONTACTS AND WE HAVE NOT YET BEEN ABLE TO BEGIN SUBSTANTIVE TALKS ON THIS VITAL ISSUE.

I FULLY UNDERSTAND THE IMPORTANCE THE CHINESE GOVERNMENT ATTACH TO THE MATTER OF SOVEREIGNTY. BUT AS I EXPLAINED TO YOU AND CHAIRMAN DENG IT IS NOT CONSTITUTIONALLY IN MY POWER AS PRIME MINISTER ACTING ALONE TO AGREE TO THE TRANSFER OF SOVEREIGNTY SEMI COLON THAT IS A MATTER WHICH I HAVE TO REFER TO PARLIAMENT WHICH ALONE HAS THE POWER TO DECIDE. IF PARLIAMENT IS TO AGREE TO SUCH A TRANSFER OF SOVEREIGNTY, IT WILL NEED TO BE PART OF AN OVERALL PACKAGE OF MEASURES GUARANTEEING THE FUTURE STABILITY AND PROSPERITY OF HONG KONG. I UNDERSTAND YOUR DIFFICULTIES, BUT I HOPE THAT YOU WILL UNDERSTAND MINE. IN MY MEETING WITH YOU I SAID THAT I WOULD BE PREPARED TO CONSIDER

MAKING RECOMMENDATIONS ON SOVEREIGNTY TO PARLIAMENT IN CERTAIN CIRCUMSTANCES. PERHAPS IT WOULD BE HELPFUL IF I STRENGTHENED THAT ASSURANCE. PROVIDED THAT AGREEMENT COULD BE REACHED BETWEEN THE BRITISH AND CHINESE GOVERNMENT ON ADMINISTRATIVE ARRANGEMENTS FOR HONG KONG WHICH WOULD GUARANTEE THE FUTURE PROSPERITY AND STABILITY OF HONG KONG, AND WOULD BE ACCEPTABLE TO THE BRITISH PARLIAMENT AND TO THE PEOPLE OF HONG KONG AS WELL AS TO THE CHINESE GOVERNMENT, I WOULD BE PREPARED TO RECOMMEND TO PARLIAMENT THAT SOVEREIGNTY OVER THE WHOLE OF HONG KONG SHOULD REVERT TO CHINA.

I PROFOUNDLY BELIEVE THAT BOTH OUR GOVERNMENTS HAVE A RESPONSIBILITY TO ACHIEVE AN EARLY NEGOTIATED SOLUTION TO THIS PROBLEM AND I VERY MUCH HOPE THAT WE CAN CO-OPERATE TO EXERCISE THAT JOINT RESPONSIBILITY. I AM CONFIDENT THAT IF WE DO SO IT WILL BE POSSIBLE TO REACH A SOLUTION CONSONANT WITH CHINESE AND BRITISH INTERESTS AND THOSE OF THE PEOPLE OF HONG KONG. THIS WILL BE A GREAT CONTRIBUTION TO THE DEVELOPMENT OF FRIENDLY RELATIONS BETWEEN BRITAIN AND CHINA TO WHICH WE ATTACH THE HIGHEST IMPORTANCE IT WOULD POINT THE WAY TO EVEN CLOSER CO-OPERATION BETWEEN OUR TWO GOVERNMENTS AND PEOPLES.

I HAVE EXPLAINED MY POSITION TO YOU IN AS FRANK AND AS POSITIVE WAY AS I CAN IN THIS MESSAGE. I HOPE THAT IN THE LIGHT OF IT YOU AND CHAIRMAN DENG WILL AGREE THAT THE CHINESE GOVERNMENT ARE PREPARED TO ENTER INTO SUBSTANTIVE TALKS. I HOPE THAT IN YOUR REPLY YOU WILL BE ABLE TO TELL ME THAT WE CAN HOLD THE FIRST OF SUCH DISCUSSIONS WITHIN THE NEXT MONTH.'

YOURS SINCERELY,

MARGARET THATCHER'

PYM

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

COPIES TO

SIR I SINCLAIR LEGAL ADVISER
MR ROBERTS NEWS D
MR COLES NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

23A

S E C R E T

7815 - 1

A.J.C. 14/3

h.a.

PP PEKING
GRS 182
SECRET
FM FCO 111656Z MAR 83
TO PRIORITY PEKING
TELEGRAM NUMBER 142 OF 11 MARCH
INFO PRIORITY HONG KONG
PESONAL FOR CHARGE
FUTURE OF HONG KONG

1. THE PRIME MINISTER HAS DECIDED TO SEND A PERSONAL MESSAGE TO PREMIER ZHAO. THE AMBASSADOR WILL BRING THE SIGNED ORIGINAL WITH HIM. THE TEXT IS IN MIFT.

2. BEFORE THE AMBASSADOR DELIVERS THE MESSAGE THE PRIME MINISTER WISHES THE GOVERNOR TO TELL EXCO OF ITS CONTENT AND WHY IT IS BEING SENT. ONCE THE GOVERNOR HAS CONFIRMED THAT THIS HAS BEEN DONE THE AMBASSADOR SHOULD DELIVER THE MESSAGE AS SOON AS POSSIBLE. IF THIS CANNOT BE DONE WITH ZHAO PERSONALLY IT SHOULD BE DELIVERED AT THE HIGHEST POSSIBLE APPROPRIATE LEVEL.

3. THE AMBASSADOR SHOULD STRESS THE CONFIDENTIAL NATURE OF THE MESSAGE. HE MAY ALSO SAY, IF HE JUDGES IT HELPFUL, THAT THE PRIME MINISTER HAS MADE STRENUOUS EFFORTS TO GO AS FAR AS SHE CAN TO GET THE TALKS, AGREED IN SEPTEMBER AT THE HIGHEST LEVEL, GOING. SHE HAS GIVEN A GREAT DEAL OF THOUGHT TO THE SITUATION AND WOULD BE GRATEFUL IF THE CHINESE WOULD CONSIDER HER MESSAGE VERY CAREFULLY. IT REPRESENTS THE LIMIT OF WHAT SHE CAN AGREE TO.

PYM

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

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SIR I SINCLAIR LEGAL ADVISER
MR ROBERTS NEWS D
MR COLES NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE

SECRET

GR 220
RESTRICTED

RESTRICTED

This is totally new to us – can we find out any more and report?

DESKBY 110900Z

FM HONG KONG 110504Z MAR 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 334 OF 11 MARCH
INFO IMMEDIATE PEKING
INFO ROUTINE HONG KONG GOVERNMENT OFFICE LONDON

FUTURE OF HONG KONG : PRESS COVERAGE

THE INDEPENDENT ORIENTAL DAILY AND THE PRO-KMT HONG KONG TIMES ON 11 MARCH CARRY AS THEIR FRONT PAGE LEAD A REPORT THAT AN INTERNAL CHINESE DOCUMENT CIRCULATING ON THE MAINLAND REVEALS CHINA'S INTENTION OF RESUMING SOVEREIGNTY IN SEPTEMBER THIS YEAR. BOTH NEWSPAPERS APPEAR TO BE QUOTING THE SAME SOURCE, BUT THERE ARE DIFFERENCES OF DETAIL BETWEEN THE TWO STORIES. THE ORIENTAL DAILY DOES NOT MENTION THE DATE OF SEPTEMBER, BUT WE KNOW FROM THE EDITORIAL STAFF THAT THEIR SOURCE REFERRED TO SEPTEMBER AND THE PAPER DECIDED NOT TO PUBLISH THE DATE. THE ORIENTAL DAILY SAYS THAT THE SOURCE OF THE INFORMATION IS A COPY OF REFERENCE NEWS ''CAN KAO XIAO XI'' SEEN BY HONG KONG RESIDENTS RETURNING FROM A VISIT TO FUJIAN. THE HONG KONG TIMES IS LESS EXPLICIT ABOUT THE SOURCE, BUT DOES MENTION THE SEPTEMBER DATE. THE SOUTH CHINA MORNING POST ON 11 MARCH REFERS TO THE ORIENTAL DAILY AND HONG KONG TIMES STORIES ON AN INSIDE PAGE.

2. THE EDITOR OF THE HONG KONG TIMES TELEPHONED THE DIRECTOR OF INFORMATION SERVICES LAST NIGHT ABOUT THE STORY AND ASKED FOR A COMMENT. HE WAS TOLD THAT THE HONG KONG GOVERNMENT HAD NO COMMENT TO MAKE. THE HONG KONG TIMES' STORY QUOTES A GOVERNMENT SPOKESMAN AS SAYING THAT THE HONG KONG GOVERNMENT HAD HEARD NOTHING OF THE SORT.

3. TRANSLATIONS OF THE TWO ARTICLES ARE BEING FACSIMILIED TO THE LONDON OFFICE.

HADDON-CAVE

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

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MR MARTIN ASSESSMENTS STAFF CABINET OFFICE

HONG KONG GOVT OFFICE LONDON

RESTRICTED

The National Archives

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da

23

10 DOWNING STREET

From the Private Secretary

10 March 1983

Hong Kong

The Prime Minister has seen the minute of 8 March by the Foreign and Commonwealth Secretary recommending that she should send a message to Prime Minister Zhao Ziyang on the future of Hong Kong.

This matter was raised on a very confidential basis in Cabinet this morning. Ministers endorsed the Prime Minister's proposal that a message should be sent.

I now enclose the message which the Prime Minister has signed. I should be grateful if you could arrange for it to be delivered to Mr. Zhao Ziyang.

As you know from my record of yesterday's discussion of this question, the Prime Minister wishes the Governor of Hong Kong to inform EXCO about the message before it is delivered in Peking.

Following a brief word which I had with Sir Percy Cradock here yesterday, the Prime Minister would be content for him to say, when delivering the message, if this is judged helpful, that she has made strenuous efforts to go as far as she can to get talks going and that this message represents the limit of what she can agree to.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

NR

SECRET

SUBJECT cc Master Ops

PRIME MINISTER'S PERSONAL MESSAGE
SERIAL No. T28/83

RM

22

10 DOWNING STREET

THE PRIME MINISTER

10 March 1983

My dear Prime Minister,

I recall the far ranging and important talks I held with you and with Chairman Deng Xiaoping on the subject of Hong Kong during my visit to Peking in September of last year. As you know, at the conclusion of the meeting with Chairman Deng he and I agreed on a joint statement. In this statement we recognised that there were differences between us but we agreed that talks should take place through diplomatic channels with the common aim of maintaining the future stability and prosperity of Hong Kong.

Since then various meetings have taken place in Peking between the British Ambassador and senior representatives of the Chinese Ministry of Foreign Affairs. It is a great disappointment to me that although six months have elapsed since my visit no real progress has been made through these contacts and we have not yet been able to begin substantive talks on this vital issue.

I fully understand the importance the Chinese Government attach to the matter of sovereignty. But as I explained to you and Chairman Deng it is not constitutionally in my power as Prime Minister acting alone to agree to the transfer of sovereignty; that is a matter which I have to refer to Parliament which alone has the power to decide. If Parliament is to agree to such a transfer of sovereignty, it will need to be part of an overall package of measures guaranteeing the future stability and prosperity of Hong Kong.

/I understand

I understand your difficulties, but I hope that you will understand mine. In my meeting with you I said that I would be prepared to consider making recommendations on sovereignty to Parliament in certain circumstances. Perhaps it would be helpful if I strengthened that assurance. Provided that agreement could be reached between the British and Chinese Government on administrative arrangements for Hong Kong which would guarantee the future prosperity and stability of Hong Kong, and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, I would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China.

I profoundly believe that both our governments have a responsibility to achieve an early negotiated solution to this problem and I very much hope that we can co-operate to exercise that joint responsibility. I am confident that if we do so it will be possible to reach a solution consonant with Chinese and British interests and those of the people of Hong Kong. This will be a great contribution to the development of friendly relations between Britain and China to which we attach the highest importance. It would point the way to even closer co-operation between our two governments and peoples.

I have explained my position to you in as frank and as positive way as I can in this message. I hope that in the light of it you and Chairman Deng will agree that the Chinese Government are prepared to enter into substantive talks. I hope that in your reply you will be able to tell me that we can hold the first of such discussions within the next month.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Zhao Ziyang

CONFIDENTIAL

FILE

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

The Economic Value to Hong Kong to China

The Prime Minister has seen your minute of 4 March and the attached draft JIC report on the above subject.

A. J. COLES

10 March, 1983

CONFIDENTIAL

SECRET

21

10 DOWNING STREET

PRIME MINISTER

HONG KONG

I attach, as you asked, a speaking note for Cabinet tomorrow.

I also attach an agreed message from yourself to Zhao.

A.J.C.

9 March 1983

SECRET

HONG KONG

1. I should like to brief the Cabinet orally on Hong Kong.

2. As colleagues know, I visited Peking in September. I agreed with Deng on a communique which, while noting our differing position on sovereignty, agreed that there should be talks with the common aim of ensuring the continued stability and prosperity of Hong Kong.

3. There have been contacts between the two sides since then. But the Chinese hedged for a long time about starting talks and recently stated to us formally that a precondition for talks was British recognition that China would have sovereignty over the whole area in 1997.

4. Meanwhile the Chinese have engaged in a massive propaganda campaign designed to persuade the people of Hong Kong of the inevitability of Chinese sovereignty. They have implied that administration must go with sovereignty, though Hong Kong Chinese would have a role in running Hong Kong after 1997.

5. Recently, there has been a report that in June China may publicise its "plan" for Hong Kong. That would be the first official public statement and could well damage confidence in Hong Kong.

6. Against this background I have reviewed the position with the Foreign and Defence Secretaries, the Governor and our Ambassador in Peking. We believe that our aim must be to continue to work for a solution which will preserve stability and prosperity. That means that the essential elements of British administration must continue after 1997.

/7.

7. But we shall not be able to persuade the Chinese of this, nor shall we discover the true Chinese position, until we engage them in talks.

8. When in Peking I told Deng that if suitable arrangements could be made to preserve the stability and prosperity of Hong Kong I would be prepared to consider making recommendations to Parliament about sovereignty.

9. That has proved not to be a sufficient inducement to them to enter into talks. Following our recent review of the position I propose to Cabinet that we should take a further step. That is, I would send a formal message to the Chinese Prime Minister:

(a) recalling our talks and the agreed communique

(b) expressing my disappointment at the lack of progress

(c) stressing that it is not in my power to agree to the transfer of sovereignty

(d) but adding that provided agreement can be reached on administrative arrangements for Hong Kong which would guarantee its future prosperity and stability, and were acceptable to Parliament and the people of Hong Kong, I would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China.

10. This would mark an advance in their eyes. There is no guarantee that it will ensure that talks start but it is worth trying. If my colleagues agree with the proposition the Hong Kong Executive Council would be informed of the step shortly before the message is delivered.

11. It is vital that no word of this leaks either now or later. The Cabinet minutes will simply record that Cabinet was briefed orally and approved the action proposed.

FILE

20 MAJ

cc Sir A. Parsons

10 DOWNING STREET

From the Private Secretary

9 March 1983

Dear John,

Hong Kong

The Prime Minister today held a further meeting on the future of Hong Kong. The discussion was of an exploratory nature and the Prime Minister stressed that no decisions would be taken.

I enclose a record of the discussion.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence).

Yours ever

John Coles

John Holmes Esq
Foreign and Commonwealth Office

SECRET

SECRET

19

RECORD OF A DISCUSSION AT 1600 HOURS ON WEDNESDAY 9 MARCH 1983
AT 10 DOWNING STREET

Present:

Prime Minister
Foreign and Commonwealth Secretary
Secretary of State for Defence
Sir Antony Acland
Sir Edward Youde
Sir Percy Cradock
Mr Donald
Sir Anthony Parsons
Mr Coles

****

The Prime Minister said that she would like the discussion to concentrate on the steps which we might need to take once a reply had been received to the message which she proposed to send, subject to Cabinet's approval, to the Chinese Premier. She felt that more could be done by way of presenting our case to the people of Hong Kong. The Foreign and Commonwealth Secretary said that there was also a need for presentation of the case within the United Kingdom. He thought it would be desirable in due course to brief a few Members of Parliament who were particularly interested in the issue. It would be better to take them into our confidence before a critical situation developed. The Prime Minister said that she believed this could well be useful in due course but for the moment we had nothing to say. She thought we should first see what response our message to the Chinese evoked. Sir Edward Youde commented that there was a constant danger that if we said

/too

SECRET

too much in public the Chinese would engage in confrontational propaganda. Sir Antony Acland said that it was his impression that Hong Kong businessmen were relatively relaxed at the present time.

Sir Edward Youde said that if the message to the Chinese produced the right response, we should proceed on the course we originally intended. He assumed that Sir Percy Cradock would conduct the opening round of talks but that he would participate as soon as possible and then attend as and when necessary. If we got into a detailed discussion of the economic system of Hong Kong, he would probably send specialists to participate.

The Prime Minister recalled that Sir S.Y. Chung had earlier told her that he thought some Hong Kong Chinese should be present in Peking during the talks so that they could be consulted by our team. Sir Edward Youde said that he would not rule that out. But the Chinese might refuse to give them visas. Peking might take the line that if they wished to talk to the Hong Kong Chinese they would do this direct and not through the intermediary of the British. But if members of EXCO could not go to Peking he hoped they might come to London again in a few weeks time to see the Prime Minister. The Prime Minister agreed that this would be useful. We must give EXCO full opportunities to put their ideas forward. EXCO should be briefed on her message to the Chinese Premier before it was delivered in Peking. She also thought it might be worth telling the Chinese that she could come under Parliamentary pressure at any time to reveal the state of the talks. This tactic might influence the Chinese reply. Sir Percy Cradock agreed that it would be useful to make this point to the Chinese and draw their attention to the difficulties which could be created if there was no early evidence of talks.

/But the

But the question arose of what we should do if the Chinese reply was negative or if they simply did not reply for a considerable period. He was sure we must avoid a confrontational approach. The Prime Minister agreed. We should constantly emphasise that both sides were interested in the prosperity of Hong Kong and that it would be foolish to destroy this. Sir Percy Cradock said that the key question, if the message did not work, was what, if anything, we could do to circumvent the Chinese precondition of sovereignty. Sir Edward Youde said the danger was that the Chinese would announce publicly that the talks were making no progress and that therefore the Chinese "plan" would prevail in 1997. How in those circumstances did we maintain prosperity and confidence, avoid confrontation and keep the position open? We should devise a statement to meet those objectives. But we should also decide what action we could take. Sir Percy Cradock observed that our strongest point was that we had created in Hong Kong a prosperous society. The Chinese wished to retain that prosperity and the good will of the people of Hong Kong.

Mr. Donald asked whether we could not blur the date of 1997. Sir Edward Youde pointed out that the Chinese maintained that the treaties were not valid. It followed logically that the date of 1997 had less significance for them. Our position in Hong Kong was basically founded on the Hong Kong wish that we should be there and the fact that the status quo suited the interested parties. If the Chinese could be brought to recognise this, it might be possible to induce them to consider what might happen in the future if, for the purpose of the talks, the treaties were set aside. The Prime Minister commented that in practice China did recognise the treaties because they constantly referred to 1997 and their intention of recovering then the whole area. It was suggested that the reason they did so was because we in our turn emphasised the importance of the

/treaties.

treaties. Sir Percy Cradock said that the great unanswered question was how much the Chinese would need to change the present administrative system to meet their ideas of sovereignty. The Prime Minister said that the Chinese threat to cut the link with the Privy Council went to the heart of the difficulty.

Sir Percy Cradock said that it might be possible to obtain Chinese agreement to set aside the treaties for the purpose of the talks and on that basis discuss how to keep a prosperous society going. Agreeing, Sir Edward Youde said that it would be essential to do this in an exploratory way, making it clear that we were not committed to the approach. The Prime Minister said our right to be in Hong Kong was partly founded on the treaties. But it was also founded on a right of prescription and on the choice of the Hong Kong people. We had operated a system which suited both sides. But if we were to go into talks on the basis suggested, we should need a clear written formula. Sir Edward Youde suggested that the first step would be to discover from the Chinese, without commitment, whether this was a possible way forward. The Prime Minister stressed that we should not state that we were setting aside the treaties - but rather setting them aside for the purpose of the talks and forming a new basis for the talks. Sir Antony Acland asked whether the Chinese would not demand a clear statement as to whether we were or were not maintaining the treaties. The Prime Minister said a possible response was that we were trying to agree on a package of measures which would enable recommendations to be made to Parliament. If we could obtain such a package, it would supercede the other difficulties. Sir Edward Youde commented that we could then use the substantive talks to discuss what the package should consist of. The Secretary of State for Defence said that this was in essence the same approach as that suggested in the Prime Minister's message but took a slightly different form.

/Sir Anthony Parsons

Sir Anthony Parsons asked whether it was likely that if the Chinese returned a negative reply they would at the same time publish their plan. Sir Percy Cradock doubted this. He believed that the announcement of the plan was linked to party meetings in May or June.

The Foreign and Commonwealth Secretary said that the Chinese might well show interest in the reference in the message to a "package" of measures. The Chinese Ambassador had questioned him on this point recently.

Sir Edward Youde said that, if talks commenced, our starting point would be the package which we already had, namely the existing systems. We should in any case promote a greater participation of Hong Kong people in Government. He would produce a plan for that.

Sir Percy Cradock said that the approach suggested would have attractions for the Chinese. They would for the first time have a formula which they could confidently present to their party network. Deng would be able to see a time ahead when he could recover sovereignty.

The Prime Minister thought that for the Chinese the minimum demonstration of their sovereignty would be a flag and a Governor. The question was - what were the minimal trappings of titular sovereignty which could be coupled with the substance of British administration.

Sir Edward Youde said that it would be desirable to consult EXCO about the idea at an early stage.

The discussion ended at 1715 hours.

A.J.C.

9 March 1983

18B

PM/83/20

PRIME MINISTER

1. At our meeting yesterday you agreed to consider a possible message from you to Prime Minister Zhao Ziyang on the future of Hong Kong. A draft is attached.

2. There would be two objects in sending such a message. The first would be to draw the Chinese into substantive talks, without which we shall be unable to make any progress towards a settlement. The second would be to discourage them from announcing their own plans. Such an announcement would damage confidence in Hong Kong and make it very difficult for the Chinese to modify the public position they have taken up. There are, as you know, indications that they are planning to do this in June.

3. The key passage in this draft concerns the issue of sovereignty. You told Prime Minister Zhao Ziyang and Chairman Deng Xiaoping in September last year that subject to certain conditions being satisfied you would be prepared to consider making recommendations on sovereignty to Parliament. The draft now attached strengthens the indication, which you have already given to the Chinese leaders, that if the package was right you would be ready to make recommendations to Parliament on sovereignty. The formula used is still conditional and you would be entering into no commitment before the terms of future arrangements had been agreed. On the other hand, the strengthening of this indication might just be sufficient to persuade the Chinese that their requirements had been sufficiently taken into account to allow substantive talks to start.

4. If you agree with the terms of this message it could be delivered by the Ambassador soon after his return. The Governor considers it would be prudent to inform EXCO of it in advance and to explain the reasons why it had been decided to send it.

5. I am copying this to Michael Heseltine.

(FRANCIS PYM)

Foreign and Commonwealth Office

8 March, 1983

DSR 11 (Revised)

SECRET

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PRIME MINISTER

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO: Zhao Ziyang

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Dear Prime Minister

I recall the far-ranging and important talks I held with you and with Chairman Deng Xiaoping on the subject of Hong Kong during my visit to Peking in September of last year. As you know, at the conclusion of the meeting with Chairman Deng he and I agreed on a joint statement. In this statement we recognised that there were differences between us but we agreed that talks should take place through diplomatic channels with the common aim of maintaining the future stability and prosperity of Hong Kong.

Since then various meetings have taken place in Peking between the British Ambassador and senior representatives of the Chinese Ministry of Foreign Affairs. It is a great disappointment to me that although six months have elapsed since my visit no real progress has been made through these contacts and we have not yet been able to begin substantive talks on this vital issue.

Enclosures—flag(s).....

I fully understand the importance the Chinese Government attach to the matter of sovereignty. But as I explained to you and Chairman Deng it is not

SECRET /constitutionally

constitutionally in my power as Prime Minister acting alone to agree to the transfer of sovereignty; ~~I must emphasise that this is a matter which Parliament alone can decide~~. If Parliament is to agree to such a transfer of sovereignty, it will need to be part of an overall ~~package of measures~~ guaranteeing the future stability and prosperity of Hong Kong. I understand your difficulties, but I hope that you will understand mine. In my meeting with you I said that I would be prepared to consider making recommendations on sovereignty to Parliament in certain circumstances. Perhaps it would be helpful if I strengthened that assurance. Provided that agreement could be reached between the British and Chinese Government on administrative arrangements for Hong Kong which would guarantee the future prosperity and stability of Hong Kong, and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, I would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China.

that is a matter which I have to refer to Parliament while alone has the power to decide

I profoundly believe that both our governments have a responsibility to achieve an early negotiated solution to this problem and I very much hope that we can cooperate to exercise that joint responsibility. I am confident that if we do so it will be possible to reach a solution consonant with Chinese and British interests and those of the people of Hong Kong. This will be

a great contribution to the development of friendly relations between Britain and China to which we attach the highest importance. It would point the way to even closer cooperation between our two governments and peoples.

I have explained my position to you in as frank and as positive way as I can in this message. I hope that in the light of it you and Chairman Deng will agree that the Chinese Government are prepared to enter into substantive talks. I hope that in your reply you will be able to tell me that we can hold the first of such discussions within the next month.

SECRET

18A

PRIME MINISTER

HONG KONG

I attach the draft message from you to Zhao Ziyang.

You will of course wish to consider it carefully. My own view is that we shall have to say something like this if there is to be any chance of getting into proper talks. But I can quite see that you might feel the need for collective endorsement by your colleagues before sending such a message. I suggest that that would be no bad thing. I have felt for some time that it would be valuable to have a wider Ministerial meeting to give you backing on this important issue.

If you are content with the draft, perhaps you would care to indicate whether you wish there to be an OD or Cabinet discussion (or perhaps a restricted group of Ministers).

Everybody who was at the meeting on Tuesday thinks it would be valuable to take advantage of the presence in London of Sir Edward Youde and Sir Percy Cradock to have a further discussion. This would be more valuable if we did not need to concentrate on the drafting of the message but instead had a brain-storming session on all the possibilities for the future eg if the message does not do the trick. I have provisionally arranged for the group to re-assemble at 1600 hours tomorrow (though I gather that Lord Belstead would not be able to come on this occasion).

A.J.C.

8 March 1983

SECRET

SECRET

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PRIME MINISTER

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO: Zhao Ziyang

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Dear Prime Minister

I recall the far-ranging and important talks I held with you and with Chairman Deng Xiaoping on the subject of Hong Kong during my visit to Peking in September of last year. As you know, at the conclusion of the meeting with Chairman Deng he and I agreed on a joint statement. In this statement we recognised that there were differences between us but we agreed that talks should take place through diplomatic channels with the common aim of maintaining the future stability and prosperity of Hong Kong.

Since then various meetings have taken place in Peking between the British Ambassador and senior representatives of the Chinese Ministry of Foreign Affairs. It is a great disappointment to me that although six months have elapsed since my visit no real progress has been made through these contacts and we have not yet been able to begin substantive talks on this vital issue.

Enclosures—flag(s).....

I fully understand the importance the Chinese Government attach to the matter of sovereignty. But as I explained to you and Chairman Deng it is not

SECRET /constitutionally

constitutionally in my power as Prime Minister to agree to the transfer of sovereignty. I must emphasise that this is a matter which Parliament alone can decide. If Parliament is to agree to such a transfer of sovereignty, it will need to be part of an overall package of measures guaranteeing future stability and prosperity of Hong Kong. I understand your difficulties, but I hope that you will understand mine. In my meeting with you I said that I would be prepared to consider making recommendations on sovereignty to Parliament in certain circumstances. Perhaps it would be helpful if I strengthened that assurance. Provided that agreement could be reached between the British and Chinese Government on administrative arrangements for Hong Kong which would guarantee the future prosperity and stability of Hong Kong, and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, I would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China.

I profoundly believe that both our governments have a responsibility to achieve an early negotiated solution to this problem and I very much hope that we can cooperate to exercise that joint responsibility. I am confident that if we do so it will be possible to reach a solution consonant with Chinese and British interests and those of the people of Hong Kong. This will be

a great contribution to the development of friendly relations between Britain and China to which we attach the highest importance. It would point the way to even closer cooperation between our two governments and peoples.

I have explained my position to you in as frank and as positive way as I can in this message. I hope that in the light of it you and Chairman Deng will agree that the Chinese Government are prepared to enter into substantive talks. I hope that in your reply you will be able to tell me that we can hold the first of such discussions within the next month.

The National Archives

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Hong Kong

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TO IMMEDIATE F C O
TELEGRAM NUMBER 311 OF 7 MARCH
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MS

FUTURE OF HONG KONG : PRESS COVERAGE

THE FINANCIAL DAILY (INDEPENDENT) CARRIED AS ITS FRONT PAGE LEAD ON 7 MARCH A STORY QUOTING ''NORMALLY RELIABLE SOURCES IN PEKING'' WHICH SUGGEST THAT DETAILED MEASURES FOR APPLYING ARTICLE 31 OF THE CONSTITUTION TO HONG KONG, MACAU AND TAIWAN WERE UNDER CONSIDERATION IN PEKING AND WOULD BE TABLED FOR DISCUSSION AT THE FORTHCOMING 6TH NATIONAL PEOPLE'S CONGRESS, PROBABLY IN APRIL OR MAY. THE STORY GAVE FEW DETAILS OF THE SUPPOSED MEASURES, BUT SUGGESTED THAT THEY WOULD PROVIDE FOR THE ABOLITION OF APPEALS TO THE PRIVY COUNCIL FROM HONG KONG.

2. PRO-KMT ORGANISATIONS IN HONG KONG PETITIONED THE GOVERNOR JUST BEFORE HIS DEPARTURE URGING THAT HONG KONG'S STATUS QUO BE MAINTAINED UNTIL CHINA COULD BE UNIFIED UNDER A DEMOCRATIC SYSTEM. THE PRO-KMT PRESS PUBLISHED EDITORIALS ON THE SAME LINES. THE COMMUNIST PRESS HAS ATTACKED THESE ACTIVITIES AS REPRESENTING ONLY THE OPINION OF AN UNREPRESENTATIVE FACTION SEEKING TO CREATE ''TWO CHINAS''. IN AN EDITORIAL ON 6 MARCH THE WEN WEI PO SAID THAT THE PETITION AND THE DISPLAY OF ANTI-COMMUNIST SLOGANS WAS A HUMILIATION TO CHINA AND ITS SOCIALIST SYSTEM. ALTHOUGH SUCH EVENTS WERE DETRIMENTAL TO SINO-BRITISH RELATIONS THE BRITISH AUTHORITIES IN HONG KONG HAD NOT SOUGHT TO STOP THEM. THE SOLE PURPOSE OF THE KMT WAS TO MAKE TROUBLE. ''IF THE GOVERNOR ATTACHED IMPORTANCE TO SINO-BRITISH RELATIONS, HE SHOULD DO SOMETHING ABOUT IT''. (COMMENT: THERE HAS SO FAR BEEN NO COMPLAINT ON THESE LINES FROM NCNA).

3. THERE HAVE BEEN ONE OR TWO OTHER ARTICLES IN THE COMMUNIST PRESS IN THE PAST FEW DAYS IN RATHER MORE HOSTILE TONE, AND SLIGHTLY OUT OF KEEPING WITH THE MAIN THRUST OF THE PROPAGANDA CAMPAIGN. THE TA KUNG PAO ON 3 MARCH PUBLISHED A SHORT ARTICLE ENTITLED ''SELF RULE TO ELIMINATE INEQUALITY''. IT SUGGESTED THAT CHINESE PEOPLE IN HONG KONG AND THE CHINESE LANGUAGE WERE GIVEN SECOND CLASS TREATMENT AND THAT THE BRITISH ALWAYS DECIDED IMPORTANT MATTERS.

/THE

THE WEN WEI PO ON 3 MARCH PUBLISHED A RATHER LONG ARTICLE REPRODUCING A REPORT BY A PRESSURE GROUP, THE NEW HONG KONG INSTITUTE, ABOUT WHAT IT DESCRIBED AS A HIGHLY UNEVEN DISTRIBUTION OF POLITICAL POWER IN HONG KONG. THE REPORT FOCUSED ON THE SMALL NUMBER OF PEOPLE HOLDING IMPORTANT POSTS IN PUBLIC AND BUSINESS LIFE, BUT DID NOT (NOT) DWELL ON THE RACIAL FACTOR. IT CONCLUDED BY CALLING ON THE CHINESE GOVERNMENT TO INTRODUCE MORE DEMOCRACY IN HONG KONG, SINCE THE 1997 QUESTION WOULD BE A CATALYST FOR CHANGE IN THIS DIRECTION.

HADDON-CAVE

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

COPIES TO

SIR I SINCLAIR LEGAL ADVISER
MR ROBERTS NEWS D
MR COLES NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE
HKGO. LONDON

SECRET

JR/HL

cc Sir A. Parsons

18

10 DOWNING STREET

From the Private Secretary

7 March 1983

Dear John,

THE FUTURE OF HONG KONG

The Prime Minister held a meeting here today to discuss the above subject. I enclose a record of the discussion.

The principal decisions were:

(a) that a message from the Prime Minister to the Chinese Premier should be drafted in an attempt to get negotiations started (I should be grateful if a draft could reach me for the Prime Minister's box tomorrow night);

(b) that a contingency paper should be prepared covering the action which we should take if in June the Chinese announce their "plan" for the future of Hong Kong.

I am copying this letter, and enclosure, to Richard Mottram (Ministry of Defence). I should be grateful if, as with all papers on this subject, the record of the discussion could be very closely guarded and its contents made available only to those who have a strict operational need to know of them.

Yours ever

John Coles.

John Holmes, Esq.,
Foreign and Commonwealth Office.

SECRET

17

RECORD OF A DISCUSSION AT NO. 10 DOWNING STREET AT 1615 HOURS ON MONDAY, 7 MARCH. 1983

Present: The Prime Minister
Foreign and Commonwealth Secretary
Secretary of State for Defence
Lord Belstead
Governor of Hong Kong
HM Ambassador, Peking
Mr. Donald
Sir A. Parsons
Mr. Coles

* * * * * * *

The Prime Minister said that she had read with interest the account of the Governor's discussion with EXCO about the present situation. She felt that EXCO's views were to some extent dictated by their subconscious wish that things in Hong Kong would never change fundamentally.

Sir Edward Youde said that he thought that assessment was largely valid. The present situation in Hong Kong was not unsatisfactory. The economic situation had somewhat improved. The people had become accustomed to Chinese statements and believed that these represented a negotiating position. He had given EXCO no guidance on the possible policy options. They were not altogether united in their views. S.Y. Chung was the toughest in outlook. Others thought it might be worth trying to establish, through informal contacts, what arrangements the Chinese would agree to if we conceded sovereignty. F. Lee, and to some extent Lydia Dunn, took this view. EXCO tended to argue that it would not be in the Chinese interest to announce their plan in June because this would reduce the economic value of Hong Kong to them. The Prime Minister commented that the latest figures showed that Hong Kong's economic value to China was already declining.

/ Sir Edward Youde

Sir Edward Youde said that EXCO went on to argue that the announcement of the Chinese plan would amount to nothing new. Hong Kong was already aware of it and knew that no substantial negotiations were in progress. One or two members of EXCO were not convinced that this judgement was right. Nor was he - there was a difference between an absence of talks now and an absence of talks in June.

All members of EXCO were still wedded to the objective of continuing British administration. All believed that China would not modify its position on sovereignty. All were hopeful that there would be some flexibility in the Chinese position on future administration.

The Prime Minister commented that these views might be right. But the worst feature of the present situation was the absence of negotiations. She doubted whether we could have any confidence that the Chinese leadership would honour future treaties. If they were prepared to abrogate existing ones, they would not respect new ones.

Sir Percy Cradock said that the Chinese were very committed to their position on sovereignty. Their latest formal note amounted to insistence on sovereignty as a pre-condition for talks. It was just possible that something less than outright acceptance by us of Chinese sovereignty would trigger negotiations but he did not rate this possibility very highly. He continued to believe that we should try to find ways of finessing the sovereignty issue. We should avoid confrontation. It was true that the Chinese might not keep agreements into which they entered but we had no choice but to work on the assumption that they would. Our aim must be to get the talks going.

The Prime Minister said that it was her impression that the Chinese believed that they had made a success of running Shanghai and that they could therefore run Hong Kong in the future. But

/ events

events in Shanghai, accompanied by much cruelty and oppression, suggested quite the opposite. She wondered whether we had any threats at our disposal which could cause the Chinese to re-think their position. Could we, for example, make it plain that if China simply took over sovereignty, there would be a large exodus of people from Hong Kong?

It was hard to envisage any other step at present than the sending of a message to Deng or Zhao. But the message would have to make it plain that sovereignty was not hers to concede. Sir Percy Cradock said that he had stressed this point strongly in his conversations with the Chinese, most recently at a dinner on 22 February attended by a member of the Chinese MFA, who was shortly to be posted to the Chinese Embassy in London. The latter had said that the Chinese understood the constitutional position. He had added that the offer of a perhaps slightly improved package deal might help.

The Prime Minister had said when in Peking that if arrangements could be devised which were satisfactory to Hong Kong and the United Kingdom, she would consider putting recommendations about sovereignty to Parliament. Ie was possible that if that message was put slightly more firmly now, progress could be made.

The Prime Minister asked whether we could not move Hong Kong fairly rapidly down the path towards independence, though stopping short of that final point. We should consider launching a process of putting Hong Kong Chinese in positions where they could run the affairs of Hong Kong and we should aim to complete that process in five years. This process might be an alternative to negotiations or concurrent with them. The exercise of responsibility usually strengthened people - and the Hong Kong Chinese ought to have these responsibilities in any case. Perhaps we should tell the Chinese of our intentions and seek their reactions. Another possible approach was to avoid the grand design of an agreement on sovereignty and administration and simply work towards a joint leasing of the new territories.

/ Sir Edward Youde

Sir Edward Youde said that he would first like to comment on the Prime Minister's reference to Shanghai. The Chinese distinguished between Shanghai and Hong Kong. They had always said that the former would have to be a Socialist city whereas they had frequently stated that Hong Kong would be allowed to retain a Capitalist system. Moreover, Peking had told the Hong Kong Chinese that they would be allowed to run their own affairs in future.

He agreed with the Prime Minister that Hong Kong should move along the path of self-determination. But it should be appreciated that a good deal of progress had already been made. The Governor had not acted contrary to the advice of EXCO for twenty years. A number of senior officials were Chinese. There would have to be more progress in this direction, whatever happened in 1997. But if full democratic elections were introduced, then there would be political parties. If some of these were anti-Communist, the Chinese might decide to disrupt the system.

The Prime Minister commented that such action would illustrate the hollowness of the Chinese pledge to let Hong Kong run its own affairs. Sir Edward Youde said that he believed that another route was available in Hong Kong, that of a collegiate approach. The elected members of the district boards and of the urban councils would elect their representatives to EXCO. This would avoid a polarisation into political parties. But five years was too short. Hong Kong could not withstand the strain of such a fundamental change in so short a time.

Mr. Donald asked whether the Prime Minister had it in mind that Hong Kong should become independent. The Prime Minister said that this was not her intention. She envisaged a status more like that possessed by Bermuda. She was concerned that people should have the experience and responsibility of governing themselves. They would still need a fundamental link with the United Kingdom. But the Chinese could be told that we were setting in train the process that they themselves advocated - the running of Hong Kong by the people of Hong Kong.

/ Sir Edward Youde

Sir Edward Youde said that he had been considering how Hong Kong could move forward towards becoming a strongly based local administration whenever Britain left the Colony. The two conditions were that the new system should not be confrontational in Chinese eyes and that it was suitable for the conditions of Hong Kong and introduced at a pace acceptable to its people.

The Foreign and Commonwealth Secretary said that the major problem was the absence of talks and the major obstacle was the Chinese position on sovereignty. The Prime Minister said that we should perhaps now remind the Chinese that in the Joint Communique agreed in Peking in September we had agreed to differ on certain things. We should say that sovereignty was not ours to concede and that we therefore proposed that we should now discuss practical arrangements and put our cards on the table.

The Secretary of State for Defence said that it was for consideration whether we could turn to our advantage the Chinese intention to make a statement in June. Could we not suggest to the Chinese that, in the interests of avoiding confrontation, they should show us their statement before publication? We could then use it as a basis for discussion and in that way get negotiations going.

/ Sir Percy Cradock

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Sir Percy Cradock commented that the information about a possible Chinese statement in June was contained in a report from secret sources. He saw no possibility that the Chinese would agree to show us in advance the text of the statement explaining what they proposed to do in "their" territory.

The Secretary of State for Defence said that while he agreed that we should not concede sovereignty now, the fact was that we were likely to have to do so in the end. We should therefore be careful not to lay too much public stress on the sovereignty issue, since this could lead to greater humiliation in the end.

Reverting to the idea of a message, Sir Percy Cradock recalled that the Prime Minister had told Deng that, if satisfactory arrangements could be made for the future of Hong Kong, she would consider making recommendations to Parliament about sovereignty. If she were able to say now in a message that if satisfactory arrangements could be made, she would make recommendations to Parliament on sovereignty, that might induce the Chinese to enter into negotiations. The Prime Minister commented that this would be an important move which would require the endorsement of her Ministerial colleagues. She had wondered whether an alternative approach to the present impasse might not be to seek a UN Referendum in Hong Kong. Sir Anthony Parsons pointed out that the Chinese would be unlikely to agree to this. The Prime Minister said that it would be quite a big step for them to withhold their agreement. A number of alternatives could be put to the Hong Kong people in a referendum - they could be offered a choice between Chinese sovereignty plus Chinese administration, Chinese sovereignty plus British administration or other formulae. If they voted for Chinese sovereignty and British administration, this could be a useful card to play with the Chinese. Sir Edward Youde said that the Hong Kong people wanted to maintain the possibility of British administration after 1997. They were prepared to distinguish between sovereignty and administration. But he did not believe it was possible to see the ultimate solution now. We first had to establish what form of administration the Chinese were prepared to contemplate. For that, we needed to get talks started. He endorsed the formula suggested by Sir Percy Cradock though thought that we should add the extra condition that any arrangements for the future must be satisfactory to the people of Hong Kong.

/ The Prime Minister

The Prime Minister said that we could surely point out to the Chinese that they claimed that they already had sovereignty while we had administration. Why should not this continue for the future, while Hong Kong Chinese were moving increasingly into positions of responsibility?

Sir Anthony Parsons asked what was likely to happen in Hong Kong in June if the Chinese made their statement. Sir Edward Youde replied that people would realise that the 1997 barrier could not be shifted and so investors would start looking elsewhere. The Prime Minister said that what was envisaged was the first public official statement by the Chinese - she feared that the consequences could be severe. Sir Anthony Parsons suggested that it followed that we should make a move in order to get talks going. Sir Percy Cradock said that this brought us back to the idea of a message. For practical reasons this should be addressed to Zhao but we could so word it so as to ensure that it was seen by Deng. It might suggest a date for the commencement of talks and perhaps an agenda though when we had discussed these things earlier with the Chinese they said that all would fall into place if the big issues were first settled.

The Prime Minister recalled that she had asked the Secretary of State for Defence to make certain contingency plans. Mr. Donald pointed out that the Chinese had the capacity to create chaos in Hong Kong without launching a frontal attack. They could engineer riots by using their agents in the Colony. 98% of the population was in some awe of Peking.

Sir Edward Youde pointed out that there were options between giving the Chinese what they wanted and simply sticking on our present position. These options were not before EXCO during his recent discussion with them. The Prime Minister said that it would be essential in the end to have a Treaty embodying any arrangements which were agreed by the Chinese and that Treaty must be freely entered into by both sides. Sir Percy Cradock said that we had to recognise that the ultimate solution would be either what the Chinese wanted or what we could persuade them to accept. We must avoid confrontation because Hong Kong would be the victim of it. We should not maintain an absolutely rigid position for this

/ would

would simply encourage the Chinese to go over our heads to the people of Hong Kong.

It was decided that a draft message should be submitted for the Prime Minister's consideration. It was further decided that a contingency plan should be prepared setting out the action we should take if the Chinese did make a public statement in June on the future of Hong Kong.

The discussion ended at 1745 hours.

A. J. C.

7 March 1983

CONFIDENTIAL

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Prime Minister.

It is interesting that the Chinese are so active about Hong Kong within the U.K. — but it is partly fortuitous since the Chinese Ambassador is leaving.

A.J.C. 7/3.

OO HONG KONG

GRS 503

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FM F C O 041745Z MAR 83
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 198 OF 4 MARCH

FOLLOWING RECEIVED FROM HONG KONG GOVT OFFICE, LONDON.
CONFIDENTIAL
TELEGRAM NUMBER HK 418 OF 4 MARCH 1983
TO IMMEDIATE GOVERNOR HONG KONG
SECRETARY FOR HOME AFFAIRS (FOR MR MASEFIELD)
FROM COMMISSIONER, LONDON OFFICE
COPY TO MR DICK CLIFT (FCO, HKGD)

FUTURE OF HONG KONG

ARTHUR WONG, HEAD OF OUR MANCHESTER SUB-OFFICE, ATTENDED A RECEPTION IN MANCHESTER ON EVENING OF 2 MARCH ORGANISED BY LEFTIST GROUPS (THE NORTH WEST CHINESE CHAMBER OF TRADE, NORTH WEST CHINESE ASSOCIATION) AND MANCHESTER CHINA TOWN NEIGHBOURHOOD ASSOCIATION FOR CHINESE AMBASSADOR KE HUA. SOME 200 PEOPLE, INCLUDING THE LORD MAYOR AND ABOUT 10 LOCAL AUTHORITY OFFICIALS, WERE PRESENT. MR KE SPOKEFOR APPROX THIRTY-FIVE MINUTES INCLUSIVE OF ENGLISH INTERPRETATION. HE DWELLED MAINLY ON GOOD SINO-BRITISH RELATIONS AND URGED DIFFERENT FACTIONS OF CHINESE IN MANCHESTER TO FORGET DIFFERENCES AND UNITE.

2. ON THE FUTURE OF HONG KONG, HE SAID BRIEFLY THAT NEGOTIATIONS WERE IN PROGRESS AND HE HAD NOTHING TO REPORT AS PROCEEDINGS MUST BE KEPT CONFIDENTIAL. HE STRESSED THAT SOVEREIGNTY WAS NOT NEGOTIABLE BUT BELIEVED THAT THE TWO GOVERNMENTS WOULD REACH SATISFACTORY AGREEMENT WHICH WOULD MAINTAIN STABILITY AND PROSPERITY OF HONG KONG.

3. IT SHOULD BE NOTED THAT JUST LAST FRIDAY (25.2.83) MR KE WAS FETED BY THE 'RIVAL' FACTION IN MANCHESTER. AGAIN THE LORD MAYOR AND SOME LOCAL OFFICIALS ATTENDED. MR KE' SPEECH, THEN, MADE NO REFERENCE TO HK BUT CONCENTRATED ON THE NEED FOR UNITY AMONGST CHINESE HERE.

4. ALSO ON 1 MARCH, CHINESE AMBASSADOR WAS IN GLASGOW TO ATTEND A FAREWELL PARTY ORGANISED BY LOCAL CHINESE AT WHICH THE LORD PROVOST AND OUR LIAISON OFFICERS OF EDINBURGH SUB-OFFICE WERE PRESENT. MR KE ONLY TOUCHED UPON THE QUESTION OF HK'S FUTURE BY SAYING THAT THE SOLUTION WOULD BE FOUND THROUGH NEGOTIATIONS. HE FURTHER STRESSED CHINA WOULD NOT REPEAT MISTAKES MADE DURING CULTURAL REVOLUTION, LEAST OF ALL IN HK.

5. MEANWHILE IN LONDON, IT HAS JUST COME TO OUR ATTENTION THAT ONE CHEN TIANSING (7115 1131 5116) HAS STARTED TO DISTRIBUTE TO CHINESE PEOPLE INCLUDING SCHOOL CHILDREN A STENCILLED HAND-COPIED BOOKLET CONTAINING AN EXTRACT FROM THE CHINESE HISTORY MAGAZINE REFERRED TO IN 'MEDIA SUMMARY ON HONG KONG'S FUTURE' FOR THE WEEKS OF 25 JANUARY AND 1 FEBRUARY. BOOKLET IS NOT BEING FORWARDED TO YOU AS CONTENTS ARE PRESUMABLY AVAILABLE IN HK.

6. CHEN IS AN ELDERLY PENSIONER SAID TO HAVE BEEN A SEAMAN AND THEN WORKED FOR NCNA, LONDON SOME TIME AGO. HE, A HAKKA, IS ASSOCIATED WITH THE LEFT-WING KUNG HO ASSOCIATION (0364 9735 0588 2585) BUT IS NOT ON ITS COMMITTEE. WE BELIEVE THIS IS PART OF THE WAR OF WORDS DESIGNED TO REMIND OR INFORM PEOPLE OF THE OPIUM WAR AND TO STIR-UP NATIONALISM BUT CANNOT ASCERTAIN WHETHER IT IS DONE OF HIS OWN INITIATIVE.

7. WE THINK THAT AS THE 'BOOKLET' IS 'OLD HAT', NOT WELL COPIED AND QUITE VOLUMINOUS (HALF-AN-INCH THICK, WRITTEN ON BOTH SIDES), IT IS UNLIKELY TO BE MUCH READ.

FUTURE OF HONG KONG

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PS/LORD BELSTEAD
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CABINET OFFICE

Prime Minister

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UK EYES A

Ref. A083/0741

PRIME MINISTER

The Economic Value of Hong Kong to China

I attach a copy of the summary of a draft JIC report on the economic value of Hong Kong to China. The draft report has not yet been formally approved by the Economic Assessments Sub-Committee of the Joint Intelligence Committee, but you may like to have the summary before your meeting with Sir Edward Youde and Sir Percy Cradock. The complete draft report should be available on Monday morning, 7 March.

2. The report assesses that China's foreign exchange earnings from Hong Kong are increasing in absolute terms and probably amount to about $7 billion per annum. But in relative terms the territory's share of China's total convertible currency earnings has declined from 36 per cent in 1978 to 30 per cent in the last two years. These figures can be looked at in another way by excluding the earnings from those Chinese exports to Hong Kong which are then re-exported. In this case the proportion of China's foreign currency earnings represented by Hong Kong has fallen from 28 per cent to 20 per cent during the last four years.

3. The decline in land and property values in Hong Kong, and the economic recession, will continue to restrict returns from China's existing banking and investment facilities in Hong Kong. The economic situation also means that there is little likelihood of a substantial expansion either in remittances to China or in travel to China by Hong Kong residents. Hong Kong may also have passed its peak as a source of foreign investment for the modernisation of China.

4. The conclusion is that Hong Kong's economic value to China has declined as the latter's relations with the West have expanded and this trend is expected to continue.

5. The report incorporates the comments of Whitehall Departments and of our Missions in Hong Kong and Peking.

6. Copies of the summary have also been sent to the Foreign and Commonwealth Secretary and to Lord Belstead.

RTA

ROBERT ARMSTRONG

4 March 1983

THE ECONOMIC VALUE OF HONG KONG TO CHINA

PART I: SUMMARY

1. Hong Kong was developed as a commercial centre and major port linking China with the West. It relies on China for the major part of its imports of food and raw materials. Hong Kong currently accounts for 28 per cent of Chinese exports to convertible currency countries and 11 per cent of its imports. Over 40 per cent of the goods imported from China are re-exported while some 70 per cent of those exported by Hong Kong to China were produced elsewhere. During the last 5 years Chinese trade with Hong Kong has increased substantially in line with its expanded world trade. There has been little change in the relative importance of the territory as an importer of Chinese products but its role as an entrepot for Chinese import requirements has increased significantly from a low base.

2. It is too early to judge the effects of Chinese plans to develop and expand the effectiveness of their own port and transport facilities. In the longer term this may detract from the current importance of Hong Kong's port facilities. In the immediate future however these will remain of considerable value and Hong Kong will remain the best deep water port serving Southern China for some years.

3. China has consistently run a substantial surplus on visible trade with Hong Kong (about US $3.4 bn in 1982). This contrasts with a deficit on trade with the rest of the world until 1981. The foreign exchange earned from China's exports to the territory now exceed $5 billion. Without re-exports the figure is about $3 billion. When invisible earnings from remittances and travel by Hong Kong residents and returns from China's investments and services are added, we estimate that the total is some $7 billion compared to less than $3 billion in 1977. Despite this rise, earnings from Hong Kong as a share of China's total foreign exchange earnings have declined from 36 per cent in 1978 to 30 per cent reflecting the rapid growth of China's exports to the rest of the world. If China's exports re-exported by Hong Kong are excluded, earnings from the territory amount to 20 per cent of China's world earnings, showing a decline from 28 per cent in 1978.

4. China plans to increase both its exports and imports over the next few years at least and earnings from Hong Kong should continue to grow. Because of the current economic recession in Hong Kong there is little likelihood of a substantial expansion either in remittances to China or in travel by Hong Kong residents within that country. Similarly new land and property investment by China in Hong Kong, which peaked in 1979, have declined substantially since then and remained depressed. The decline in land and property values in Hong Kong coupled with economic recession will restrict returns from China's existing investments and banking facilities in the territory. The combination of economic and political uncertainties in Hong Kong together with the expansion in China's earnings from other countries has reduced, and seems likely to continue to reduce, Hong Kong's relative importance to China as a source of foreign exchange.

5. Although Hong Kong has proved the primary source of foreign investment for joint venture projects in China since 1978, funding has declined sharply since its peak of 1981. Hong Kong businessmen have invested very largely in small, short-term, low-risk projects in the neighbouring Shenzhen Special Economic Zone. Current uncertainties in Hong Kong, the move by China to encourage foreign investment in areas other than Shenzhen and perhaps most importantly an increased emphasis on substantial, long-term funding for high technology energy, infrastructure and mineral exploitation projects, are likely to result in a continued decline in Hong Kong's relative importance to China as a source of foreign investment.

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FM HONG KONG 040507Z MAR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 297 OF 4 MARCH 1983
INFO IMMEDIATE PEKING

FUTURE OF HONG KONG

1. ACCORDING TO A VERY RESPONSIBLE SOURCE THERE IS A RUMOUR IN BUSINESS CIRCLES TO THE EFFECT THAT IT IS BEING SAID IN PEKING THAT IF BRITAIN DOES NOT CONCEDE SOVEREIGNTY THE CHINESE WILL ANNOUNCE THEIR PLAN FOR HONG KONG IN JUNE.

YOUDE

FUTURE OF HONG KONG

LIMITED

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HD/FED
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HD/PUSD
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15

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GPS 380

SECRET
FM HONG KONG 040910Z MAR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 299 OF 4 MARCH 1983
INFO IMMEDIATE PEKING

FUTURE OF HONG KONG: VISITORS TO PEKING

A NUMBER OF VISITS BY HONG KONG PEOPLE TO PEKING ARE APPARENTLY IN PREPARATION. THE MOST IMPORTANT IS PROBABLY A GROUP OF ABOUT 10 PEOPLE IN THE 35-45 AGE RANGE WHO HAVE BEEN INVITED BY NCNA. THE GROUP INCLUDES 4 UNOFFICIAL MEMBERS OF THE LEGISLATIVE COUNCIL (ALLEN LEE, MRS. SELINA CHOW, CHEUNG YAN-LUNG AND STEPHEN CHEONG). OTHERS APPROACHED INCLUDE MARTIN LEE, QC, MARY LEE OF THE FAR EASTERN ECONOMIC REVIEW AND HONG KONG OBSERVERS, AND CHRISTINE LO OF THE OBSERVERS, AS WELL AS LECTURERS FROM THE TWO UNIVERSITIES. ALLEN LEE WAS ORIGINALLY INVITED WITH THE FACTORY OWNERS ASSOCIATION BUT DECLINED: NCNA HAVE BEEN PRESSING HIM TO GO ANYWAY). THE REACTION OF THE LEADING MEMBERS OF THE GROUP WHICH WAS FIRST APPROACHED SOME TIME AGO WAS THAT THEY WERE PREPARED TO ACCEPT THE INVITATION, SUBJECT TO UNDERSTANDING ON THREE POINTS:-

(A) THERE WOULD BE NO PURPOSE IN SEEING LIAO CHENGZHI WHOSE VIEWS WERE WELL KNOWN. THEY WOULD WANT TO SEE ONE OF THE TOP LEADERS, EITHER DENG XIAOPING OR ZHAO ZIYANG.

(B) NCNA WOULD HAVE TO ACCEPT THAT PEKING MIGHT NOT WISH TO HEAR THE VIEWS THEY WOULD EXPRESS. THEY DID NOT LIKE THE CHINESE GOVERNMENT'S PROPOSALS FOR HONG KONG, DID NOT BELIEVE IN THE POSSIBILITY OF AUTONOMY, AND WOULD LEAVE HONG KONG RATHER THAN SUBMIT TO CHINA'S PROPOSALS. THEY WOULD STATE THESE VIEWS IN PEKING.

(C) THEY WOULD INSIST UPON THE CONFIDENTIALITY OF THE DISCUSSIONS WHICH TOOK PLACE DURING THEIR VISIT. (THE NCNA WERE APPARENTLY UNHAPPY ABOUT THIS POINT.)

2. THE GROUP HAVE RECENTLY BEEN TOLD BY LI JUSHENG OF NCNA THAT THEY WOULD SEE EITHER DENG OR ZHAO, PROBABLY THE LATTER: THAT IT WAS UNDERSTOOD THAT THEY WOULD EXPRESS THEIR VIEWS FREELY: AND THAT NCNA WOULD DO WHAT THEY COULD ON PUBLICITY. THE TIMING OF THE VISIT IS NOT YET SETTLED BUT IT COULD BE IN MAY.

/ 3. THERE

3. THERE IS A MORE IMMEDIATE PLAN FOR A NUMBER OF EDITORS OF INDEPENDENT CHINESE LANGUAGE NEWSPAPERS IN HONG KONG TO VISIT PEKING IN MARCH OR APRIL, ACCOMPANIED BY THE EDITORS OF THE TA KUNG PAO AND WEN WEI PO. THE PURPOSE IS TO RECEIVE A BACKGROUND BRIEFING ON CHINA'S POSITION ON THE FUTURE OF HONG KONG. THE BRIEFING IS TO BE CONFIDENTIAL AND (IN THEORY) NOT FOR PUBLICATION.

4. MEMBERS OF THE HEUNG YEE KUK ARE TRYING TO ORGANISE A FURTHER VISIT TO PEKING. ACCORDING TO CHAN YAT-SUN, FORMER CHAIRMAN AND A MEMBER OF THE PREVIOUS DELEGATION, THEY EXPECT TO GO AGAIN SHORTLY AND TO SEE DENG XIAOPING.

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FUTURE OF HONG KONG

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SECRET
FM HONG KONG 040820Z MAR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 293 OF 4 MARCH
INFO IMMEDIATE PEKING

YOUR TELEGRAM 187 OF 1 MARCH. THE FUTURE

IN ADVANCE OF MY VISIT IT MAY BE USEFUL FOR YOU TO HAVE AN ASSESSMENT OF THE SITUATION HERE AT THE PRESENT TIME. THE GENERAL ATMOSPHERE HAS BECOME CALMER. AS TIME GOES BY THE IMPACT MADE BY THE CHINESE PROPAGANDA CAMPAIGN HAS LESSENED: BECAUSE OF FAMILIARITY WITH ITS THEMES HONG KONG PEOPLE ARE DEVELOPING A DEGREE OF IMMUNITY TO IT. WE HAVE GOT THROUGH THE CHINESE NEW YEAR AND THE BUDGET REASONABLY WELL. UNDERSTANDABLY THERE IS STILL A GREAT DEAL OF INTEREST ABOUT THE FUTURE BUT THE CONCERN (IF NOT ACTUAL ALARM) WHICH WAS SO EVIDENT IN THE LAST QUARTER OF 1982 HAS GIVEN WAY TO AN INCREASING RECOGNITION THAT THE TALKS ARE GOING SLOWLY, IT WILL TAKE A LONG TIME TO RESOLVE THIS ISSUE AND THAT THERE WILL BE CHANGES. EVEN SO, IT IS STILL A VERY SENSITIVE ISSUE AND CONCERN IS ONLY JUST BELOW THE SURFACE. IT WILL BE REFUELLED BY FURTHER VISITS BY DELEGATIONS AND OTHERS TO CHINA, BY ANY PUBLIC MOVE BY THE CHINESE AND ALSO BY INDIVIDUAL EVENTS EVEN THOUGH THEY MAY NOT BE IMMEDIATELY CONNECTED WITH THE FUTURE. ANXIETY, OR WORSE, WOULD QUICKLY ARISE IF THERE WAS SOME UNEXPECTED DEVELOPMENT OR DISCLOSURE BY THE CHINESE.

2. THE BUDGET HAS GONE WELL AND THERE APPEARS TO BE MORE OPTIMISM ABOUT. A RECENT SURVEY OF 200 COMPANIES OF ORDERS ON HAND IN DECEMBER INDICATED A PICK UP IN BUSINESS AND THE POSSIBILITY THAT THE U.S. ECONOMY MAY BE BEGINNING TO MOVE UP AGAIN HAS HELPED. IMPORTS OF RAW MATERIALS INCREASED IN JANUARY COMPARED WITH A YEAR EARLIER. THE GENERAL CLIMATE HAS ALSO BEEN IMPROVED BY THE FACT THAT PROPERTY PRICES SEEM TO BE SETTLING. AGAINST THIS, UNEMPLOYMENT AND UNDER EMPLOYMENT HAVE RISEN SOMEWHAT IN RECENT MONTHS. FOR THE TIME BEING IT IS THESE FACTORS WHICH LOOM LARGE AMONGST THE ITEMS OF PUBLIC CONCERN.

3. PROBLEMS REMAIN WITH VARIOUS FINANCIAL INSTITUTIONS ESPECIALLY DTC'S AND, ALTHOUGH THE RESCUE OF CARRIAN HAS BEEN LARGELY DISCOUNTED, FURTHER CASES WILL UNDOUBTEDLY COME TO LIGHT WHICH WILL GIVE RISE TO CONCERN AND AFFECT CONFIDENCE.

4. STATISTICS OF THE GROWTH OF TOTAL DEPOSITS IN 1982 SUGGEST THERE WAS A SUBSTANTIAL INFLUX OF MONEY INTO HONG KONG, BUT INVESTMENT BY HONG KONG PEOPLE ABROAD HAS CONTINUED, POSSIBLY ON A LARGER SCALE THAN BEFORE. PARAGRAPHS 28-32 OF THE BUDGET SPEECH COPIES OF WHICH ARE ALREADY WITH YOU COVER THIS SUBJECT.

/ 5. DESPITE

5. DESPITE THE PAUCITY OF STATISTICS THERE DO NOT APPEAR TO HAVE BEEN ANY SIGNIFICANT DEVELOPMENTS OVER EMIGRATION. UNDOUBTEDLY THOSE WHO HAVE THE QUALIFICATIONS WHICH WOULD SATISFY THE VISA REQUIREMENTS FOR RESIDENCE IN THE MORE IMPORTANT COUNTRIES (U.S., CANADA AND AUSTRALIA) ARE CONSIDERING THEIR LONG TERM FUTURE, BUT THE NUMBERS ARE NOT GREAT AND THOSE CONCERNED ARE SIMPLY LOOKING AHEAD. THERE REMAIN MANY WHO, DESPITE THE FACT THAT THEY MAY QUALIFY FOR EMIGRATION, ARE CONTENT TO WAIT AND SEE HOW THINGS DEVELOP.

6. NOT MUCH SHOULD BE READ INTO FLUCTUATIONS IN THE HANG SENG INDEX. THE INDEX IS A MEASURE OF ACTITIVITY IN THE MARKET, BUT THE CAUSATIVE INFLUENCES, DOMESTIC AND EXTERNAL, VARY FROM DAY TO DAY (E.G. PROFIT TAKING BY LOCAL INVESTORS FOLLOWED BY THE FALL IN THE PRICE OF GOLD, PLUS RUMOURS ABOUT A PROPERTY COMPANY CALLED GREAT EAGLE, HAVE BROUGHT THE INDEX BACK TO ABOUT THE 1000 LEVEL.

7. THE MORALE AND SELF-ASSAURANCE OF UNOFFICIALS HAS IMPROVED NOTICEABLY SINCE IT HAS BEEN POSSIBLE TO TAKE UNOFFICIALS IN THE EXECUTIVE COUNCIL MORE INTO MY CONFIDENCE ABOUT THE FUTURE GENERALLY.

8. THERE ARE SOME SIGNS THAT BUSINESS AND PROFESSIONAL PEOPLE IN CONTACT WITH COMMUNIST ORGANISATIONS HERE, WITH VISITORS FROM CHINA AND ON THE OCCASION OF THEIR OWN VISITS TO CHINA ARE BEGINNING TO COMMENT TO THE CHINESE THAT THE PROPOSALS IN THEIR PLAN WHICH HAVE BEEN THE SUBJECT OF DISCLOSURE TO THE PRESS AND COMMENTED ON BY SOME LEADERS IN CHINA WILL NOT WORK. HOPEFULLY SOME OF THESE COMMENTS WILL REACH THE CHINESE LEADERSHIP. IN ANY CASE THIS IS AN ENCOURAGING AND WELCOME DEVELOPMENT. NONETHELESS THE FEELING IS FAIRLY WIDESPREAD THAT IT IS NOT GOING TO BE EASY TO CONVINCE THE CHINESE ABOUT THE COMPLEXITY AND VOLITILITY OF HONG KONG'S ECONOMY AND SOCIETY: AND A NUMBER OF THINKING PEOPLE DO NOT SEE HOW THE BRITISH ARE GOING TO REACH AGREEMENT WITH THE CHINESE EXCEPT ON THE BASIS OF THE MAIN LINES OF THE CHINESE PROPOSALS.

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PRIME MINISTER

HONG KONG MEETING

We have two hours. We have provisionally arranged another meeting for Wednesday in case you need it.

HANDLING OF MEETING

I suggest you:-

(a) ask Percy Cradock to describe his latest contacts with the Chinese and summarise the Chinese position as he sees it.

(b) ask Teddy Youde to describe the latest Hong Kong view - you should see the report of his latest talk with EXCO at Flag 'A'. (and 2 other telegrams from him which have just arrived - also at Flag 'A').

We should then discuss whether EXCO's advice - that we should stand pat on our present position - is realistic.

If the conclusion is that our objective must be to get the talks going then we should consider:-

(a) whether you should send a message to the Chinese Premier.

(b) or/and whether we should send a special emissary.

and in each case what should be said.

You will wish to see the letter at Flag 'B' which describes a new appointment at the Chinese Embassy here which could lead to a new channel of communication.

In any event the meeting should probably commission a contingency paper on what we should do if the Chinese announce their "plan" in June.

SUBSTANCE

I am convinced that our immediate objective must be to get talks started. Until we do - and until they have been under way for some time - we shall never know what the true Chinese position is.

/The

unofficials clearly believe that it is open to negotiation.

How do we do it? It may be that the time has come for us to strike a tougher note than we have done since your visit in September. We could state in a formal message that the Chinese pre-condition is unacceptable and that we expect the Chinese to honour the agreement reached between you and Zhao. We could recall your hint that if satisfactory arrangements can be agreed you would be prepared to make recommendations on sovereignty to the British Parliament and imply that if the Chinese reject that basis for proceeding the responsibility will be theirs. But we hope that they will now agree to start the talks.

I attach, in case you need them,

(a) the paper on joint administration: Flag C.

(b) Sir A. Parson's minute of 24 February: Flag D.

(c) the Chinese note of 9 February: Flag E.

(d) the Foreign Secretary's minute and the "options paper" of 16 February: FLAG F.

I have, as you asked, invited Mr. Heseltine to join the meeting.

A. & C.

4 March, 1983

TOP SECRET

B/F

12

10 DOWNING STREET

From the Private Secretary

4 March 1983

HONG KONG

Your Secretary of State had a brief discussion with the Prime Minister this afternoon about the Hong Kong problem. It was agreed that a paper should be prepared on the action which we should take if the Chinese attempted an armed invasion of Hong Kong at any time between now and 1997. The difficulties were fully recognised in the discussion but the Prime Minister feels that it is essential that planning of this kind is set in hand. She would be grateful to see a paper on these lines as soon as possible.

The Prime Minister also expressed interest in previous occasions when we had reinforced the Hong Kong garrison to deal with Chinese threats. She would be grateful for a brief account of those situations and, so far as these can be ascertained, the steps which we had in mind to take to counter such threats if they materialised.

AJC

Richard Mottram, Esq.,
Ministry of Defence.

TOP SECRET

GR 800 SECRET

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FM HONG KONG 030840Z MAR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 295 OF 3 MARCH
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

YOUR TELNO 181: FUTURE OF HONG KONG

1. I SPOKE TO EXCO ACCORDINGLY ON 2 MARCH. I ANALYSED THE PRESENT POSITION AND OUTLINED THE PROBLEMS FACING HMG. I THEN SOUGHT MEMBERS' VIEWS, MAKING IT CLEAR THAT MINISTERS WERE ANXIOUS TO HAVE EXCO'S ADVICE ON THE WAY FORWARD AND THAT I DID NOT WISH TO INFLUENCE THEIR VIEWS BY GUIDING THEM IN ANY PARTICULAR DIRECTION.

2. AFTER A LONG DISCUSSION THE ADVICE GIVEN BY UNOFFICIALS CAN BE SUMMARISED AS FOLLOWS:

(A) THEY WERE NOT CONVINCED THAT THE CHINESE WOULD IN THE EVENT MAKE AN EARLY FORMAL ANNOUNCEMENT OF THEIR PLAN: THEY DID NOT THINK THAT THIS WOULD BE CONSISTENT WITH THE CHINESE WISH TO PRESERVE THE PROSPERITY OF HONG KONG. EVEN IF THE CHINESE DID MAKE SUCH AN ANNOUNCEMENT, AND REVEALED THAT THE TALKS WERE DEADLOCKED OR HAD NOT YET BEGUN, UNOFFICIALS TOOK THE VIEW THAT THIS WOULD ADD LITTLE TO WHAT WAS ALREADY BELIEVED IN HONG KONG. THE IMPACT ON CONFIDENCE WOULD THEREFORE BE NO WORSE THAN HONG KONG HAD ENDURED IN SEPTEMBER/OCTOBER LAST YEAR (SOME OFFICIAL MEMBERS BELIEVED THAT THE IMPACT OF A FORMAL CHINESE ANNOUNCEMENT WOULD BE MORE SERIOUS, BUT THEY DID NOT DISSENT FROM THE VIEW AT (C) BELOW).

(B) EVEN IF THE CHINESE DID FORMALLY ANNOUNCE THEIR PLAN AND BECAME PUBLICLY COMMITTED TO IT, UNOFFICIALS BELIEVED THAT THEIR POSITION WOULD STILL BE OPEN TO NEGOTIATION. THEY DID NOT BELIEVE THAT THE CHINESE WOULD CONCEDE ON THE ISSUE OF SOVEREIGNTY OVER THE WHOLE OF HONG KONG BUT THEY THOUGHT IT POSSIBLE THAT THE CHINESE COULD STILL BE INDUCED TO BE FLEXIBLE ON ADMINISTRATION.

(C) UNOFFICIALS THEREFORE TOOK THE VIEW THAT UNLESS THERE WAS SOME MAJOR NEW DEVELOPMENT HMG SHOULD SIT TIGHT, AT LEAST FOR THE NEXT TWO MONTHS. THEY THOUGHT THAT THE CHINESE SHOULD BE TOLD, IN RESPONSE TO YAO GUANG'S STATEMENT, THAT THE PRECONDITION WHICH THE CHINESE WISHED TO INTRODUCE FOR STARTING SUBSTANTIVE TALKS DID NOT ACCORD WITH THE JOINT STATEMENT MADE BY THE LEADERS IN SEPTEMBER AND WAS UNACCEPTABLE. IN THE REPLY, WHICH SHOULD BE GIVEN SOON AFTER THE CONSULTATIONS IN LONDON, WE SHOULD CONTINUE TO PRESS FOR TALKS TO BE ON THE BASIS OF THAT STATEMENT.

(D) UNOFFICIALS ALSO TOOK THE VIEW THAT IT WOULD BE DESIRABLE TO OPEN INFORMAL CHANNELS OF COMMUNICATION WITH THE CHINESE. SUCH CHANNELS MIGHT BE USED:

(I) INITIALLY TO CONTINUE THE PROCESS OF EDUCATING THEM ABOUT THE NEED FOR BRITISH ADMINISTRATION TO CONTINUE IF DOMESTIC

SECRET /AND

AND EXTERNAL CONFIDENCE IS TO BE MAINTAINED:
(II) AT A LATER STAGE, TO PROVIDE A CHANNEL THROUGH WHICH TO EXPLORE, WITHOUT COMMITMENT, WHAT ARRANGEMENTS FOR CONTINUING BRITISH ADMINISTRATION COULD BE MADE IF SOVEREIGNTY WAS CONCEDED.
(E) THE SITUATION MUST BE KEPT UNDER CONTINUOUS REVIEW.

3. AT THE END OF THE MEETING UNOFFICIALS PRESSED ME FOR MY VIEWS. I SAID THAT I WAS VERY CONTENT TO CONVEY THE ADVICE WHICH THEY HAD GIVEN TO LONDON. BUT ON SPECIFIC POINTS
(A) I WAS AMONG THOSE WHO THOUGHT THE RISKS WERE HIGH OF A MORE UNFAVOURABLE IMPACT ON CONFIDENCE IF THE CHINESE FORMALLY ANNOUNCED THEIR PLAN AND REVEALED THERE WAS NO PROGRESS IN THE TALKS.
(B) IN MY JUDGEMENT IT WAS A PROBABILITY RATHER THAN A POSSIBILITY THAT THE CHINESE WERE PLANNING SOME FORMAL ANNOUNCEMENT OF THEIR PLAN AT THE NATIONAL PEOPLES CONGRESS AROUND JUNE OF THIS YEAR:
(C) THE RISK WAS ALSO HIGH THAT A REPLY TO YAO GUANG ON THE LINES ADVOCATED BY UNOFFICIALS WOULD BE INTERPRETED BY THE CHINESE AS MAKING NO STEP FORWARD AND WE COULD THUS REACH A SITUATION OF ''STAND-OFF''.

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TOP SECRET

PRIME MINISTER

Hong Kong

Mr. Heseltine is coming to see you at 2.30 on Friday.

He is looking for broad guidance on the kind of military contingency planning which he should prepare in the MOD.

I attach his minute of 16 February which covered a military assessment. I also attach a minute by Mr. Jackling.

A.J.C.

3 March, 1983

TOP SECRET

Caroline O/S

I have told the F.C.O. – but Sir A. Acland will not be able to come.

A.J.C. 4/3.

①

PRIME MINISTER

Hong Kong

In the coming week we need to settle our policy. I shall let you have papers at the weekend.

We have set aside two hours on Monday (from 4 p.m. to 6 p.m.). This may be sufficient but in case it is not, we have also kept 90 minutes on Wednesday.

For the first meeting, we could invite:

Foreign Secretary
Sir Antony Acland
Sir E. Youde
Sir P. Cradock
Alan Donald
Tony Parsons
Sir Ian Sinclair.

I doubt if it is necessary to invite John Belstead as well but do you want him to attend?

It would be helpful to have John present, not

A.J.C.

3 March, 1983

Letter to: Mrs. Margaret Thatcher, British Prime Minister
(Via H.E. the Governor; SDA and RS(NT), Hong Kong)

From: Mr. LAU Wong-fat, Chairman, Heung Yee Kuk
Mr. CHAN Yat-san, Chairman, Political Research Committee, Heung Yee Kuk
Mr. HO Sun-kuen, Chairman, Legal Research Committee, Heung Yee Kuk

Date: 2.3.83

Subject: Views on the Maintenance of the Stability and Prosperity of Hong Kong

Text:

1. Immediately after your meetings with the Chinese leaders in Beijing in September 1982, a joint communique was published by China and Britain stating that diplomatic talks would be held by the two countries in order to solve the problem of Hong Kong's future with a common objective of maintaining Hong Kong's prosperity and stability. Looking forward, there are still 14 long years ahead before 1997 when the New Territories lease expires. Looking back, however, a mere 14 years seemed to have elapsed in just a wink. Thus, China and Britain should actively expedite the talks, with a view to seeking an effective solution acceptable to China, Britain and Hong Kong, and at the same time able to maintain Hong Kong's prosperity and stability so as to pluck up the confidence of Hong Kong people as well as international confidence in making long-term investments in Hong Kong.

2. Historically speaking, Britain acquired and has been administering Hong Kong Island, Kowloon and the New Territories on the strength of three treaties. Nevertheless, from the legal point of view, Britain has to return to

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China the New Territories (including the Kai Tak International Airport), amounting to 92% of the total area of the Colony, leaving behind only the Kowloon Peninsula (south of Boundary Street) and the Hong Kong Island which have an area equivalent to 8% of the total area of the Colony. British administration of these remaining areas will hardly be viable even if Chinese chooses not to recover them. From the political point of view, as China declared in its memorandum to the United Nations in 1972 that the problem of Hong Kong and Macau was the result of a series of unequal treaties signed by China under coercion of the imperialists, Britain has therefore no grounds for argument when China proposes to recover the sovereignty over the whole of Hong Kong.

3. However, owing to the facts of history and the good relationship between China and Britain in the recent years (Britain was the first Western country to establish diplomatic relations with the People's Republic of China), this problem that is left over by history may well be solved by discussions.

4. At the banquet held in your honour during your Beijing visit, Chinese Premier Zhao Ziyang said, "In the twelfth National Congress of the Chinese Communist Party, the programme for our country's comprehensive socialist modernization and constructions was laid down. China will continue with its open policy and actively expand its interflow with foreign countries on an equal and mutually beneficial basis. In developing our relations with other countries, the five principles of peaceful coexistence will be our basic guidelines."

/....

He also said explicitly, "There are still some historical problems in the Sino-British relations that remain to be settled. However, if only both sides will look at them from the viewpoint of a long-term strategy, develop the relations between the two countries and follow the five principles of peaceful coexistence when dealing with the problems, I believe that it will not be difficult to find a solution."

During our meeting with Mr. Liao Chengzhi, Vice-chairman of the Standing Committee of the Chinese National People's Congress, in Beijing on 12.1.83, Mr. Liao also said that if Britain returned the sovereignty over Hong Kong to China, other issues were negotiable on an equal and mutually beneficial basis. He told us to put in greater efforts for the common interests of China, Britain and Hong Kong and to urge Britain to make early negotiation with China as it would not be advantageous to Hong Kong if the situation lingered on uncertainly for a long time.

5. In view of the above, we believe that if Britain make an early promise to return the sovereignty over Hong Kong to China, all other problems can be settled through negotiations so long as both China and Britain can be benefited on an equal and mutually beneficial basis. For example, Britain can make use of the land near Deep Bay in the New Territories, the lease of which will expire in 1997, to build an international airport in a joint venture with Shenzhen Special Zone in Kwangtung Province, China. China and Britain can then make a contract regarding the use of the airport for a number of years, thereby settling the future of Hong Kong. The construction of the

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international airport can prompt improvements to the sea and land traffic and telecommunications between Shenzhen and Hong Kong so that the prosperity of Hong Kong can be extended to the Special Economic Zone of Shenzhen. This is a good way for China and Britain to maintain the prosperity and stability of Hong Kong.

6. Hong Kong is a political, economic and cultural interflow centre of Britain in the Far East. If Hong Kong ceases to benefit China and Britain, diplomatic negotiations between the two countries will of course be affected. At present, when the Chinese are proceeding with socialist modernization and constructions in an all-round way, the maintenance of the prosperity and stability of Hong Kong should be of certain help to China's developments under the four modernizations programmes and should also provide certain benefits for Britain.

The New Territories Heung Yee Kuk is an organization representing the New Territories opinion. Now that China and Britain are having negotiations on the future of Hong Kong with reference to the New Territories lease which will expire in 1997, we request the Hong Kong Government to inform the Kuk of the progress of the talks. We promise to keep such information absolutely confidential before the Government makes public announcements. We would be most grateful if you would favour us with a reply.

維持香港繁榮和安定的意見

1.一九八二年九月首相閣下　到北京會見中國領導人後，中英兩國曾聯合發表公報說兩國會本着維持香港繁榮和安定的共同目的，通過外交商談來解決香港前途問題。從今日看一九九七年（新界租約期滿）尚有十四年餘長的時間距離；但回顧過去，十四年的時間恍如轉眼間即已消逝，因此，中英兩國宜積極地從速進行外交商談，尋求出一個能爲中、英、港三方面可以接受而又能維持香港繁榮和安定的有效方案，以奠定香港人包括國際人士對香港長期投資的信心。

2.在歷史上英國是憑三條條約獲得及管理香港、九龍及新界。從法律觀點，英國在一九九七年六月卅日新界租約期滿時，理應將整個香港總面積百份之九

地址：九龍塘金巴倫道四十七號

十二的新界土地（包括啓德機場）交回給中國，而剩下九龍界限街以南及香港島祇佔整個香港總面積百份之八的土地，即使中國不收回，英國欲繼續管治也難以處理的。從政治觀點，當一九七二年中國向聯合國提交的備忘録，聲稱香港與澳門問題係過去歷史上帝國主義者一連串逼使中國簽訂不平等條約而產生者，因此，對於中國提出要收回整個香港領土主權，英國方面在情勢上是難以爭論的。

3. 但是，基於歷史的事實及近代中英兩國的友好關係（查中華人民共和國建立之初，英國是西方國家中第一個與其建交的），如何去解決這個歷史上遺留下來的問題，是可以從長計議的。

4. 根據中國趙紫陽總理在歡迎首相閣下　訪問北京之宴會上曾說：「最近中國

地址：九龍塘金巴倫道四十七號

共產黨在十二次代表大會確定了中國人民爲全面進行社會主義現代化建設而奮鬥的綱領，繼續實行對外開放政策，在平等互利的基礎上積極擴大對外交流，和平共處五項原則將是我國同世界各國發展關係的基本指導原則。」

再又明顯表示：「在中英雙邊關係中，也還有歷史遺留下來的問題有待解決，但是祇要我們雙方都能用長遠戰略觀點看待，並發展中英關係，以和平共處五項原則爲準則來處理我們之間的問題，我相信這類問題是不難解決的」。

又余等於一九八三年一月十二日在北京會見中國人大常務委員會副委員長廖承志先生時，廖先生亦曾表示如英國交回香港領土主權，其他問題在平等互利的基礎上是可以商量的，他並着余等對中、英、港三方面之共同利益

地址：九龍塘金巴倫道四十七號

多作努力，並催促英國方面早日商談，拖下去局勢不明朗，對香港無好處。

5. 基於上述種種情況，我們相信如果英國早日承認將香港領土主權交回中國，其他一切問題祇要能使中英兩國在平等互利原則下獲益，是可以商談解決的。例如英國可利用行將於一九九七年滿期之新界后海灣土地與中國廣東省深圳特區合作建設國際機場，中英兩國便可由此訂立有年期性使用的國際機場條約，從而解決香港前途，由國際機場建設之帶動，可以解決廣東省深圳與香港間之海上交通、陸上交通及電訊等，使香港之繁榮擴展至深圳經濟特區，此屬中英兩國維持香港繁榮和安定的一個良好辦法。

6. 香港是英國在遠東的政治、經濟及文化交流中心，倘若香港對中英雙方沒有利益的話，當然會影響中英兩國在外交上的商談。在今日中國人民爲全面進

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新界鄉議局用牋

行社會主義現代化建設的時候，香港能維持繁榮和安定，當對中國的四化建設有一定程度的幫助，而對英國也有一定的好處。

新界鄉議局係代表新界民意的機構，際此中英兩國商談香港前途有關新界在一九九七年滿期問題時，擬請香港政府能將中英商談消息見告，本局自當在政府未公開宣佈前絕對保守祕密。如何之處，敬祈示覆。

謹呈

新界政務署署長麥法誠先生　轉呈

政務司　鍾逸傑先生　轉呈

香港總督　尤德爵士　轉呈

英國首相　戴卓爾夫人

地址：九龍塘金巴倫道四十七號

新界鄉議局用牋

新界鄉議局主席：

新界鄉議局主任：
政治研究委員會

新界鄉議局主任：
法律研究委員會

一九八三年三月二日

地址：九龍塘金巴倫道四十七號

10A

Foreign and Commonwealth Office

London SW1A 2AH

2 March 1983

Dear John,

Future of Hong Kong

You will remember that I sent you on 10 November 1982 a note of a meeting Alan Donald attended at the State Department and a paper which he was given by the Americans about Chinese negotiating techniques.

When the Americans had their long negotiation with Peking about arms sales to Taiwan, they found that progress had been very slow until the Chinese sent a new official as No 3 in the Chinese Embassy in Washington. This man, who had been Chou En-lai's Private Secretary and had impeccable English, proved a useful contact since it was possible at moments of tension or deadlock for the State Department to have a private word with him in a relaxed atmosphere and to disentangle some of the misunderstanding. They had been able to speak frankly with him and exchange important hints.

We have heard from Peking that a Chinese diplomat, Zheng Yaowen, is shortly taking up a new appointment as Counsellor at the Chinese Embassy in London. He has hitherto been in the Western European Department of the Chinese Ministry of Foreign Affairs dealing in particular with the United Kingdom.

Zheng has been closely involved on the Chinese side in the Hong Kong question. He was present at the talks in Peking in January 1982 between the Lord Privy Seal and Premier Zhao. You may remember that he was also present in Peking during the session with Premier Zhao and Chairman Deng during the Prime Minister's visit last September. Zheng was extremely helpful at the end of the talk with Deng when it came to drafting the formula for the holding of diplomatic talks with the 'common aim'.

/Zheng

Zheng speaks good English and is an intelligent man. It may not be going too far to suggest that the Chinese may be planting him in their Embassy here so that he can keep his ears open and handle the fine tuning in any reports the Embassy send back about the negotiations. He is known to several people in the Foreign Office, including Alan Donald. We shall be making normal contact with him and will report if anything of interest comes our way.

Yours ever,

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

Hong Kong: future Pts

2 - MAR 1983

10

SECRET

GRS 310

SECRET

A.J.C. 3/3
f.a.

FROM PEKING 020505Z MAR 83

TO IMMEDIATE HONG KONG

TELEGRAM NUMBER 17 OF 2/3/83

REPEATED FOR INFO TO ROUTINE FCO WASHINGTON (PERSONAL FOR AMBASSADOR)

WASHINGTON TEL NO 463 TO FCO AND YOUR TEL NO 87:

FUTURE OF HONG KONG:
US DELEGATION

1. JOHNSON AND HIS DELEGATION CALLED ON ME LATE LAST NIGHT FOR A DRINK. THEY ARE WORKING ON A PROJECT ''CHINA IN THE NEXT TEN YEARS''. JOHNSON DID NOT SEEM WELL BRIEFED ON HONG KONG AND HAD HAD ONLY A VERY INSUBSTANTIAL EXCHANGE ON THE SUBJECT WITH WANG BINGNAN. WANG HAD SAID THAT THE PROBLEM WAS SIMPLE: HONG KONG BELONGED TO CHINA AND CHINA WOULD HAVE IT BACK. HE HAD HAD NO ANSWER WHEN JOHNSON ASKED HOW THEY WOULD DO THIS AND AT THE SAME TIME MAINTAIN CONFIDENCE.

2. I GAVE JOHNSON A GUARDED BRIEFING , SAYING THAT WE WERE NOW TALKING TO THE CHINESE ABOUT THE FUTURE AND THAT WE HAD A COMMON INTEREST IN FINDING A SOLUTION. BUT I EXPLAINED THAT THE CHINESE WERE DEEPLY IGNORANT ABOUT HOW THE ECONOMY WORKED AND THAT THIS WA A MAJOR PROBLEM. ANOTHER PROBLEM WAS THE SERIES OF LEAKS FROM THE CHINESE SIDE TO HONG KONG VISTORS AND THE PRESS, WHICH HAD CAUSED CONCERN IN HONG KONG. THAT SAID, THE ECONOMIC BAROMETERS IN HONG KONG LOOKED BETTER NOW THAN THEY DID SOME WEEKS AGO.

/3.

SECRET

3. HUAN XIANG HAD TOLD JOHNSON THAT THE TAIWAN PROBLEM MIGHT BE ''BEHIND THEM'' IN TEN YEARS' TIME. JOHNSON SAID HE AGREED THAT IT WAS POSSIBLE THAT, ALTHOUGH THE PRC FLAT MIGHT NOT FLY OVER TAWAN IN THAT TIME, THE TWO CHINAS COULD HOWEVER HAD WORKED OUT A ''MODUS VIVENDI'' WHICH MIGHT LEAD TO FULL REUNIFICATION IN THE LONGER TERM. THIS STRUCK ME AS VERY OPTIMISTIC.

4. IT WAS UNFORTUNATE THAT JOHNSON ALLOWED NONE OF THE YOUNGER MEN ON HIS DELEGATION TO SPEAK. GENERAL GOODPASTER MANAGED A FEW SHORT LINES BUT THE OTHERS WERE GIVEN NO LEASH. OKSENBERG SHOULD BE WORTH TAKING TO ONE SIDE.
CRADOCK

FUTURE OF HONG KONG

LIMITED

HD/HKGD ← HD/NAD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

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SIR I SINCLAIR LEGAL ADVISER
MR ROBERTS NEWS D
MR COLES NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

Hong Kong

HONG KONG

SECRET

9

4842 - 1

GRS 262
SECRET
DESKBY 010100Z
FM FCO 281306Z FEB 83
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 181 OF 28 FEBRUARY
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

A.S.C. 1/3
L.a.

MY TELNO 106: FUTURE OF HONG KONG

1. THE PRIME MINISTER HAS NOW CONSIDERED PAPERS WHICH OUTLINE THE PRESENT POSITION AND A NUMBER OF OPTIONS BEFORE US, AND LOOKS FORWARD TO DISCUSSING THE SITUATION WITH YOU AND SIR PERCY CRADOCK DURING THE WEEK BEGINNING 7 MARCH.

2. THE PRIME MINISTER HAS NOT YET FORMED A VIEW ON THE DIRECTION IN WHICH WE SHOULD NOW MOVE. SHE RECOGNISES THE PROBLEM POSED BY THE CHINESE RESISTANCE SO FAR TO SUBSTANTIVE TALKS ON ACCEPTABLE TERMS AND BY THE LIKELIHOOD THAT THEY WILL TAKE EARLY ACTION TO REVEAL MORE OF THEIR OWN PLANS PUBLICLY.

3. THE PRIME MINISTER CONFIRMS THAT YOU SHOULD CONSULT EXCO BEFORE YOU COME TO LONDON. SHE WOULD LIKE YOU TO GIVE EXCO AN ANALYSIS OF THE PRESENT POSITION AND THE PROBLEMS FACING HMG, GIVING DUE WEIGHT TO THE STATEMENT TO SIR P CRADOCK BY YAO GUANGO ON 9 FEBRUARY. YOU SHOULD FOLLOW THIS UP BY ASKING EXCO FOR THEIR VIEWS ON THE WAY FORWARD.

4. YOU SHOULD NOT REPEAT NOT PUT THE PAPER OUTLINING THE OPTIONS TO EXCO, NOR SHOULD YOU PUT THOSE OPTIONS TO THEM ORALLY. IT IS ALSO VERY IMPORTANT THAT YOU SHOULD NOT (NOT) GIVE ANY IMPRESSION THAT THE PRIME MINISTER HAS CHANGED IN ANY WAY HER VIEWS ON THE ISSUE OF SOVEREIGNTY OR THE HANDLING OF THIS WITH THE CHINESE. YOUR PURPOSE SHOULD BE TO GET EXCO TO GIVE THEIR VIEWS ON THE BEST WAY FORWARD. YOU WILL NO DOUBT UNDERTAKE TO CONVEY THEIR VIEWS FULLY TO MINISTERS IN LONDON WHO ARE ANXIOUS TO HAVE THEIR COUNSEL AT THIS STAGE.

PYM

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
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MR COLES NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE

SECRET

SECRET

8

10 DOWNING STREET

From the Private Secretary

28 February, 1983.

Thank you for your letter of 25 February to John Coles about the future of Hong Kong. The Prime Minister has noted the points made in your letter, and has agreed a somewhat amended version of the proposed draft telegram to the Governor of Hong Kong. The text of the approved telegram is now attached, and I should be grateful if you could arrange for its despatch to the Governor of Hong Kong.

B/f for copy of telegram sent

T. FLESCHER

John Holmes, Esq.,
Foreign and Commonwealth Office.

SECRET

2pp 7B

cc Sir Anthony Parsons

Prime Minister has seen.

AR 4/3.

MR. COLES

THE FUTURE OF HONG KONG: CONTINGENCY PLANNING

The note circulated behind the Defence Secretary's minute of 16 February, conveys a broad brush, but nevertheless realistic, assessment of the scope for military counter-measures to Chinese threats. It does not, however, do full justice to the amount of work which the MoD are doing on this.

A number of ideas are being developed for the military steps which HMG might take in response to Chinese military pressure on the border, in the seaward approaches to Hong Kong, or on the airfield at Kaitak. This work is being done by a very small circle of military and civilian planners. Work is also being done in consultation with the FCO and one or two key members of the Governor's staff in Hong Kong, on the ways in which we might counter or respond to Chinese interference with the water supply, food supply etc.

I have taken up one or two points on the paper with those concerned in the MoD:

a. Warning Time: Major General John Chapple, who was until recently CBF Hong Kong, assures me that we could expect a good deal of warning of any intention by the Chinese to ferment an internal security crisis in Hong Kong. The Communist Cardres of the city are well infiltrated by Special Branch . It seems certain that they could give sufficient warning to permit all the preparations and reinforcements necessary to deal with a major internal security situation. By the same token, we could expect plenty of warning of any move by the Chinese to mount a military confrontation on the border. The movement of units of the PLA around China would be a slow, cumbersome and observable business, as it was during preparations for the Chinese intervention in Vietnam.

b. Loyalty of the Hong Kong Police: This is currently assessed as good, and equal to the demands of a "normal" internal security crisis. Nevertheless, it is difficult

/to predict

to predict how morale would endure in circumstances when several disturbances on a large scale were evidently stimulated by the Chinese, and accompanied by ringing political statements about Hong Kong's future as a part of the People's Republic of China. In these circumstances the ethnic Chinese members of the police force would inevitably be concerned about their future under a different regime.

c. Air Reinforcements: The scope for operations from Kaitak by RAF aircraft is severely limited by the proximity of any number of airfields on the Chinese mainland from which offensive sorties could be flown by the Chinese. Even with Airborne Early Warning, which could be provided by RAF Canberras, aircraft on the ground at Kaitak would be extremely vulnerable. The situation could, of course, be improved by the deployment of a significant number of Rapier Fire Units and Blowpipe. The topography of Hong Kong is favourable to the deployment and operation of those systems.

d. Acclimatisation of Reinforcements: In the middle of the Hong Kong summer it would take some time for reinforcements from the United Kingdom to acclimatise and be fully effective. They would initially be confined to static duties. The plans for integrating reinforcements into the garrison's deployments are well developed, and frequently practised.

I have the impression that within the limits imposed by the needs of very strict security, the MoD are thinking through all the possibilities very thoroughly. They have not, since August of last year, given any further thought to the possible role of British forces in Hong Kong after 1997, or when different administrative arrangements may be introduced as part of the settlement with China. Nor need they do so for the present, I suggest.

R.T. JACKLING
25 February 1983

file

7A

SECRET

4714 - 1

GRS 151
SECRET
DESKBY 260100Z
FM FCO 251930Z FEB 83
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 180 OF 25 FEBRUARY
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)
FUTURE OF HONG KONG: VISIT TO LONDON

1. AFTER DISCUSSION WITH NO 10, WE WOULD PREFER WORDING ON THE FOLLOWING LINES, WHICH YOU COULD RELEASE ON 26 FEBRUARY IF YOU WISH:

BEGINS: THE GOVERNOR WILL BE IN LONDON DURING THE WEEK BEGINNING 7 MARCH FOR CONSULTATIONS. SIR P CRADOCK WILL RETURN AT THE SAME TIME. ENDS

YOU COULD OF COURSE CONFIRM IN RESPONSE TO QUESTIONS THAT THE CONSULTATIONS WOULD COVER THE FUTURE OF HONG KONG, BUT IF YOU THINK THE PROPOSED WORDING TOO DISENGENUOUS, YOU HAVE DISCRETION TO ADD, AT THE END OF THE FIRST SENTENCE: 'WHICH WILL COVER THE FUTURE OF HONG KONG'.

2. ON PRESENT PLANS A MEETING WILL BE HELD AT NO 10 ON THE AFTERNOON OF 7 MARCH, WITH AN OPTION OF A FURTHER MEETING ON THE AFTERNOON OF 9 MARCH. GRATEFUL FOR YOUR IDEAS ON OTHER CALLS.

PYM

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

COPIES TO

SIR I SINCLAIR **LEGAL ADVISER**
MR ROBERTS **NEWS D**
MR COLES **NO 10 DOWNING STREET**
MR MARTIN **ASSESSMENTS STAFF CABINET OFFICE**

SECRET

SECRET

7

PRIME MINISTER

HONG KONG

Yes mt

I attach:

A A minute by Sir Anthony Parsons;

B A paper by the FCO on the idea of joint administration after 1997;

C A draft telegram to the Governor authorising him to hold a discussion with EXCO before he returns here next week;

D In case you need it again, the original FCO paper on the future of Hong Kong.

on file

I am aware that this does not take us much further forward. It is a very difficult problem and I think our best plan is to have a thorough discussion with Percy Cradock and the Governor in the week beginning 7 March. But I shall, next week, try to give more thought to this myself and let you have some ideas.

The only decision needed now is on the draft telegram at Flag C. Do you agree that the Governor may be given this authority?

A. J. C.

25 February 1983

SECRET

Foreign and Commonwealth Office

London SW1A 2AH

25 February 1983

F E R Butler Esq
No 10 Downing Street

Dear Robin,

Many thanks for your letter of 23 February enclosing one from the Dean of Windsor about Hong Kong.

Percy Cradock had already written to me about the visit, commenting that, thanks to his briefing from you, the Dean spoke impeccably.

Yours ever,

Alan

A E Donald

Hong Kong Future

pt 5

OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	SECRET	IMMEDIATE

ZCZC 1 ZCZC
GRS 2 GRS
CLASS 3 SECRET
CAVEATS 4
DESKBY 5
FM FCO 6 FM FCO FEBRUARY 1983
PRE/ADD 7 TO IMMEDIATE HONG KONG
TEL NO 8 TELEGRAM NUMBER
9 INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)
10 MY TELNO 106: FUTURE OF HONG KONG
11 1. The Prime Minister has now considered papers which outline
12 the present position and a number of options before us, and looks
13 forward to discussing the situation with you and Sir Percy
14 Cradock during the week beginning 7 March.
15 2. The Prime Minister has not yet formed a view on the
16 direction in which we should now move. She recognises the
17 problem posed by the Chinese resistance so far to substantive
18 talks on acceptable terms and by the likelihood that they will
19 take early action to reveal more of their own plans publicly.
20 ~~For your own information, she considers that any moves on our~~
21 ~~part implying any weakening of our stand on sovereignty would~~
/// 22 ~~need to be examined very carefully to see whether they would~~
// 23 ~~in fact be likely to produce advantages for us and the people~~
/ 24 ~~of Hong Kong.~~
25 3. The Prime Minister confirms that you should consult EXCO

NNNN ends telegram	BLANK	Catchword before
File number	Dept Private Office	Distribution Future of Hong Kong
Drafted by (Block capitals) JOHN HOLMES		
Telephone number		
Authorised for despatch		
Comcen reference	Time of despatch	

XY 48

Classification and Caveats		Page
SECRET	IMMEDIATE	2

<<<<

>>>>

before you come to London. She would like you to ~~concentrate on the~~ give EXCO an analysis of the present position and the problems facing HMG, ~~as described in the first part of the paper,~~ giving due weight to the statement to Sir P Cradock by Yao Guang on 9 February. You should follow this up ~~with a broad sounding of EXCO's views on the choices we now face without going into detail or suggesting that we have a favoured course.~~ by asking EXCO for their views on the way forward.

4. You should not repeat not put ~~any~~ the paper outlining the options to EXCO. It is also very important that you should not (not) give any impression that the Prime Minister has changed in any way her views on the issue of sovereignty or the handling of this with the Chinese. Your purpose should be to get EXCO to give their views on the best way forward. You will no doubt undertake to convey their views fully to Ministers in London who are anxious to have their counsel at this stage.

how should you put these options to them orally.

PYM

NNNN

NNNN ends telegram	BLANK	Catchword

XY 48 A

SECRET

Foreign and Commonwealth Office

London SW1A 2AH

6

25 February, 1983

Dear John,

Future of Hong Kong

Thank you for your letter of 21 February, giving the Prime Minister's initial reaction to the paper submitted on 16 February as a basis for further discussion. The options listed in the paper cannot, of course, be exclusive, but several other options have been covered already in the Special Study on the Future of Hong Kong of August 1982 (notably in paragraph 20) and their defects discussed.

We have examined as requested the possibility of negotiating an agreement whereby the UK would retain sovereignty over Hong Kong and Kowloon beyond 1997 with a joint British/Chinese administration over the whole territory. I enclose a paper. Study of this idea produced discouraging results. The paper concludes that the option is not viable, because all the evidence and experience indicate that it would not be negotiable with the Chinese. We do not believe that they will change their position on this basic point.

Furthermore, even if the Chinese were prepared to swallow their national pride and agree to such a proposal, the chances of it producing a lasting or workable settlement are minimal. The problems of running a condominium with the Chinese Communists would be immense and they would be a thorn in the side of Sino-British relations for many years. Most important of all, we doubt if the people of Hong Kong would have any confidence that it would work. The Governor and Sir P Cradock have been consulted and strongly agree with this conclusion.

The next immediate step is for Sir E Youde to consult EXCO before his return to the UK on 6 March. I also enclose therefore a draft telegram authorising him to do this without any commitment to a particular course of action.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

H-K - Culture d - Pl-5.

OPTION : NEGOTIATING AN AGREEMENT WHEREBY THE UK WOULD RETAIN SOVEREIGNTY OVER HONG KONG AND KOWLOON BEYOND 1997, CHINA WOULD HAVE SOVEREIGNTY OVER THE NEW TERRITORIES AND THERE WOULD BE JOINT BRITISH/CHINA ADMINISTRATION OVER THE WHOLE

ADVANTAGES FOR HMG AND HONG KONG

1. If such an agreement could be negotiated and if a joint administration could be operated successfully over a number of years, there would be the following advantages:

(a) The UK presence in the ceded territories would be continued, upholding our present legal title to sovereignty;

(b) Binding agreement on joint administration would provide some insurance against Chinese interference in Hong Kong and thereby help to meet our obligation to the population;

(c) It would go some way towards protecting our commercial and strategic interests in the Far East;

(d) It would assist UK/China relations.

LIKELIHOOD OF CHINESE ACCEPTANCE

2. All the evidence suggests that Peking would not agree to consider a solution involving continued British sovereignty over any part of Hong Kong after 1997. The Nationalist and Communist Governments of China have consistently maintained that the whole territory is Chinese and that the three treaties are "unequal".

3. Premier Zhao told the Prime Minister in September 1982 that the entire Hong Kong area was part of China's territory and that China must "recover" sovereignty in 1997. He said that Hong Kong Island and Kowloon were inseparable from the New Territories. Chairman Deng told Mrs Thatcher that it was certain that by 1997 China's sovereignty over the entire area would be recognised. On 9 February 1983, Vice Foreign Minister Yao Guang told HMA Peking that "Hong Kong is a part of Chinese territory which must revert to China ... China will recover sovereignty over the entire Hong Kong area in 1997; that is definite and beyond question."

4. Under international law the PRC are entitled to the return of the New Territories in 1997. HMG accepts this. Thus, since China believes that it already has sovereignty over the whole of Hong Kong our agreeing that China should have sovereignty over the New Territories would not be seen by the Chinese as a concession of any kind.

5. Joint administration with divided sovereignty is not something the Chinese have ever suggested or would be attracted to. Any hints which they have given in this area have been related only to a situation in which they had sovereignty over the whole territory, but in which they might agree to senior British civil servants continuing to work in Hong Kong under local Chinese leaders. But the Chinese would expect them to be answerable to Peking in the final analysis.

6. The Chinese Government would therefore react very badly to a proposal of this sort. Any suggestion that the negotiation should take as its starting point the divisions created by the 19th century Treaties touches them on a very raw nerve. If we put the idea forward as a firm negotiating position they might conclude that there was no point in further discussion with us and would be encouraged to go public with their own plan and seek to impose it with intensified subversion of the hearts and minds in Hong Kong.

PROBLEMS OF OPERATING A JOINT ADMINISTRATION

7. If the Chinese were nonetheless to reverse their stand on the underlying political principle and agree to a joint administration, there would still be major problems in a number of fields eg:

(a) The structure of a joint authority, the way in which it was appointed and above all whether the Chinese or British components in it would have the final say;

(b) The practical operation of administration in both parts of the territory. It might be possible to agree broadly on policies covering eg, trade, housing, transport and even social welfare. However, there would be frequent disagreements resulting from differences of approach to such questions as freedom of speech, education, legal jurisdiction, policing and internal security;

(c) Law and the courts, including final appeals;

(d) External relations and defence;

(e) Citizenship and nationality.

8. Previous experiments in joint administration, eg the New Hebrides Condominium, have proved very difficult to operate, even in conjunction with another Western country. The problems of making a success of such a venture in cooperation with the Communist Chinese would be far greater. The population would have no confidence that the system would work because we should have had to concede the joint administration in our sovereign territory. In practical terms this would mean a substantial outflow from the territory by those who could afford it and a damaging movement from the New Territories into Kowloon and Hong Kong by people seeking to insure against the breakdown of joint administration.

SEPARATE ADMINISTRATION BY THE UK OF THE CEDED TERRITORIES

9. If a joint administration could be agreed and operated amicably with the Chinese there would be no need for arrangements to reduce the dependence of Hong Kong and Kowloon on the New Territories. But if such a scheme broke down we should have to try to run the ceded territories on their own against Chinese opposition or at least with the minimum of cooperation. In that case the problems would extend far beyond the provision of food and water supplies. As the attached annex shows, the New Territories comprise more than half the population and 92% of the land area of the territory; they include the airport, the container port, all major reservoirs, new towns, most of industry and most of the generating capacity. Hong Kong Island and the Kowloon Peninsula could only survive on Chinese sufferance, and on the basis of continued free movement between the different parts of Hong Kong and free access to the commercial and economic resources of those parts. China could seize Hong Kong Island and the Kowloon Peninsula by force at any time or take crippling economic measure, eg by blockading the harbour, cutting off food or water supplies, or encouraging mass illegal immigration southwards.

10. In these circumstances even if we managed to hang on with a British administration, confidence and prosperity would collapse. At best we should be attempting to meet our obligations only to a proportion of the present population of Hong Kong with no prospect of an enduring future.

Foreign and Commonwealth Office
24 February 1983

RELATIVE IMPORTANCE OF THE CEDED TERRITORY AND THE NEW TERRITORIES OF HONG KONG

	Hong Kong and Kowloon Peninsula	New Territories
Area (Total 400 sq.m)	8%	92%
Population (Total 5.1 million)	40%	60%
Economic activity (Number of people employed) Commercial) Financial) Services)	88%	12%
Wholesale Retail	71%	29%
Manufacturing	29%	71%
Water (18% supplied from China)	No reservoirs of any significance	All major reservoirs
Power Generation	Capacity not sufficient for area	Contains main power statio
International Transport	Macau ferry terminal	Airport (on reclaimed land
Shipping	Some docks and lighter loading	Container port
Education (tertiary education places)	67%	33%
Primary Production (considerable imports from China)	Virtually nil	Meets 45% demand for fresh vegetables 15% pigs 43% live birds
Potential for further development	Small	Still considerable
Labour and Social	Major movement. 524,000 workers (23% of labour force) move from one area to the other per day. Strong family ties between both areas	

SECRET

DRAFT TELEGRAM TO GOVERNOR OF HONG KONG

5

The Prime Minister has now considered papers which outline the present position and a number of options before us, and looks forward to discussing the situation with you and Sir Percy Cradock during the week beginning 7 March.

The Prime Minister has not yet formed a view on the direction in which we should now move. She recognises the problem posed by the Chinese resistance so far to substantive talks on acceptable terms and by the likelihood that they will take early action to reveal more of their own plans publicly.

The Prime Minister confirms that you should consult EXCO before you come to London. She would like you to give EXCO an analysis of the present position and the problems facing HMG, giving due weight to the statement to Sir P. Cradock by Yao Guang on 9 February. You should follow this up by asking EXCO for their views on the way forward.

You should not repeat not put the paper outlining the options to EXCO nor should you put those options to them orally. It is also very important that you should not (not) give any impression that the Prime Minister has changed in any way her views on the issue of sovereignty or the handling of this with the Chinese. Your purpose should be to get EXCO to give their views on the best way forward. You will no doubt undertake to convey their views fully to Ministers in London who are anxious to have their counsel at this stage.

MT

SECRET

cc Mr. Jackling

MR. COLES

Sir A. Parsons
to see again.
MR 1/3.

HONG KONG

I have been thinking a lot about Hong Kong since we discussed it with the Prime Minister at the beginning of the week. The following are my personal views. I must emphasise that my only expertise derives from a fair amount of experience of negotiating with the Chinese in New York.

As I see it, our objectives are the following:-

1. To ensure, so far as it lies in our power, a reasonable future in the long term for the people of Hong Kong, combined with the minimum of uncertainty in the short and medium term. This is our moral responsibility.

2. To avoid a violent confrontation with the Chinese which might lead to blockade or war. I do not believe that either would be acceptable to the people of Hong Kong, or to the British people.

3. To avoid a situation in which there is a mass exodus from Hong Kong, a substantial part of which might head for the United Kingdom.

The fundamental problem is that our position is weak. For obvious reasons, the Chinese can have the last word just as we could if, by some chance, the Chinese had acquired the Isle of Wight and Southampton in the 19th Century and we were now determined to recover them. (China is not Argentina: the geography is totally different: the Hong Kong population is not "British".) Bilaterally, our only assets, which do not amount to all that much, are the fact that we are in possession and that China has an interest in avoiding a major row with an important European power. I am unimpressed by the economic argument, ie the importance the Chinese are alleged to attach to the continuation of Hong Kong as a prosperous, capitalist society, and by the argument that the Chinese would be affected by the impact which a Hong Kong settlement might have on the eventual peaceful reunification of China with Taiwan.

/Internationally,

Internationally, the plain fact is that we have few, if any, assets. The Chinese are in a position to slam the door of the United Nations in our face and there would be nothing we could do about it. Equally, I do not believe that we would get any support, apart from private sympathy, from our partners and allies and from friendly regional states if it looked as though we were heading towards confrontation with the Chinese. Even the Americans would find good reason for urging us to make concessions in order to reach a peaceful accommodation with Peking. I would not count on our European partners, still less on eg ASEAN.

In the light of the above, I believe that we have two immediate tactical objectives:-

1. To involve the Hong Kong Chinese leadership in our policy-making process without further delay.

2. To involve the Chinese in serious negotiations as soon as possible.

The first objective - involving the Hong Kong Chinese - is not difficult as soon as we make up our minds on our first step.

The second objective - involving Peking in negotiations - brings us to the heart of the dilemma. The weight of opinion in the FCO is that the Chinese mean what they say in making the question of sovereignty a pre-condition for the opening of negotiations. However, my feeling is that we have not yet done enough research to be sure of this judgement as a basis for formulating our policy. Hence, to sell this important pass at this stage would be premature, and we should not in any case contemplate doing so unless the Hong Kong Chinese leadership are themselves convinced that there is no choice and that to do so would be the only way to open negotiations with China on the question of administration.

I think, therefore, that our first step should be to authorise the Governor to tell the EXCO exactly what the latest Chinese position is (Peking Tel No 160). He could then ask them for their views. Do they think that the Chinese are bluffing or that they are immovable and that there will be no negotiations (with all the consequences

/that this could

that this could bring in terms of a Chinese public campaign in June) unless we make the concession which the Chinese are demanding. He should give no hint that we are thinking of changing our present policy, but should emphasise that their views will, of course, be of great importance to us. He could tell them that, as soon as they have reacted, he would return to London for further discussions.

I am not meant to know this, but I think that this is what the FCO will recommend, probably before the weekend, when they produce comments on the Prime Minister's idea which she put forward at our last meeting. If the Governor is given this authority, this will start the process of involving the Hong Kong Chinese and give us more evidence on which we can make a judgement of Chinese intentions. Meanwhile, we should not have sold any passes and would not have said anything to the Hong Kong Chinese which, if they leaked to Peking, would impair our negotiating position.

A.D. PARSONS
24 February 1983

2pps.

Eric Hotung

MR. ROBIN BUTLER
10 DOWNING STREET
LONDON
ENGLAND

REF: 054/83/LCW

23RD FEBRUARY, 1983

FBRS

DEAR ROBIN,

THANK YOU FOR YOUR NOTE, WHICH I MUCH APPRECIATED RECEIVING. I ENCLOSE, UNDER COVER OF THIS LETTER, A CLIPPING FROM THIS MORNING'S POST, WHICH INDICATES THAT MARSHAL YE IS NO LONGER CHAIRMAN OF THE STANDING COMMITTEE OF THE NATIONAL PEOPLE'S CONGRESS. HOWEVER, HE DOES REMAIN CHAIRMAN OF THE MILITARY COMMISSION.

I ANTICIPATE THAT WHEN TROUBLE WILL OCCUR, IT WILL COME FROM ACROSS THE BORDER, WHEN PEKING'S ORDERS WILL BE IGNORED. WHEN THIS OCCURS, YE'S INFLUENCE WILL STILL BE FELT. WHERE I SIT, IT APPEARS THAT THE ECONOMIC POLICIES OF DENG, HAVE YET TO STAND THE TEST AND, IF THEY FAIL, WE SHALL NEED FRIENDS LIKE MARSHAL YE.

I AM ENCLOSING A PICTURE OF HIM WITH MY SON, MICHAEL SUPPORTING HIM.

I HAVE BEEN INVITED TO GO AND SEE HIM AND, WILL PROBABLY GO IN THE NEXT FORTNIGHT. I TRUST YOU ARE WELL.

WITH KIND REGARDS,

YOURS SINCERELY,

Eric

ERIC HOTUNG

SOUTH CHINA MORNING POST (HONG KONG)

WEDNESDAY 23, FEBRUARY, 1983

Marshal Ye: 'End of a stubborn old warhorse'

Peking, Feb 22.

Marshal Ye Jianying, stepping down as nominal head of state, is one of China's best-known revolutionary generals — a survivor of political strife who opposed the radicals and supported modernisation.

Marshal Ye (85) is expected to resign as chairman of the Standing Committee of the National People's Congress this week, according to a disclosure by the Communist Party General Secretary, Mr Hu Yaobang, to visiting Japanese trade unionists.

A political moderate and supporter of top leader Mr Deng Xioping, Marshal Ye personally was known as a stubborn old warhorse who refused to resign, despite Mr Deng's urging.

At state and party meetings he was always assisted by pretty nurses. He frequently dozed off, lost his place and was unable to walk alone.

He became a symbol of the Army's resistance to some of Mr Deng's economic policies and the casting aside of Chairman Mao Tsetung's "little red book."

In November, however, he told the People's Daily newspaper that veteran revolutionaries could not hold on to power forever. "I am old now, more than 80 years," he said. "China's future belongs to the young people. They are full of vigour and vitality and, after all, the future of China is theirs."

For years Marshal Ye himself was very vigorous, attracted to pretty girls and marrying young wives with lavish celebrations paid for by the state.

He helped plan the arrest of the radical gang of four led by Chairman Mao's widow in 1976. In October 1979, Marshal Ye declared Chairman Mao's cultural revolution "an appalling catastrophy suffered by all our people."

Although he survived the cultural revolution, not all his relatives fared so well. His son-in-law, a concert pianist, had the bones of one hand broken by red guards to prevent him from playing "bourgeois" music.

Marshal Ye was born to a wealthy merchant family of the Hakka minority in Guangdong province and spent part of his youth in Singapore and Hanoi.

He graduated from Yunnan Military Academy and was an instructor at Whampoa Military Academy. He commanded the 21st Division during the northern expedition after the rift between the communists and Kuomintang in 1927.

Marshal Ye took part in the Guangzhou uprising and later studied military science in Moscow. He was instrumental in planning the 1934-35 long march.

During the anti-Japanese war he was chief of staff of the 8th Route Army. During the civil war he was deputy chief of general staff of the communist forces.

He served as Minister of Defence from 1975 to 1978 when he was named chairman of the Standing Committee of the National People's Congress.

He is a member of the Politburo and a vice-chairman of the Communist Party's military affairs commission. —AP.

File AH

10 DOWNING STREET

From the Principal Private Secretary

23 February 1983

covering PRIVATE
AND CONFIDENTIAL

Dear Alan,

I enclose a copy of a letter from the Dean of Windsor about Hong Kong. I have shown it to the Prime Minister, and you will see that the Dean has copied it to our Ambassador in Peking.

Yours ever,

Robin Butler

A E Donald Esq., CMG,
Foreign and Commonwealth Office.

AH

2cc AH
cc FCO
Sir P Moore

10 DOWNING STREET

From the Principal Private Secretary

23 February 1983

PRIVATE AND CONFIDENTIAL

My dear Michael,

Many thanks for your letter of 21 February about your conversations with the Chinese on Hong Kong. I have shown your letter to the Prime Minister, who has read it with interest. If I may say so, I think that the line which you took with the Chinese was exactly right.

I am so glad that the visit went well and that you were received in such a friendly way in China.

I am copying this letter to Sir Philip Moore.

Yours ever,

Robin

The Very Reverend The Dean of Windsor

AH

The National Archives

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SECRET

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OC PEKING DESKBY 230100Z

GRS 237
SECRET
DESKBY 230100Z
FM FCO 221200Z FEB 83
TO IMMEDIATE PEKING (FOR AMBASSADOR)
TELEGRAM NUMBER 106 OF 22 FEBRUARY
INFO IMMEDIATE HONG KONG

A.S.C. 23/2
f.a.

YOUR TELNOS 134 AND 135: FUTURE OF HONG KONG: POSSIBLE MESSAGE FROM PRIME MINISTER

1. WE AGREE THAT A MESSAGE FROM MRS THATCHER TO ZHAO ZIYANG COULD BE AN IMPORTANT MOVE. HOWEVER, WE THINK THAT IT WOULD BE BEST FIRST TO ESTABLISH THE MAIN LINES OF OUR FUTURE STRATEGY BEFORE DECIDING WHETHER A MESSAGE WOULD BE APPROPRIATE AND WHAT ITS CONTENT SHOULD BE. WHILE THERE WOULD OBVIOUSLY BE SOME ADVANTAGE IN RE-EMPHASISING THEPOINTS IN YOUR SECOND TUR, WE SEE A DANGER THAT THIS WOULD PRODUCE A FLAT REFUSAL FROM ZHAO. IF THE PRIME MINISTER WERE THEN TO DECIDE THAT SOME ADJUSTMENT IN OUR STRATEGY WAS NECESSARY, IT COULD APPEAR THAT SHE WAS REACTING TO THE CHINESE HARD LINE.

2. THE SECRETARY OF STATE'S RECOMMENDATION TO THE PRIME MINISTER IS THEREFORE THAT THIS SHOULD BE ONE OF THE POINTS TO BE CONSIDERED IN DISCUSSING THE OPTIONS PAPER AND FUTURE TACTICS, AND THAT EXCO'S VIEW ON THE IDEA MIGHT ALSO BE SOUGHT.

3. THE PRIME MINISTER HAS CONFIRMED THAT IT IS DESIRABLE THAT BOTH YOU AND THE GOVERNOR SHOULD RETURN FOR DISCUSSIONS IN THE WEEK BEGINNING 7 MARCH. MEANWHILE, SHE WOULD LIKE TO REFLECT FURTHER ON THE PAPERS SO FAR PROVIDED, AND ON A FURTHER ALTERNATIVE OPTION, BEFORE SHE TAKES A VIEW ON WHICH MATTERS THE GOVERNOR SHOULD BE AUTHORISED TO DISCUSS WITH EXCO BEFORE HIS RETURN.

PYM

FUTURE OF HONG KONG

LIMITED

HD/HKGD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD

COPIES TO

SIR I SINCLAIR LEGAL ADVISER
MR ROBERTS NEWS D
MR COLES NO 10 DOWNING STREET
MR MARTIN ASSESSMENTS STAFF CABINET OFFICE

SECRET

3

GRS 200

SECRET

SECRET

FROM PEKING 210700Z FEB 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 160 OF 21/2/83

AND TO IMMEDIATE HONG KONG

MY TEL NO 133: FUTURE OF HONG KONG

1. IN MY TUR I SAID THAT WE WERE EXPECTING A TRANSLATION OF THE SPEAKING NOTE USED BY YAO GUANG ON 9 FEBRUARY. IN THE EVENT A COPY IN CHINESE
WAS SENT TO US, (COPY BY NEXT BAG). OUR TRANSLATION OF THE FULL TEXT FOLLOWS (SEMI-CLN) THE PROSE IS CLUMSY BUT SO IS THE ORIGINAL CHINESE.

2. BEGINS

WHEN PRIME MINISTER THATCHER VISITED CHINA THE LEADERS OF CHINA AND BRITAIN HELD THOROUGH-GOING TALKS ON THE QUESTION OF HONG KONG'S FUTURE AND AGREED TO CONTINUE THEIR DISCUSSIONS AFTERWARDS THROUGH DIPLOMATIC CHANNELS.

HONG KONG'S PROSPERITY AND STABILITY ARE CLOSELY BOUND UP WITH THE QUESTION OF SOVEREIGNTY OVER HONG KONG. HONG KONG IS A PART OF CHINESE TERRITORY WHICH MUST REVERT TO CHINA. THE CHINESE GOVERNMENT HAS OFFICIALLY INFORMED THE BRITISH GOVERNMENT THAT CHINA WILL RECOVER SOVEREIGNTY OVER THE ENTIRE HONG KONG AREA IN 1997 (SEMI-CLN) THAT IS DEFINITE AND BEYOND QUESTION. CHINA'S POLICY TOWARDS THE SOLUTION OF THE HONG KONG QUESTION IS:- RECOVER SOVERIGNTY AND MAINTAIN PROSPERITY. THE TWO ARE INSEPARABLE . FOR THE SAKE OF THE COMMON AIM OF MAINTAINING THE PROSPERITY AND STABILITY OF HONG KONG THE DIPLOMATIC CONSULTATIONS BETWEEN CHINA AND BRITAIN CAN ONLY CONSIST OF THE ACKNOWLEDGEMENT OF THE RECOVERY OF SOVEREIGNTY OVER HONG KONG BY CHINA IN 1997, AND ON THE BASIS EXAMINATION OF HOW BEST TO HANDLE THE TRANSITIONAL WORK IN THE PERIOD BETWEEN NOW AND 1997, AND HOW, FOR THE BENEFIT OF BOTH SIDES AFTER THE RECOVERY OF SOVEREIGNTY BY CHINA IN 1997. BRITAIN MIGHT COOPERATE WITH CHINA IN CONTINUING TO MAINTAIN HONG KONG'S PROSPERITY AND STABILITY.

SECRET

/DISCUSSIONS

DISCUSSIONS ABOUT THE PROSPERITY AND STABILITY OF HONG KONG CAN ONLY BE CONDUCTED ON THE BASIS OF ACKNOWLEDGEMENT THAT THE ENTIRE HONG KONG AREA BE HANDED BACK TO CHINA IN 1997. AGREEMENT ON THIS KEY ISSUE MUST BE REACHED BEFORE DISCUSSIOS OF SPECIFIC ARRANGEMENTS CAN BEGIN. ONLY AT THAT TIME CAN CONSIDERATION BE GIVEN TO THE SETTIN UP OF TEAMS BY BOTH SIDES FOR THE CONDUCT OF THE TALKS.

ENDS

CRADOCK

FUTURE OF HONG KONG
LIMITED

HD/HKGD
HD/FED
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MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

SECRET

2 DSG

cc Sir A Parsons
Mr Jackling

File

10 DOWNING STREET

From the Private Secretary

21 February 1983

FUTURE OF HONG KONG

The Prime Minister has seen the minute of 16 February by the Foreign and Commonwealth Secretary, together with the attached paper on the above subject.

The Prime Minister's first reaction is that the policy options described in the paper are tantamount to a major concession for which we should obtain nothing of value in return. Nor does she believe that the options listed in the paper are exclusive.

An alternative option, which Mrs. Thatcher would like to be examined, is that of negotiating an agreement whereby the United Kingdom would retain sovereignty over Hong Kong and Kowloon beyond 1997, China would acquire sovereignty over the New Territories and there would be joint British/Chinese administration over the whole. Such a policy would require steps to reduce the economic dependence of Hong Kong/Kowloon on the New Territories, e.g. by the construction of a de-salination plant.

I should be grateful if a paper could be prepared on this option. It would be most helpful if it could be made available by the end of this week.

On procedure, the Prime Minister agrees that it is desirable that Sir Percy Cradock and Sir Edward Youde should return for discussions in the week beginning 7 March.

Meanwhile, the Prime Minister would like to reflect further on the papers so far provided and the one requested above before taking a view on which matters the Governor should be authorised to discuss with EXCO before his return.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

NR

SECRET

The Right Reverend Michael Mann - Dean of Windsor.

2

Prime Minister - to see
The Dean of Windsor seems
to have spoken well.
FERB
22.2.

THE DEANERY
WINDSOR CASTLE
WINDSOR 65561

PRIVATE AND STRICTLY CONFIDENTIAL

My dear Robin,

21st February,
1983.

We have just returned from our seven week visit to the Oman, India, Nepal, China and Hong Kong. You were kind enough to brief me about Hong Kong before I left, and I thought that you might be interested to receive a report on our ten days in China, as guests of the Chinese People's Association for Friendship with Foreign Countries - particularly as the future of Hong Kong was raised with us on two separate occasions.

The first time was over lunch at the Summer Palace in Beijing. Present were my wife and I, Madame Yao Shu Xian and Mr. Wang Chongxu. Madame Yao is a Vice-President of the Friendship Association, and the wife of Wang Bingnan, the President of the Association. She was previously married to Pan Zili who was Chinese Ambassador to Moscow and to India. He died in the early '70's and she then married Wang Bingnan, who himself had been Chinese Ambassador to Poland. Wang Chongxu was our accredited guide and companion from the Friendship Association for the whole of our time in China. He was a practising Muslim who had previously served in the Chinese Embassy in London.

When I was asked about Hong Kong, I said that I thought China and Britain had an identical common interest - and that was the continuing future prosperity of Hong Kong. I commented that China receives 40% of her foreign currency through Hong Kong, and I could not believe that she would want to do anything that would endanger her own interests. Madame Yao said that China certainly wished to safeguard Hong Kong's future financial success, but that Chinese sovereignty must be established. I responded by saying that over the past forty years Britain had voluntarily given up an empire, and no-one could seriously accuse us of "colonial" or "imperialist" designs, but our people did feel both an historic and moral obligation to safeguard the interests of Hong Kong as a prosperous financial centre, and that prosperity depended upon international confidence. People would not risk their money unless they were sure that the future was secure, and that confidence depended upon what the investors themselves believed and not on assurances from the Chinese Government. Madame Yao asked me why assurances from the Chinese Government were not acceptable - to which I pointed out that until very recently China had suffered from a Cultural Revolution, and the world's investors had no guarantee that there would not be another "Gang of Four" some time in the future.

Madame Yao then said that the New Constitution of China allowed for Special Areas, and she was sure that some form of accommodation for Hong Kong, acceptable to both sides, could be negotiated, and that was the wish of the Chinese Government. I said that I was sure that the

/....

21st February, 1983.

British Government sincerely wanted to negotiate, and to negotiate well in advance of 1997, so that financial confidence in Hong Kong could be maintained, But those negotiations would have to provide adequate safeguards to secure the financial confidence of the world's investors outside China. We both have the same objectives; it was the means to secure those objectives that required careful advance negotiation.

During the conversation reference was made to the "Unequal Treaties" and to China's military ability to recover Hong Kong. I said that no-one could seriously dispute that fact, but that would be the surest way of destroying Hong Kong as a financial and commercial centre, whilst adding enormously at the same time to the economic problems of China.

Attempts were made to link the future of Hong Kong with that of Taiwan and Macao. I rejected this - pointing out that Hong Kong had to be dealt with on its own merits, and that in any case it was completely different to Taiwan and had no Kwomintang overtones. Both the British and Chinese want the same thing for Hong Kong - stability and financial security - and with goodwill and careful negotiation a solution should be found.

The second conversation took place in Shanghai. We were taken to visit a Protestant Church, called the Community Church, whose Pastor - the Revd. Shen Yi Fan - again questioned me about Hong Kong. Present were Mrs. Phoebe Ru Zhong Shi, a Vice-President of the Shanghai Friendship Association and a member of the Chinese Christian delegation which visited Britain in 1982, our Chinese guide Mr. Wang Chongxu, and a Shanghai interpreter - Miss Xia Hai Rong. The conversation covered the same ground as in Beijing, except that Mr. Wang and Miss Xia had pencil and paper ready, and both made copious notes of the discussion. I should perhaps also report that both Madame Yao and the Revd. Shen commented that they felt that the British did not conduct their negotiations during Mrs. Thatcher's recent visit with very much skill. We received the impression that the Chinese felt that they had had to adopt a tougher stance than they intended in order not "to lose face"

So far as the Shanghai discussion was concerned, my wife and I got the firm impression that the Revd. Shen had been instructed to raise the subject, and the interpreters to take notes. Both the Revd. Shen and Mrs. Phoebe Ru Zhong Shi spoke excellent English and no interpretation was necessary. Both the Beijing and Shanghai discussions were very frank, but were conducted with the greatest goodwill and courtesy. Indeed, throughout our ten days in China, we could not have received more kindness, courtesy and consideration.

I write this report with the greatest diffidence and hesitation, being very conscious that my experience of a highly complex and devious society is limited to ten days - and this hardly qualifies me to express any opinion, but I know you will want to hear what happened.

/.....

21st February, 1983.

I made a full report of the Beijing conversation to Sir Percy Cradock, but of course, the Shanghai discussion took place at the end of our time in China, so I am sending Sir Percy a copy of this report by the Private Bag.

I am also sending a copy to Sir Philip Moore, Private Secretary to Her Majesty the Queen.

Yours ever,

Richard.

F.E.R. Butler, Esq.,
10 Downing Street,
Whitehall,
S.W.1.

c.c. Sir Philip Moore.
Sir Percy Cradock.

Eric Hotung

MR. ROBIN BUTLER
10 DOWNING STREET
LONDON
ENGLAND

18TH FEBRUARY, 1983

BFB

DEAR ROBIN,

THANK YOU FOR YOUR LETTER. I AM NOT SURPRISED THAT LIAO HAS FALLEN FROM FAVOUR. HE HAS NEVER BEEN MORE THAN A FIGUREHEAD. UNFORTUNATELY, HE HAS FALLEN PREY TO THE WISHFUL THINKING OF SOME HONG KONG BUSINESSMEN AND, IS NOW BEING CHASTISED.

MR. WANG BING NAN ON THE OTHER HAND, IS THE MAN WHO IS REALLY THE AMBASSADOR AT LARGE. I SEND YOU SOME EXCERPTS OF WHAT HE DOES AND, SOME PHOTOSTAT PICTURES TAKEN WITH HIM.

WITH KIND REGARDS,

YOURS SINCERELY,

Eric Hotung

ERIC HOTUNG

If I have sent you a duplicate just destroy it. There is a picture of Bush now a very good one.

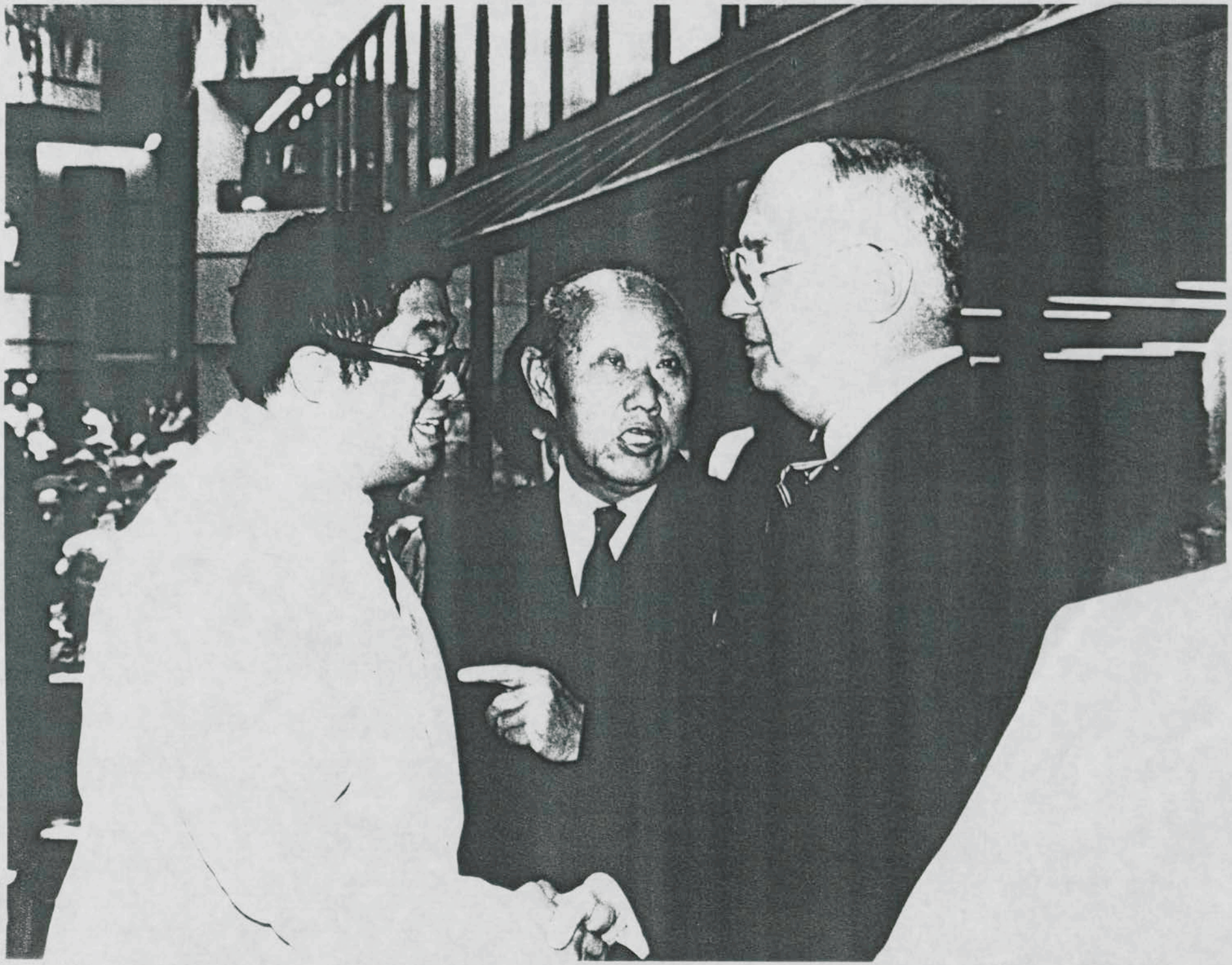
017/83/LCW

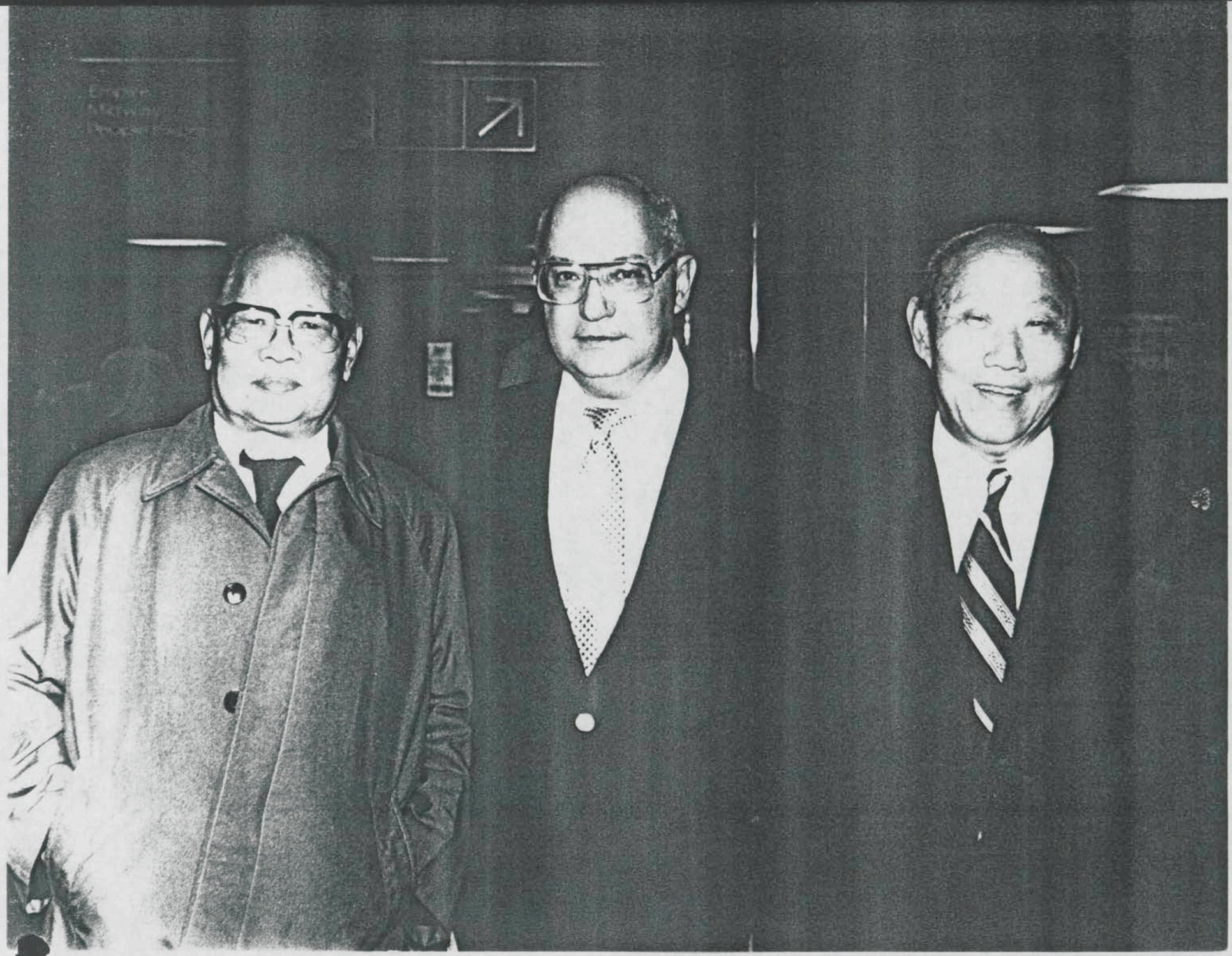
I don't think Honeymoon with the U.S. will last too long.

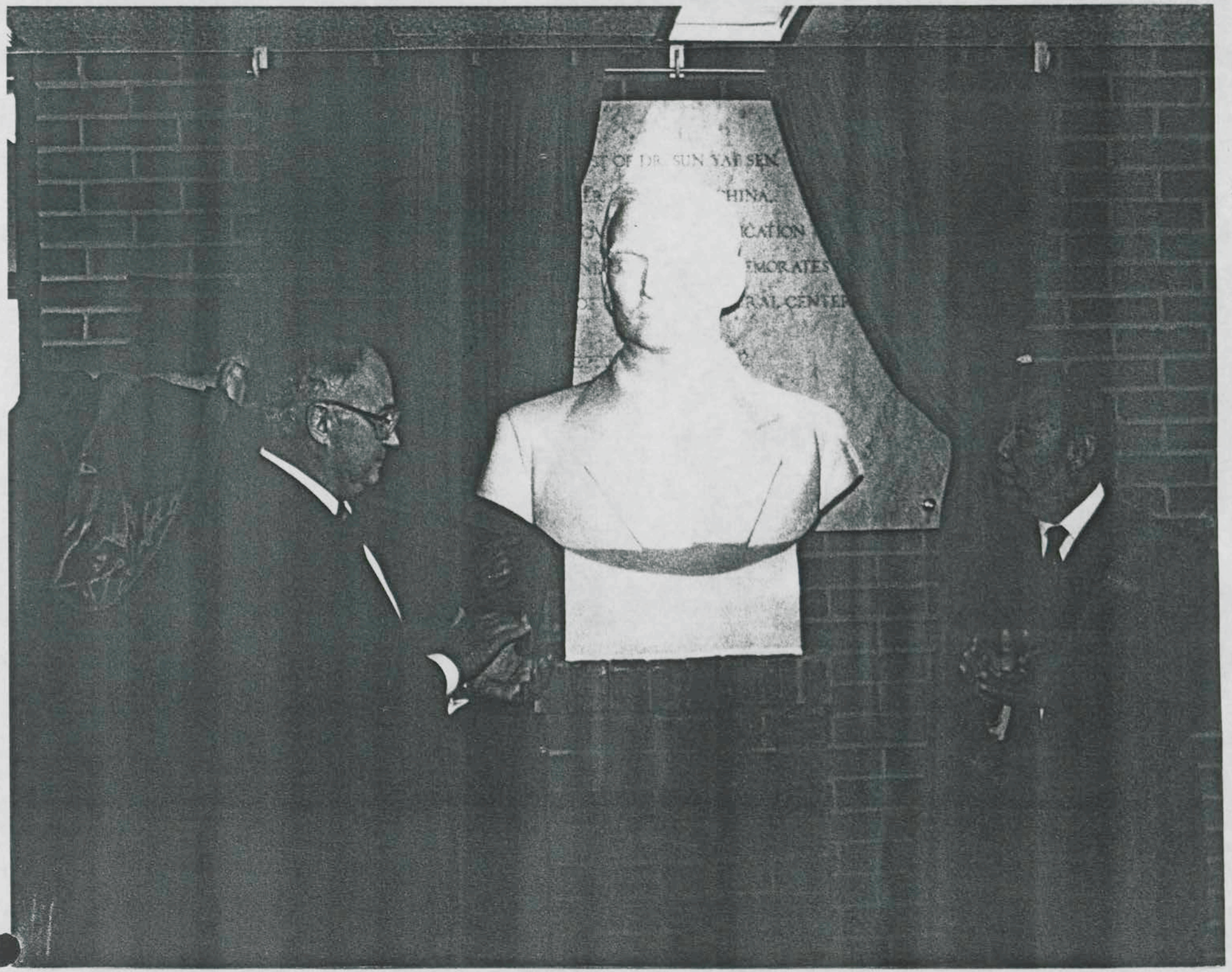
L - R : MR. ERIC HOTUNG WITH MR. WANG BINGNAN, PRESIDENT OF THE CHINESE PEOPLE'S ASSOCIATION FOR FRIENDSHIP WITH FOREIGN COUNTRIES AND FORMER AMBASSADOR TO POLAND. HE WAS THE SIGNATORY FOR THE PEOPLE'S REPUBLIC OF CHINA AT THE GENEVA CONFERENCE WITH THE UNITED STATES - SEPT. 1957.

WINTER 1981


Flight
Delayed






OF DR. SUN YAT SEN
HINA.
ICATION
EMORATES
RAL CENTER

Amity Association Hosts Fete

OW301648 Beijing XINHUA in English 1554 GMT 30 Sep 82

[Text] Beijing, September 30 (XINHUA) -- The Chinese People's Association for Friendship With Foreign Countries gave a reception here this evening to mark the 33rd anniversary of the founding of the People's Republic of China.

Wang Bingnan, president, and Hou Tong, Lin Lin and Xie Bangding, vice-presidents, of the association attended.

Among the guests were foreign friends from a dozen of countries and region who are visiting Beijing at the invitation of the host association, and some foreign friends residing here.

After the reception, a new Chinese color feature film was shown.

RENMIN RIBAO Editorial

OW010504 Beijing XINHUA Domestic Service in Chinese 1519 GMT 30 Sep 82

[Text] Beijing, 30 Sep (XINHUA) -- The following is the text of the RENMIN RIBAO National Day editorial entitled "The Cause of Hundreds of Millions of People":

Our People's Repubic has been in existence for 33 years. This year's National Day comes at a time when the 12th CPC National Congress has just successfully closed. The people of all nationalities throughout the country are more jubilant and take greater pride in celebrating their glorious festival.

Across the land of the Chinese nation, we witness everywhere the vitality of today's motherland, which is a lot different from the time of the 10-year internal disorder or the period prior to the 3d Plenary Session of the 11th CPC Central Committee. The people say that our country has entered a period of revitalization. The 12th CPC National Congress has laid down the general framework for building a modern socialist state, put forward the inspiring strategic goal and program for action and encouraged the sons and daughters of the Chinese nation to constantly strive for the motherland's prosperity and strength. We have a bright and splendid prospect before us, and the 1 billion people have full confidence in their future.

In his report to the 12th CPC National Congress, Comrade Hu Yaobang quoted Lenin as saying that living creative socialism is the product of the masses themselves. He said: "It would be impossible for the cause of socialist construction to forge ahead without the soaring labor enthusiasm of the masses in their hundreds of millions, without the initiative of thousands of production units and without the hardwork of various localities and departments." This is a very important viewpoint pervading the entire report to the 12th CPC National Congress. We should firmly adhere to this historical materialistic viewpoint when studying the report and implementing the guidelines of the 12th CPC National Congress.

People create history. This is a basic principle of Marxism. Doing everything for the people and relying on the people in all matters is our party's innate characteristic, as well as the basis of the success of our cause. In the past 6 years, especially during the 4 years after the 3d Plenary Session of the 11th CPC Central Committee, we have brought order out of chaos on all fronts and invigorated the motherland which was once seriously devastated and awaited rehabilitation in all fields of work. This was because the party Central Committee's stand and policies conform to the actual conditions in China and the people's aspirations. The broad masses of people have unleashed their powerful creative talents and have displayed tremendous enthusiasm and a high sense of sacrifice for the sake of our motherland's prosperity and strength. The 12th CPC National Congress called for creating a new situation in all fields of socialist modernization. This is an arduous task, but people throughout the country are confident that this task will be fulfilled.

KYODO: WANG BINGNAN DISCUSSES PRC-USSR RELATIONS

OW071125 Tokyo KYODO in English 1113 GMT 7 Oct 82

[Text] Tokyo Oct 7 KYODO -- A ranking Chinese official Thursday denied the likelihood of an imminent normalization in relations between China and the Soviet Union, saying it is too premature.

Wang Bingnan, president of the Chinese People's Association for Friendship With Foreign Countries, told a Sino-Japanese meeting that China hopes to improve relations with Moscow because it would be mutually beneficial. But he said he cannot agree to Soviet President Leonid Brezhnev's proposal earlier this year for unconditional improvement in bilateral relations.

As conditions for improved relations, Wang called on the Soviet Union to withdraw 600,000 troops along the Sino-Soviet border and those in Afghanistan, and to nudge Vietnam into pulling its forces out of Kampuchea. He said he cannot believe the Soviet Union will carry out these conditions and added it is too premature to say that there will be a general improvement in their relations.

Wang was speaking at a sub-committee meeting of a three-day Sino-Japanese "private" conference which opened Thursday. The meeting was also attended by Huan Xiang, advisor of the Academy of Social Sciences, and Japanese delegates, including former Education Minister Michio Nagai and former Vice Foreign Minister Shinsaku Hogen.

Soviet Vice Foreign Minister Leonid Ilichev and Chinese Vice Foreign Minister Qian Qichen this week started talks in Beijing -- the first high-level contact between the two countries since the Soviet military intervention in Afghanistan in 1979.

Huan told the meeting that the two countries started the unofficial talks because they felt it necessary to meet each other to discuss bilateral issues.

"Since China and the Soviet Union are not fighting, it is against international courtesy not to respond to repeated Soviet calls for such talks," he said.

Huan said the two superpowers -- the Soviet Union and the United States -- both pose threats to China but "the Soviet threat is much larger than the U.S. threat."

AFP: SPOKESMAN CITED ON USSR, SRV RELATIONS

BK071136 Hong Kong AFP in English 0154 GMT 7 Oct 82

[By Charles Antoine de Nerciat]

[Text] Beijing, Oct. 7 (AFP) -- As Sino-Soviet talks went into their third day in secrecy here today, China reaffirmed that it expects concrete Soviet initiatives before relations between the two countries, clouded for 20 years, can improve.

The Chinese were reacting to recent statements by Soviet President Leonid Brezhnev and Vietnamese President Truong Chinh, calling for improved relations between their countries and China.

A Chinese spokesman said his government's position consisted of "listening to what they say and watching what they do."

He said China remained opposed to "hegemonism" -- an accusation it has frequently levelled at Moscow and its ally Hanoi in the past.

WANG BINGNAN ON ROLE OF THIRD WORLD COUNTRIES

HK140538 Beijing RENMIN RIBAO in Chinese 13 Oct 82 p 6

[Article by Wang Bingnan [3769 3521 0589] "The Third World Is in the Ascendant and Full of Promise"]

[Text] In his report to the 12th CPC Congress, Comrade Hu Yaobang emphatically pointed out the three bases of our nation's foreign policy. These are: strengthening our unity and cooperation with the Third World countries, opposing hegemony, and safeguarding world peace. When talking about the role of the Third World countries in the current international affairs and the relationship between our country and the Third World countries, he also emphatically pointed out that "the emergence of the Third World countries on the international arena after the war is a major event of primary importance in our times." Once again, he definitely reiterated that "socialist China belongs to the Third World," and that "China will resolutely stand side by side with other Third World countries in the struggle against imperialism, hegemony and colonialism, and take this struggle as its holy international obligation."

These words in Comrade Hu Yaobang's report show our nation's persistent policy and stand in foreign affairs.

The vast number of Third World countries throughout Asia, Africa and Latin America account for about two-thirds of the total population and area of the world, and 78 percent of the member nations of the United Nations. Having undergone similar miserable experiences in history, most of them have suffered from aggression, suppression and exploitation by imperialism and colonialism. At the end of World War II there were only 29 independent nations throughout Asia, Africa and Latin America, and most of the other nations still remained colonies or semicolonies. After the war, the struggle for national liberation was on the upsurge throughout Asia, Africa and Latin America. As the colonialist system was demolished, the number of independent states increased to 126. Nowadays, the Third World countries have become the main force in the struggle against imperialism, hegemony and colonialism in the world, as well as a decisive political force in the international arena. Socialist China which has a population of 1 billion and which firmly stands on the side of the Third World has added to the force and the influence of the Third World.

In reviewing the postwar history in retrospect, we can clearly see that the joint struggle against imperialism and hegemony among the Third World countries is rising to an unprecedented height, and is unremittingly developing in both scale and depth.

The Afro-Asian conference convened in Bandung in 1955, in which 29 African and Asian countries participated, was a milestone in the history of the Third World people's anti-imperialist struggle. Holding high the banner of opposing imperialism and strengthening unity, the Bandung Conference pushed the national liberation movement of Asia and Africa to a new upsurge. In the early 60's, the nonalignment policy gained ground. It upheld the anti-imperialist and antihegemonist stand and the principle of not entering into alliance with the big nations or military groups. It has played a dominant role in the Third World countries and in the people's struggle to maintain national independence, develop the national economy and defend world peace, and its influence on international affairs is also growing daily.

Similar to the struggle of the Latin American countries against the maritime hegemony of the superpowers, the oil exporting countries and other raw material producing countries also struggle to own and exercise permanent sovereignty over their own natural resources. The struggle of all developing countries to establish a new international economic order is a great challenge to hegemonism. This greatly changes the situation in which the superpowers can arbitrarily manipulate the world situation.

As a matter of fact, Third World countries have vast territories, large populations and rich natural resources and they encompass strategic points in the world. All this constitutes a powerful means which can be used in their struggle against hegemonism. Taking Africa as an example, people always call Africa a "treasure chest" in the world. African diamond reserves account for almost 100 percent of the world reserves and its reserves of gold account for over two thirds. The reserves of niobium, tantalum, lithium, cobalt and chromium in Africa make up over 90 percent. The 53 most important mineral resources to date in the world have been all discovered in Africa. Viewed from the Third World as a whole, according to 1981 statistics, it has 63.8 percent of the world petroleum reserves, 42.3 percent of the output and 87 percent of the exports. The Third World also holds 30 percent of the world mineral output. Fuel and important raw materials needed by many developed countries heavily depend on the Third World. In addition, many strategic points in the world, such as the Suez Canal, the Strait of Malacca, the Strait of Hormuz, the course around the Cape of Good Hope, the Panama Canal and the Strait of Magellan, are situated in the Third World. In the past, rich resources in Third World countries were wilfully plundered by imperialists and their strategic points were contended by imperialists struggling for world hegemony. Today, Third World countries are no longer willing to resign themselves to exploitation and control by imperialists and hegemonists. They have begun to use their resources as weapons to break the imperialist monopoly and unremittingly fight for their economic liberation and for the establishment of a new international economic order.

The North-South summit held in Cancun, Mexico in late October last year which 22 countries attended was a prominent example of the developing countries' demand for changing the old international economic order after achieving political independence. At the same time, in order to free themselves from control and plunder by the superpowers and rapidly change their poverty, Third World countries are strengthening their cooperation and taking the road of collective self-reliance. That is the so-called "South-South cooperation" often mentioned to date. In Latin America, countries in the Latin American economic system have signed the "Panama statement," and they have drawn up a common strategy for negotiating with the United States. In Africa, economic cooperation organizations, such as the "Economic Community of Western Africa" and the "Economic Community of Central African Countries", have been set up. In Asia, the five countries of the "Association of Southeast Asian Nations", after consultation and coordination, have strengthened their cooperation in energy exploitation and transportation. In February this year, more than 40 developing countries attended the "New Delhi consultation" (South-South conference) held in India. This meeting was of active significance and had extensive influence in promoting South-South cooperation and in stimulating the holding of the global talks in the sphere of the United Nations. In short, Third World countries demand the breaking of the existing unequal international economic relationships and the building of a new international economic order and they also demand economic independence and development. This is the continuation of their movement for political independence and an irresistable historic trend. We warmly support every active step taken by Third World countries in this area. On this year's New Year Day, when receiving the Algerian financial minister, Comrade Deng Xiaoping highly evaluated South-South cooperation. He said: South-South cooperation is a new way of putting things and is a very good expression. The South-South relationship represents a very important issue in international relations. He asked wittily: Who invented this wording? He should be honored with a medal.

The strength of the Third World has grown and Third World countries have had a greater say over the past few years. A change has been brought to the situation in which the United Nations served only as a voting machine manipulated by certain big powers.

In the last election for the UN secretary general, the Third World countries nominated their own candidates and, after repeated trials of strength, succeeded in breaking superpower monopoly and elected Javier Perez de Cuellar the new secretary general. China firmly sided with the Third World countries in this struggle by exercising the veto on 16 occasions in succession. This has won general appreciation and support from Third World countries.

Over more than 30 years after World War II, through their own experience, the people in Third World countries have come to realize a truth: In order to safeguard national independence and state sovereignty, to develop national economies and to seek world peace, they must wage resolute struggle against the superpowers. First, they took on a trial of strength with the United States for a fairly long time and came to realize clearly the aggressive nature of this superpower. Afterward, from a series of aggressive and expansionist activities of Soviet hegemonists, especially when Soviet troops were dispatched directly to occupy Afghanistan and the Soviets supported the naked aggression against Kampuchea by Vietnamese regional hegemonists, they saw clearly the Soviet Union in its true colors and the danger this superpower is bringing to the world. More and more Third World countries have realized that the superpowers which practice hegemonism constitute a serious threat to the people of the world and that the intense rivalry between them is the main source of instability and turmoil in the world. The Third World countries stand in the forefront of the struggle against hegemonism. The people of Afghanistan and Kampuchea, defying violence and brute force, are persisting in their heroic struggle against aggression by the Soviet Union and Vietnam respectively. The people of the Arab countries are fighting against Israeli expansionism which is aided and abetted by the United States. The African people are fighting against the racism and expansionism of South Africa. All these struggles have dealt a heavy blow to the hegemonism of the superpowers and the expansionist policy of regional hegemonism under their connivance and support, and have made major contributions to the defence of world peace.

The growing strength of the Third World countries has attracted the universal attention of the countries in Western Europe and Oceania. An increasing number of these countries advocate dialogue with Third World countries, and are making efforts to establish ties of cooperation with them. The tendency of these countries desiring to establish ties with Third World countries has exerted an important influence over the international situation.

The Chinese Government and people have unswervingly pursued the peaceful diplomatic policy formulated by the late Chairman Mao and Premier Zhou, and have always cherished unity and cooperation with other Third World countries. China's relations of unity and cooperation with other Third World countries have further developed with the advent of the 1980's. From January to July this year, 11 state or government leaders from Third World countries paid visits to China. Friendly contacts and exchange visits between the Chinese people and people of other Third World countries have also increased. There are nearly 50 organizations for friendship with China in Third World countries. Many leaders and friends from Third World countries who have visited China say that China is a very sincere and the most reliable friend of the Third World countries. All this vividly shows that China has scored abundant achievements in carrying out its foreign policy of strengthening unity and cooperation with other Third World countries. Moreover, just as Comrade Hu Yaobang has said: "Along with the development of our economic construction, we will steadily expand our friendly cooperation with other countries and peoples of the Third World."

Of course, twists and turns are unavoidable for the Third World countries on their road of advance. Due to the differences in their development and some contradictions left over by history, some Third World countries are not getting along well with each other or have even fought against each other. As a result, both sides have suffered serious losses in the fighting and the hegemonists have benefited.

However, in the final analysis, since the Third World countries had common sufferings in the past and are faced with common problems and tasks today, there are more factors of unity between them than those of dissension and discord. In the course of historical development, the Third World countries represent newly emerging forces in the international arena. There are demanding changes in the world and their strength is just in the ascendant. They are full of promise. Although there will be difficulties and twists and turns ahead for the Third World countries in the course of their advance, they will surely gain strength and advance from victory to victory so long as they work incessantly for unity, strive to become stronger by their own efforts and unite with the people of all countries in the world in the struggle against hegemonism.

PRC, WORLD BANK HOLD DISCUSSIONS ON LOANS

HK080845 Beijing CHINA DAILY in English 8 Oct 82 p 2

[Economics and Finance column]

[Text] Munir Benjenk, vice president of external relations of the World Bank, announced yesterday that the bank and China were working on 20 projects that would turn to loans in the next 2 years.

Benjenk told a press conference in Beijing that the two sides had been engaged in discussions on a great variety of projects, many of them coming to fruition this year and next.

"China and the World Bank have got quite a long way ahead in their cooperation. We have passed the take-off state in our lending relationship with China and have a larger programme now in course," he said.

The World Bank has been active in China since 1980 when China took a seat at the bank. Since then, the bank has committed loans worth $260 million to China. Of this $20 million has been allocated to education while another $60 million has gone to aid agriculture in the North China Plain.

Benjenk revealed that loans in the near future would cover agriculture, agricultural research, a second education project, two projects connected with petroleum production, a port project and coal projects.

Lending to China is still at a low level for such a huge country. By comparison with China's $260 million, India borrows nearly $2,000 million a year from the World Bank. There will be a big increase in the years ahead, but he declined to give any predictions as to how much the amount would be.

On top of its lending programme, the World Bank has a very busy training programme for Chinese personnel through the Economic Development Institute of the World Bank. The bank had organized special courses in Shanghai and elsewhere in China, he said.

China had been successful in maintaining a very reasonable standard of living for its people and its standard of living, state of health and literacy was higher than other developing countries at the same level of income.

China has taken an active part in the World Bank and it has joined other countries in determining the World Bank policies for the next few years.

Benjenk said he would continue his discussions with the Chinese Government on how the bank should see the world economy and how the two sides viewed the prospects for securing financing for the World Bank and its affiliates.

Benjenk arrived in China on Sunday and will fly home on October 13.

INDIA-PRC AMITY GROUP HOLDS FIFTH CONFERENCE

OW071718 Beijing XINHUA in English 1624 GMT 7 Nov 82

[Text] New Delhi, November 7 (XINHUA) -- The India-China Friendship Association held its fifth annual conference here November 6 and 7, pledging to contribute to the improvement of relations between the two countries.

More than 200 representatives from various parts of the country attended the conference. Bhukti Bushan Mondaim, president of the association, stressed in his speech the great importance of India-China friendship. He said that the association would expand the scope of its activities in favor of a speedy improvement of relations between the two countries.

Chinese Ambassador to India Shen Jian was invited to address the conference. He said that there is no mutual threat between China and India. He noted that it is not so difficult to resolve the border problem so long as both sides have good faith and act in a spirit of mutual understanding and mutual accomodation.

Shen Jian gave a film reception for the participants to the conference this evening.

WANG BINGNAN AT MEETING HONORING PAKISTANI POET

OW091350 Beijing XINHUA in English 1229 GMT 9 Nov 82

[Text] Beijing, November 9 (XINHUA) -- A gathering of 200 Chinese writers, poets and scholars commemorated here this afternoon the 105th birth anniversary of Allama Muhammad Iqbal, the great poet and thinker of Pakistan.

The founder of the theory for a Pakistani state, Iqbal was also one of the great forerunners in the Asian movement for national liberation and independence. The works of Iqbal are very popular among the Pakistani people while translations of his works are widespread in the south Asian subcontinent, Middle East, the Near East and various Islamic countries. China has published a collection of selected poems of Iqbal.

Wang Bingnan, president of the Chinese People's Association for Friendship With Foreign Countries, said at the gathering: During his lifetime, Iqbal valued the national culture of China and showed deep sympathy for the Chinese people in their struggle for national liberation. As early as the 1930's, Iqbal acclaimed in one of his poems, "The Chinese people who were in a deep slumber are now awakening, the fountains in the Himalayas are boiling!"

Ji Xianlin, vice-president of Beijing University and president of the Chinese Association of South Asian Studies, gave an account of the life and philosophy of the Pakistani poet, philosopher and social activist.

K.K. Gori, charge d'affairs ad interim of Pakistani Embassy here attended and spoke at the meeting.

Iqbal's poems were recited and a Pakistani feature film was shown at the meeting.

Lin Lin, vice-president of the Chinese People's Association for Friendship with Foreign Countries presided over the meeting co-sponsored by the Chinese People's Association for Friendship With Foreign Countries, the Chinese Writers' Association and the Chinese Association of South Asian Studies.

Pakistani diplomats, students and experts in the capital also attended the meeting.

PEOPLE'S DAILY carried a picture of Iqbal and reprinted two of his poems November 7.

BEIJING FILM RECEPTION MARKS USSR ANNIVERSARY

OW211251 Beijing XINHUA in English 1246 GMT 21 Dec 82

[Text] Beijing, December 21 (XINHUA) -- The Chinese People's Association for Friendship With Foreign Countries and the Sino-Soviet Friendship Association gave a film reception here this afternoon marking the 60th anniversary of the founding of the Soviet Union. Soviet Ambassador to China Ilya Sergeyevich Shcherbakov and his wife and other diplomatic officials of the Soviet Embassy here were present. Also present were Wang Bingnan, president of the Chinese Amity Association, and Qian Qichen, vice-minister of foreign affairs. Wang Bingnan extended festival greetings to the Soviet people. Shcherbakov expressed thanks in his toast. A Chinese colored feature film "Tea House" was shown.

Wang Bingnan Remarks

HK211344 Beijing ZHONGGUO XINWEN SHE in Chinese 1305 GMT 21 Dec 82

[Text] Beijing, 21 Dec (ZHONGGUO XINWEN SHE) -- The Chinese People's Association for Friendship With Foreign Countries and the Sino-Soviet Friendship Association held a film and cocktail party this afternoon at the international club to celebrate the 60th anniversary of the founding of the USSR. Vice Foreign Minister Qian Qishen attended the party.

Chairman of the Chinese People's Association for Friendship with Foreign Countries Wang Bingnan and Soviet Ambassador to China Shcherbakov, respectively, delivered toasts at the party. Wang Bingnan indicated that the Chinese People's Association for Friendship With Foreign Countries and the Sino-Soviet Friendship Association will, as always, persistently work hard for the development of the friendship between the Chinese people and the Soviet people.

Other diplomats in the Soviet Embassy and their wives were also invited to the party.

BEIJING CITES TIKHONOV STATEMENTS IN FINLAND

OW171033 Beijing in Russian to the USSR 1800 GMT 13 Dec 82

[Text] On 11 December, Tikhonov, chairman of the USSR Council of Ministers, completed his visit to Finland and left Helsinki for home.

Speaking at the dinner organized in his honor by the president of Finland, Tikhonov said that the Soviet Union does not demand unilateral disarmament from anybody and, it goes without saying, that nobody should demand this of the Soviet Union either.

It was stated, in the communique published at the completion of the visit, that talks were held between Tikhonov and President of Finland Koivisto on the international situation and bilateral relations between the Soviet Union and Finland. It was said in the communique that the two sides expressed deep concern over the aggravation in the world situation, the growing threat of nuclear war and the continuing accumulation of arms. It was noted in the communique that the Soviet Union supported proposals on proclaiming north and south a nuclear-free zone [as heard].

At the dinner organized in honor of Tikhonov, the president of Finland stated that Finland supported the calling of a disarmament conference in Europe to discuss questions of military security.

Speech by President Wang Bingnen of the CPAFFC at the unveiling ceremony of Dr. Sun Yat-sen Commemorative Bust at the Intercultural Center of Georgetown University, September 24, 1982

Respected President Healy of Georgetown University,
Respected Mr. and Mrs. Eric Hotung,
Ladies and Gentlemen
Distinguished friends,

It is a great pleasure and privilege for the delegation of the Chinese People's Association for Friendship with Foreign Countries to be here for this formal opening of the Intercultural Center of Georgetown University and the unveiling of Dr. Sun Yat-sen commemorative bust. I wish to express, in the name of the Delegation, our sincere thanks for the kind invitation extended by our friend Mr. Eric Hotung, the first major donor to the Intercultural Center, who made further present of Dr. Sun Yat-sen bust. The Hotung family maintained a long-standing and profound friendship with Dr. Sun Yat-sen. As Dr. Sun's friend, Mr. Eric Hotung's grandfather Sir Robert Hotung supported by deeds the Revolution of 1911 led by Dr. Sun Yat-sen. Eric's father once organized a rally welcoming Dr. Sun Yat-sen on his visit to Hong Kong. Now, this family tradition is being carried on by Mr. Eric Hotung. The setting of the Dr. Sun Yat-sen commemorative bust and plaque at the Intercultural Center is an expression of good will of your University and Mr. Hotung towards the Chinese people, for which we would like to express our deep appreciation and gratitude.

Dr. Sun Yat-sen was the forerunner of the Chinese democratic revolution and a Chinese national hero. He led the Revolution of 1911 in overthrowing the Qing Dynasty and putting an end to the Chinese autocratic monarchy, which has lasted as long as 2,000 years, and established the republic. His just cause enjoyed the warm support of the broad sections of overseas Chinese and foreign friends. It was in Honolulu that he founded the Society for China's Regeneration, the first democratic revolutionary body in Chinese history. Dr. Sun Yat-sen stood for national independence, democracy, freedom and happiness of the people, persevered in "bringing about thorough awakening of our people" and "allying ourselves with those peoples of the world that treat China as equals" and all along opposed division and safeguarded the unification of the motherland resolutely. In his later years, he raised the call "peace, struggle, save China." China's present goal of accomplishing the cause of national reunification and making herself prosperous and strong completely accords with Dr. Sun Yat-sen's behest, with the inevitable trend of history and with the aspiration of the people of either side of the Taiwan Straits. Our respect for Dr. Sun Yat-sen and memory of him constitute a strong spiritual tie bending the Chinese people on the mainland and Taiwan together.

Our friends may already know that the Chinese Peoples' Association for Friendship with Foreign Countries is a non-governmental organization devoting to the enhancement of friendship and understanding between the Chinese peoples and the people of various countries. Mme. Soong Ching Ling, Dr. Sun Yat-sen's

wife and the late Honorary President of the Association, made outstanding contributions to the promotion of friendship and understanding between the Chinese and American peoples during her lifetime. She highly appreciated Mr. Hotung's effort to place a Dr. Sun Yat-sen memento at Georgetown University. Unfortunately, her untimely death in May last year made it impossible for her to see the unveiling of the bust personally. Entertaining a high respect for Dr. Sun Yat-sen and Mme. Soong Ching Ling and bringing with us the friendly feelings of the Chinese people from various circles towards the American people, we on the CPAFFC Delegation are here attending this ceremony which makes a significant event in the annals of SinoAmerican people-to-people friendly contacts. It is my belief that the setting up of Dr. Sun Yat-sen bust at Georgetown University will become another symbol of Sino-American people's friendship. And it also shows that our traditional friendship will flourish from generation to generation.

In August this year, the Government of China and the United States issued a joint communique in which the U.S. Government states that it attached great importance to its relations with China, and reiterates that it has no intention of pursuing a policy of "two Chinas" or "one China, one Taiwan". And all this has been well received by the Chinese and American peoples. It is most gratifying and significant that the unveiling of Dr. Sun Yat-sen bust takes place at this time.

Finally, I would like to take this opportunity to express in the name of the Delegation, our sincere thanks to Mr. and Mrs. Hotung and all the friends at CSIS who have worked to hard for our visit. The warm hospitality and help have contributed to the success of our visit.

Thank you all.

1A

PRIME MINISTER

FUTURE OF HONG KONG

I attach two papers:

(a) the first is the long-awaited military assessment from the MOD;

(b) the second is the FCO policy review paper.

Mr. Heseltine would like to discuss the first paper with you. I believe that he finds it difficult to carry military contingency planning forward without a clearer understanding of the general policy background. He probably needs to know whether he has to plan for the possible contingency of a forcible take-over by the Chinese.

The FCO paper is deliberately designed as a "green paper" - i.e. a basis for discussion rather than a firm policy recommendation. There is thus no need for you to react to it, unless you want to, before our policy discussion.

At this stage some procedural decisions are necessary:

(a) Agree to see Mr. Heseltine at 1115 on Tuesday to discuss his concerns?

(b) Would you like a preliminary discussion of the FCO paper with Tony Parsons and Roger Jackling at 1200 on Tuesday (immediately following the meeting with Mr. Heseltine)?

We want a longish discussion on this

(c) Agree that Sir Percy Cradock and Sir Edward Youde should return to London for discussion of the FCO paper in the week beginning 7 March (we will make provision for two

Yes

/ long-ish

long-ish meetings in that week in case we need them both)?

(d) It is not necessary to decide now whether to have, as Mr. Pym recommends, a restricted Ministerial meeting - though at some stage I think you will need to bring in the Defence Secretary, the Home Secretary, the Attorney and perhaps one or two others.

Finally, you have agreed in principle that the Governor should discuss with EXCO the various options in the paper. As you know, he thinks it important to take EXCO into his confidence. I am sure that he should not actually show them the paper. But having seen it, can he now be authorised to discuss with EXCO the main ideas in it, making clear that these are simply options on which you have taken no decision but on which their views will be welcome?

A.J.C.

18 February 1983

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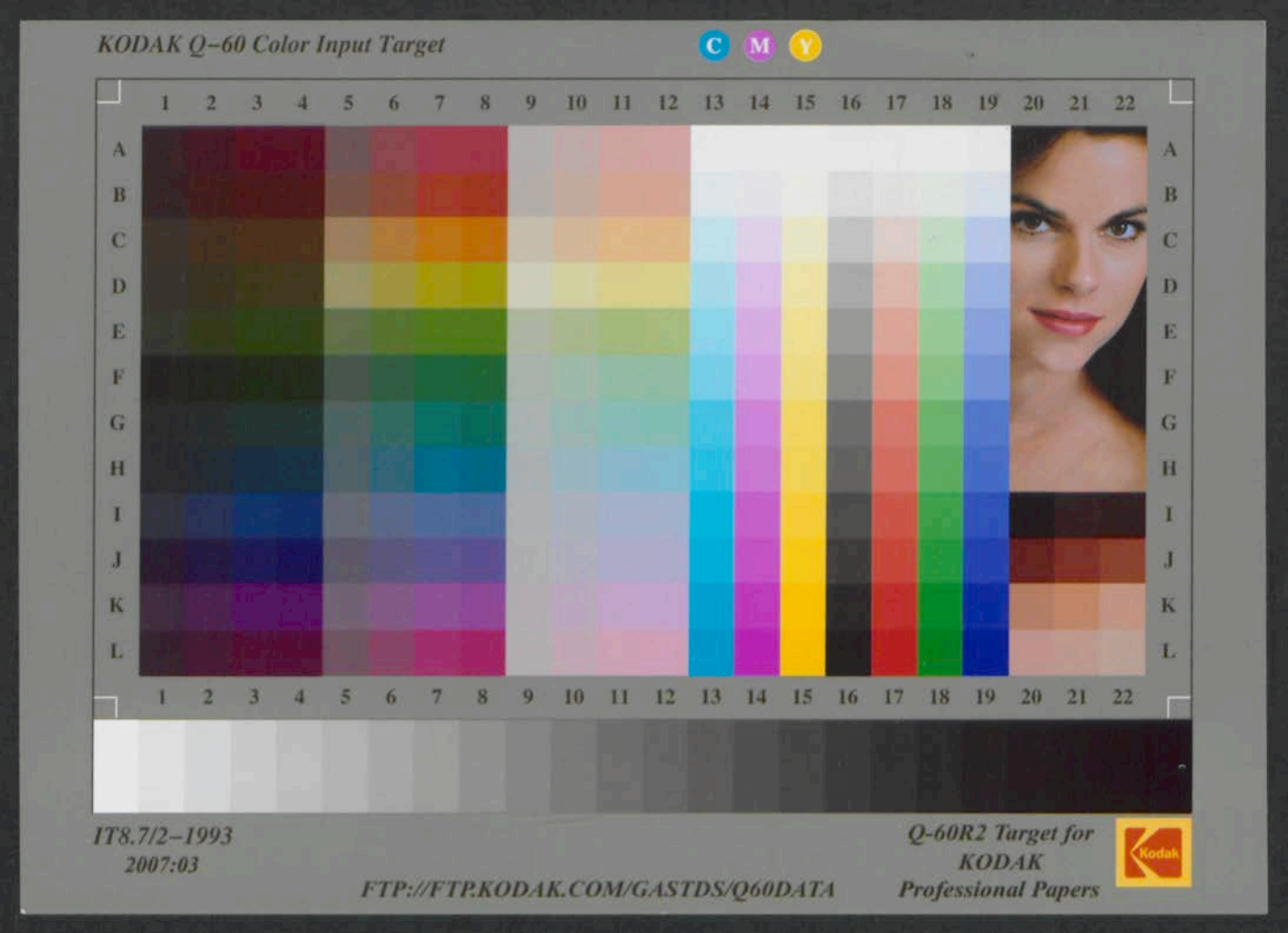
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