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CONFIDENTIAL FILING

FUTURE OF HONG KONG

HONG KONG

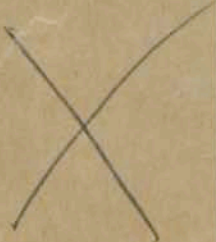
NEW TERRITORIAL LEASES

PART 1: JUNE 1979

PART 9: OCTOBER 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
3/10/83							
4/10/83							
7-10-83							
10-10-83							
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29/10/83							
31-10-83							
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PART 9 ends:-

Canadian High Commission to ATC
31/10

PART 10 begins:-

PM to Trudeau (T171/83)
1/11

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD(K)(83) 1 st Meeting, only item	25/10/1983

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 _____

21/5/2013

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 HANSARD, 31 October 1983, columns 719 to 726: Hong Kong

Signed

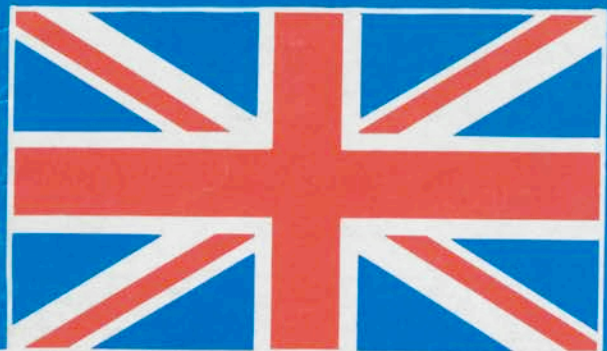
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COMMONWEALTH



REVIEW™

OCTOBER
1983

ABORTION: CANADA'S NUMBER ONE KILLER!

HOW THE REDS PLAN TO SEIZE HONG KONG



SPECIAL REPORT
The Falkland Islands
Revisited

HUMANISTS
Close a Nebraska
CHURCH!

THE ECONOMY -
The Banking
Pyramid

RED CHINA

\$2.00 CANADA, NEW ZEALAND

\$1.80 AUSTRALIA, BERMUDA,
BAHAMAS, BELEIZE, U.S.A.

\$3.50 SINGAPORE, MALAYSIA,
BRUNEI

\$10.00 HONG KONG

U.K. & ALL OTHERS

ONE POUND

Dawn of the turbo age.

Turbo is the word for Mitsubishi. And the turbobreed, a range of cars that spans the spectrum of today's most sought-after automobiles, reflects Mitsubishi's philosophy of building cars right for today.

It is this philosophy which has made the Mitsubishi marque synonymous with the kind of

innovative design and engineering people have come to expect, and the world demand, from today's car makers.

The turbo age will arrive when people buy cars with turbocharged engines and won't even know it. Mitsubishi has brought that time much closer with its turbobreed.

Mitsubishi, the only automotive manufacturer to build its own turbochargers, the only one to build both turbo petrol and turbodiesel units, and the only one to offer eight turbocars, perfectly mates each turbocharger to its engine, each turboengine to its car.

The result is the turbobreed, a range of turbocars that spans the spectrum of today's most sought-after automobiles — from the stately 2.3-litre Galant Turbodiesel saloon to the sporty 1.4-litre Colt Turbo hatchback, to four 2-litre Turboelectronic models — the stylish Sapporo Turbo, the elegant Galant Turbo, the fiery 220 km/h Starion sports coupe and the rally-bred Lancer Turbo, to two 1.6-litre models — the Cordia supercoupe and Tredia supersaloon.



TurboBred by Mitsubishi for the eighties.

MITSUBISHI

MITSUBISHI MOTORS CORPORATION TOKYO, JAPAN



MITSUBISHI
MOTORS

COMMONWEALTH

Now the Reds threaten to seize our people in HONG KONG



Thanks to the Peoples Republic of China [PRC], Hong Kong currently enjoys a robust population in excess of five million. Of this population, which [after World War II] reached a modest 1,875,000 in 1949, increased a whopping 240 percent to 4,566,900 in 1977 (a space of only 28 years)!

In fact, between Hong Kong Island and the Kowloon peninsula, this represents among the world's highest population densities. After the Red Regimes "Forced Liberation" and establishment of the Peoples Republic of China on the mainland in 1949, wave after wave of refugees rushed into the colony by the thousands

for a chance to gain a freedom and life which would no longer be possible on the mainland.

Even with such staggering immigration problems however, the free economic business climate in Hong Kong spurred dynamic economic growth, propelling the colony into the status of the world's third largest financial centre. The millions of refugees, basking in new-found economic and social freedom, not only provided a readily available labour resource, but had individually made an "economic quantum leap" over their impoverished enslaved relatives just a few miles away on the communist occupied mainland. This

profound economic success coupled with the achievement of personal individual wealth proved later to be an international embarrassment to the Red Masters of the Peoples Republic of China, and provided a showcase in East Asia, demonstrating again the soundness of natural economic law. Hong Kong's per capita economic growth rate is among the highest in East Asia today (a region already well ahead of the West in terms of economic growth rates, excluding the PRC).

As we have seen, this dramatic increase in Hong Kong's population wasn't the result of Hong Kong's spacious living area, natural wealth, or infinite beauty.

COMMONWEALTH

The colony is exceedingly poor in minerals and the shortage of available land that exists has been largely stripped of natural vegetation; nor is the increase due to any abnormally high birth rates in the colony.

By 1979 even the communist occupied mainland took an estimated foreign exchange balance from Hong Kong in excess of U.S.\$2,000 million a year, enough to finance one third of the PRC's total imports. That's right friends, the five million capitalist "paracites" in Hong Kong virtually support one-third, or more, of the "Red Paradise's" total hard currency income. Yes sports fans, with over one billion obedient slaves for a work force, and phenomenal natural resources, the Red Barons who occupy the mainland must depend on the Capitalist Free Enterprise system of tiny Hong Kong to finance over 30 percent of their foreign imports!

Does this sound like a glimmering success story to go down in history as a shining example of a free society? Sorry friends, perhaps not. Last year the "Enlightened Liberators" reopened their latent threat to seize not only the leased Hong Kong New Territories, but also, audaciously claimed their intention to seize the lawfully ceded British territory of Hong Kong Island and the Kowloon Peninsula. We need a brief look at Hong Kong's history to appreciate the tragedy and arrogance of this alarming threat.

THE HISTORY

Britain first acquired the Colony of Hong Kong by the Treaty of Nanking in 1842 and proclaimed the colony the following year in June 1843. This treaty comprised the territory of Hong Kong Island which was lawfully ceded by the Government of China to Great Britain "in perpetuity".* Great Britain was ceded the addition of what is now the thriving city of Kowloon [a peninsula opposite the Island] through a separate treaty, in which the Government of China ratified by the Convention of Peking in 1860.

The New Territories were leased to Great Britain following China's defeat by the Japanese in 1895. By 1898 China granted Great Britain a 99-year lease over what now constitutes the New Territories. Herein lies the real legal problems today. The New Territories dramatically increased the size of the colony from a mere 43 square miles to well over 400 square miles. Subsequent to the lease and up until 1949, the lease arrangement was not perceived to be an insurmountable threat to Hong Kong's slowly expanding population and moderate economic growth. Of course in 1898, no one could have conceived of the brutal Red Tyranny or the resulting frantic influx of millions of refugees pouring into the colony for safety and freedom in the 50s and 60s.

The Red's claim insinuates that the above treaties were "unequal" in nature, and, therefore, invalid and unrecognizable by the "Human Liberators" that currently forcefully occupy the mainland. The hypocritical Peking regime however has never publically justified the "unequal" nature, forced seizure, and brutal

subjugation of over one billion captives under the most brutal conditions of our time, responsible for the butchery and destruction of over sixty million lives [see following story]. This unmeasurable holocaust, in which tens of millions perished, and millions more were made refugees (many of whom now enjoy social and economic freedom in Hong Kong), seems to be "the forgotten" element in the current Hong Kong negotiations. The treaties are recognizable under international law however, and the millions of residents in Hong Kong today have voted with their feet and cast ballots with their lives to remain within British Sovereignty.

British resolve over the matter [in distinction from the resolve recently shown by the British to reinforce sovereignty over the Falkland Islands]. The so-called Conservative government in London moreover pulled the plug on the matter through a recent act to desolve the right of full British Citizenship to Hong Kong residents, and in the same act secured citizenship for the mere 2,000 residents of the Falkland Islands. This action alone, by a single stroke of the pen, assigns "stateless status" to some five million Hong Kong residents and paints an uncertain picture of British resolve on the Hong Kong matter. It was such uncertainty that

This unmeasurable holocaust, in which tens of millions perished, and millions more were made refugees, seems to be "the forgotten" element in the current HONG KONG negotiations.

REDS WANT IT ALL!

In 1971 the Red Regime was admitted to the "so-called" world body, the Communist-Controlled United Nations. This appeared to legitimize the brutal Regime as a legitimate world government, while effectively oustracing China's last freely-elected government, the Republic of China on Taiwan, from the world community. Peking's permanent representative to this prestigious body, the UN, informed the UN's Special Committee on Colonialism as follows: "Hong Kong and Macau are part of Chinese territory occupied by the British and Portuguese authorities. The settlement of the question of Hong Kong and Macau is entirely within China's sovereign right and does not at all fall under the ordinary category of colonial territories....The Chinese government has consistently held that they should be settled in an appropriate way when conditions are ripe."

In true obedience to the Red Master's desires, Hong Kong and Macau were "deleted" from the list of colonial territories, although Great Britain still rightfully considers the original treaties as valid. Herein lies the problems, in that, in accordance with the terms of the Convention of Peking in 1897, presumably we can assume that the Reds "Time is Ripe" over Hong Kong and Macau may well be meant to coincide with the termination of the 99-year lease, set to expire on June 30, 1997, or perhaps even precede it!

The time-table and circumstances indeed seem to presently weigh heavily in favour of the Red Masters, and the anxiety and apprehension felt by millions of Hong Kong residents is thus obvious. Compound all this by a lack of concerted

added encouragement to Argentina in the later's recent armed aggression against the British residents of the Falkland Islands and precipitated the war. Certainly the Reds on the mainland must view this act as a meager message of British resignation to the eventual give-away of the colony to the same Red Masters that millions have risked life and limb to flee.

However, British legal troubles over Hong Kong really began in 1950 with their recognition of the brutal Communist regime in Peking. Had Britain opted instead for continued recognition of the Republic of China on Taiwan, the New Territories lease matter today would not present such grave consequences, nor the negotiated aspects so formidible. But if the right to self determination is indeed a worthy principle, [and the historical evidence clearly supports Hong Kong's residents desire to remain British] it is assumed that Britain should show equal, if not more, resolve in the matter than was displayed in the Falkland Islands War.

NOTE: The Dictionary defines "Perpetuity" as (1) Eternity, and, (2) the quality or state of being perpetual. "Perpetual" is defined as: "continuing forever", e.g. ... "Everlasting" (Valid for all time), etc. Hong Kong Island and the Kowloon Peninsula were ceded by the Government of China to Great Britain "In Perpetuity"; the Communist Regime in Peking limits this idea of "Perpetuity" to June 30, 1997! But then, their minds are somewhat "limited" by their ideological concepts, and a universally defined term such as "Forever" doesn't fit into their master design.

Foreign Service

The Selling Of A Brutal Tyranny **RED CHINA**



■ WHEN EXPLAINING to rank-and-file Communists why they are accepting so much technological help from the United States and other capitalist countries the dictators of Peiping often cite a Chinese proverb that says when there is a bear threatening to tear down the front door, you ignore for the moment the tiger lurking at the back.

The arrangement is necessarily temporary.

Over the past decade, United States policy towards Red China has undergone a reversal. Until the start of the Nixon Administration in 1969 the People's Republic of China (P.R.C.) was openly regarded as a hostile Communist state. But now we hear not only from the makers of U.S. foreign policy but also from many leaders of industry and finance that the P.R.C. is to be a "partner" of the United States in the international political arena, in economic ventures, and (more and more) in military and defense fields as well. Even to the extent of suggesting a military alliance between America and Red China against the Soviet Union.

Under the Reagan Administration the blossoms of the official U.S. courtship of Peiping remain in full flower, and America's counterintelligence specialists report that they have been told officially to regard the People's Republic of China as a "friendly" foreign nation. The activities of the P.R.C.'s intelligence and espionage service are thus to be treated as if they were the efforts of a British trade delegation. The word is: "Don't open any foreign counterintelligence cases on suspected Red Chinese spies." In consequence, Peiping's spy apparatus in America has free rein. The spying emphasis is on industrial secrets, highly sophisticated technology, and those aspects of our advanced physics needed to develop accurate long-range missiles tipped with nuclear warheads.

In March the State Department produced a summary of U.S.-China Science and Technology Exchanges. The Haig State Department gushed: "Since normalization of diplomatic

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FOREIGN SERVICE

relations in January 1979, U.S. economic, cultural, and scientific contacts with China have expanded considerably. These contacts are fundamental elements of our new relationship that could have a beneficial impact for decades." Indeed, they will undeniably have a beneficial impact — on the military and industrial capacity of Red China.

Fourteen science and technology agreements have been negotiated with Peiping. They resulted from the U.S.-P.R.C. Agreement on Cooperation in Science and Technology signed in Washington by President Jimmy Carter and Red Chinese Vice-Premier Teng Tsiao-ping on January 31, 1980. These agreements, and the federal agencies responsible for carrying out the so-called "exchanges," include:

- Student and Scholar Exchanges (October 1978) — Committee on Scholarly Communication with the P.R.C.;
- Agricultural Exchanges (November 1978) — U.S. Department of Agriculture;
- Space Technology (November 1978) — National Aeronautics and Space Administration;
- High Energy Physics (January 31, 1979) — Department of Energy;
- Management of Science and Technology Information (May 8, 1979) — Department of Commerce;
- Meteorology and Standards (May 8, 1979) — Department of Commerce;
- Atmospheric Science (May 8, 1979) — National Oceanic and Atmospheric Administration, Department of Commerce;
- Marine and Fishery Science (May 8, 1979) — National Oceanic and Atmospheric Administration, Department of Commerce;
- Medicine and Public Health (June 22, 1979) — Department of Health and Human Services;
- Hydroelectric Power and Related Water Services (August 28, 1979) — Department of Energy;
- Earthquake Studies (January 24, 1980) — National Science Foundation and the U.S. Geological Survey;
- Earth Sciences (January 24, 1980) — U.S. Geological Survey;
- Environmental Protection (February 5, 1980) — Environmental Protection Agency; and,

- Basic Sciences (December 10, 1980) — National Science Foundation.

According to the State Department, the signing of these agreements resulted during 1980 in the arrival in the United States of an average of 140 Red Chinese "commercial, technical and cultural delegations per month." That is 1,680 delegations consisting of teams of "experts," translators, and secret police agents who make certain there are no defections.

What is the United States getting out of these scientific "exchanges" with the People's Republic of China? According to the State Department, the main benefits are "access to Chinese records and predictive techniques" under the earthquake protocol; "access to previously denied information on the world's climate"; and, "new knowledge in . . . treatment of burns." But to cap this, says the State Department, "Under the hydropower protocols we could gain significant commercial benefits from cooperating with China, which has the world's largest hydroelectric potential." What is meant is that there is some undefined possibility of future commercial sales of hydroelectric generators to Red China, probably in return for handicrafts or raw materials produced with slave labor.

Meanwhile, the Chinese Communists are using the technological exchange with the United States as a giant "vacuum cleaner" to gather vast amounts of the latest U.S. high technology.

And under the auspices of the Committee on Scholarly Communication with the P.R.C., Red Chinese "students" are flooding the advanced physics programs of our best universities and occupying between one-third and one-half of the available places. If a leading university has a large graduate physics program with, for example, twenty openings each year for new students, it is taking between six and ten Red Chinese. This means that between six and ten qualified American students are denied the opportunity to become top physicists.

According to officials involved in these programs, the Chinese "students" are not admitted on the basis

of a competitive examination. Instead, P.R.C. bureaucrats select them, and many are well over thirty years of age. Our best universities are simply asked to take a specific number of Red Chinese, agree to do so, and the Red Chinese send them their quota of "students."

Some sidelights to the Chinese graduate question are also interesting. For example, these "students" collect copies of every possible scientific paper and report, whether or not it has any relationship with their studies, and send them back to Peiping. In the intelligence community, this is called the "vacuum cleaner" approach. The Red Chinese "students" are unanimously concentrating on the sophisticated sciences — applied physics, advanced physical research, mathematics, chemistry, computer technology, and related fields. Both the "students" and members of P.R.C. technical delegations are especially anxious to learn everything related to our microchip computer technology.

And while the "students" are busy collecting our most advanced scientific and technological knowledge, they are being used by Peiping as sources of American currency. Graduate students are usually employed by the university and so receive, in the better-endowed programs, stipends of about \$18,000. The Peiping Government has insisted that the universities accepting P.R.C. students send two-thirds of that sum, say \$12,000, straight to Peiping. The Red Chinese "students" must house, feed, and clothe themselves on \$6,000 a year. In our survey we found no university which refused to comply with the Peiping regime's policy on this matter.

Meanwhile, American students going to Communist China study such arcane subjects as the role of the "barefoot doctor" in community health programs, ancient Chinese manuscripts, imperial costumes and textiles, calligraphy, the primitive folklore regarding earthquakes, and even Marxist divorce laws.

Such bizarre "exchanges" reflect one of the most dramatic reversals of foreign policy in our nation's history. A major element in moving official U.S. policy toward abandonment of the Republic of China on

FOREIGN SERVICE

Taiwan and full recognition of Communist China was the isolation and displacement of what had been derisively termed the "China Lobby" — anti-Communist supporters of Nationalist China — by a "New China Lobby." The term "New China" is a standard Peiping code phrase for the Communist regime.

This "New China Lobby" is fascinating. One of its senior elements is the National Committee on U.S.-China Relations (N.C.U.S.C.R.). It was founded during the Johnson Administration by "Liberal" business, academic, media, and congressional figures to promote reversal of U.S. policies toward the People's Republic of China. Its line has been that Americans should view the P.R.C. as a vast market in which U.S. businessmen and financiers might make a fortune while building a "buffer" against the U.S.S.R.

We must recognize that within the "New China Lobby" are some who concentrate so exclusively on the threat to the Free World posed by the Soviet Union that they are willing, even eager, to provide military equipment to Red China. Considering themselves to be anti-Communists, they favor arming and strengthening the Chinese Communists in the hope that Peiping and Moscow will attack and destroy each other while leaving the U.S. untouched. What is far more likely is that Communist China, armed and strengthened by the U.S., would make an accommodation with the U.S.S.R. so that the two totalitarian giants might combine their forces against us and our allies.

Other supporters of U.S. rapprochement with Red China include profiteers, fools, and radicals.

The National Committee on U.S.-China Relations, first of the organized "New China Lobby" groups, began by underwriting articles, conferences, academic "policy studies," and seminars in an attempt to convince U.S. businessmen, bankers, scientists, journalists, and Congressmen that formal recognition of the P.R.C. would open a golden door of opportunity. During the Johnson Administration it became the primary "resource" organization through which the "Liberal" Establishment labored to implement its pro-P.R.C. policy. This policy was initiated un-

der President Nixon with the eager assistance of Henry Kissinger.

Once the Nixon Administration commenced "unofficial" relations with Red China in 1971, the N.C.U.S.C.R. began receiving substantial federal funding. Soon it was headed by leaders of the U.S. foreign-policy establishment. By 1975, nearly half of the N.C.U.S.C.R. budget was accounted for by State Department funds while former U.N. Ambassador Charles Yost served as its president and Michael Blumenthal, Secretary of the Trea-

Nixon. As Han Hsu, deputy chief of the P.R.C.'s Liaison Office, noted at the Council's founding, it is the U.S. counterpart organization of the China Council for the Promotion of International Trade (C.C.P.I.T.); and the U.S. National Council has itself maintained that "the special nature" of its relationship with the P.R.C. regime "cannot be overemphasized."

The Council's primary role was lobbying the Administration and Congress for the "interests of the China trade community in the U.S." Congressmen tend to listen when a

Red China's recently ratified constitution formally names the United States of America as the great enemy of the Chinese people. Yet last year the U.S. admitted 1,680 delegations from that Communist dictatorship and provided them with access to everything from our high energy physics to our missile science.

sury under President Jimmy Carter, became chairman of its board of directors.

The National Committee on U.S.-China Relations was now being funded not only by our government but by Manufacturers Hanover, Exxon, and Ford. It attracted a further quotient of "Liberal" politicians, journalists, ministers, and "opinion makers." While U.S. relations with Red China remained "unofficial," the Committee began hosting P.R.C. delegations in the U.S. and organizing exchange visits to Peiping.

Having fulfilled a major part of its purpose once the Carter Administration established full relations with Peiping, the Committee has declined in activity and influence as new and more specialized groups have been formed. One of the most active of these spinoffs is the National Council for U.S.-China Trade (N.C.U.S.C.T.). It was founded in May 1973 "to facilitate the development of Sino-U.S. commerce in all ways possible" as set out in the Joint Communiqué signed at Shanghai in February 1972 by President

businessman with a plant in their state or District pays a visit to their office and says, "The P.R.C. wants to buy an entire factory to make satellite communications equipment. If you tell the White House you support recognition of the P.R.C., we will create two hundred new jobs while we put this item together for the Chinese."

And elected politicians also listen to bankers who say: "We can make a lot of money if we lend Peiping money to buy U.S. products; and we can make money if we lend money here to make things for sale to China. We want you to pass a federal law underwriting our risks, advancing trade credits to Red China so it can 'pay' for this material, and granting Most Favored Nation trading status."

Too few in Washington are willing to respond: "The Red Chinese backwardness in industrial and military capability is the result of their Communist totalitarian system. It is not in the long-term interests of the

CONTINUED ON PAGE 31

RELIGION

Humanists Close a Nebraska Church

LET MY PEOPLE GO



Alan Stang is author of *It's Very Simple*; *The Actor*; and, *The Highest Virtue*. His weekday radio commentary, "The Alan Stang Report," is heard nationwide. Mr. Stang holds a Master's Degree from Columbia University.

■ THE GOOD NEWS is that the Bible is alive and well in Nebraska, which you knew. Indeed, the old biblical battles are being fought there now. If you want to see them, you should go for a visit. Your reporter is not, of course, talking about a great religious pageant. We are literally talking about the real thing. The names are different, but the story is the same. There are the prophets. There are the Roman soldiers and Pontius Pilate. There are the Pharisees. And there is a small band of determined believers.

The bad news is that the Nebraska situation is one of the most dangerous things that has ever happened in the United States. If it keeps degenerating as it has been, then in this reporter's opinion we run the solemn risk of seeing our Constitution destroyed. That's quite a mouthful, isn't it! You may well be thinking that, to justify it, we had better have quite a story.

Friends, we have one. For the first time in the history of the United States, so far as we know, the government has forcibly closed a church. The worshippers were evicted and thrown into the street. The preacher was arrested and thrown into jail. The doors were padlocked. The people who are running the government, you see, don't like the congregation's brand of religion. As in Fifteenth Century Spain, a government Inquisition is demanding obedience on pain of imprisonment. We wish we could tell you that some of this, at least, is hyperbole. Sadly, we can't.

From Pulpit To Padlock

Everett Sileven is an Okie from Muskogee, where he was born in April 1939. His mother died of cancer when he was four. His father, an itinerant Southern Baptist preacher, became bedridden. Everett was raised by an uncle in Missouri. At nine, he became a Christian. At twelve, he was a charter member of a church. At sixteen, he was a preacher.

Young Sileven went to the state college, where he studied business administration. He won a four-year scholarship to a Bible college, which he turned down, because he thought the Southern Baptists were becoming too liberal. He worked as a lab technician on quality control, analyzing

FROM PAGE 15
RED CHINA

United States and the American people to build up a regime which has always said it will be the enemy of our country so long as we have a representative government and a Free Enterprise economic system."

And while the N.C.U.S.C.T. is lobbying it has also become virtually the sole agent deciding which U.S. businesses seeking an "in" with Peiping will get the nod. To make this work it has set up "exporter committees," each led by an executive of a major corporation already in that field. For example, the Telecommunications and Electronics committee is headed by Joseph Gancie of ITT World Communications; the chief of the Petroleum Production committee is Gulf executive Robert Scott; the Petroleum Processing committee chairman is James Wolahan of Caltex; and, the Construction Machinery and Equipment committee chairman is Clark Equipment's Stewart Roberts.

But bear in mind that the China Trade Council's activities have not been limited to trying to encourage key U.S. businessmen to trade with the P.R.C. The N.C.U.S.C.T. has also acted as a propagandist and apologist for the Red Chinese regime. It defended its internal policies; supported its foreign policies, particularly in relation to the Republic of China on Taiwan; and, it attacked criticisms by some U.S. businessmen of the Chinese Communist regime as reckless, "tactless," and "unfriendly." In brief, the Trade Council worked hard to build the myth that the P.R.C. is not a "hostile" power, that the regime's ferocious internal repression of the Chinese people was irrelevant, and that the virulent anti-American propaganda directed continuously at the Chinese people by the Communist hierarchy should be dismissed as "merely for internal political purposes."

Most particularly, the National Council on U.S.-China Trade has been in the forefront of the campaign to give Red China full access to the highest levels of American technology. Its "representations of interests of the China trade community in the U.S. *** to the U.S.

government" include pressuring the Commerce Department to grant export waivers of high technology hardware with military applications — hardware sold to the Red Chinese by U.S. aerospace, computer, and electronics firms.

The National Council has become even more active in the two years since U.S. recognition of Red China. It has lobbied to gain Most Favored Nation trading status and to work out details for Export-Import Bank financing of U.S. sales and technology transfers. Many of the major U.S.

just as pernicious as those of its Establishment brothers providing "pressure from above."

The first local U.S.C.P.F.A. chapters appeared in New York and San Francisco during the summer of 1971. Their advent coincided with the Nixon Administration's commencement of "ping-pong" diplomacy, which literally meant playing ball with Chou En-lai. The founders of the Friendship Association included veterans of the Communist Party, U.S.A., who had remained loyal to Peiping since the 1950s when ideo-

The federal government has been funding the Red China Lobby, as have leading U.S. corporations. A Peiping front called the U.S.-China Peoples Friendship Association, headed by an identified Communist named William Hinton, has more than 100 chapters and 30 organizational committees operating in the U.S.

industries and banks, such as Chase Manhattan, RCA, and Boeing, have close ties with the P.R.C. and employ their own P.R.C. experts and translators. But despite their several years of experience in dealing with the Red Chinese bureaucrats — experience which would seem to make middlemen unnecessary — even these major companies still widely use the National Council's services. Doubtless at the insistence of Peiping and for reasons which you may suspect. Indeed, the National Council on U.S.-China Trade now has more than four hundred corporate U.S. members.

The two arms of the "New China Lobby" we've just examined concentrate on directly influencing the top of America's commercial, financial, academic, and legislative communities. A third principal arm, the U.S.-China People's Friendship Association (U.S.C.P.F.A.), promotes "pressure from below" by more radicalized sectors of the academic, religious, cultural, and revolutionary-activist communities. Its effects are

logical bickering broke out between Red China and the Soviets. One key initiator of the U.S.-China People's Friendship Association was William Hinton, a Communist Party member in the 1940s who was working in China as an employee of the United Nations when the Maoist Army took over there. Hinton decided to remain — as an employee of the P.R.C. — but returned to the U.S. in 1953. He brought back with him documents showing that he had been a member of the Communist Party of China and that he had participated in its activities.

By the time U.S.C.P.F.A. held its first national conference in September 1974, more than fifty local chapters had been created. Taking a leadership role in these were the doctrinaire Maoist cadre of the Revolutionary Union, which has since changed its name to the Revolutionary Communist Party, and the October League, which is now styled the Communist Party, Marxist-Leninist. The latter is the official Peiping-line Communist party in the United

States.

William Hinton, who has since the Fifties frequently returned to Peiping for extended visits, became founding national chairman of the U.S.-China People's Friendship Association. Reliable old-time advocates of Red China were heavily salted on the national committee to keep in line the younger Maoist cadre and a few token "Liberals."

This Communist Front now has more than one hundred chapters, and thirty organizational committees — which is what it calls chapters with fewer than ten members. The U.S.C.P.F.A. claims a paid membership of over nine thousand. Its budget is approximately half a million dollars a year, ninety-five percent of which it admits is provided by agencies of the Red Chinese Government. This supposedly involves commissions paid by the P.R.C.'s tourism agency for the tours organized by the group.

Indeed, arranging "Potemkin" tours of "New China" for U.S. academic, professional, and activist groups became a U.S.C.P.F.A. monopoly after the revolutionary Communist newspaper known as *The Guardian* lost its part of the China tours business because of "ideological deviationism." Since U.S. recognition of Communist China, the U.S.C.P.F.A. has been the primary agency arranging the non-commercial tours. In 1979, for example, the Friendship Association arranged for 3,800 Americans to go to Peiping; and, last year, it sent eighty-six delegations.

The U.S.C.P.F.A. targets for its China junkets members of certain groups which the P.R.C. is especially interested in welcoming. These include local union officials; rank-and-file members of unions in heavy industry such as coal, steel, auto, and shipbuilding; elementary and college teachers; members of ethnic and racial minority groups, particularly Mexican-Americans and blacks; and, of course, Chinese-Americans.

Blacks, Chicanos, and Chinese-Americans are also the three ethnic groups targeted for recruitment by the official Peiping-line Communist Party, Marxist-Leninist. Its activists have altered their formerly fanatical revolutionary positions, explaining that for the present the P.R.C. needs American technology and arms. Thus, they observe, it is not a de-

sertion of revolutionary Communist principles, but pragmatism and devotion to the P.R.C. cause, that has led the Communist Party, Marxist-Leninist, to tone down its revolutionary rhetoric and to seek alliances not only with "Liberals" but with "anti-Soviet elements" as well. Even with those perceived as "anti-Communists."

Also working hard to sell Peiping's cause among radicals and wherever else possible is China Books and Periodicals, a registered agency of the P.R.C. that distributes vast quantities of literature, books, and pamphlets from Red China as well as the publications of the U.S.-China People's Friendship Association and other pro-Peiping parties and fronts. In cooperation with U.S.C.P.F.A., China Books is responsible for placing pro-Peiping materials in two thousand U.S. bookstores and three thousand libraries.

So much for the soft sell. What is being overlooked completely in all of this is that Red China has long supported terrorism as well as propaganda and espionage. The idea is, of course, to subvert and destabilize target governments and to intimidate civilians into acquiescence. They call it the propaganda of the deed.

In the 1950s the Chinese Communists provided training, arms, and funds for Communist terrorists in several Southeast Asian nations including Vietnam, Malaysia, and the Philippines. During the 1960s, they provided arms, uniforms, and training to Holden Roberto's National Front for the Liberation of Angola based in Zaïre and fighting a war of terrorism against the Portuguese in Angola. Peiping also backed several Maoist terrorist groups in Mozambique; in Rhodesia, where they were Robert Mugabe's first international supporters; in South West Africa; and, in South Africa, where their bloody-handed Pan-Africanist Congress was a true rival of the Soviet-supported terrorists.

In Latin America, Maoist terrorist groups were formed by Communist Party dissidents during the late 1960s and early 1970s. Brazil, Colombia, El Salvador, and Nicaragua have all had their terrorist movements calling for a "prolonged people's war" modeled on that waged by Mao Tse-tung. And Maoist terrorists have operated inside our own country.

The involvement of Red Chinese

agents in the terrorist Weather Underground has been summarized in a hundred-page memorandum and footnoted to classified foreign counterintelligence documents by the F.B.I. This document was last December entered into the trial record by defense lawyers for former F.B.I. officials W. Mark Felt and Edward Miller. The memorandum discusses the activities of Leibel Bergman, a veteran Communist who with William Hinton organized the Revolutionary Union/Revolutionary Communist Party, and of Leibel's son Lincoln Bergman, a member of the terrorist Weather Underground Organization.

This important memorandum reveals that "Leibel Bergman, Lincoln's father, was a United States citizen whose parents were born in the Soviet Union. He became a member of the CPUSA in 1937 and was an active member for twenty years." When the family quarrel between Peiping and Moscow occurred in the late 1950s many of Peiping's supporters quit the Communist Party, U.S.A. The memo describes how, in 1965, Leibel Bergman took his two sons, Lincoln and Christopher, "clandestinely via Moscow to Peking, China. *** U.S. citizens cannot go to China unless invited. Leibel Bergman had a 'contact' in China *** [who] worked for an intelligence organ of the Chinese Government, and was in charge of Red Chinese intelligence activities directed against the Western Hemisphere, particularly the United States."

In Red China, Leibel Bergman married Victoria Garvin, a U.S. citizen and member of the Communist Party, U.S.A., during the late 1940s who had been in Red China during the Cultural Revolution. The memorandum continued: "Leibel Bergman, a Chinese Communist intelligence agent, returned to the United States from China in September 1967 to carry out a mission for the Red Chinese. Lincoln had returned earlier and married Arlene Eisen, later to become a Weatherman. Leibel's wife, Victoria, remained in China. She later joined Leibel in Newark, New Jersey, and New York in early 1971.

"Leibel's mission was to advance the cause of revolutionary struggle against U.S. imperialism. To accomplish this mission, he wanted to form a coalition of communist groups

which would follow the Maoist line, to recruit a corps of youth who could be sent to China for clandestine training, to return to the U.S. and operate illegally on behalf of the P.R.C. for an extended period of time, and to collect any intelligence which might be of use to the P.R.C. In order to carry out this assignment, Leibel endeavored to form an illegal network. Immediately upon his return, he established contact in the United States with numerous people with communist backgrounds to solicit assistance.

"Some of the contacts were prominent people in the overall New Left movement readily identifiable with various groups and factions thereof. Other contacts were with those who operated covertly or semi-covertly to further the anti-U.S. goals of the movement without, or at least with a minimum of, exposure. Leibel kept his son Lincoln informed as to his new and renewed contacts."

The memorandum lists among these contacts Karen Koonan, a young Communist Party member; Arlene Eisen Bergman; and, Clayton Van Lydegraf, a former C.P.U.S.A. member who had fought in the Philippines with the Communist Huk terrorists. All three became members of the Weather Underground Organization. Van Lydegraf and other W.U.O. members were arrested during the International Women's Year conference at Houston on charges of conspiring to murder a Conservative California state legislator, possession of dynamite, and related charges.

The memorandum describes further how Leibel and his terrorist son operated: "Leibel Bergman cautioned those who indicated a willingness to work with him in his efforts that secrecy was mandatory. Leibel advised his contacts that his son, Lincoln, would take over his contacts (on behalf of the Chicoms) if anything happened to him.

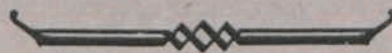
"Shortly after his return from China, Leibel and Lincoln Bergman opened a joint bank account with a deposit of over \$9,000 transferred through an overseas bank. (The joint account added credence to the conclusion that Lincoln was working with Leibel and would take over for Leibel if anything happened to him). Leibel used money from this account to support his mission for the Chinese. *** The FBI reasonably con-

cluded, based on this and other information, that the money constituted Chinese Communist operating funds."

Leibel Bergman's contacts are listed as including Michael Klonsky, who then organized a "competing" Maoist party, the October League/C.P.M.L.; and National Lawyers Guild activist Ken Cloke, described as "a future Weatherman" and "a leader of the R.U. collective in Los Angeles." Bergman traveled covertly to Paris in 1969 to meet with P.R.C. representatives and attend an international conference of pro-Maoists. Also attending was Weatherman Michael Justensen, who on his return said he had made contact with the Japanese Red Army, the terrorist group which worked with the Popular Front for the Liberation of Palestine and became a mainstay of the international terrorist movement.

What is amazing about all of this is that the "New China Lobby" is now so powerful that you have read not a word about Mr. Bergman and his operations. Hard proof surfaces that Peiping has sent Communist agents into our country to organize underground terrorists, and it is simply ignored. Peiping operates and openly funds large Communist Fronts, and that too is ignored. Indeed, U.S. funds are spent openly to further the economic interests of the second most powerful Communist dictatorship in the world and even the Reagan Administration is talking about providing U.S. arms for that Communist power. Meanwhile, thousands of Red Chinese agents and spies are being brought into our country to obtain whatever they can of our advanced technology. To make certain they miss nothing, we have opened our top technical universities to their scientists who arrive in the thousands as "students" to obtain everything necessary to build a modern war machine.

It is time to put a halt to this madness. Communist China is a monstrous dictatorship that has butchered more than sixty-four million of its own people. If we provide it with the technical means to do so it would think nothing of killing sixty-four million Americans. ■ ■



THE CREDITS & ACKNOWLEDGEMENTS

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Red China

By JOHN REES

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LET MY PEOPLE GO

By ALAN STANG

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October 31, 1983

Mr. John Coles
Private Secretary
Office of the Prime Minister
10 Downing Street
London

Dear Mr. Coles,

Further to our High Commissioner's letter transmitting a message from Prime Minister Trudeau to Prime Minister Thatcher concerning the visit to Canada of Chinese Foreign Minister Wu Xuegian, we now forward the original of Mr. Trudeau's letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Schram'.

John Schram
Counsellor
Political

DD 0911

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FUTURE OF HONG KONG: PRESS COVERAGE.

GIVEN PROMINENT COVERAGE IN TODAY'S INDEPENDENT AND ROUTINE COVERAGE IN THE LEFT-WING PRESS WERE AGENCY REPORTS OF THE PRIME MINISTER'S COMMENTS ON A BBC WORLD SERVICE PHONE-IN PROGRAMME YESTERDAY. PARTICULAR ATTENTION WAS PAID TO HER COMMENT THAT THE LAST ROUND OF SINO-BRITISH TALKS ON HONG KONG "WERE VERY CONSTRUCTIVE AND WENT MUCH BETTER", AND TO HER BELIEF THAT "WE ARE REACHING A BETTER BASIS OF UNDERSTANDING OF WHAT IT IS THAT HAS MADE THIS REMARKABLE SUCCESS IN HONG KONG, AND HOW WE SHOULD ARRANGE FOR IT TO CONTINUE". THERE WAS LITTLE COMMENT ON THE AGENCY REPORTS.

2. WEN WEN PO (COMMUNIST) ON 30 OCTOBER QUOTED THE DIRECTOR OF THE CCP'S PROPAGANDA DEPARTMENT, DENG LIQUN, AS SAYING THAT THE LAST ROUND OF TALKS WAS "BETTER" THAN THE PREVIOUS ROUNDS. SPEAKING TO THE DIRECTOR OF A JAPANESE NEWS AGENCY, DENG SAID HE HOPED BOTH SIDES WOULD TRY HARD TO REACH A UNANIMOUS AGREEMENT. HE REITERATED CHINA'S INTENTION TO ANNOUNCE A UNILATERAL DECISION IN SEPTEMBER OF NEXT YEAR IF NO AGREEMENT ON HONG KONG'S FUTURE HAD BEEN REACHED BY THEN. HE DESCRIBED THE BASIC PRINCIPLE OF CHINA'S FORMULA FOR HONG KONG AS "ONE STATE, TWO SYSTEMS".

3. BOTH THE INDEPENDENT AND COMMUNIST PRESS GAVE PROMINENT COVERAGE TO, BUT MADE NO FURTHER COMMENT ON AGENCY REPORTS OF DENG XIAOPING'S COMMENTS TO THE SPANISH FOREIGN MINISTER, MORAN. IN PEKING ON SUNDAY. DENG IS REPORTED TO HAVE SAID THAT

COVERAGE TO, BUT MADE NO FURTHER COMMENT ON DENYING
~~DENG XIAOPING'S COMMENTS TO THE SPANISH FOREIGN MINISTER,~~
~~MORAN, IN PEKING ON SUNDAY.~~ DENG IS REPORTED TO HAVE SAID THAT
THE QUESTION OF WHO WOULD ADMINISTER HONG KONG AFTER CHINA HAD
REGAINED SOVEREIGNTY OVER THE TERRITORY WAS NOT OPEN TO NEGOTIATION.

4. WHILST THERE HAS YET BEEN LITTLE COMMENT ON THE REMARKS
ATTRIBUTED TO EITHER DENG, AN EDITORIAL IN THE FINANCIAL DAILY
(INDEPENDENT) TODAY ARGUED THAT DENG XIAOPING AND DENG LIQUN'S
REMARKS SHOWED THAT CHINA HAD "STUDIED THE NEW PROPOSALS" AND
THAT THE SINO-BRITISH TALKS WERE MAKING GOOD PROGRESS.

5. BOTH THE INDEPENDENT AND COMMUNIST PRESS GAVE SOME PROMINENCE
TO DR HENRY KISSINGER'S COMMENT (IN AN ADDRESS TO THE HONG KONG
TRADE FAIR SEMINAR) THAT THE U.S. SHOULD STEER CLEAR OF ANY
INVOLVEMENT IN THE DISCUSSIONS OVER HONG KONG'S FUTURE. THIS WAS
STRICTLY A MATTER FOR THE CHINESE AND BRITISH GOVERNMENTS. HOWEVER,
HE DID EXPRESS HIS CONFIDENCE THAT A SOLUTION COULD BE FOUND.
THE NEW EVENING POST (COMMUNIST) PLAYED UP KISSINGER'S REPORTED
REMARK THAT CHINA WAS NOT IN THE HABIT OF BREAKING ITS PROMISES.

YOUDE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1110 OF 29 OCTOBER

INFO IMMEDIATE HONG KONG

ms

Prime Minister

Quite encouraging.

W. N. C.

FUTURE OF HONG KONG: DINNER WITH YAO GUANG

1. I HAD DINNER WITH YAO GUANG ON 28 OCTOBER. MRS ZHANG, HIS INTERPRETER, WAS THE ONLY OTHER PERSON PRESENT. THE FOLLOWING WERE THE MAIN POINTS IN A LONG TALK.

THE PREMISE

2. AS EXPECTED, YAO WENT OVER THE GROUND AGAIN, NOTING STRONG POSITIVE ELEMENTS IN THE PRIME MINISTER'S MESSAGE, BUT OTHER AREAS WHICH RAISED QUESTIONS, EG THE EXPRESSION OF CONTINUED PREFERENCE FOR BRITISH ADMINISTRATION AS THE BEST AND SUREST BASIS FOR PROSPERITY. HE ASKED COULD WE NOT HAVE AN AGREEMENT THAT WE WERE PROCEEDING ON THE CHINESE PREMISE? THEN THINGS WOULD BE MUCH EASIER.

3. I REPLIED AS DURING THE LAST ROUND, STRESSING THAT WE WERE READY TO PROCEED ON CHINESE PROPOSALS AND THESE WERE, AS THE CHINESE EXPLAINED, INDISSOLUBLY LINKED TO THE PREMISE. I ALSO POINTED OUT THE CONSTITUTIONAL RESTRAINTS ON THE PRIME MINISTER. A CLEAR AFFIRMATION OF THE CHINESE PREMISE WOULD MEAN THAT THE

~~FOUNDED OUT THE CONSTITUTIONAL RESTRAINTS ON THE PRIME MINISTER.~~
A CLEAR AFFIRMATION OF THE CHINESE PREMISE WOULD MEAN THAT THE PRIME MINISTER WOULD HAVE UNCONDITIONALLY TO AGREE TO A TRANSFER OF SOVEREIGNTY OVER HONG KONG. BUT SOVEREIGNTY DID NOT LIE IN HER GIFT. ITS TRANSFER COULD ONLY BE DECIDED BY PARLIAMENT. IF SHE TRIED TO PREEMPT PARLIAMENT ON THIS ISSUE, WHICH OF COURSE SHE WOULD NOT DO, SHE WOULD LOSE ANY CHANCE OF GAINING ACCEPTANCE BY PARLIAMENT OF ANY PROPOSALS. ON THE OTHER HAND, AS THE MESSAGE MADE CLEAR, IF AN ACCEPTABLE PACKAGE COULD BE AGREED HMG WOULD RECOMMEND THESE ARRANGEMENTS TO PARLIAMENT AND WOULD DO THEIR UTMOST TO HELP OVER THEIR INTRODUCTION AND IMPLEMENTATION. OUR GOOD FAITH WAS CLEAR. THE CHINESE SHOULD NOT ASK THE IMPOSSIBLE.

4. YAO GAVE THE IMPRESSION THAT HE WAS NOT TOO SURPRISED OR DISCONTENTED WITH THIS AND THAT HIS ENQUIRY HAD BEEN MAINLY FOR THE RECORD. THE REST OF HIS REMARKS INDICATED READINESS FOR CONSTRUCTIVE TALKS.

WAY FORWARD

5. ASKED MY VIEWS ON HOW WE SHOULD PROCEED, I REFERRED TO MY IDEAS GIVEN HIM ON 20 OCTOBER ON A STEP BY STEP APPROACH MOVING FROM EASIER TO MORE DIFFICULT AREAS. I ADDED THAT WE WOULD SOON LET HIM HAVE INFORMAL WORKING PAPERS ON THE LEGAL AND FINANCIAL SYSTEMS. THESE WERE DESIGNED TO EXPLORE AND EXPAND ON CHINESE IDEAS ON THE BASIS DESCRIBED IN THE PRIME MINISTER'S MESSAGE. THEY WERE NOT INTENDED AS A DRAFT OF PARTS OF THE FINAL AGREEMENT, BUT SIMPLY TO LIST POINTS WHICH, IN OUR VIEW, WOULD NEED TO BE COVERED IN THE FINAL AGREEMENT. THEY WERE NOT NECESSARILY EXCLUSIVE AND OTHER POINTS COULD WELL EMERGE DURING DISCUSSION. THE CHINESE WOULD FIND THAT OUR PAPERS KEPT WITHIN THE FRAMEWORK SET BY THE CHINESE PROPOSALS.

6. YAO EXPRESSED INTEREST AND ASKED HOW MANY PAPERS WE INTENDED SUBMITTING. I SAID WE WERE NOT SURE YET BUT MADE IT CLEAR WE WISHED TO DISCUSS ONE AT A TIME AND THEN MOVE ON.

7. YAO RETURNED TO THIS POINT SEVERAL TIMES IN THE EVENING BEFORE FINALLY SUGGESTING THAT THERE WERE TWO BROAD METHODS OF PROCEEDING, ONE AS I HAD PROPOSED AND AN ALTERNATIVE UNDER WHICH THE CHINESE SIDE WOULD FURTHER ELABORATE ITS POLICIES. IT MIGHT THEN NOT BE NECESSARY TO TAKE ONE AREA AT A TIME. THERE COULD BE AN OVERALL DISCUSSION. THIS WOULD BE QUICKER AND WOULD AVOID OUR GETTING BOGGED DOWN IN DETAIL.

8. I ARGUED STRONGLY IN FAVOUR OF OUR PROPOSAL ON THE GROUNDS THAT IT WAS MORE SYSTEMATIC, THAT WE NEEDED TO BUILD UP CONFIDENCE, THAT ON MANY AREAS OUR THINKING WAS NOT YET COMPLETE. I SAW LITTLE RISK OF OUR GETTING BOGGED DOWN IN DETAIL. THE WORKING PAPERS WOULD NOT BE PARTICULARLY DETAILED. OUR SPEED WOULD DEPEND ON CHINESE REACTIONS, BUT THERE SHOULD BE NO DIFFICULTY IN PUTTING UP OUR BUILDING RAPIDLY FLOOR BY FLOOR. IN ANY CASE, THE TWO METHODS WERE NOT NECESSARILY WHOLLY INCOMPATIBLE: WE WOULD ALWAYS WELCOME FURTHER CHINESE ELABORATION ON THEIR PLANS.

9. YAO EVENTUALLY LEFT IT THAT AFTER WE HAD PRESENTED OUR FIRST TWO PAPERS WE MIGHT HAVE ANOTHER INFORMAL MEETING. AT THIS WE COULD DECIDE HOW TO PROCEED. HE PRESSED FOR OUR PAPERS AS SOON AS POSSIBLE. I SAID I HOPED TO LET HIM HAVE THE TWO ALREADY MENTIONED IN THE WEEK BEGINNING 30 OCTOBER. HE AGREED TO HAVE A MEAL WITH ME AT A TIME TO BE DECIDED IN THE WEEK BEGINNING 6 NOVEMBER.

FINAL AGREEMENT

10. ASKED HOW I SAW THE FINAL AGREEMENT, I SAID WE HAD NOT REACHED ANY FIRM IDEAS YET, BUT I NOTED THAT BOTH SIDES AGREED THAT NEGOTIATIONS MUST CONCLUDE WITH A BILATERAL AGREEMENT. I CITED DENG'S REMARK TO MR HEATH THAT THE NEGOTIATIONS WOULD CONCLUDE WITH A 'BINDING AGREEMENT'. YAO AGREED.

11. YAO SAID THAT THE AGREEMENT SHOULD NOT HAVE TOO MUCH DETAIL. IT SHOULD MERELY LAY DOWN BROAD PRINCIPLES. HONG KONG WAS GOING TO HAVE A HIGH DEGREE OF AUTONOMY. WE SHOULD NOT TRY TO TIE IT DOWN TOO MUCH IN ADVANCE. I SAID THIS WAS ALL VERY WELL BUT THE INITIAL SYSTEM MUST BE LAID DOWN IN SOME DETAIL. THIS DETAIL WOULD BE VERY NECESSARY FOR CONFIDENCE.

BRITISH ROLE

12. YAO SAID HE HAD ASKED THE FOREIGN MINISTER ABOUT HIS TALK WITH THE SECRETARY OF STATE IN NEW YORK. WU HAD SAID THAT HONG KONG WAS A CAPITALIST SYSTEM IN WHICH THE BRITISH HAD EXPERIENCE. MOREOVER, HONG KONG AND BRITAIN HAD HISTORICAL LINKS. ON THE PREMISE THAT SOVEREIGNTY AND ADMINISTRATION WOULD PASS TO CHINA, CHINA WAS WILLING TO COOPERATE WITH BRITAIN. I SAID WU HAD PUT IT WELL. WE NATURALLY HOPED TO HAVE A CONSIDERABLE ROLE, BUT ALWAYS CONSISTENT WITH THE CHINESE PROPOSALS. THE MORE THE BRITISH WERE SEEN TO BE ASSOCIATED WITH THE NEW ARRANGEMENTS, THE GREATER CONFIDENCE THERE WOULD BE. SECONDMENT OF BRITISH PERSONNEL TO IMPORTANT HONG KONG GOVERNMENT POSTS WOULD ASSIST.

~~GREATER OVERLAP THERE WOULD BE. SECONDMENT OF BRITISH PERSONNEL TO IMPORTANT HONG KONG GOVERNMENT POSTS WOULD ASSIST.~~
THIS SHOULD OF COURSE BE AT THE REQUEST OF THE GOVERNMENT OF THE SPECIAL ATUONOMOUS REGION (SAR) AND UNDER THE ADMINISTRATION OF THE HEAD OF THE SAR GOVERNMENT. I INSTANCED THE POSTS OF ATTORNEY-GENERAL AND COMMISSIONER OF POLICE. YAO ASKED WHETHER THIS WAS AN EXCLUSIVE LIST. I SAID THESE WERE MERELY ILLUSTRATIVE EXAMPLES. HE NOTED THAT WE ATTACHED IMPORTANCE TO THE BRITISH ROLE AND SAID CHINA WOULD REFLECT ON THE QUESTION. HE THANKED ME FOR MY FRANKNESS. IT WAS RIGHT THAT WE SHOULD SAY WHAT WE WANTED. HE HOPED WE WOULD NOT DELAY IN PUTTING FORWARD OUR CONSIDERED VIEWS ON THIS ISSUE.

GUARANTEES

13. IN ANSWER TO MY QUESTION YAO CONFIRMED THAT THE CHINESE PRINCIPLE WAS LITTLE OR NO CHANGE. HE REFERRED TO THE 50-YEAR ASSURANCE. AT FIRST THEY HAD THOUGHT OF AN ASSURANCE OF NO CHANGE "FOR A LONG PERIOD", BUT IT WAS FELT THIS WAS NOT SPECIFIC ENOUGH. I SAID I ASSUHD THIS DID NOT PREVENT THE SYSTEM FROM LASTING OVER 50 YEARS. HE SAID WHAT WAS MEANT WAS "AT LEAST (QI MA) 50 YEARS". HE VOLUNTEERED THAT PEOPLE HAD DOUBTS BECAUSE OF CHINA'S CHANGES OF POLICY OVER THE LAST 30 YEARS, BUT ARGUED THAT NOW ALL WAS DIFFERENT. CURRENT POLICY WOULD LAST. THE CHINESE COMMUNIST PARTY INTENDED THE CAPITALIST SYSTEM TO OBTAIN AND PERSIST IN HONG KONG. THEY WERE NOT A NARROW-MINDED PARTY, THEY HAD CREATIVITY AND IMAGINATION. I SAID THESE LAST TWO QUALITIES WOULD BE NEEDED IN ABUNDANCE IN THE ARRANGEMENTS FOR HONG KONG, SINCE WE WERE EMBARKED ON AN UNPRECEDENTED EXPERIMENT ARRANGING FOR A CAPITALIST ENCLAVE TO ENDURE AGAINST A SOCIALIST MAINLAND.

14. YAO WENT ON TO SAY THAT PEKING WOULD NOT SEND MEN TO GOVERN HONG KONG. THAT WOULD BE LEFT TO THE HONG KONG PEOPLE. THE HONG KONG GOVERNMENT WOULD EMERGE AS A RESULT OF EITHER CONSULTATION OR ELECTION IN HONG KONG. PEKING WOULD NOT APPOINT BUT WOULD MERELY APPROVE. I SAID THIS WAS IMPORTANT AND SHOULD BE VERY CLEARLY STATED.

LEGAL SYSTEM

15. YAO SAID THE ONLY CHANGES CONTEMPLATED WERE THE REMOVAL OF APPEALS TO THE PRIVY COUNCIL AND CHANGES IN "COLONIAL LAWS". IN ANSWER TO MY QUESTION HE SAID THIS LAST MEANT NOMENCLATURE RATHER THAN SPECIFIC LAWS.

COMMENT

16. THIS WAS A USEFUL CONVERSATION AND ENABLED US TO OBTAIN CLARIFICATION ON IMPORTANT POINTS EG PARAS 13 AND 14.

THE CHINESE ARE STILL RELUCTANT TO TACKLE DETAILED WORK STEP BY STEP. PRESUMABLY THEY WOULD LIKE US TO LAY ALL OUR CARDS ON THE TABLE FIRST, AS THEY CLAIM THEY THEMSELVES HAVE DONE. THERE IS ALSO A SHRINKING FROM DETAIL OF ANY KIND (PARA 11). THIS IS WORRYING AND MUST BE COUNTERED. BUT WE SHALL SEE MORE CLEARLY WHAT YAO'S REACTION IS AT THE NEXT INFORMAL MEETING. THE FASTER WE CAN GET ON WITH OUR DETAILED WORK THE BETTER.

CRADOCK

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Foreign and Commonwealth Office

London SW1A 2AH

28 October 1983

Type letter pl.

HR 23/100.

Dear John,

Letter to the Prime Minister from Mr Trudeau: Hong Kong

You wrote on 21 October enclosing a copy of the Canadian High Commissioner's letter of the same date to the Prime Minister, and asking for a draft reply to the message from Mr Trudeau about Hong Kong which it conveyed.

I enclose the draft of a reply for signature by the Prime Minister.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
The Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:
Right Honourable Pierre Elliott Trudeau PC: MP

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

I was most grateful for your message passed to me by your High Commissioner on 21 October. *And thank you* ~~I was deeply~~ *to* ~~touch~~ed by your kind words about my visit to Canada. ~~For my part,~~ I greatly enjoyed my stay and found our discussions most valuable.

I was interested by ~~your account of~~ Chinese Foreign Minister Wu Xueqian's recent comments to you about Hong Kong. As you ~~surmised~~ *suggest*, they broadly reflect what we know already of China's plan for Hong Kong as a Special Administrative Region of China. There are, however, one or two interesting differences of emphasis which ~~further~~ *fully* underline our belief that the Chinese have not ~~thought~~ through their plan.

The latest round of Sino-British talks on Hong Kong, which took place on 19/20 October, was an encouraging one. Confidence in Hong Kong was strengthened by the joint statement which described the round as useful and constructive. The next session will be held on 14 and 15

Enclosures—flag(s).....

HONG KONG: Future dr: Pt 9.

SECRET

November, again in Peking. I believe that we have made progress in persuading the Chinese to get down to more practical discussions of concrete questions. ^{We} I shall ~~of~~ ^{keep we} ~~course ensure that your Government are kept~~ in the picture as the talks proceed, in particular with a view to Premier Zhao Ziyang's visit to Canada in January.

WZ 31/10.

28 OCT 1983



SECRET

CONFIDENTIAL

Cc MA



Hayley

Foreign and Commonwealth Office

London SW1A 2AH

28 October 1983

A.S.C. ⁿ/_w.
h.a.

Dear John,

The enclosed notes have been prepared for Mr Michael Alison MP, who is to talk to Mr Robert Adley MP on Monday in advance of the adjournment debate.

You might wish to pass a copy now to Mr Alison. The notes have not yet been seen by Sir Geoffrey Howe or Mr Luce, but copies are being passed to them this evening, and if they have any comments I will pass them to you first thing on Monday morning.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

HONG KONG

POINTS TO MAKE

1. Hong Kong sensitive issue at the moment. Complex negotiations taking place between Britain and China. Confidence in Hong Kong fragile. Aware of strong feelings that it arouses and in particular of Mr Adley's own views.

2. No-one in any doubt about importance of our relations with China. A successful outcome to the Hong Kong negotiations would strengthen these. No less important to obtain solution acceptable to people of Hong Kong. Only sensible to leave negotiating tactics to the negotiators.

What is important is the whole package on which, at the end of the day, Parliament would have to pronounce.

3. Ministers attach great importance to talks taking place in calmest possible atmosphere. Essential not to send signals from here which could undermine confidence in Hong Kong and mislead the Chinese, thereby making any settlement that much harder.

4. Hope these points will be borne in mind in handling of tonight's debate. No objection at all to subject being raised in the House. But constructive line important so as to avoid any risk of damaging atmosphere for next round of talks in Peking on 14/15 November. As you will have seen the last round on 19/20 October was described by both sides as useful and constructive.

[IF ASKED WHY TALKS ARE CONFIDENTIAL: WHY MPs BROUGHT NOT MORE INTO THE PICTURE?]

5. Know you have talked to Richard Luce about this; nothing to add to what has been already said, except to say that any negotiation if it to be successful is better conducted in private and that any agreement reached will of course be put to the House for endorsement when MPs will have every opportunity to comment.



BACKGROUND

- /
1. The attached note gives general background on the talks on the future
 2. Mr Adley, who is Chairman of the Anglo-Chinese Parliamentary group has tended to take the following line:
 - (a) that Hong Kong must not be allowed to become irritant in Britain's relations with China.
 - (b) That HMG should acknowledge now that China has sovereignty over the whole of Hong Kong and negotiate on this basis.He has recently made these views known in letters to Ministers and in interviews to the media.
 3. As far as the debate is concerned, Mr Adley has kept in regular touch with Mr Luce's PPS (Mr Colvin) and has said that he intends to take a constructive line. The message is, nevertheless, worth re-enforcing.

BACKGROUND NOTE ON THE FUTURE OF HONG KONG

1. The Prime Minister visited China and Hong Kong in September 1982.

2. During her visit to China, the first ever by a British Prime Minister in office, one of the subjects discussed was Hong Kong. The following statement was issued after a meeting between Mrs Thatcher and Chairman Deng Xiaoping on 24 September:

"Today the leaders of both countries held far-reaching talks in a friendly atmosphere on the future of Hong Kong. Both leaders made clear their respective positions on this subject.

They agreed to enter talks through diplomatic channels following the visit with the common aim of maintaining the stability and prosperity of Hong Kong".

3. Meetings in Peking to follow up the Prime Minister's visit began soon afterwards and are continuing. On 1 July the following statement was issued in Peking, London and Hong Kong:

"Following the discussions between the leaders of the two countries in September 1982 and subsequent useful exchanges, it has been agreed that a second phase of the talks on the future of Hong Kong will begin in Peking on 12 July 1983".

4. As part of the second phase, talks were held in Peking on 12/13 July, 25/26 July, 2/3 August, 22/23 September and 19/20 October. The following statement was issued there on 20 October.

"The Chinese and British sides held useful and constructive talks on October 19th and 20th. It was agreed that the next round of talks will be held on

November 14th and 15th in Peking."

5. The content of all these talks is confidential. The extent and level of Hong Kong's participation on the British side is decided in accordance with the requirements of the talks but the Governor of Hong Kong is being consulted throughout. He has participated in all the sessions since July. As the Prime Minister made clear in Hong Kong in September 1982, the views of the people of Hong Kong are being taken into account.

6. HMG's aim in the talks is to reach a solution that is acceptable to the British and Chinese Governments and to the people of Hong Kong. We are not making any rigid preconditions as to how this might be achieved and are receptive to any proposals that would meet these criteria. We are concentrating on the talks and do not regard their outcome as prejudged by anything that may be said outside.

Hong Kong Department
FOREIGN AND COMMONWEALTH OFFICE
20 October 1983

28 OCT 1983



IMMEDIATE
ADVANCE COPY

PS
PS/PUS
PS/MR LUCE
MR DONALD
HD/HKD
HD/FED

COPY TO:
MR COLES, No. 10 DOWNING ST

MR ROBERTS NEWS

CONFIDENTIAL
FM HONG KONG 281015Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1630 OF 28 OCTOBER
INFO IMMEDIATE PEKING

A.T.C. 28/10
h.a.

MY TELNO 1621: KMT ACTIVITIES IN HONG KONG.

1. LI CHUWEN (DEPUTY DIRECTOR, NCNA) ASKED TO SEE THE POLITICAL ADVISER AT VERY SHORT NOTICE THIS AFTERNOON. HE HAD NOT PREVIOUSLY PAID SUCH A CALL.

2. LI SAID HE HAD BEEN ASKED TO MAKE ORAL REPRESENTATIONS AND DID NOT LEAVE A SPEAKING NOTE. HE MADE THE FOLLOWING MAIN POINTS:
(i) DESPITE THE PREVIOUS REPRESENTATIONS MADE BY NCNA IT APPEARED FROM THE PRESS THAT CHOW HING-CHUEN'S RALLY ON 30 OCTOBER WAS GOING AHEAD. NCNA HAD ALSO LEARNED THAT HE WAS PLANNING A RALLY IN YUEN LONG ON 29 OCTOBER AND A FURTHER MEETING AT THE END OF THE YEAR, AND THAT HE INTENDED TO DISTRIBUTE LEAFLETS AND OTHER MATERIAL AT MTR STATIONS AND OTHER PUBLIC PLACES. ALL THIS AMOUNTED TO AN ESCALATION AND INTENSIFICATION OF PRO-KMT ACTIVITIES IN HONG KONG.

(ii) THESE ACTIVITIES WERE SUPPORTED OR CONNIVED AT BY "SOME PEOPLE" (BY IMPLICATION OFFICIALS).

(iii) IN THE PAST THE HONG KONG GOVERNMENT HAD COOPERATED IN PROHIBITING OR RESTRICTING THE ACTIVITIES OF THE KMT IN HONG KONG. LI WAS BOUND TO ASK WHETHER THIS POLICY HAD NOW CHANGED.

(iv) IF THERE HAD BEEN SUCH A CHANGE THERE WOULD BE UNFORTUNATE IMPLICATIONS NOT ONLY FOR THE TALKS ON THE FUTURE BUT ALSO FOR SINO-BRITISH RELATIONS MORE GENERALLY.

3. MCLAREN SAID THAT HE HAD THAT MORNING SEEN A REPORT OF A CONVERSATION ON THIS SUBJECT BETWEEN THE WESTERN EUROPEAN DEPARTMENT OF THE FOREIGN MINISTRY IN PEKING AND THE COUNSELLOR AT THE BRITISH EMBASSY. HE NOTED THAT LUO JIAHUAN HAD SPOKEN IN VERY SIMILAR TERMS TO TAN GAN WHEN THE LATTER HAD RAISED THE MATTER WITH HIM PREVIOUSLY. HE WAS DISAPPOINTED THAT NO ACCOUNT APPEARED TO HAVE BEEN TAKEN OF THE EXPLANATIONS WHICH HE HAD GIVEN, AND THAT LUO HAD REPEATED THE POINTS ABOUT LARGE SCALE ATTENDANCE AT THE PLANNED 30 OCTOBER RALLY AND INVITATIONS TO HONG KONG GOVERNMENT OFFICIALS AND UMELCO MEMBERS WHICH HE THOUGHT HE HAD DISPOSED OF.

4. THE POLITICAL ADVISER MADE THE FOLLOWING COMMENTS ON LI'S SPECIFIC POINTS:

(A) HE KNEW NOTHING ABOUT A RALLY IN YUEN LONG ON 29 OCTOBER OR OF A FURTHER RALLY BEING PLANNED FOR THE END OF THE YEAR. HE WOULD INVESTIGATE. BUT HE DID NOT AGREE THAT CHOW'S MEETINGS AMOUNTED TO AN EXCALATION OF PRO-KMT ACTIVITY. THEY SHOULD BE KEPT IN PERSPECTIVE.

(B) AS HE HAD PREVIOUSLY EXPLAINED NO SENIOR GOVERNMENT OFFICIALS, EXCO OR LEGCO MEMBERS HAD ATTENDED ANY OF CHOW'S MEETINGS OR WERE LIKELY TO DO SO. HE THEREFORE DID NOT UNDERSTAND LI'S REFERENCE TO

(B) AS HE HAD PREVIOUSLY EXPLAINED NO SENIOR GOVERNMENT OFFICIALS, EXCO OR LEGCO MEMBERS HAD ATTENDED ANY OF CHOW'S MEETINGS OR WERE LIKELY TO DO SO. HE THEREFORE DID NOT UNDERSTAND LIA'S REFERENCE TO PEOPLE WHO WERE SUPPORTING OR CONNIVING AT CHOW'S ACTIVITIES. WHO DID HE MEAN? IN RESPONSE LIA SAID HE WOULD TAKE MCLAREN'S WORD AS REGARDS OFFICIALS AND UMELCO MEMBERS. HE THEN CLAIMED THAT MR JOHN WALDEN (A RETIRED FORMER SENIOR GOVERNMENT OFFICIAL NOW LIVING IN HONG KONG) HAD SIGNED ONE OF CHOW'S PETITIONS AND HAD SPOKEN AT A MEETING. MCLAREN SAID THAT WALDEN WAS A PRIVATE CITIZEN WHO NO LONGER HAD ANY CONNECTION WITH THE GOVERNMENT. HE DID NOT HOWEVER BELIEVE THAT WALDEN WOULD GET INVOLVED IN PRO-TAIWAN ACTIVITIES.

(C) HMG RECOGNISED ONLY ONE CHINESE GOVERNMENT, THAT OF THE PRC. AS NCNA KNEW, THE HKG HAD NO DESIRE TO SEE HONG KONG USED AS A BASE FOR KMT ACTIVITIES AND HAD BEEN QUICK TO PUT A STOP TO THOSE WHICH WERE ILLEGAL. THERE HAD BEEN NO CHANGE WHATSOEVER IN THE POLICY CONSISTENTLY PURSUED BY THE HONG KONG GOVERNMENT IN THIS RESPECT. BUT IT WAS VERY DIFFICULT TO TAKE ACTION AGAINST PEOPLE WHO STAYED WITHIN THE LAW, HOWEVER MUCH WE MIGHT DISAPPROVE OF THE OPINIONS THEY EXPRESSED.

(D) MCLAREN REPEATED THAT CHOW'S ACTIVITIES WERE ON A VERY SMALL SCALE AND SHOULD BE KEPT IN PERSPECTIVE. IN THE LIGHT OF HIS EXPLANATIONS HE SAW NO REASON WHY A PERIPHERAL MATTER OF THIS KIND SHOULD SOUR THE ATMOSPHERE FOR THE TALKS OR AFFECT SINO-BRITISH RELATIONS.

5. IN FURTHER DISCUSSION TAN GAN, WHO ACCOMPANIED LIA, CLAIMED THAT DESPITE ANNUAL REPRESENTATIONS FROM NCNA, THE HONG KONG GOVERNMENT HAD NEVER DONE ANYTHING TO STOP THE DISPLAY OF NATIONALIST FLAGS ON THE DOUBLE TENTH. THERE MIGHT HAVE BEEN FEWER OF THESE IN THE MAIN URBAN AREAS THIS YEAR BUT THEY WERE JUST AS NUMEROUS AS EVER IN PUBLIC HOUSING ESTATES AND SUCH PLACES AS YUEN LONG. MCLAREN COMMENTED THAT AS NCNA KNEW WE PROHIBITED THE DISPLAY OF NATIONALIST FLAGS IN PUBLIC PREMISES UNDER THE CONTROL OF THE HONG KONG GOVERNMENT. THERE WAS NOTHING WE COULD DO UNDER THE LAW ABOUT THEIR DISPLAY ON PRIVATE PREMISES.

6. COMMENT. THIS WAS A FORCEFUL EXCHANGE BUT DOES NOT AFFECT THE RECOMMENDATION IN MY TEL UNDER REF FOR THE LINE WHICH THE EMBASSY SHOULD TAKE IN RESPONSE TO LUO JINHUAN. SHOULD LUO RAISE THE MEETING IN YUEN LONG ON 29 OCTOBER, WE HAVE ESTABLISHED THAT IT IS BEING HELD ON PRIVATE PREMISES (THE PLAYGROUND OF A PRO-KMT SCHOOL). NO POLICE PERMISSION IS REQUIRED FOR SUCH MEETINGS.

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RE ROBERTS NEWS

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FM HONG KONG 280750Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1621 OF 28 OCTOBER

INFO IMMEDIATE PEKING

A.J.C. - 28/10

YOUR TELNO 1108: KMT ACTIVITIES IN HONG KONG

1. CHOW HING-CHUEN AND HIS QUOTE WANDERERS ASSOCIATION UNQUOTE HAVE BEEN THE SUBJECT OF THREE SEPARATE REPRESENTATIONS BY NCNA SINCE THE FORMER'S RALLY ON 25 SEPTEMBER. ON 28 SEPTEMBER NCNA CALLED ON THE ASSISTANT POLITICAL ADVISER AND ON 12 AND 25 THE POLITICAL ADVISER. ON EACH OCCASION NCNA HANDED OVER SPEAKING NOTES ALONG THE LINES OF LUO'S REMARKS TO GALS WORTHY (PEKING TELNO 1096). THEY ALSO SOUGHT AN ASSURANCE THAT CHOW WOULD BE REFUSED PERMISSION FROM THE POLICE TO STAGE HIS PLANNED RALLY ON 30 OCTOBER.

2. IN REPLY TO NCNA WE HAVE STRESSED THE FOLLOWING POINTS:

A) WHILE THE HONG KONG AUTHORITIES DEALT PROMPTLY AND APPROPRIATELY WITH THOSE WHO BROKE THE LAW, CHOW'S RALLIES WERE NOT ILLEGAL, AND PERMISSION FROM THEM COULD NOT LAWFULLY BE WITHHELD.

B) MANY MEETINGS WERE HELD IN HONG KONG SOME OF WHICH WERE TO PROTEST AGAINST GOVERNMENT ACTIONS OR LACK OF ACTION. THE POLICE WERE OBLIGED TO GRANT PERMISSION PROVIDED THE PURPOSE OF THE MEETING WAS LAWFUL. THE GRANTING OF PERMISSION DID NOT IN ANY WAY IMPLY GOVERNMENT APPROVAL.

C) CHOW AND HIS ACTIVITIES COULD BE KEPT IN PERSPECTIVE. HE SPOKE FOR HIMSELF AND HAD LITTLE INFLUENCE.

D) WHATEVER INVITATIONS CHOW MAY HAVE ISSUED, NO SENIOR HKG OFFICIALS OR UMELCO MEMBERS HAD ATTENDED HIS RALLIES IN THE PAST. WE DID NOT EXPECT ANY TO ATTEND ON 30 OCTOBER.

E) EVEN IF SUCH ACTION WERE POSSIBLE, TO RESCIND PERMISSION FOR THE RALLY AT THIS STAGE WOULD RESULT IN MORE PUBLICITY FOR CHOW AND HIS VIEWS THAN IF THE RALLY WENT AHEAD.

3. THE COMMISSIONER OF POLICE HAS POWER TO PROHIBIT A PUBLIC MEETING UNDER THE PUBLIC ORDER ORDINANCE (CAP 245). HE MUST DO SO WITHIN FOUR DAYS OF PROPER NOTIFICATION AND THEN ONLY ON LIMITED GROUNDS (E.G. IF PUBLIC ORDER MIGHT BE PREJUDICED OR THE MEETING USED FOR AN UNLAWFUL PURPOSE). AT THIS STAGE IT WOULD NOT (NOT) BE POSSIBLE TO RESCIND THE PERMISSION GRANTED TO CHOW FOR HIS RALLY

FOUR DAYS OF PROPER NOTIFICATION AND THEN ONLY ON LIMITED GROUNDS (E.G. IF PUBLIC ORDER MIGHT BE PREJUDICED OR THE MEETING USED FOR AN UNLAWFUL PURPOSE). AT THIS STAGE IT WOULD NOT (NOT) BE POSSIBLE TO RESCIND THE PERMISSION GRANTED TO CHOW FOR HIS RALLY ON 30 OCTOBER. THE RALLY ON 25 SEPTEMBER ATTRACTED ONLY SOME 300 PEOPLE AND WAS NEVER A THREAT TO PUBLIC ORDER.

4. IN THEIR SUBSTANTIVE REPLY, THE EMBASSY COULD REPEAT GALSWORTHY'S PRELIMINARY REMARKS (PEKING TELNO 1096) AND DRAW ON PARAGRAPHS 2 AND 3 ABOVE. THEY MIGHT ADD THAT, AS LUO JIAHUAN WILL KNOW, RALLIES AND MEETINGS ARE HELD IN HONG KONG ALL THE TIME. SOME, FOR EXAMPLE THOSE ORGANISED AT THE TIME OF THE QUOTE JAPANESE SCHOOL TEXT BOOKS UNQUOTE ISSUE OR THE RECENT ANTI-PRICE RISE RALLIES, HAVE BEEN VERY LARGE. PERMISSION TO HOLD THEM HAS NONE THE LESS BEEN GIVEN. BY COMPARISON, CHOW'S AFFAIRS ARE VERY SMALL BEER. THEY HAVE ATTRACTED VERY LITTLE PUBLIC ATTENTION. IN SPITE OF CHOW'S CLAIMS THAT SEVERAL THOUSAND PEOPLE ATTEND (PARA 1 OF PEKING TELEGRAM UNDER REFERENCE), WE HAVE NO REASON TO BELIEVE THAT THIS RALLY WILL BE ANY BETTER ATTENDED THAN THE PREVIOUS ONE.

5. FOR YOUR INFORMATION, WE SHALL TAKE INTO ACCOUNT CHINESE SENSITIVITIES AS REVEALED BY NCHA'S AND THE MFA'S REPRESENTATIONS WHEN CONSIDERING ANY FUTURE APPLICATIONS FROM CHOW. BUT WE WILL NOT NECESSARILY REACH DIFFERENT CONCLUSIONS.

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DESKBY 271200Z (FCO)

DESKBY 280100Z (HONG KONG)

FROM PEKING 27101TZ OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1095 OF 27/10/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

HONG KONG TELS NOS 1609 AND 1610: FUTURE OF HONG KONG: EXCO

See attached telegram

1. I AM DISTURBED AT THE DEVELOPMENTS IN EXCO AND THEIR IMPLICATIONS FOR THE FUTURE OF THE INITIATIVE WHICH WE HAVE JUST BEGUN WITH THE PRIME MINISTER'S MESSAGE.
2. THE FACT IS THAT SIR S Y CHUNG AND COLLEAGUES ARE NOW ADVOCATING A COURSE DIRECTLY CONTRARY TO THAT WHICH THEY ENDORSED TWO WEEKS AGO IN LONDON AFTER FULL CONSULTATIONS WITH MINISTERS. WE ARE COMMITTED TO BUILD THE MOST WE CAN ON THE CHINESE PROPOSALS. S Y AND COMPANY ARE SEEKING EARLY CONFRONTATION. THIS IS NOT A TENABLE POSITION GIVEN THE MINISTERIAL DECISION AND EXCO'S ENDORSEMENT OF IT AND I AM SURE THAT THE GOVERNOR WILL CONSTANTLY REMIND THEM OF THIS CONTRADICTION, AS HE DID AT THE LAST MEETING.
3. I AM ALSO CONCERNED AT THE IMPLICATIONS OF THE GOVERNOR'S SUGGESTION THAT EXCO SHOULD BE SHOWN ALL THE WORKING PAPERS AND GIVEN AN OPPORTUNITY TO COMMENT ON THEM BEFORE THEY ARE GIVEN TO THE CHINESE. AS I UNDERSTAND IT, MINISTERS DECIDED (YOUR TEL NO 718) THAT THE TEXT NEED NOT BE CLEARED TEXTUALLY BY EXCO. PROVIDED THAT EXCO ENDORSE THE GAME PLAN IN GENERAL YOU WILL BE FREE TO GO AHEAD WITH THE PRESENTATION TO THE CHINESE OF INFORMAL WORKING PAPERS AS SOON AS FINAL VERSIONS ARE AGREED. THE EFFECT OF NONETHELESS PUTTING PAPERS BEFORE THEM AND GETTING THEIR COMMENTS BEFORE WE TAKE ACTION WILL BE TO FACE US WITH A CHOICE OF EITHER ACCEPTING EXCO'S COMMENTS, WITH SERIOUS RISK TO THE PAPERS, OR DISREGARDING EXCO'S VIEWS HAVING JUST SOLICITED THEM.

SECRET

/ 4. MORE

4. MORE SPECIFICALLY, I FEAR THAT S Y CHUNG AND SOME OTHERS IN THEIR PRESENT MOOD WILL OBJECT TO THOSE ELEMENTS OF THE WORKING PAPERS THAT ARE SPECIFICALLY DESIGNED TO FIT WITH THE CHINESE PREMISE, EG THE ABOLITION OF APPEALS TO THE PRIVY COUNCIL. IT DOES NOT MAKE MUCH PRACTICAL DIFFERENCE WHETHER WE ARE ASKING FOR FORMAL ENDORSEMENT BY EXCO OR NOT. IF THEY KNOW THE PAPERS ARE BEING HELD UP UNTIL THEY HAVE COMMENTED THEY WILL BE ENCOURAGED TO TRY TO REVERSE WHAT THEY HAVE ALREADY AGREED IN LONDON. IF EXCO ADVISE AGAINST ELEMENTS OF THE PAPERS WHICH THEY DO NOT LIKE WE SHALL HAVE GREAT DIFFICULTY IN IGNORING THEIR ADVICE.

5. THE SUCCESS OF OUR PRESENT EXERCISE DEPENDS WHOLLY ON OUR BEING ABLE TO DEMONSTRATE THAT WE ARE BUILDING ON THE CHINESE PROPOSALS, AND THAT OUR WORKING PAPERS ARE CONSISTENT WITH THEM BOTH IN WHAT THEY SAY AND WHAT THEY DO NOT SAY. IF WE DEVIATE IN ANY WAY FROM THIS THE INITIATIVE STEMMING FROM THE PRIME MINISTER'S MESSAGE WILL BE STRANGLING AT BIRTH AND WE SHALL BE BACK TO THE PREMISE AND CONFRONTATION.

6. FOR THESE REASONS I STRONGLY HOPE THAT THERE WILL BE NO COMMITMENT TO HOLD UP ACTION ON OUR WORKING PAPERS UNTIL EXCO HAVE CLEARED THEM. THE INSTRUCTIONS IN YOUR TEL NO 718 WERE CLEAR THAT WE SHOULD GO AHEAD ONCE EXCO HAD APPROVED THE GENERAL LINE. HOWEVER GRUDGINGLY, THEY APPEAR TO HAVE DONE SO. I RECOGNISE THAT THE PAPERS WILL HAVE TO BE MADE AVAILABLE TO EXCO. I HAVE MUCH HOPE THAT WE SHALL ^{TELL} THEM THAT PRACTICAL CONSIDERATIONS RELATING TO THE TIMING OF MEETINGS HERE MAKE IT IMPOSSIBLE TO GUARANTEE THAT THEY WILL SEE WORKING PAPERS BEFORE THEY ARE USED. THE GOVERNOR COULD AGAIN POINT OUT THAT THE WORKING PAPERS DO NOT COMMIT US TO ANYTHING, AND ADD THAT EXCO COMMENTS, PROVIDED THAT HMG AGREED WITH THEM, WOULD BE DETAIL WITH IN LATER DISCUSSIONS WITH THE CHINESE OF THE SAME SUBJECTS. BUT I THINK IT ESSENTIAL THAT THE GOVERNOR SHOULD HAVE YOUR AUTHORITY TO REFUSE TO ENTERTAIN ANY SUGGESTION FROM EXCO ON THE PAPERS WHICH CONFLICTS WITH THE TERMS OF THE DECISION WHICH THEY ENDORSED IN LONDON. I SHOULD BE GRATEFUL FOR CONFIRMATION ON THIS POINT. S Y CHUNG AND COLLEAGUES CANNOT BE ALLOWED TO AGREE THE POLICY IN LONDON AND THEN FIGHT ITS IMPLEMENTATION IN HONG KONG. OTHERWISE THE PRESENT INITIATIVE - WHICH IS THE ONLY POSSIBLE WAY TO MAKE PROGRESS - IS BOUND TO FAIL.

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FUTURE OF HONG KONG

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HD/FED

HD/PLANNING STAFF

HD/PUSD

D/HD/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

LEGAL ADVISER(SIR IAN SINCLAIR)

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PS/LADY YOUNG

PS/MR LUCE

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PS/ATTORNEY GENERAL

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DD 280100Z PEKING

GRS 467

SECRET

DESKBY 280100Z

FM FCO 271800Z OCT 83

TO IMMEDIATE PEKING

TELEGRAM NUMBER 726 OF 27 OCTOBER

INFO IMMEDIATE HONG KONG DESKBY 280100Z

PERSONAL FOR AMBASSADOR FROM DONALD

YOUR TELNO 1095 FUTURE OF HONG KONG

A. J. C. n/w
f-a

1. GIVEN THE ABSENCE OF MINISTERS AND CURRENT PREOCCUPATION IN THE OFFICE WITH SEVERAL OTHER PRESSING TOPICS I THOUGHT IT BEST IF I REPLIED TO THE POINTS WHICH YOU RAISE.
2. I FULLY RECOGNISE THE DIFFICULTIES CAUSED BY ATTITUDES IN EXCO AT THIS STAGE OF THE TALKS. EVERYONE HERE ACCEPTS THE NEED TO KEEP UP THE MOMENTUM AND TO AVOID BEING SIDETRACKED I KNOW THAT THE GOVERNOR IS EQUALLY AWARE OF THE DIFFICULTIES AND OF THE NEED TO KEEP EXCO IN LINE. MINISTERS APPRECIATE THE SKILL WITH WHICH HE HAS HANDLED THE UNOFFICIALS BOTH DURING THEIR VISIT TO LONDON AND SUBSEQUENTLY IN HONG KONG.
3. OBVIOUSLY WE MUST DISCOURAGE SIR S Y CHUNG FROM HAMPERING THE EFFORTS OF THE NEGOTIATING TEAM TO EXPLORE WHETHER WE COULD BUILD ON THE CHINESE PROPOSALS BUT EQUALLY WE HAVE TO TREAD CAREFULLY IN ORDER TO PREVENT A CONFRONTATION WITH THE UNOFFICIALS. I AGREE THAT MINISTERS GAVE AUTHORITY FOR PAPERS TO BE PRESENTED TO THE CHINESE ONCE EXCO HAD ACCEPTED THE GAME PLAN AND ACCEPTED THAT THESE NEED NOT BE CLEARED TEXTUALLY WITH EXCO. BUT I DO NOT THINK THAT IT WOULD BE PRACTICAL POLITICS TO DECLINE TO SHOW THE PAPERS TO EXCO BEFORE THEY ARE GIVEN TO THE CHINESE GIVEN THAT THE GOVERNOR WILL HAVE TO CONTINUE HIS REPORTS TO EXCO ON EACH CONTACT WITH THE CHINESE HE WOULD BE PLACED IN AN IMPOSSIBLE POSITION IF UNOFFICIALS WERE ABLE TO SAY THAT THEY DID NOT KNOW IN ADVANCE THE GENERAL CONTENT OF THE WORKING PAPERS EXPERIENCE HAS IN FACT SHOWN THAT UNOFFICIALS REACT MORE CONSTRUCTIVELY IF THEY ARE GIVEN A SIGHT OF A PIECE OF PAPER (CF MR LUCE'S DISCUSSION ON PASSPORTS IN THE SUMMER AND THE PM'S

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DISCUSSION OF HER MESSAGE IN OCTOBER).

4. THE DISTINCTION BETWEEN SIR SY CHUNG'S VIEWS AND THOSE OF MINISTERS DOES NOT SEEM AS BLACK AND WHITE AS YOU SUGGEST CERTAINLY IT HAS BEEN AGREED THAT WE SHOULD SEE WHETHER SATISFACTORY ARRANGEMENTS CAN BE DEVISED ON THE BASIS OF THE CHINESE PROPOSALS. BUT IT IS CLEAR MINISTERS HAVE NOT NECESSARILY RULED OUT A RETURN TO OUR PREVIOUS POSITION IF THAT DOES NOT WORK. I AM NOT CONVINCED THAT IT WOULD BE HELPFUL TO PUSH SIR S Y CHUNG AND HIS SYMPATHISERS INTO A CORNER ON THIS ISSUE FROM WHICH THEY MIGHT TRY TO APPEAL TO LONDON AND REOPEN DISCUSSION WITH MINISTERS.

5. I HOPE ON REFLECTION THEREFORE THAT YOU WILL AGREE THAT WE SHOULD FOLLOW THE GENERAL TIMETABLE SUGGESTED IN HONG KONG TELNO 1610 AND THAT THE GOVERNOR SHOULD SHOW THE PAPERS TO EXCO ON THE BASIS THAT THEY CONTAIN THE GENERAL LINES OF THE MATERIAL WHICH YOU WOULD BE HANDING OVER, MAKING CLEAR THAT SINCE THEY WERE WORKING DOCUMENTS, THEY WOULD NOT COMMIT HMG OR HONG KONG AND NO FORMAL ENDORSEMENT WAS EXPECTED.

HOWE

FUTURE OF HONG KONG

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D/HD/PUSD(MR FLOWER)

RESEARCH DEPT(MR WALKER)

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RESIDENT CLERK

IMMEDIATE

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FM HONG KONG 261037Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1639 OF 26 OCTOBER

INFO IMMEDIATE PEKING

ADVANCE COPY

YOUR TELNO 718 TO PEKING: FUTURE OF HONG KONG

1. I DISCUSSED THE PROPOSED TACTICS WITH EXCO THIS MORNING. IT WAS NOT AN EASY MEETING SINCE SIR S Y CHUNG, WITH SUPPORT FROM MR T S LO, AND TO SOME EXTENT MISS DUNN ADVANCED ARGUMENTS WHICH WOULD IN AFFECT HAVE REOPENED DECISIONS TAKEN IN LONDON ON 6/7 OCTOBER. BUT THE COUNCIL EVENTUALLY ACCEPTED THAT THE NEGOTIATORS SHOULD PROCEED ON THE BASIS PROPOSED.

2. I INTRODUCED THE DISCUSSION BY SPEAKING ON THE LINES AGREED (PARA 3 OF YOUR TELEGRAM UNDER REFERENCE). IN DOING SO I OMITTED THE POINTS IN PARA 5(C) AND (D) OF MY TELNO 1581 BUT DREW ON THEM LATER IN RESPONSE TO QUESTIONS. SIR S Y CHUNG THEN READ A LENGTHY PREPARED STATEMENT, THE MAIN POINTS OF WHICH WERE:

(A) THE CHINESE PROPOSALS SEEMED GENEROUS. WHY THEN DID THE HONG KONG PEOPLE LACK CONFIDENCE IN THEM? THE ANSWER LAY IN THE POOR RECORD OF THE CHINESE COMMUNISTS, THEIR BROKEN PROMISES, THE FREQUENT CHANGES IN THE CONSTITUTION, AND THEIR FAILURE TO IMPLEMENT THE PROVISIONS OF THE EXISTING CONSTITUTION, AND THEIR FAILURE TO IMPLEMENT THE PROVISIONS OF THE EXISTING CONSTITUTION.

(B) THE CRUX OF THE PROBLEM WAS THEREFORE NOT SO MUCH THE DETAILS OF THE CHINESE PLAN BUT HOW TO ENSURE THAT ITS BASIC PRINCIPLES WERE IN FACT CARRIED OUT AFTER 1997.

(C) THERE WERE TWO SCHOOLS OF THOUGHT ABOUT HOW TO PROCEED:

(i) TO LOOK SEPARATELY AT HONG KONG'S SYSTEMS AND TRY TO BUILD INTO EACH OF THEM SOME KIND OF BRITISH LINK OR OTHER EFFECTIVE GUARANTEE. PURSUIT OF THIS WOULD ENABLE NEGOTIATIONS TO CONTINUE AND GIVE HONG KONG A FEW MONTHS OF COMPARATIVE CALM. BUT WE COULD GET LOST IN THE WOODS AND BE LED BY THE CHINESE TO A POINT FROM WHICH IT WOULD BE DIFFICULT IF NOT IMPOSSIBLE TO RETREAT.

~~BE DIFFICULT IF NOT IMPOSSIBLE TO RETREAT.~~

(14) TO START FROM THE TOP AND SEEK SOME KIND OF OVERALL INSULATOR: ONCE THE AUTHORITY, RESPONSIBILITY AND ACCOUNTABILITY OF THE GOVERNOR WERE CLEARLY DEFINED WITH EFFECTIVE SAFEGUARDS, THERE WOULD BE NO NEED TO GO INTO THE DETAILS OF THE CHINESE PLAN. THIS WOULD BE A MORE DIRECT WAY TO GET TO THE CHINESE BOTTOM LINE. BUT THERE WOULD BE A HIGH RISK OF A STALEMATE IN THE TALKS AND HONG KONG MIGHT HAVE TO FACE FURTHER TURBULENCE.

(D) SIR S Y CHUNG EXPRESSED HIMSELF FIRMLY IN FAVOUR OF THE SECOND OF THESE ALTERNATIVES, SAYING THAT IT WAS HIS CONSIDERED OPINION THAT UNLESS WE WERE PREPARED TO ACCEPT THE RISK OF A BREAKDOWN IN THE TALKS AND CONFRONTATION WITH THE CHINESE THE GAME WAS OVER. (HE LATER ADDED THAT BY THE "GAME" HE MEANT THE MANDATE FROM UMELCO TO SEEK CONTINUING BRITISH ADMINISTRATION).

3. I SAID THAT I DID NOT BELIEVE THE GAME WAS OVER. ON THE CONTRARY, IT HAD ONLY JUST STARTED. I RECALLED WHAT THE PRIME MINISTER HAD SAID AT THE OUTSET OF HER MEETING WITH THE UNOFFICIALS ON 7 OCTOBER. SHE HAD MADE IT CLEAR THAT SHE WAS NOT PREPARED TO EMBARK ON A CONFRONTATION WITH THE CHINESE WITHOUT FIRST SEEKING TO FIND OUT WHAT SPECIAL ARRANGEMENTS THEY WOULD BE PREPARED TO OFFER. I ALSO RECALLED THE TERMS OF THE PRIME MINISTER'S MESSAGE WHICH HAD BEEN AGREED BY THE UNOFFICIALS AND TOOK THE COUNCIL CAREFULLY THROUGH IT ONCE MORE. THE DISCUSSIONS THE PRIME MINISTER HAD PROPOSED IN THE FINAL PARAGRAPH OF THAT MESSAGE WERE IN PURSUANCE OF HER LETTER OF 10 MARCH AND WITHOUT PREJUDICE TO ANY FINAL AGREEMENT. SO THE POSITION WAS FULLY PROTECTED. MOREOVER THE PAPERS WOULD BE INFORMAL WORKING DOCUMENTS AND WOULD NOT CONSTITUTE COMMITMENTS.

THE NEGOTIATORS HAD CONCLUDED THAT THE RIGHT COURSE WAS TO START WITH THE UNCONTENTIOUS AREAS AND LEAVE THE MORE DIFFICULT ONES TILL LATER. IF WE STARTED WITH THE MOST DIFFICULT AND CONTENTIOUS QUESTIONS WE WOULD QUICKLY GET INTO ANOTHER STALEMATE. WHAT WE WERE SEEKING TO DO IN THE WORKING PAPERS WAS TO GET THE CHINESE TO CONFIRM IMPORTANT PRINCIPLES WHICH WERE NOT SPECIFIED IN THEIR PLAN (E.G., IN THE CASE OF THE LEGAL SYSTEMS, THE PRINCIPLES THAT EXISTING LAW WOULD CONTINUE TO APPLY, THE HONG KONG COURTS WOULD CONTINUE TO DRAW ON PRECEDENTS FROM OTHER COMMON LAW JURISDICTIONS, AND THAT HONG KONG WOULD CONTINUE TO BE ABLE TO RECRUIT LEGAL OFFICERS FROM COMMONWEALTH COUNTRIES). WE WOULD ALSO BE SEEKING TO DISCOVER WHAT ADDITIONAL ASSURANCES THE CHINESE WOULD BE PREPARED TO BUILD INTO THEIR PLAN. THIS WAS SURELY WORTHWHILE.

4. MR T S LO SAID THAT HE HELD TO THE POINTS HE HAD MADE IN DISCUSSION WITH THE SECRETARY OF STATE AND THE PRIME MINISTER. MISS DUNN CLAIMED NOT TO UNDERSTAND THE PROPOSED TACTICS, ASKING WHAT GUARANTEE THERE WOULD BE THAT THE CHINESE WOULD NOT CHANGE EVERYTHING ONCE THEY WERE IN A POSITION TO DO SO. I SAID THAT THIS QUESTION WAS BEST TACKLED LAST, ONCE WE HAD GOT IT CLEARLY ESTABLISHED THAT THE ESSENTIALS OF THE PRESENT SYSTEM WOULD CONTINUE. I REMINDED THE COUNCIL AGAIN THAT THE POSITION HAD BEEN FULLY DISCUSSED WITH THE PRIME MINISTER.

4. MR T S LO SAID THAT HE HELD TO THE POINTS HE HAD MADE IN DISCUSSION WITH THE SECRETARY OF STATE AND THE PRIME MINISTER. MISS DUNN CLAIMED NOT TO UNDERSTAND THE PROPOSED TACTICS, ASKING WHAT GUARANTEE THERE WOULD BE THAT THE CHINESE WOULD NOT CHANGE EVERYTHING ONCE THEY WERE IN A POSITION TO DO SO. HE SAID THAT THIS QUESTION WAS BEST TACKLED LAST, ONCE WE HAD GOT IT CLEARLY ESTABLISHED THAT THE ESSENTIALS OF THE PRESENT SYSTEM WOULD CONTINUE.

HE REMINDED THE COUNCIL AGAIN THAT THE POSITION HAD BEEN FULLY DISCUSSED WITH THE PRIME MINISTER, THAT THE TERMS OF HER MESSAGE HAD BEEN AGREED, AND THAT THE NEGOTIATORS WERE SEEKING TO PROCEED ON THE BASIS OF THAT MESSAGE.

5. MR NEWBIGGING SPECIFICALLY SUPPORTED THIS VIEW. OTHER UNOFFICIALS LARGELY CONFINED THEIR INTERVENTIONS TO REQUESTS FOR CLARIFICATION. AT THE END OF THE MEETING SIR S Y CHUNG EXPRESSED CONTINUING DOUBTS, THOUGH WITHOUT FORMALLY DISASSOCIATING HIMSELF FROM MY SUMMING UP TO THE EFFECT THAT THE COUNCIL WERE CONTENT FOR THE NEGOTIATORS TO PROCEED ON THE LINES I HAD DESCRIBED. IT IS CLEAR THAT HE, MR T S LO AND TO SOME EXTENT MISS DUNN CONTINUE TO HAVE RESERVATIONS ABOUT THE COURSE ON WHICH WE ARE NOW EMBARKED.

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DESKBY 271200 (FCO)

DESKBY 280100Z (HONG KONG)

FROM PEKING 271040Z OCT 83
TO IMMEDIATE FCO

TELEGRAM NUMBER 1096 OF 27/10/83

MS

REPEATED FOR INFO TO IMMEDIATE HONG KONG

KMT ACTIVITIES IN HONG KONG

1. LUO JIAHUAN ASKED GALSORTHY TO CALL AT THE MFA THIS AFTERNOON. HE DREW ATTENTION TO AN ORGANISATION IN HONG KONG CALLED THE ASSOCIATION OF THE VAGABONDS (LIU LANG ZHE XIE HUI) LED BY ONE ZHOU QINGZUAN. THIS WAS A TAIWAN ORIENTED ASSOCIATION, WHICH HAD ORGANISED A RALLY ON 25 SEPTEMBER FOR ABOUT 300 PEOPLE. THEY HAD OPENLY CALLED FOR THE CONTINUATION OF BRITISH ADMINISTRATION AFTER 1997. CHINESE GOVERNMENT POLICIES AND THE COMMUNIST PARTY HAD BEEN ATTACKED. IN ADVANCE OF THE RALLY, THE NCNA OFFICE IN HONG KONG HAD APPROACHED THE POLITICAL ADVISER'S OFFICE ON AT LEAST THREE OCCASIONS ASKING THE HONG KONG AUTHORITIES TO TAKE MEASURES TO STOP SUCH ELEMENTS FROM ENGAGING IN ANTI-CHINESE ACTIVITIES, BUT TO NO AVAIL. A FURTHER RALLY BY THIS ASSOCIATION WAS PLANNED FOR 30 OCTOBER. SEVERAL THOUSAND PEOPLE MIGHT THIS TIME PARTICIPATE. HKG OFFICIALS AND EXCO AND LEGCO MEMBERS HAD BEEN INVITED. THE ASSOCIATION WAS CONTROLLED FROM TAIWAN AND CONSISTED OF ELEMENTS WHO HAD FLED FROM CHINA IN THE PAST. IT TOOK A HOSTILE ATTITUDE TO CHINA. ITS OBJECTIVE WAS TO UNDERMIND STABILITY IN HONG KONG AND TO DAMAGE THE ATMOSPHERE OF THE TALKS. LUO WAS RAISING THIS ON INSTRUCTIONS. THE HKG HAD THE RESPONSIBILITY, DUTY AND CAPABILITY TO STOP THE 30 OCTOBER RALLY. HE EXPRESSED REGRET AT THE LACK OF ATTENTION HITHERTO SHOWN TO THE NCNA'S APPROACHES ON THIS SUBJECT. HE HOPED THAT THROUGH THE GOOD OFFICES OF THIS EMBASSY EFFECTIVE MEASURES WOULD BE TAKEN IMMEDIATELY BY THE HONG KONG AUTHORITIES TO PREVENT THIS ANTI-CHINESE RALLY SCHEDULED FOR 30 OCTOBER AND SIMILAR RECURRENCES IN THE FUTURE. OTHERWISE THE ATMOSPHERE OF THE TALKS WOULD BE DAMAGED.

2. IN REPLY GALSORTHY DENIED KNOWLEDGE OF THE ORGANISATION OR ITS LEADER. HE SAID ON A PERSONAL BASIS THAT WE DID NOT SUPPORT ANTI-CHINESE ACTIVITIES IN HONG KONG, BUT WE RESPECTED THE FREEDOM OF SPEECH THERE, WHICH THE CHINESE SAID HAD ALSO SAID IT

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/WAS

WAS COMMITTED TO PRESERVE. IT WAS DIFFICULT TO TAKE ACTION AGAINST PEOPLE MERELY BECAUSE THEIR VIEWS DIFFERED FROM YOUR OWN, UNLESS THEY BROKE THE LAW. THIS WAS THE MEANING OF THE RULE OF LAW. AS FAR AS LUO'S COMMENTS ON THE AIMS OF THE ORGANISATION WERE CONCERNED, GALSWORTHY DID NOT BELIEVE THAT THE HONG KONG AUTHORITIES WOULD PERMIT THIS ORGANISATION TO UNDERMINE STABILITY IN HONG KONG. HE ADDED THAT IT WOULD BE EASY TO PREVENT A SOURING OF THE ATMOSPHERE OF THE TALKS IF BOTH SIDES WERE DETERMINED TO CONTINUE DISCUSSIONS IN A FRIENDLY ATMOSPHERE. HE UNDERTOOK TO REPORT LUO'S COMMENTS FULLY, AND TO PROVIDE AN ANSWER.

3. IN RESPONSE LUO SAID THAT FREEDOM OF SPEECH IN HONG KONG WAS JUSTIFIABLE. THE CHINESE SIDE BELIEVED IT SHOULD CONTINUE, BUT THESE ANTI-CHINESE ACTIVITIES DID NOT FALL INTO THE CATEGORY OF FREEDOM OF SPEECH.

HE CONTINUED TO INSIST THAT SUCH ACTIVITIES COULD ONLY DAMAGE THE ATMOSPHERE OF THE TALKS. THE ONLY ADDITIONAL POINT HE MADE WAS THAT THE HONG KONG GOVERNMENT HAD THE POWER TO STOP SUCH RALLIES BECAUSE POLICE PERMISSION WAS NECESSARY FOR THEM.

4. AFTER FURTHER STERILE DISCUSSION ON THESE LINES DURING WHICH LUO MAINTAINED THAT IF THE BRITISH POSITION IN THE TALKS HAD REALLY CHANGED THIS SHOULD BE REFLECTED IN THE GROUND IN HONG KONG. GALSWORTHY AGAIN CONFIRMED THAT HE WOULD REPORT BACK.

5 COMMENT

WE HAVE NO INFORMATION ON THE RALLIES, BUT ARE STRUCK BY THE VEH-
EMENCE OF THE CHINESE INTERVENTION. GRATEFUL FOR BACKGROUND
AND A LINE TO TAKE.

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OF THE PUBLIC RECORDS ACT



WLB

Prime Minister

To see, pending the
deputy secretary's reply.

FCS/83/211

mf

A.S.C. 25/11

SECRETARY OF STATE FOR DEFENCE

RN Task Group Deployment to Hong Kong

1. There has been discussion between our officials about planning for the deployment to Hong Kong of the RN Task Group currently visiting South-East Asia. I understand that your planning involves a visit to Hong Kong in February/March 1984 by the flagship 'Invincible', together with separate overlapping visits by two pairs of smaller warships and accompanying RFAs. As you may appreciate, these plans raise considerable problems at a time when we are involved in difficult and sensitive negotiations with the Chinese about the territory's future.

2. The Chinese reacted badly to the first (albeit misleading) press reports about the deployment.

[Redacted block]

There is a clear risk that they will react adversely to a large-scale naval visit to Hong Kong, in the context of the current negotiations, as an exercise in gunboat diplomacy designed to intimidate or put pressure on them (I understand that the last time an RN aircraft carrier visited Hong Kong was in 1970). Whether they genuinely take this view or feel bound to react in order to preserve face, or seize on the visit as a pretext to make propaganda capital, is very largely immaterial. There would be a real danger of souring the atmosphere in talks whose successful prosecution must be an overriding priority for us. The Chinese might choose to make a propaganda issue of this which would have a severe effect on confidence in Hong Kong.

/3.



3. After careful consideration I have concluded that we should not agree to anything more than a low-key visit to Hong Kong by units of the Task Group. More specifically I must ask that 'Invincible''s itinerary should be rearranged to omit Hong Kong altogether, while the visits by frigates and destroyers should be staggered so that no more than two warships are there at a time. This request is in line with the firm advice of both the Governor of Hong Kong and the Ambassador in Peking, who have been consulted again since the last round of Sino-British talks. Both feel that the danger of an adverse Chinese reaction to a high-profile naval deployment is very real, and that there can be no advantage in 'Invincible''s visiting Hong Kong which outweighs the potential damage to the Sino-British negotiations.

4. I am well aware that there are arguments in the other direction. It might be argued that we were giving the Chinese an effective veto over deployments to a major British naval base; that a leak of information about our changed intentions could suggest capitulation to Chinese pressure; and that the omission of Hong Kong from 'Invincible''s itinerary could damage morale both in the territory and among the ship's crew. Against all this I consider that, in the present very unusual circumstances, confrontation with the Chinese over this issue could have serious implications. Likewise confidence in Hong Kong would be more seriously affected by a Chinese propaganda campaign surrounding 'Invincible''s presence than by the ship's absence. As for the danger of a leak, I can only suggest that decisions should be taken soon, and that in the meantime preparation for any deployment to Hong Kong should be carried out with the minimum publicity. The longer decisions are delayed the more likely there is to be a leak to the press, and the more likely it will seem that we are bowing to pressure from Peking.



5. I am most reluctant to disrupt your planning in this way: and I realise too that there will be considerable disappointment both among the Chiefs of Staff and among those associated with 'Invincible'. We have, however, a number of ideas on alternative deployments in the region for 'Invincible' and for any other vessel displaced by revised planning. I suggest that our officials get together soon to discuss this, and to see how the bunching of visits to Hong Kong might be avoided.

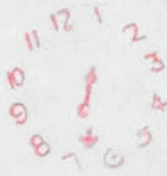
6. I am copying this minute to the Prime Minister.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
25 October 1983

25 OCT 1983



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GRS 30

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FROM PEKING 250802Z OCT 83

TO PRIORITY FCO

TELEGRAM NUMBER 1080 OF 25/10/83

REPEATED FOR INFO TO PRIORITY HONG KONG

MY TEL NO 1067: FUTURE OF HONG KONG

MY TEL NO 1067: FUTURE OF HONG KONG: INFORMAL CONTACTS

1. YAO GUANG HAS INVITED ME TO A TET A TETE DINNER
ON 28 OCTOBER. I HAVE ACCEPTED.

THIS TELEGRAM
WAS NOT
ADVANCED

CRADOCK

FUTURE OF HONG KONG

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HD/PLANNING STAFF

HD/PUSD

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RESEARCH DEPT(MR WALKER)

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SIR PHILIP MOORE BUCKINGHAM PALACE

PS/LORD PRESIDENT OF THE COUNCIL

PS/HOME SECRETARY

PS/CHANCELLOR OF THE EXCHEQUER

PS/S OF S FOR DEFENCE

PS/LORD PRIVY SEAL

PS/SECRETARY FOR TRADE AND INDUSTRY

PS/ATTORNEY GENERAL

CONFIDENTIAL



Ref. A083/3003

PRIME MINISTER

Hong Kong

(OD(K)(83) 2)

BACKGROUND

Flag B

This is the first meeting of the Sub-Committee, which has been established to keep under review all aspects of the conduct of the negotiations with the Chinese Government over the future of Hong Kong. A Note by the Foreign and Commonwealth Secretary on the problem has been circulated to the Sub-Committee under OD(K)(83) 2 to give background information to those Ministers who have not hitherto been associated with consideration of the subject.

Flag A

2. Your message to the Chinese Prime Minister was delivered by Sir Percy Cradock on 14 October, and the fifth round of negotiations took place on 19 and 20 October. The results of these negotiations are summarised in the Foreign and Commonwealth Secretary's minute to you of 24 October. Our aim was to convince the Chinese that your offer to consider other options for HongKong's future, apart from the continuation of British administration, was sincere; and to persuade them to elaborate on the sorts of arrangements they have in mind for Hong Kong as a Special Administrative Region (SAR) in order to provide a basis for detailed and potentially productive discussion and avoid any danger that they might break off the talks. The Chinese have continued to seek explicit British endorsement of their premise (that sovereignty and administration are to be returned to China), which it is not possible for us to give in advance of Parliamentary approval. But they do seem to have taken on board the significance of the step taken in your letter, and may even be coming to grasp the fact that constitutionally this is the furthest we can go at this stage (the atmosphere in the negotiations was strikingly warmer on the second day). The positive tone of the communique, which referred to "useful and constructive" talks, has been helpful in maintaining confidence, and it is clear that the prospect that China might break off the talks has receded; indeed it has been agreed that there should be a further round on 14 and 15 October.

November.



3. Sir Percy Cradock has reported the Chinese side's reluctance to enlarge upon their detailed proposals for Hong Kong as a SAR. He believes that they have not in fact thought their ideas through, and has suggested that in order to make progress we should put forward our own ideas on how different areas of Hong Kong's administration should work. He suggests, and the Governor of Hong Kong agrees, that we should give the Chinese negotiator well before the next round informal working papers covering the legal and financial systems, and be ready to present further papers at the meeting itself. The Foreign and Commonwealth Secretary endorses this approach, and recommends that it be discussed by the Governor with his Executive Committee (EXCO). If it is agreed by EXCO, the Foreign and Commonwealth Secretary proposes to authorise Sir Percy Cradock to put our own ideas on detailed questions to the Chinese.

HANDLING

4. You will wish to invite the Foreign and Commonwealth Secretary to introduce the discussion. Apart from taking stock of the position reached in the negotiations, the crucial question to be addressed in discussion is that of tactics. It was a large step for the United Kingdom to move away from its earlier position and to indicate willingness to discuss the Chinese proposals. To go further, and to take the initiative in tabling detailed schemes which, to have any chance of attracting Chinese interest will have to be based on the hypothesis of Chinese sovereignty and at least a measure of Chinese administrative control, would be a further major step. It is for consideration whether it is right to take this step at once, without first making a further attempt to get the Chinese to put more of their cards on the table. By proceeding thus we should in effect be setting a ceiling to what we could hope to achieve in negotiations; but that might not matter too much if the ceiling was set high enough, and we should at least be putting ourselves into the position where we were making the proposals and the Chinese had to respond.



5. If the Sub-Committee is content in principle with the Foreign and Commonwealth Secretary's proposals, you will probably want to suggest that the Sub-Committee should be invited to approve the various papers before they are put to the Chinese. (The Foreign and Commonwealth Secretary will be circulating an outline at the meeting.) If so, the Foreign and Commonwealth Secretary could be invited to circulate them to the Sub-Committee.

*I wonder whether this is really necessary
A J C. 2/10*

CONCLUSION

6. Subject to the points made in discussion, you could guide the Sub-Committee to:

1. Take note of the position reached in the negotiations with the Chinese over the future of Hong Kong.
2. Agree that the Foreign and Commonwealth Secretary should authorise the Governor of Hong Kong to discuss with EXCO the general proposition of putting our own ideas on detailed questions to the Chinese.
3. Invite the Foreign and Commonwealth Secretary to consult the Sub-Committee on the content of any detailed proposals for the administration of Hong Kong before they are put to the Chinese.

Re
Approved by
ROBERT ARMSTRONG
and signed in his absence

24 October 1983



PM/83/81

PRIME MINISTER

Future of Hong Kong: Talks with the Chinese

1. You are chairing the first meeting of OD(K) on 25 October. A background note has already been circulated to members of the Committee. That paper described the message which you agreed with Unofficial members of the Executive Council should be conveyed by the Ambassador in Peking to the Chinese Government. Sir P Cradock has now reported on his delivery of that message on 14 October and on the latest round of talks on 19 and 20 October.
2. The message was generally well received. The Chinese negotiator attached importance to your efforts to move forward and hoped that this would lead to a satisfactory agreement at an early date. The atmosphere was considerably better than at the last round of talks and the Ambassador's judgement is that your instructions have resulted in significant progress towards inducing the Chinese to start talks on concrete questions.
3. At the same time the Chinese continued to place great emphasis on their premise that sovereignty should be restored to them and that administration is indivisible from it. They made a number of demands for explicit confirmation that we accepted this. Sir P Cradock explained patiently the constitutional limits on HMG, and our readiness, on the basis of the Chinese proposals, to see whether satisfactory arrangements could be agreed which would allow a recommendation to be put to Parliament. We must expect the Chinese to revert to the premise. There is much hard negotiation ahead. But the Ambassador believes

/that



that the Chinese probably accept that progress is possible without our explicitly accepting their pre-conditions. Certainly they have withdrawn their previous threats to break off negotiations and, as you have seen, have agreed to further talks on 14 and 15 November.

4. It has also been agreed that the Ambassador should keep in informal contact with the Chinese negotiator. Sir Percy believes that this will keep up the momentum and that we should make full use of this contact to put ourselves in the best possible position for the next formal round. We have for some time suspected that the Chinese ideas for a Special Administration Region have not been worked out in any detail. The reluctance of the Chinese negotiator to take up our proposal that they should enlarge on their proposals seems to confirm this. Sir P Cradock therefore believes that if we continue to insist that the next step should be for the Chinese to tell us more of their ideas, we shall make little progress. He suggests that we should change our tack and put forward our own ideas on how different areas of Hong Kong's administration should work. He believes that this would bring the discussion more onto our own ground and pre-empt a Chinese move to offer detailed ideas of their own which are unlikely to be satisfactory to us, and which could well become set in concrete as the views of the leadership.

5. Sir Percy Cradock recommends that we should move quickly and that he should give the Chinese negotiator well before the next round informal working papers covering the legal and financial systems and that we should be ready by the next formal session with further papers on other areas. It is clear from informal contacts in the margins of the talks that the Chinese would welcome this.

6. The Governor of Hong Kong agrees generally with the Ambassador's proposals. I also agree. We have, of course,

/been



been cautious in the past about being drawn into putting forward a complete blueprint for our own ideas on the Government of Hong Kong because of the risk that they would either be rejected at an early stage or that we might find ourselves being manoeuvred into giving away too much. That would apply to general suggestions covering the key question of administrative control, including the position of the Governor. We should not run the same risk if we were to focus on areas of general administration which, while still of great importance to confidence, can be dealt with in isolation from the question of overall control. The Ambassador is right to suggest that we start with the legal system and finance since in these sectors there is a fair chance of achieving common ground on a number of issues. Thereafter we could move onto other subjects, such as external trading relations, where we hold some useful cards through our membership of GATT, from which Hong Kong benefits.

7. We must of course keep EXCO with us on this. Before we put anything to the Chinese we would need to get their agreement to the general proposition of putting our own ideas on detailed subjects to the Chinese. The sooner this is done, the better (as you know, the Governor discusses the future with EXCO every Wednesday).

8. I suggest that a meeting tomorrow might focus on this next step, with a view, perhaps, to at least a preliminary discussion between the Governor and EXCO on Wednesday (although the timing will of course be right). I hope to have available for the meeting an outline of what the proposed papers to go to the Chinese might say (we are already

/discussing

SECRET



discussing details of suitable drafts with Peking and Hong Kong).

9. I am copying this minute to the Lord President of the Council, the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence, the Lord Privy Seal, the Secretary of State for Trade and Industry, the Attorney-General and Richard Luce, Minister of State, FCO.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
24 October 1983

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HONG KONGTHE LEGAL SYSTEMChinese Proposals

1. Laws would be basically unchanged. There would be a high degree of autonomy and legislative power. There would be independent judicial power including the power of final judgement.

Points for further discussion(a) The Hong Kong Legal System

2. Existing law, including English laws already applied, English common law and rules of equity would remain in force. The Hong Kong courts would continue to rely, as now, on precedents cited from other common law jurisdictions as well as precedents established in Hong Kong. The terminology of Hong Kong laws and ordinances which derives from colonial administration would be progressively amended but the normal terminology of existing statute law and common law would be retained.

3. In the making of new law, the Hong Kong legislature would be supreme. The power of delegation, eg to the Urban Council, in respect of by-laws would continue. There would be no power of disallowance outside Hong Kong.

4. Machinery would remain in being which would consider the adoption in Hong Kong of principles of law, eg relating to evidence, offences, procedure, etc adopted in other common law jurisdictions and make recommendations thereon, through the executive, to the legislature.

5. The existing system of courts would continue. Appeals to the Privy Council would cease. The highest instance of appeal would be the Hong Kong Court of Appeal.

(b) The Judiciary

6. The judiciary would remain independent of the executive. The exercise of the power to govern would remain accountable to the law.

7. It would remain open to Hong Kong to recruit legal officers including judges, court officials, members of the legal commissions etc, from other common law jurisdictions applying systems similar to that in Hong Kong. Only legal officers holding qualifications recognised under such jurisdictions would be eligible for appointment in Hong Kong.

8. Judges would be appointed by the Hong Kong Government but with the present constraints on their removal, including on compulsory retirement. In relation to the appointment, promotion and removal of any member of the judiciary, action would only be taken on recommendation of a judicial services commission, or, in the matter of removal, of a tribunal appointed by the Chief Justice and consisting of not less than three judges who hold, or have held, office as judge of a court having unlimited jurisdiction in Hong Kong or in similar jurisdictions.

HONG KONGFINANCIAL SECTORChinese Proposals

1. Socio-economic systems and way of life would remain unchanged. Private ownership of property and foreign investments would be protected. Hong Kong would be a free port and international financial centre. Foreign exchange, gold securities and future markets and the free flow of capital would continue. The Hong Kong dollar would continue to circulate freely and remain fully convertible.

Points for further discussion

2. (a) Guarantees for the continuation of the socio-economic systems. Provision for protection of private property including foreign and domestic investments.
- (b) Free movement of capital.
- (c) Full convertibility of Hong Kong dollar. Hong Kong dollar to be linked if necessary and as appropriate to another convertible currency but not to the RMB or other non-convertible currency.
- (d) Hong Kong to remain a member or associate member of international economic organisations on present basis (eg Asian Development Bank (ASB), Economic and Scientific Commission for Asia and the Pacific (ESCAP)). Provision for future adherence to similar bodies.
- (e) Currency to be issued by present note-issuing banks.
- (f) Exchange Fund to continue to be managed under direction of Hong Kong Financial authorities, with no outside interference.
- (g) Exchange Fund Advisory Commission and Exchange Banks Association to continue on present lines.
- (h) Appropriate arrangements for the provision of such expert assistance on the working of a free market economy as the Hong Kong authorities may request from overseas.

(i) Any changes in the foregoing provisions to be decided only by the Hong Kong authorities.

FUTURE OF HONG KONG ADVANCE COPIES 810

42

PS

PS/PUS

PS/MR LUCE

MR DONALD

HD/HKD

HD/FED

COPY TO:

MR COLES, No. 10 DOWNING ST

MR ROBERTS NEWS

RESIDENT CLERK

IMMEDIATE

SECRET

FM HONG KONG 240440Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1576 OF 24 OCTOBER
INFO IMMEDIATE PEKING

ADVANCE COPY

FUTURE OF HONG KONG: DISCUSSION WITH EXCO.

1. I GAVE EXCO A SUMMARY ACCOUNT OF THE LAST ROUND OF TALKS AT A PARTIAL MEETING ON 22 OCTOBER, ADDING A PRELIMINARY ASSESSMENT ON THE FOLLOWING LINES:-

(A) THE PRIME MINISTER'S MESSAGE HAD ACHIEVED ITS IMMEDIATE PURPOSE. THE ATMOSPHERE WAS WARMER THAN DURING THE LAST ROUND, PARTICULARLY ON THE SECOND DAY; AND THERE WAS NO FURTHER THREAT TO BREAK OFF THE TALKS.

(B) YAO GUANG KEPT TRYING TO PIN US DOWN TO A CLEAR AND EXPLICIT AFFIRMATION OF THE PREMISE. IT REMAINED TO BE SEEN WHETHER THE CHINESE WOULD ACCEPT THAT THE PRIME MINISTER HAD GONE AS FAR AS SHE COULD.

(C) THE CHINESE REMAINED SUSPICIOUS ABOUT OUR MOTIVES AND OBJECTIVES IN THE TALKS; HENCE THEIR VARIOUS QUESTIONS ABOUT WHAT WE MEANT BY A CONTINUING ROLE FOR BRITAIN AFTER 1997. THEY WOULD PROBABLY RETURN TO INSISTENCE ON THE PREMISE IF THEY THOUGHT WE WERE SAYING THINGS INCONSISTENT WITH IT.

(D) WITH THE EXCEPTION OF THE POINT ABOUT THE SYSTEMS REMAINING UNCHANGED FOR 50 YEARS, OUR ATTEMPTS TO GET THE CHINESE TO SAY MORE ABOUT THEIR PLAN HAD SO FAR ONLY PRODUCED A REPETITION OF WHAT THEY HAD SAID IN JULY. THEY HAD MADE IT CLEAR THAT THEY WERE KEEN TO HEAR OUR IDEAS AND SUGGESTIONS ON ALL ASPECTS OF THEIR PLAN. IT WAS POSSIBLE THAT THEY THEMSELVES HAD NOT DEVELOPED MORE DETAILED IDEAS.

(E) WE SHOULD THEREFORE NEED TO THINK VERY CAREFULLY ABOUT TACTICS FOR THE NEXT ROUND. THE INFORMAL CONTACTS WHICH IT HAD BEEN AGREED SHOULD TAKE PLACE MIGHT HELP TO INDICATE THE WAY FORWARD MORE CLEARLY.

2. I SUMMED UP BY SAYING THAT THE DOOR WAS NOW OPEN AND IT LOOKED AS THOUGH WE WERE EDGING THROUGH IT. BUT IT WAS NOT YET CLEAR WHAT WE WOULD FIND ON THE OTHER SIDE.

3. SIR S.Y. CHUNG SAID THAT WE HAD CLEARLY BEEN SUCCESSFUL IN KEEPING THE TALKS GOING. BUT NO PROGRESS HAD BEEN MADE TOWARDS ACHIEVING OUR OBJECTIVE (OF CONTINUING BRITISH ADMINISTRATION) AND THAT WAS VERY DISAPPOINTING. EVERY TIME WE MADE A CONCESSION THE CHINESE SIMPLY BOCKETED IT. THE CHINESE THEMSELVES DID NOT

ACHIEVING OUR OBJECTIVE (OF CONTINUING BRITISH ADMINISTRATION) AND THAT WAS VERY DISAPPOINTING. EVERY TIME WE MADE A CONCESSION THE CHINESE SIMPLY POCKETED IT. THE CHINESE THEMSELVES DID NOT MOVE. IN THIS CONNECTION HE WAS CONCERNED ABOUT THE DISTINCTION DRAWN BY YAO GUANG BETWEEN THE PLAN AS A WHOLE, ON WHICH THE CHINESE WERE WILLING ONLY TO "BRIEF" US, AND QUESTIONS DIRECTLY AFFECTING BRITISH INTERESTS, WHICH THEY WERE PREPARED TO DISCUSS. HE THOUGHT WE WOULD GET NOTHING MORE OUT OF THEM ON THEIR PLAN. MR T.S. LO WAS IN GENERAL AGREEMENT WITH SHR S.Y.'S COMMENTS. HE THOUGHT THAT THE CHINESE PURPOSE IN SEEKING COMMENTS ON THEIR PROPOSALS WAS SIMPLY TO GET US TO ACCEPT THE PLAN AND THE ASSUMPTIONS ON WHICH IT WAS BASED.

4. OTHER MEMBERS THOUGHT IT WAS TOO EARLY TO TAKE SUCH A PESSIMISTIC VIEW. THEY SAW SIGNIFICANCE IN THE WARMTH OF THE CHINESE WELCOME FOR THE PRIME MINISTER'S MESSAGE; THE CHINESE INTEREST IN GETTING BRITISH IDEAS AND SUGGESTIONS ON THEIR PROPOSALS; AND THEIR WISH TO PURSUE INFORMAL CONTACTS BEFORE THE NEXT ROUND.

5. IN THE LIGHT OF THIS DISCUSSION THE PRESENTATION OF THE TACTICAL IDEAS OUTLINED IN PEKING TELNO 1068 WILL NEED CAREFUL HANDLING. I AM TELEGRAPHING SEPARATELY ABOUT THIS.

YOUDE

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S E C R E T



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10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Hong Kong : Possible Contingencies

The Prime Minister was grateful for your minute of 20 October and the annexed paper summarising our contingency plans in the event of a breakdown in the negotiations with the Chinese.

I am copying this minute to Sir Antony Acland.

A. J. COLES,

24 October 1983

de

Subject *cc Master*
Ops.

PRIME MINISTER'S FCO
PERSONAL MESSAGE ②
SERIAL No. 156A/83
Haut Commissariat du Canada



Canadian High Commission

SECRET

1 Grosvenor Square,
London W1X 0AB

October 21, 1983

Prime Minister

We shall let you have

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

mt *areg.* *A.H.C. 21/10*

Dear Prime Minister,

I have been asked by Prime Minister Trudeau to pass the following message to you. The original message will follow shortly.

"Dear Margaret,

Allow me to take a moment to convey my personal congratulations for your immensely successful visit to Canada in late September, the impact of which continues to be discussed in private and public. You have captured the imagination of many Canadians. As usual, I enjoyed our discussions and hope to pursue them next month in New Delhi.

I recall particularly your concerns about Britain's ongoing negotiations with China on the future of Hong Kong. Significant Canadian interests are also at play but not, of course, to anything like the extent of your own.

Fortuitously, the Chinese Foreign Minister, State Councillor Wu Xueqian, visited Ottawa in early October. During my luncheon with Mr. Wu, he spoke at some length of the future of Hong Kong and China's approach to the negotiations (all this, I must add, without any particular encouragement from me). I do not for a moment consider Wu's statements to be a disinterested account of the negotiations. I thought nevertheless you might like to have, in confidence, a brief resumé of Wu's comments.

The substance of Wu's presentation would be all too familiar to you. The assumption of sovereignty over all of the British administered territory was, he said, fundamental to China's current position. He emphasized that it was not China's intention to disrupt either the social or economic fabric of Hong Kong by assuming sovereignty. Indeed, he forcefully reiterated the importance of assuring stability for Hong Kong in the long term.

Your negotiators are no doubt familiar with the following points which Wu emphasized would underpin the Chinese Government's policy vis-à-vis Hong Kong following 1997:

- Foreign businesses, including British businesses, would continue operating without interference;
- the judicial system would remain unchanged;
- the right of final appeal in judicial matters would be vested in Hong Kong;
- the only wording changes in existing Hong Kong laws would reflect the Peoples' Republic of China's sovereignty;
- international economic relations would remain unchanged;
- the Hong Kong dollar would remain in use; and
- general elections would allow Hong Kong residents to administer Hong Kong as a "Special administrative region".

Throughout Wu's presentation, there was no discussion of a possible role for Britain beyond 1997. He repeated that sovereignty and administration, in Chinese eyes, must go hand in hand.

In concluding his remarks, Wu stated that "we do not wish to export revolution" and left the implication that China had no immediate thought of communizing Hong Kong. He stated with equal emphasis that the Peoples' Republic of China wished to keep Hong Kong as a principal trading centre, not only in the Far East but in the world.

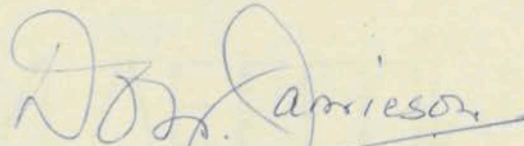
I certainly do not wish to insert myself in your delicate and complex talks with the Chinese. I would inform

you nevertheless that Chinese Premier Zhao Ziyang will undertake an official visit to Canada during the second half of January. If you see any way in which that visit could be useful, I hope you will let me know.

I am aware that the next session of your ongoing negotiations on Hong Kong will take place on October 19 and 20. The emphasis which Foreign Minister Wu placed on the financial and economic arrangements for Hong Kong suggested to me that such considerations might figure more prominently in the Chinese approach in future discussions."

Please accept, dear Prime Minister, the assurances of my highest consideration.

Yours sincerely,



Donald C. Jamieson
High Commissioner

FUTURE OF HONG KONG ADVANCE COPIES

87

40

PS
PS/PUS
PS/MR LUCE
MR DONALD
[HD/HKD]
HD/FED

COPY TO:
MR COLES, No. 10 DOWNING ST

OO FCO (DESKBY 210900Z)

OO HONG KONG

GRS 800

SECRET

DESKBY 210900Z

FROM PEKING 210840Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1068 OF 21/10/83



[Handwritten signature]

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 1066: FUTURE OF HONG KONG: FUTURE TACTICS

1. ON THE BASIS OF THIS ROUND, AND PARTICULARLY WHAT WAS SAID AT THE DINNER FOLLOWING IT, I THINK THAT WE ARE NOW VIRTUALLY THROUGH THE DOOR. THE CHINESE HAVE NOT GIVEN UP THEIR PREMISE, BUT THEY SEEM TO ACCEPT THAT PROGRESS IS POSSIBLE WITHOUT AN EXPLICIT ACCEPTANCE OF IT. THE PROBLEM IS THAT THE ROOM BEYOND THE DOOR ALMOST CERTAINLY HAS VERY LITTLE IN IT. THE CHINESE HAVE ESTABLISHED BROAD PRINCIPLES FOR THEIR FUTURE POLICIES TOWARDS HONG KONG, AND THEY HAVE THE AUTHORITY OF DENG XIAOPING FOR THESE. BUT IT IS BECOMING INCREASINGLY CLEAR THAT THEY HAVE DONE LITTLE DETAILED WORK. THAT IS WHY THE CHINESE HAVE NOW STARTED TO PRESS US FOR DETAILED IDEAS ON THEIR PROPOSALS. THEY THEMSELVES HAVE NOTHING TO OFFER.

2. HITHERTO OUR TACTIC HAS BEEN TO TRY TO GET THE CHINESE TO LAY OUT FURTHER DETAILS OF THEIR IDEAS SO THAT WE COULD DISCUSS THEM CONSTRUCTIVELY AND TRY TO BUILD SOMETHING OUT OF THEM. WE SHALL NOT GET FAR DOWN THIS ROAD IF THE CHINESE HAVE NOTHING TO OFFER. WE THEREFORE HAVE A NEW SITUATION. THERE IS OPPORTUNITY IN THIS FOR US: FACED WITH A BLANK SHEET OF PAPER, WE CAN, WITHIN THE OBVIOUS LIMITS OF THE CHINESE PREMISE AND THE BROAD PRINCIPLES ENUNCIATED BY THE CHINESE, WRITE WHAT WE WISH ON IT, WITH THE RESULT THAT THE DISCUSSION THEREAFTER IS MUCH

~~ON IT, WITH THE RESULT THAT THE DISCUSSION THEREAFTER IS MUCH~~
MORE ON OUR GROUND. I THEREFORE SEE GREAT ADVANTAGE TO US IN
PRODUCING SOON DETAILED IDEAS ON THE VARIOUS ASPECTS OF THE
ADMINISTRATION OF HONG KONG AFTER 1997 AND SEEKING TO GET CHINESE
AGREEMENT TO THEM NOW. IF WE FAIL TO FILL THE CHINESE VACUUM
RAPIDLY IN THIS WAY THERE ARE TWO DANGERS: THE FIRST IS
THAT THE CHINESE WILL THINK THAT WE ARE NOT SERIOUS IN OUR
UNERTAKING TO ENGAGE IN CONSTRUCTIVE DISCUSSIONS. THE SECOND IS
THAT AFTER A PERIOD OF UNILATERAL RESEARCH THEY WILL THEMSELVES
COME UP WITH MORE DETAILED IDEAS, WHICH ARE LIKELY TO BE
UNSATISFACTORY TO US, AND THAT THESE WILL THEN EMERGE WITH
THE AUTHORITY OF THE LEADERSHIP. ONCE THAT HAPPENS THEY WILL
BE SET IN CONCRETE.

3. I REPORTED IN MY TEL NO 1066 THAT I HAD FLOATED ON 20 OCTOBER
AT THE DINNER WITH YAO GUANG THE IDEA OF A STEP BY STEP PROCESS
IN WHICH WE TACKLED THE VARIOUS SUBJECTS ONE BY ONE AND ROUGHED
OUT A BLUEPRINT IN EACH AREA. I ALSO PROPOSED THAT WE SHOULD
START WITH SOME OF THE EASIER AREAS AND SEE WHETHER COMMON
GROUND COULD BE ESTABLISHED, SO AS TO BUILD UP CONFIDENCE.
YAO SEEMED RECEPTIVE TO THIS. HOWEVER IF WE ARE TO PROCEED
IN THIS WAY I SHALL NEED VERY EARLY AUTHORITY TO PROVIDE MATERIAL
IN WRITTEN FORM, PERHAPS AS INFORMAL WORKING PAPERS TO THE
CHINESE. NATURALLY YOU WILL WISH TO SEE DRAFTS OF ANYTHING PROD-
UCED IN THIS WAY.

4. THE OBVIOUS POINT TO START FROM WOULD BE THE TWO AREAS IN
WHICH I ASKED SOME DETAILED QUESTIONS DURING THE LAST ROUND,
THAT IS THE LEGAL SYSTEMS AND THE FINANCIAL SYSTEMS. WE SHOULD
CONSOLIDATE THIS BY PUTTING TWO WORKING PAPERS TO THE CHINESE
CONTAINING SPECIFIC AND DETAILED PROPOSALS COVERING THESE
TWO AREAS. WE NEED TO MOVE FAST, BECAUSE I THINK IT IS ESSENTIAL
TO GET THESE PAPERS IN THROUGH THE INFORMAL CONTACTS WHICH
WILL TAKE PLACE BEFORE THE NEXT ROUND. WE SHOULD ALSO BE PREPARED
BY THE NEXT ROUND WITH PAPERS ON ONE OR TWO OTHER AREAS.
A GOOD ONE TO START WITH WOULD BE EXTERNAL TRADING
RELATIONS, AND PROBLEMS RELATING TO THE GATT ETC, BECAUSE IT IS
SOMETHING ON WHICH THE CHINESE NEED OUR HELP. THESE PAPERS
NEED NOT BE EXHAUSTIVE: WE WILL MAKE IT CLEAR TO THE CHINESE
THAT THEY ARE INITIAL PROPOSALS.

5. I MUST EMPHASIS AGAIN THE NEED FOR SPEED. IF WE CAN
MAINTAIN THE MOMENTUM I THINK WE STAND A REASONABLE CHANCE OF
GETTING AWAY FROM CHINESE DEMANDS THAT WE ACCEPT THE PREMISE
EXPLICITLY, AND ON TO GROUND WHICH TO A SIGNIFICANT EXTENT IS
OF OUR OWN CHOOSING. THERE IS A FAIR CHANCE OF GETTING MANY OF OUR
PROPOSALS ACCEPTED. IF WE FALTER, OR APPEAR
RELUCTANT TO PRESENT DETAILED IDEAS, I FEAR THAT THE CHINESE
RESIDUAL SUSPICIONS WILL BE FED AND THAT THEY WILL RETURN
RAPIDLY TO STERILE ARGUMENTS ABOUT PRINCIPLE AND INSISTENCE
ON THE PREMISE.

CRADOCK

39

PS
PS/PUS
PS/MR LUCE
MR DONALD
HD/HKD
HD/FED

COPY TO:
MR COLES, No. 10 DOWNING ST

RESIDENT CLERK

SECRET

FROM PEKING 211000Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1067 OF 21/10/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

IMMEDIATE
ADVANCE COPY

MY TEL NO 1066: FUTURE OF HONG KONG: INFORMAL CONTACTS

1. OVER THE PAST 10 DAYS, IN FACT SINCE THE CHINESE SIDE KNEW THAT I WAS BRINGING BACK AN IMPORTANT MESSAGE FROM LONDON, THEY HAVE BEGUN TO TALK OF THE NEED FOR INFORMAL CONTACTS BETWEEN MEMBERS OF THE DELEGATIONS. AS YOU WILL SEE FROM MY TEL NO 1062, WE MADE USE OF THIS ON THE FIRST DAY OF THE TALKS. WE BELIEVE THAT THIS CONTACT HAD A BENEFICIAL EFFECT, AND THE CHINESE TOLD US AT THE END OF THE SECOND DAY THAT THEY HAD MADE THE TONE OF THEIR INTERVENTIONS ON THE SECOND DAY MUCH WARMER AS A RESULT OF IT.

2. ALTHOUGH THE RECORD OMITTED THIS, YAO GUANG IN FACT PROPOSED DURING THE DISCUSSION OF THE DATE OF THE NEXT MEETING AND THE TEXT OF THE COMMUNIQUE THAT THERE SHOULD BE INFORMAL CONTACTS BETWEEN THE DELEGATIONS DURING THE INTERVENING PERIOD. THIS WAS PARTLY BECAUSE THE CHINESE HAD NOT BEEN ABLE TO AGREE TO OUR FIRST PROPOSAL THAT THERE SHOULD BE A FURTHER MEETING NEXT WEEK. THE CHINESE ALSO AGREED THAT WE SHOULD LET THE PRESS KNOW THAT THERE WOULD BE SUCH INFORMAL CONTACTS TO OFFSET ANY NEGATIVE IMPRESSION WHICH THE LENGTH OF THE GAP MIGHT CAUSE.

3. NOW THAT THERE IS SOME HOPE WE CAN MAKE PROGRESS I THINK THESE CONTACTS WILL BE USEFUL AND ALSO NECESSARY. WE SIMPLY CANNOT RELY ONLY ON PLENARY SESSIONS WHICH ARE INEVITABLY GOING TO BE FAIRLY FEW AND FAR BETWEEN.

CRADOCK

FUTURE OF HONG KONG ADVANCE COPIES 8

PS
PS/PUS
PS/MR LUCE
MR DONALD
HD/HKD
HD/FED

COPY TO:

MR COLES, No. 10 DOWNING ST

~~RESIDENT CLERK~~



SECRET

FROM PEKING 210820Z OCT 83

IMMEDIATE

TO IMMEDIATE FCO

TELEGRAM NUMBER 1066 OF 21/10/83

ADVANCE COPY

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 1057: FUTURE OF HONG KONG.

1. CONVERSATION WITH THE CHINESE DELEGATION AT MY DINNER FOR THEM ON 20 NOVEMBER SUGGESTS THAT WE HAVE MADE BETTER PROGRESS THAN WE AT FIRST THOUGHT. WE SEEM TO BE VIRTUALLY THROUGH THE DOOR.

2. THE CHINESE WERE NOTABLY FRIENDLY AND RELAXED AT THE DINNER. ONLY TWO RELATIVELY JUNIOR MEMBERS BROUGHT UP THE PREMISE AND THEN IN SUCH A WAY AS TO CONVEY THAT, THOUGH LESS THAN IDEAL, OUR POSITION WAS ACCEPTABLE. YAO GUANG THANKED ME FOR MY REPEATED EXPLANATIONS OF THE PRIME MINISTER'S MESSAGE, WHICH HE SAID HAD IMPRESSED, EVEN MOVED HIM (EXCLAM). HIS PERSONAL REPORT TO LEADERS WOULD BE MUCH MORE POSITIVE THIS TIME. HE REFERRED TO DENG'S REMARKS TO MR HEATH ON 10 SEPTEMBER, THAT WE MUST NOT GET BOGGED DOWN OVER SOVEREIGNTY AND ADMINISTRATION AND MUST GET ON TO CONSTRUCTIVE DISCUSSION (MY TEL NO 879). I SAID I HOPED HE WOULD AGREE THAT AS A RESULT OF THIS ROUND WE WERE NOT GOING TO GET BOGGED DOWN. HE AGREED.

3. YAO GUANG ASSURED ME THAT THE CHINESE WOULD BE DEALING WITH OUR QUESTIONS ON THE LEGAL AND FINANCIAL SYSTEMS AT THE NEXT ROUND AND CLAIMED THESE WOULD NOT BE TOO DIFFICULT TO ANSWER. HE ALSO ASSURED ME THAT A BROAD PRINCIPLE BEHIND THE CHINESE PROPOSALS FOR HONG KONG WAS THAT OF NO CHANGE OR NO BASIC CHANGE. HE CALIMED THIS WAS VERY APPARENT FROM THE TEXT. AT THE SAME TIME, IT WAS FAIRLY CLEAR FROM WHAT HE AND HIS COLLEAGUES SAID THAT THE CHINESE HAVE VIRTUALLY NOTHING TO ADD TO THEIR GENERAL STATEMENTS ON 25 JULY AND 19 OCTOBER ON THE FUTURE SYSTEMS IN HONG KONG. (ON THE LAW, FOR EXAMPLE, THEIR

~~TO THEIR GENERAL STATEMENTS ON 25 JULY AND 19 OCTOBER ON THE FUTURE SYSTEMS IN HONG KONG. (ON THE LAW, FOR EXAMPLE, THEIR EXPERT, SHAO TIANREN, ADMITTED TO THE GOVERNOR THAT THEY HAD NOT STUDIED THE HONG KONG LEGAL SYSTEM). THEY SAID THEY HAD PUT ALL THEIR CARDS ON THE TABLE AND PRESSED US, ALMOST DESPERATELY, TO GIVE OUR VIEWS AND PUT FORWARD OUR IDEAS. THE QUESTIONS WE HAD SO FAR SUBMITTED WERE, THEY THOUGHT, RATHER TOO NEUTRAL.~~

4. YAO GUANG ASKED ME HOW I THOUGHT WE SHOULD PROCEED. I SAID IT SEEMED TO ME THAT WE SHOULD TRY TO SEEK COMMON GROUND. WE HAD HAD SOME RATHER DIFFICULT DEBATES IN THE PAST. IT WOULD NOW HELP CONFIDENCE ON BOTH SIDES IF WE COULD REACH AGREEMENT ON CERTAIN AREAS OF THE POST-1997 ARRANGEMENTS, BEGINNING WITH THE LESS DIFFICULT ONES. WE SHOULD THEN BE ABLE TO BUILD A GOOD BUILDING FLOOR BY FLOOR. I SUGGESTED THE LEGAL AND FINANCIAL SYSTEMS AS THE FIRST TWO FLOORS. PERHAPS INTERNATIONAL ECONOMIC RELATIONS COULD BE THE NEXT. HE SEEMED ATTRACTED BY THIS. HE ASKED WHAT I THOUGHT THE DIFFICULT AREAS WERE. I EVADED THIS AND MENTIONED ONLY THE BILATERAL AGREEMENT, WHICH WOULD HAVE TO COME AT THE END. HE SAID THE CHINESE HAD ALL ALONG RECOGNISED THERE WOULD HAVE TO BE A BILATERAL AGREEMENT. (DENG, IN FACT, CONFIRMED TO MR HEATH THAT THE NEGOTIATIONS WOULD END WITH A QUOTE BINDING AGREEMENT UNQUOTE)

5. HE SAID THAT THE CHINESE HAD NOT YET PREPARED A BASIC LAW FOR THE SPECIAL ADMINISTRATION REGION. THIS IS FURTHER CONFIRMATION OF THEIR LACK OF DETAIL. I SAID THAT THE CONSTITUTION FOR POST-1997 HONG KONG WOULD HAVE TO BE AGREED BETWEEN US, THOUGH PRESUMABLY CHINA WOULD ENACT IT ALONE. HE SAID THEY HAD ALREADY SAID THEY WERE READY TO CONSULT US.

6. HE RAISED BRITISH INTERESTS IN HONG KONG AND SAID THAT ALTHOUGH WE DENIED IT, CHINA RECOGNISED BRITAIN HAD IMPORTANT ECONOMIC INTERESTS THERE. I SAID OUR REAL INTEREST WAS THAT HONG KONG SHOULD CONTINUE TO FLOURISH

CRADOCK

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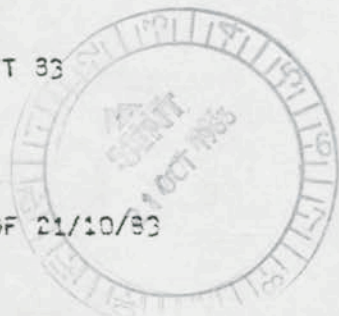
PS
PS/PUS
PS/MR LUCE
MR DONALD
HD/HKD
HD/FED

COPY TO:
MR COLES, No. 10 DOWNING ST

SECRET

ADVANCE COPY
CONFIDENTIAL

FROM PEKING 210730Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1062 OF 21/10/83



mt

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: CALL ON LUO JIAHUAN.

1. AT THE END OF THE 19 OCTOBER SESSION, I WAS CONCERNED THAT THE IMPORTANCE OF THE PRIME MINISTER'S MESSAGE HAD NOT BEEN FULLY UNDERSTOOD BY THE CHINESE SIDE AND FEARED THEY MIGHT AGAIN IMPALE THEMSELVES ON THE PREMISE. AS A FURTHER EFFORT TO DRIVE HOME THE EXTENT OF THE STEP WE WERE TAKING, AND TO SEE THAT THEY UNDERSTOOD THAT WE HAD NO FURTHER ROOM FOR MANOEUVRE, GALSWORTHY CALLED, ON MY INSTRUCTIONS, ON THE EVENING OF 19 OCTOBER ON LUO JIAHUAN AT THE MFA FOR AN INFORMAL DISCUSSION.

2. GALSWORTHY SAID THAT ALTHOUGH WE THOUGHT WE HAD IDENTIFIED IN THE FIRST PART OF YAO'S STATEMENT ON 19 OCTOBER SOME RECOGNITION OF THE MESSAGE'S IMPORTANCE, I WAS VERY WORRIED AT THE WAY THE LAST PART OF THE DISCUSSIONS HAD GONE AND AT THE APPARENT TENDENCY ON THE PART OF THE CHINESE TO ASK FOR EXPLICIT STATEMENTS WHEN THESE WERE NOT NECESSARY OR POSSIBLE AT THIS STAGE. I HAD ASKED GALSWORTHY INFORMALLY TO LET LUO KNOW THAT THE PRIME MINISTER'S MESSAGE WAS THE RESULT OF VERY GREAT EFFORTS ON THE BRITISH SIDE. IT HAD BEEN DIFFICULT FOR HER TO GO THIS FAR. I HAD NOW REACHED THE LIMIT OF MY INSTRUCTIONS. WE CONSIDERED THAT PROGRESS SHOULD HAVE BEEN MADE POSSIBLE BY OUR STEP AND WERE VERY WORRIED THAT SUCH PROGRESS SHOULD NOT BE PUT AT RISK BY A FAILURE BY THE CHINESE SIDE TO UNDERSTAND OR RESPOND APPROPRIATELY TO THE PRIME MINISTER'S MESSAGE.

3. GALSWORTHY REITERATED EXPLACATORY COMMENTS WHICH I HAD MADE EARLIER: THE MESSAGE SUGGESTED THAT OUR DISCUSSIONS SHOULD BE BASED ON THE CHINESE PROPOSALS. THE CHINESE SIDE HAD TOLD US THAT THEIR PROPOSALS WERE BASED ON THEIR PREMISE. WE UNDERSTOOD THIS. IT WAS THEREFORE OBVIOUS THAT THE DISCUSSIONS WHICH WE HAD

~~INTERESTS IN HONG KONG. HE STRESSED THAT THE CHINESE
PARTICULARLY WANTED OUR VIEWS ON THE LATTER.~~

6. IN REPLY, GALSWORTHY STRESSED THAT OUR CONSTITUTIONAL CON-
STRAINTS MUST NOT BE UNDERESTIMATED. THIS WAS FUNDAMENTAL.
IF THE CHINESE SIDE FAILED TO UNDERSTAND THEM WE WOULD
ENCOUNTER GREAT DIFFICULTIES. CHINA MUST UNDERSTAND THAT THE
TRANSFER OF SOVEREIGNTY DID NOT LIE WITHIN THE PRIME MINISTER'S
GIFT. WE WERE CERTAINLY AWARE THAT THE CHINESE PROPOSALS
WERE BASED ON THE CHINESE PREMISE. THIS DID NOT MEAN THAT WE
NECESSARILY AGREED WITH CHINESE VIEWS ON THE PREMISE, BUT IN
AN EFFORT TO EACH AGREEMENT, WE WERE PREPARED TO MOVE FORWARD
BY SEEKING TO CONSTRUCT ACCEPTABLE ARRANGEMENTS ON THE BASIS
OF THE CHINESE PROPOSALS. IF WE WERE SUCCESSFUL, WE SHOULD
RECOMMEND THOSE ARRANGEMENTS TO PARLIAMENT AND COOPERATE FULLY
OVER THEIR INTRODUCTION AND IMPLEMENTATION. IF THE CHINESE
CONTINUED TO PRESS US FOR AN EXPLICIT ACCEPTANCE OF THEIR
PREMISE, WE WOULD ENCOUNTER VERY REAL CONSTITUTIONAL
DIFFICULTY. THERE WAS NO SENSE IN CONTINUING TO PRESS FOR
SOMETHING WHICH IT WAS NOT IN THE PRIME MINISTER'S POWER
TO GIVE.

7. GALSWORTHY REMINDED LUO OF ZHOU NAN'S COMMENTS IN NEW YORK
DURING THE MEETING BETWEEN YOU AND WU XUEQIAN (PARA 7 OF UKMIS
NEW YORK TEL NO 6 TO HONG KONG) IN WHICH ZHOU HAD EXPRESSED
SURPRISE AND DISAPPOINTMENT AT OUR CONTINUING INSISTENCE
ON BRITISH ADMINISTRATION. HE HAD SAID THAT SHOULD OUR
POSITION CHANGE, DETAILED DISCUSSIONS ON ALL PRACTICAL ASPECTS
COULD BEGIN IMMEDIATELY. GALSWORTHY SAID THAT THE PRIME MINISTER'S
MESSAGE AND MY CLARIFICATORY COMMENTS MADE CLEAR THAT OUR
POSITION HAD CHANGED. WE WERE NO LONGER INSISTING ON
CONTINUING BRITISH ADMINISTRATION AS A PRE-REQUISITE. IT WOULD BE
TRAGIC FOR US TO LOSE THE PROSPECT OF PROGRESS BECAUSE OF
CHINESE INSISTENCE ON A STATEMENT WHICH WE COULD NOT MAKE.

8. GALSWORTHY NOTED LUO'S COMMENTS ON CHINESE INTEREST IN
OUR IDEAS ON THEIR POLICIES. HE SAID THAT HE PERSONALLY COULD
SEE LITTLE DISTINCTION BETWEEN MATTERS DIRECTLY INVOLVING
BRITISH INTERESTS AND THOSE WHICH DIDN'T. WE SHOULD
HAVE IDEAS ON BOTH, AND SO FAR AS HE COULD SEE THE CHINESE
WERE SAYING THEY WOULD WELCOME THEM. LUO AGREED THAT THEY WOULD.

CRADOCK

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Ref

Feb 1983

10 DOWNING STREET

From the Private Secretary

21 October 1983

HONG KONG

I enclose a copy of a letter which the Prime Minister has received from the High Commissioner of Canada. This contains a long message from Mr. Trudeau which is principally devoted to a description of his talks with the Chinese Foreign Minister about Hong Kong.

I should be grateful if you would provide a draft reply to Mr. Trudeau for signature by the Prime Minister.

A&C

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



VK

10 DOWNING STREET

From the Private Secretary

21 October 1983

The Prime Minister has asked me to thank you for your letter of 21 October in which you transmitted the text of a message from Mr. Trudeau about Hong Kong.

ASC

His Excellency Mr. Donald C. Jamieson

cc FCO

Canadian High Commission



Haut Commissariat du Canada

SECRET

1 Grosvenor Square,
London W1X 0AB

October 21, 1983

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

Dear Prime Minister,

I have been asked by Prime Minister Trudeau to pass the following message to you. The original message will follow shortly.

"Dear Margaret,

Allow me to take a moment to convey my personal congratulations for your immensely successful visit to Canada in late September, the impact of which continues to be discussed in private and public. You have captured the imagination of many Canadians. As usual, I enjoyed our discussions and hope to pursue them next month in New Delhi.

I recall particularly your concerns about Britain's ongoing negotiations with China on the future of Hong Kong. Significant Canadian interests are also at play but not, of course, to anything like the extent of your own.

Fortuitously, the Chinese Foreign Minister, State Councillor Wu Xueqian, visited Ottawa in early October. During my luncheon with Mr. Wu, he spoke at some length of the future of Hong Kong and China's approach to the negotiations (all this, I must add, without any particular encouragement from me). I do not for a moment consider Wu's statements to be a disinterested account of the negotiations. I thought nevertheless you might like to have, in confidence, a brief resumé of Wu's comments.

The substance of Wu's presentation would be all too familiar to you. The assumption of sovereignty over all of the British administered territory was, he said, fundamental to China's current position. He emphasized that it was not China's intention to disrupt either the social or economic fabric of Hong Kong by assuming sovereignty. Indeed, he forcefully reiterated the importance of assuring stability for Hong Kong in the long term.

Your negotiators are no doubt familiar with the following points which Wu emphasized would underpin the Chinese Government's policy vis-à-vis Hong Kong following 1997:

- Foreign businesses, including British businesses, would continue operating without interference;
- the judicial system would remain unchanged;
- the right of final appeal in judicial matters would be vested in Hong Kong;
- the only wording changes in existing Hong Kong laws would reflect the Peoples' Republic of China's sovereignty;
- international economic relations would remain unchanged;
- the Hong Kong dollar would remain in use; and
- general elections would allow Hong Kong residents to administer Hong Kong as a "Special administrative region".

Throughout Wu's presentation, there was no discussion of a possible role for Britain beyond 1997. He repeated that sovereignty and administration, in Chinese eyes, must go hand in hand.

In concluding his remarks, Wu stated that "we do not wish to export revolution" and left the implication that China had no immediate thought of communizing Hong Kong. He stated with equal emphasis that the Peoples' Republic of China wished to keep Hong Kong as a principal trading centre, not only in the Far East but in the world.

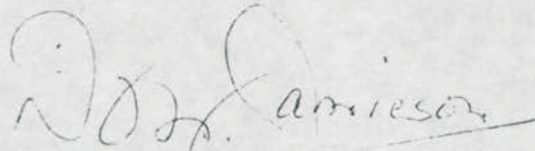
I certainly do not wish to insert myself in your delicate and complex talks with the Chinese. I would inform

you nevertheless that Chinese Premier Zhao Ziyang will undertake an official visit to Canada during the second half of January. If you see any way in which that visit could be useful, I hope you will let me know.

I am aware that the next session of your ongoing negotiations on Hong Kong will take place on October 19 and 20. The emphasis which Foreign Minister Wu placed on the financial and economic arrangements for Hong Kong suggested to me that such considerations might figure more prominently in the Chinese approach in future discussions."

Please accept, dear Prime Minister, the assurances of my highest consideration.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "D. C. Jamieson".

Donald C. Jamieson
High Commissioner



MS

Prime Minister.

This is not, as things have turned out this week, immediately relevant. but you may like to see the state of contingency planning.

A-2 C. 24/10

Ref. A083/2963

MR COLES

Hong Kong: Possible Contingencies

In your minute to Miss Wilkinson of 17 October you referred to the Prime Minister's wish for a review of contingency plans to be carried out against the possibility that the Chinese reject the latest formula put to them by Sir Percy Cradock and that this results in an early breakdown in the negotiations.

--- 2. I now attach for the Prime Minister's information a note by the Foreign and Commonwealth Office prepared in consultation with the Cabinet Office which summarises the present state of contingency planning on Hong Kong. Details of the various aspects of civil contingency planning, for which primary responsibility lies with the Hong Kong Government, are summarised in the Top Secret annex to the note.

3. I am sending a copy of this minute and the attachments to Sir Antony Acland.

RA

ROBERT ARMSTRONG

20 October 1983



CONTROL

20 OCT 1983



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HONG KONG NEGOTIATIONS: POSSIBLE CONTINGENCIES

Note by the Foreign and Commonwealth Office

1. Sir P Cradock has passed to the Chinese negotiator the message agreed with the Hong Kong EXCO Unofficials. The hope is that at the next round of talks on 19/20 October the Chinese side will accept our formula as a basis for more detailed discussion and, just as important, preserve confidentiality on our position.

2. We must however prepare for two contingencies:

- (a) That the Chinese will agree to more detailed discussions but by some means misrepresent our position publicly;
- (b) That they will say that our move is insufficient and that nothing less than an unqualified acceptance of their precondition on sovereignty and the right of administration will allow any further discussion.

Chinese Misrepresentation

3. If the Chinese claim publicly that we have accepted their premise without conditions, our counter action must depend upon the nature of their statement and its content. We must be ready if necessary to publish the telegram of instructions to Sir P Cradock. This would demonstrate that we were taking a reasonable position but that we had made no unqualified concession and that we still preferred continued British administration. But that in turn would presumably lead to a formal Chinese Government statement of their position and early deadlock. We should then be at the stage of high level public confrontation. The talks could well break down and would be very difficult to restart.

4. Publication of the instructions should therefore only be used if the Chinese make a formal statement. If they confined themselves to misleading press briefing we should take the line that no concessions had been made by either side, that we stuck to our aim of an agreement acceptable to both governments and to the people of

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Hong Kong and that what counted was the final package of arrangements. We should accompany this by a strong diplomatic approach to the Chinese in order to impress on them the danger of an exchange of public statements. If this did not succeed we might well have to publish the full instructions.

Chinese Rejection of our Approach

5. This could well result in a breakdown. Sir P. Cradock will argue strongly in any case that a new date for talks should be fixed but he may not succeed. In that case confrontation with the Chinese would become more intense and obvious to the public. We could expect the following consequences:

- (a) Stepping up of propaganda by the Chinese, probably with increased pressure and possibly agitation by communists in Hong Kong;
- (b) A further sharp fall in confidence in Hong Kong;
- (c) Pressure on HMG to declare their position, and to defend it publicly.

Increased Chinese Pressure

6. There is no likelihood at this stage of any Chinese military move against Hong Kong or of outright subversion by Chinese communist groups in the Territory. We can however expect a very considerable stepping up of propaganda, both within Hong Kong and internationally. This could be accompanied by agitation in the form of communist-inspired demonstrations. The Chinese could be expected to continue the "united front" tactics, trying to demonstrate that they were simply part of a popular movement. They might try to combine pressure related to the future with the exploitation of unrest over social and economic difficulties, particularly rising prices.

7. The Governor, with the advice of the Commander, British Forces, has the responsibility for the maintenance of law and order. There are contingency plans to deal with increased security problems of this nature as well as provision for reinforcement from Brunei if necessary. Details of contingency planning to deal with

other forms of Chinese pressure on Hong Kong. are summarised in an Annex to this note.

8. The immediate decision for HMG would be our response to Chinese propaganda. Again we should need to consider this very carefully in the light of Chinese statements and the degree of animosity associated with the breakdown. If there was still a prospect of restarting the talks, there would be advantage in holding the position by statements that our position remained reasonable and we wanted to restart the talks. But if the Chinese persisted we should need to make a fuller statement, probably including the publication of the instructions to the Ambassador.

Confidence in Hong Kong

9. A drop in confidence would appear in a fall in the markets and the Hong Kong dollar; increased efforts by those who could afford it to leave Hong Kong; and probably by a fall in Civil Service morale and efficiency. The Hong Kong Government, with advice from HMG, have taken measures to link the Hong Kong dollar indirectly to the US dollar at a rate of about HK\$7.80 to US\$1. This should provide a considerable measure of stability but would not necessarily hold the position if political concern was too great. For the moment, however the only practical financial measures have been taken and efforts to restore confidence would need to be largely political.

10. In the public service there could be demands for reassurance from HMG, particularly from groups in sensitive work who would be likely to seek guarantees of their safety in the event of a collapse in Hong Kong, most probably by registration as British citizens under Clause 4.5 of the Nationality Act. The Home Secretary has been alerted to the general problem. Careful consideration of the claims of individual groups would be needed, taking account of the risk that any move toward extraordinary measures by HMG would be seen as a signal that we had lost confidence in the outcome of the negotiations with China.

HMG's Public Position

11. Quite apart from the need to respond to Chinese propaganda, a



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breakdown in the talks would certainly require a high level statement by HMG to deal with parliamentary concern and to try to boost confidence in Hong Kong by reaffirming our commitment.

12. A statement will in any case almost certainly be necessary in Parliament shortly after the resumption, even if the talks are going well.

17 October 1983

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ANNEX

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Copy No 1 of 4 Copies

Hong Kong : Civil Contingency Planning

1. Civil contingency planning by the Hong Kong Government exists to deal with a wide range of possible developments. The work is supervised by a Steering Group chaired by the Governor. The principal members are the Chief Secretary, The Secretary (General Duties) and the Political Adviser. Other senior officials are brought in to the Steering Group as appropriate. Military contingency planning is carried out by the Commander, British Forces Hong Kong in close consultation with the Governor.

2. The Hong Kong Government has overall responsibility for civil contingency planning. They have a Joint Internal Security Scheme which deals with the scope and nature of the internal threat to Hong Kong and the civil plans to overcome any internal security situation arising from such threat (including such matters as emergency operation of the port). Such a situation could well arise from pressure in the context of the negotiations. Some of the areas where problems could arise can be dealt with by the Hong Kong Government alone, but there are other areas where assistance is needed from London. The range of planning in Hong Kong and London is as follows:-

- (a) To reinforce the British Garrison, either to cope with a breakdown in law and order, or to maintain essential services, or both. Reinforcement would be undertaken in response to a request from the Hong Kong Government.
- (b) To requisition or charter ships or aircraft to carry essential supplies in the event of the interruption of supplies from China by blockade or other means.
- (c) To deal with the interruption of essential supplies from China, such as water, food and fuel. There are plans in Hong Kong to bring the desalter into operation and supplement existing supplies in reservoirs and catchment areas. Rationing schemes would ensure adequate though

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limited supplies. In addition water could at a cost be freighted from elsewhere by sea. There are detailed plans to stockpile and control supplies of food and fuel and to arrange alternative sources of supply mainly in the Far East region. There are plans for the control of the issue of rice and for the use of fuel.

- (d) To deal with any sudden upsurge in requests for immigration from Hong Kong to the United Kingdom. Hong Kong would filter applications. In London there would be close liaison with the Home Office, who have been alerted to the potential problem. Discussions would be needed not merely on requests for entry to the UK but also on applications by Hong Kong Crown Servants for registration as British Citizens under Section 4.5 of the British Nationality Act.

- (e) To deal with an increased level of immigration from China to Hong Kong. (At present the Chinese authorities cooperate in limiting this). The Hong Kong Government might need assistance from HMG eg in reinforcing the garrison to intercept illegal immigrants and in setting up holding centres.

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PRIME MINISTER

AT 20/10

HONG KONG - MONETARY REFORM

During the four days in which the Currency Board system has been in operation, we may take some comfort from the behaviour of the markets. On the first day the Hong Kong dollar traded on the markets at a slight discount creating many opportunities for arbitrage. But as we went from Monday to Thursday the rate moved until it was centred on the posted parity of \$7.80 to the US dollar. The market rate now seems to be firmly anchored at the quoted parity.

There has been no sign of a run on the banking system at all. In the early days the Chinese banks felt aggrieved because of the arbitrage operations, primarily by the international banks with the note issuing banks. But this seems to have ceased. As you will recall in Washington we argued that there would not be a run because it would be widely appreciated that any such run could be easily and swiftly contained by the system itself. This confidence appears, at least so far, to be justified.

As expected, overnight interest rates increased considerably during the first days of the new scheme. The arbitrage profits were a temptation and the overnight money rates reflected this. Today, however, they are down to 20% and still falling. Most important the spreads have narrowed very considerably so that uncertainty has been very much reduced. The Hang Seng index is up.

There are some minor technical deficiencies of the new Currency Board system, but I expect they will be eliminated or minimised in the next week or two. On the whole it should settle down with very few teething troubles. There is, however, one important rigidity which will prevent the system from functioning as efficiently as it should. That is the interest rate cartel by the main banks. Our advice was that this be dismantled, but ^{rem} Baird decided that he should not eliminate the cartel at this stage. But with the cartel in place it will make the adjustments rather more jerky and less speedy and smooth than we would wish. But I must confess that I do not think that it is anything like a fatal flaw in the system.

/I do not believe

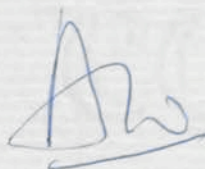
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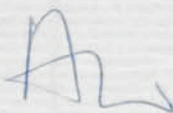
I do not believe there will be any serious confidence crisis provided that parity is maintained. But there are likely to be a number of problems of equity between the different forms of banks. These are, I think, entirely the responsibility of the Hong Kong government and we should have virtually no role at all in the resolution of these problems.

The reform of the Hong Kong monetary system was handled with astonishing speed and I believe remarkable efficiency. The Chancellor, supported by the Bank, did an excellent job.



ALAN WALTERS
20 October 1983

P.S. I reviewed the Mansion House speech. It
seemed to me to be excellent. I could
find no fault!



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FM PEKING 200945Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1057 OF 20 OCTOBER
INFO IMMEDIATE HONG KONG

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P. R. has seen.

MIPT: FIFTH ROUND: SECOND DAY.

COMMENT.

21.
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1. THE ATMOSPHERE WAS STRIKINGLY WARMER TODAY, IN PART NO DOUBT BECAUSE OF THE STRESS WE LAID YESTERDAY IN OUR VARIOUS CONTACTS ON THE NEED FOR AN ADEQUATE RESPONSE TO THE PRIME MINISTER'S MESSAGE.

h-a.

2. ONE CLEAR RESULT OF THE PRIME MINISTER'S MESSAGE HAS BEEN THAT THERE HAS BEEN NO FURTHER THREAT TO BREAK OFF THE TALKS. ON THE CONTRARY, THE CHINESE APPEAR ANXIOUS TO PURSUE INFORMAL CONTACTS BETWEEN NOW AND THE NEXT ROUND. IN THE PAST THIS HAS USUALLY BEEN A SIGN THAT THEY WANTED PROGRESS. IT WILL ONLY EMERGE AS WE ATTEMPT TO PURSUE THESE CONTACTS WHETHER WE CAN DO USEFUL WORK IN THEM OR WHETHER WE SHALL BE CONSTANTLY HARKING BACK TO DISCUSSION OF THE CHINESE PREMISE.

3. THE MESSAGE HAS DONE MORE THAN THIS, BUT IT IS STILL HARD TO JUDGE THE PRECISE EXTENT OF THE PROGRESS. WHILE YAO REPEATED SEVERAL TIMES WITH GREAT EMPHASIS HIS WELCOME FOR THE PRIME MINISTER'S MESSAGE AND MY EXPLANATORY COMMENTS, HE PERSISTED IN TRYING TO PUSH US TOWARDS A CLEAR AND EXPLICIT AFFIRMATION, PREFERABLY OF THE PREMISE ITSELF, OR, IE NOT THAT, AT LEAST OF THE CHINESE THESIS THAT THE TALKS AS A WHOLE ARE BASED UPON IT. IT IS NOT YET CLEAR, NOR WILL IT BE UNTIL WE MAKE FURTHER ATTEMPTS TO PURSUE DETAILED DISCUSSION OF THE CHINESE PLAN, WHETHER THIS IS A RITUAL REPETITION OF THE CHINESE VIEW, OR WHETHER THEY REALLY THINK THAT WE CAN BE PUSHED FURTHER. HOWEVER, EXPLICIT AFFIRMATION OF THE PREMISE WAS NO LONGER MADE, AS IN THE PAST, THE PRECONDITION FOR FURTHER DISCUSSION.

4. A FURTHER POINT EMERGING IS THAT THE CHINESE MAY IN ANY CASE EXPERIENCE DIFFICULTY IN GOING INTO MORE DETAIL ON THEIR PLAN. WE STRONGLY SUSPECT THAT THEY DO NOT HAVE DETAILED IDEAS, OR AT LEAST DETAILED IDEAS WHICH HAVE BEEN APPROVED BY THE LEADERSHIP.

5. TO SUM UP, I AM MODERATELY HOPEFUL THAT WE ARE EDGING THROUGH THE DOOR, AND IT HAS CERTAINLY NOT BEEN CLOSED AGAINST US. IT IS, HOWEVER, CLEAR THAT THE CHINESE HAVE ONLY SUSPENDED JUDGMENT ABOUT OUR MOTIVES AND OBJECTIVES IN THE TALKS, AND WILL RETURN

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TO INSISTENCE ON THE PREMISE AT THE LEAST INDICATION THAT WE ARE PUTTING FORWARD SUGGESTIONS WHICH THEY SEE AS CONFLICTING WITH THE RETURN OF SOVEREIGNTY AND ADMINISTRATION OVER HONG KONG TO CHINA.

6. I SHALL TELEGRAPH FURTHER SUGGESTIONS ON FUTURE TACTICS.

CRADOCK

FUTURE OF HONG KONG

LIMITED

ED/HKD

ED/FED

HD/PLANNING STAFF

HD/FUSD

PS

PS/LADY YOUNG

PS/MR LUCE

PS/FUS

SIR J BULLARD

MR GIFFARD

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SIR PHILIP MOORE, BUCKINGHAM PALACE

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Ref. A083/2963

MR COLESHong Kong: Possible Contingencies

In your minute to Miss Wilkinson of 17 October you referred to the Prime Minister's wish for a review of contingency plans to be carried out against the possibility that the Chinese reject the latest formula put to them by Sir Percy Cradock and that this results in an early breakdown in the negotiations.

2. I now attach for the Prime Minister's information a note by the Foreign and Commonwealth Office prepared in consultation with the Cabinet Office which summarises the present state of contingency planning on Hong Kong. Details of the various aspects of civil contingency planning, for which primary responsibility lies with the Hong Kong Government, are summarised in the Top Secret annex to the note.

3. I am sending a copy of this minute and the attachments to Sir Antony Acland.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

20 October 1983

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HONG KONG NEGOTIATIONS: POSSIBLE CONTINGENCIES

Note by the Foreign and Commonwealth Office

1. Sir P Cradock has passed to the Chinese negotiator the message agreed with the Hong Kong EXCO Unofficials. The hope is that at the next round of talks on 19/20 October the Chinese side will accept our formula as a basis for more detailed discussion and, just as important, preserve confidentiality on our position.
2. We must however prepare for two contingencies:
 - (a) That the Chinese will agree to more detailed discussions but by some means misrepresent our position publicly;
 - (b) That they will say that our move is insufficient and that nothing less than an unqualified acceptance of their precondition on sovereignty and the right of administration will allow any further discussion.

Chinese Misrepresentation

3. If the Chinese claim publicly that we have accepted their premise without conditions, our counter action must depend upon the nature of their statement and its content. We must be ready if necessary to publish the telegram of instructions to Sir P Cradock. This would demonstrate that we were taking a reasonable position but that we had made no unqualified concession and that we still preferred continued British administration. But that in turn would presumably lead to a formal Chinese Government statement of their position and early deadlock. We should then be at the stage of high level public confrontation. The talks could well break down and would be very difficult to restart.
4. Publication of the instructions should therefore only be used if the Chinese make a formal statement. If they confined themselves to misleading press briefing we should take the line that no concessions had been made by either side, that we stuck to our aim of an agreement acceptable to both governments and to the people of

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Hong Kong and that what counted was the final package of arrangements. We should accompany this by a strong diplomatic approach to the Chinese in order to impress on them the danger of an exchange of public statements. If this did not succeed we might well have to publish the full instructions.

Chinese Rejection of our Approach

5. This could well result in a breakdown. Sir P Cradock will argue strongly in any case that a new date for talks should be fixed but he may not succeed. In that case confrontation with the Chinese would become more intense and obvious to the public. We could expect the following consequences:

- (a) Stepping up of propaganda by the Chinese, probably with increased pressure and possibly agitation by communists in Hong Kong;
- (b) A further sharp fall in confidence in Hong Kong;
- (c) Pressure on HMG to declare their position, and to defend it publicly.

Increased Chinese Pressure

6. There is no likelihood at this stage of any Chinese military move against Hong Kong or of outright subversion by Chinese communist groups in the Territory. We can however expect a very considerable stepping up of propaganda, both within Hong Kong and internationally. This could be accompanied by agitation in the form eg of communist-inspired demonstrations. The Chinese could be expected to continue the "united front" tactics, trying to demonstrate that they were simply part of a popular movement. They might try to combine pressure related to the future with the exploitation of unrest over social and economic difficulties, particularly rising prices.

7. The Governor, with the advice of the Commander, British Forces, has the responsibility for the maintenance of law and order. There are contingency plans to deal with increased security problems of this nature as well as provision for reinforcement from Brunei if necessary. Details of contingency planning to deal with

other forms of Chinese pressure on Hong Kong. are summarised in an Annex to this note.

8. The immediate decision for HMG would be our response to Chinese propaganda. Again we should need to consider this very carefully in the light of Chinese statements and the degree of animosity associated with the breakdown. If there was still a prospect of restarting the talks, there would be advantage in holding the position by statements that our position remained reasonable and we wanted to restart the talks. But if the Chinese persisted we should need to make a fuller statement, probably including the publication of the instructions to the Ambassador.

Confidence in Hong Kong

9. A drop in confidence would appear in a fall in the markets and the Hong Kong dollar; increased efforts by those who could afford it to leave Hong Kong; and probably by a fall in Civil Service morale and efficiency. The Hong Kong Government, with advice from HMG, have taken measures to link the Hong Kong dollar indirectly to the US dollar at a rate of about HK\$7.80 to US\$1. This should provide a considerable measure of stability but would not necessarily hold the position if political concern was too great. For the moment, however the only practical financial measures have been taken and efforts to restore confidence would need to be largely political.

10. In the public service there could be demands for reassurance from HMG, particularly from groups in sensitive work who would be likely to seek guarantees of their safety in the event of a collapse in Hong Kong, most probably by registration as British citizens under Clause 4.5 of the Nationality Act. The Home Secretary has been alerted to the general problem. Careful consideration of the claims of individual groups would be needed, taking account of the risk that any move toward extraordinary measures by HMG would be seen as a signal that we had lost confidence in the outcome of the negotiations with China.

HMG's Public Position

11. Quite apart from the need to respond to Chinese propaganda, a

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breakdown in the talks would certainly require a high level statement by HMG to deal with parliamentary concern and to try to boost confidence in Hong Kong by reaffirming our commitment.

12. A statement will in any case almost certainly be necessary in Parliament shortly after the resumption, even if the talks are going well.

17 October 1983

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Copy No 2 of 4 Copies

Hong Kong : Civil Contingency Planning

1. Civil contingency planning by the Hong Kong Government exists to deal with a wide range of possible developments. The work is supervised by a Steering Group chaired by the Governor. The principal members are the Chief Secretary, The Secretary (General Duties) and the Political Adviser. Other senior officials are brought in to the Steering Group as appropriate. Military contingency planning is carried out by the Commander, British Forces Hong Kong in close consultation with the Governor.

2. The Hong Kong Government has overall responsibility for civil contingency planning. They have a Joint Internal Security Scheme which deals with the scope and nature of the internal threat to Hong Kong and the civil plans to overcome any internal security situation arising from such threat (including such matters as emergency operation of the port). Such a situation could well arise from pressure in the context of the negotiations. Some of the areas where problems could arise can be dealt with by the Hong Kong Government alone, but there are other areas where assistance is needed from London. The range of planning in Hong Kong and London is as follows:-

- (a) To reinforce the British Garrison, either to cope with a breakdown in law and order, or to maintain essential services, or both. Reinforcement would be undertaken in response to a request from the Hong Kong Government.
- (b) To requisition or charter ships or aircraft to carry essential supplies in the event of the interruption of supplies from China by blockade or other means.
- (c) To deal with the interruption of essential supplies from China, such as water, food and fuel. There are plans in Hong Kong to bring the desalter into operation and supplement existing supplies in reservoirs and catchment areas. Rationing schemes would ensure adequate though

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limited supplies. In addition water could at a cost be freighted from elsewhere by sea. There are detailed plans to stockpile and control supplies of food and fuel and to arrange alternative sources of supply mainly in the Far East region. There are plans for the control of the issue of rice and for the use of fuel.

- (d) To deal with any sudden upsurge in requests for immigration from Hong Kong to the United Kingdom. Hong Kong would filter applications. In London there would be close liaison with the Home Office, who have been alerted to the potential problem. Discussions would be needed not merely on requests for entry to the UK but also on applications by Hong Kong Crown Servants for registration as British Citizens under Section 4.5 of the British Nationality Act.

- (e) To deal with an increased level of immigration from China to Hong Kong. (At present the Chinese authorities cooperate in limiting this). The Hong Kong Government might need assistance from HMG eg in reinforcing the garrison to intercept illegal immigrants and in setting up holding centres.

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FM FCO 201100Z OCT 83
TO PRIORITY HONG KONG
TELEGRAM NUMBER 1075 OF 20 OCTOBER
INFO PRIORITY PEKING.

MS

YOUR TELNO 1554 ROBERT ADLEY MP

1. THE HONG KONG GOVERNMENT OFFICE HAVE GIVEN US THE SAME INFORMATION ABOUT MR ADLEY'S PROPOSED VISIT TO HONG KONG THEY ARE TRYING TO FIND OUT MORE OF HIS PLANS AND WILL KEEP IN TOUCH WITH US.

2. YOU SHOULD KNOW THAT MR ADLEY WROTE TO THE PRIME MINISTER THE SECRETARY OF STATE AND MR LUCE IN EARLY OCTOBER RESTATING HIS VIEW THAT THE BRITISH GOVERNMENT SHOULD IMMEDIATELY RECOGNISE CHINA'S SOVEREIGNTY OVER HONG KONG. IT WAS ONLY A PERSONAL INTERVENTION BY MR LUCE WHICH DISSUADED MR ADLEY FROM PUBLISHING HIS LETTER TO THE PRIME MINISTER. BUT IN A FURTHER LETTER MR ADLEY WARNED THAT HIS PATIENCE WAS ALMOST EXHAUSTED AND THAT HE WAS PROFOUNDLY DISQUIETED BY DEVELOPMENTS OVER HONG KONG THE SECRETARY OF STATE SUBSEQUENTLY WROTE TO MR ADLEY COUNSELLING RESTRAINT.

3. IN THESE CIRCUMSTANCES WE JUDGE THAT ANY ATTEMPT TO APPROACH MR ADLEY OR LEAN ON HIM COULD BE COUNTERPRODUCTIVE IF HIS VISIT TO HONG KONG MATERIALISES WE CAN ONLY SUGGEST THAT IT SHOULD BE HANDLED AS A ROUTINE AFFAIR, AND THAT HE SHOULD BE TREATED NO DIFFERENTLY FROM ANY OTHER VISITING MP WHERE HIS PROGRAMME OR BRIEFING IS CONCERNED.

4. MR ADLEY HAS ALSO SECURED AN ADJOURNMENT DEBATE ON HONG KONG IN THE HOUSE OF COMMONS, TO TAKE PLACE ON 31 OCTOBER SUCH DEBATES LAST FOR HALF AN HOUR. WE DO NOT YET KNOW WHO WILL REPLY FOR THE GOVERNMENT.

HOWE

FUTURE OF HONG KONG

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HD/HKD

HD/FED

HD/PLANNING STAFF

HD/FUSD

PS

PS/LADY YOUNG

PS/MR LUCE

PS/FUS

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MR WALKER RESEARCH D OAB 2/82

MR GOODALL, CABINET OFFICE

SIR PHILIP MOORE, BUCKINGHAM PALACE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1058 OF 20 OCTOBER

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: FIFTH ROUND: SECOND DAY

1. I AGAIN SPOKE FIRST. I SAID THAT WHILE I WAS GLAD TO HEAR YAO WELCOME THE PRIME MINISTER'S MESSAGE, AND STATE THAT THE CHINESE SIDE ATTACHED IMPORTANCE TO IT, I WAS NEVERTHELESS WORRIED BY HIS APPARENT RELUCTANCE IN THE SECOND HALF OF YESTERDAY'S SESSION TO RECOGNISE THE CONSIDERABLE DISTANCE WE HAD TRAVELLED TO ACCOMMODATE CHINESE VIEWS ON SOVEREIGNTY AND ADMINISTRATION.

IT WAS VITAL THAT THE TERMS OF THE PRIME MINISTER'S MESSAGE SHOULD NOT BE MISUNDERSTOOD. HAVING TAKEN YAO AGAIN THROUGH MOST OF THE FINAL PARAGRAPH OF THE PRIME MINISTER'S MESSAGE, I REITERATED THAT WE WERE NO LONGER INSISTING ON BRITISH ADMINISTRATION AS A PREREQUISITE, AND THAT THE PRIME MINISTER HAD PROPOSED, IN PURSUANCE OF HER LETTER OF 10 MARCH, AND WITHOUT PREJUDICE TO ANY FINAL AGREEMENT, THAT THE TWO SIDES SHOULD DISCUSS WHAT OTHER EFFECTIVE METHODS MIGHT BE DEvised TO MAINTAIN HONG KONG'S STABILITY AND PROSPERITY.

I REPEATED THE PURPOSE OF THESE DISCUSSIONS. I COMMENTED THAT BOTH SIDES HAD NOW SET THEIR POSITIONS OUT VERY FULLY AND SHOULD UNDERSTAND ONE ANOTHER CLEARLY. I HOPED THAT WE SHOULD NOW BE ABLE TO MOVE ON TO MORE CONSTRUCTIVE WORK.

2. I REFERRED TO THE THREE PRINCIPLES WHICH THE MINISTER HAD YESTERDAY STRESSED. I CONFIRMED THAT WE FULLY UNDERSTOOD THE CHINESE POSITION ON THE FIRST PRINCIPLE AND DID NOT INTEND TO EVADE THE QUESTION OF SOVEREIGNTY. ON THE SECOND AND THIRD PRINCIPLES, I ALSO CONFIRMED THAT THE BRITISH SIDE WOULD BE WILLING IN THE COURSE OF THE TALKS TO PUT FORWARD VIEWS ON THE CHINESE PROPOSALS.

3. I THEN TURNED TO YAO'S REPEATED ATTEMPTS YESTERDAY TO GET ME EXPLICITLY TO AFFIRM OUR ACCEPTANCE OF THE CHINESE PREMISE. I SAID THAT I COULD CERTAINLY CONFIRM THAT WE FULLY UNDERSTOOD THE PREMISE. HOWEVER IN PRESSING ME TO GO FURTHER, YAO WAS ASKING FOR SOMETHING WHICH WAS NOT ONLY BEYOND MY POWER BUT ALSO THAT OF THE PRIME MINISTER TO GIVE. I REPEATED THE CONSTITUTIONAL CONSTRAINTS SET OUT IN THE PRIME MINISTER'S LETTER OF 10 MARCH TO ZHAO ZIYANG. AGREEMENT TO TRANSFER SOVEREIGNTY COULD ONLY BE OBTAINED AFTER WE HAD TOGETHER CONSTRUCTED ARRANGEMENTS WHICH THE PRIME MINISTER COULD RECOMMEND TO PARLIAMENT.

4. I EMPHASISED AGAIN THAT WE WERE NOW PREPARED TO CONDUCT TOGETHER POSITIVE AND CONSTRUCTIVE DISCUSSIONS ON THE BASIS OF THE CHINESE PROPOSALS. THE CHINESE SIDE HAD REPEATEDLY STATED

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THAT THEIR PROPOSALS AND THEIR PREMISE WERE INDISSOLUBLY LINKED. IT THEREFORE FOLLOWED IN LOGIC THAT OUR DISCUSSIONS TOGETHER WOULD BE BASED ON THE CHINESE PREMISE.

5. I URGED YAO ONCE AGAIN NOT TO UNDERESTIMATE THE OPPORTUNITY WHICH THE PRIME MINISTER'S MESSAGE HAD CREATED FOR THE TWO SIDES TO WORK TOGETHER CONSTRUCTIVELY AND TO ACHIEVE AN AGREEMENT WHICH WOULD BE OF LASTING VALUE TO THE PEOPLE OF HONG KONG AND TO THE BENEFIT OF BOTH COUNTRIES. WE WERE OFFERING NOT ONLY TO CONSTRUCT TOGETHER ARRANGEMENTS TO ENSURE THE CONTINUING STABILITY AND PROSPERITY OF HONG KONG ON THE BASIS OF THE CHINESE PROPOSALS, BUT ALSO, IF A SATISFACTORY ARRANGEMENT COULD BE REACHED, TO DO OUR UTMOST OVER THE INTRODUCTION AND IMPLEMENTATION OF SUCH ARRANGEMENTS. I THEN REFERRED TO WU XUEQIAN'S CONVERSATION WITH YOU IN NEW YORK IN WHICH HE RECOGNISED THAT THE BRITISH HAD ACCUMULATED CONSIDERABLE EXPERIENCE OF HONG KONG AND THE WAY IT WORKS. I HOPED THAT THE

CHINESE SIDE ALSO RECOGNISED THAT OUR COOPERATION IN THE INTRODUCTION OF WHATEVER NEW ARRANGEMENTS MIGHTS BE AGREED WOULD BE OF VERY GREAT VALUE IN ENSURING THEIR SUCCESS.

6. I REPEATED THE NEED TO HAVE MUCH MORE DETAILS OF THE CHINESE PROPOSALS FOR HONG KONG AND HOW THEY WOULD WORK. I HAD MADE A START ON THIS AREA YESTERDAY BY SUGGESTING CERTAIN QUESTIONS ABOUT THE CHINESE PROPOSALS ON THE LEGAL SYSTEMS. I PROPOSED IN THE SECOND HALF OF THE SESSION TO TURN TO THE FINANCIAL SYSTEMS.

7. ON YAO'S QUESTION ABOUT WHAT WE MEANT BY AN IMPORTANT ROLE FOR BRITAIN, I SAID THAT WE HOPED THAT A SUBSTANTIAL BRITISH ROLE IN HONG KONG'S VARIOUS SYSTEMS, CONSISTENT WITH THE CHINESE PROPOSALS, WOULD EMERGE FROM DISCUSSION OF ARRANGEMENTS AFTER 1997.

8. FINALLY, I STRESSED THAT THERE SHOULD BE NO DOUBT THAT THE MESSAGE WENT AS FAR AS WAS CONSTITUTIONALLY POSSIBLE FOR THE PRIME MINISTER. I THEREFORE HOPED THAT THE CHINESE SIDE WOULD NOW BE PREPARED TO WORK TOGETHER CONSTRUCTIVELY ON THE BASIS OF CHINA'S PROPOSALS. WE WERE READY TO PLAY OUR PART TO THE FULL.

9. YAO SAID HE HAD LISTENED WITH GREAT CARE. HE REITERATED THAT THE CHINESE GOVERNMENT WELCOMED AND ATTACHED IMPORTANCE TO THE PRIME MINISTER'S MESSAGE AS WELL AS TO OUR EFFORT TO PUSH THE TALKS FORWARD. WHILST THEY WELCOMED THE PRIME MINISTER'S MESSAGE, HE WISHED AGAIN TO EXPLAIN CLEARLY AND EXPLICITLY THAT THE CHINESE PREMISE CONSTITUTED THE BASIS FOR A SETTLEMENT. HE WAS GLAD TO KNOW THAT THE BRITISH SIDE WAS INDEED AWARE THAT THE CHINESE PROPOSALS AND PREMISE WERE INDISSOLUBLY LINKED. IT WAS SIGNIFICANT AND CONSTRUCTIVE THAT I HAD ALSO SAID THAT WE WERE PREPARED TO CONDUCT TALKS ON THE BASIS OF THE CHINESE

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PREMISE. HE HAD ALSO NOTED THAT WE NO LONGER INSISTED ON BRITISH ADMINISTRATION AS A PREREQUISITE. HE HAD REFERRED TO OUR PREVIOUS INSISTENCE ON THIS AS AN UNSURMOUNTABLE OBSTACLE WHICH HAD NOW BEEN REMOVED. HE WELCOMED MY COMMENT THAT WE WISHED TO KNOW MORE OF THE CHINESE PROPOSALS, NOT FOR DESTRUCTIVE COMMENT BUT AS PART OF OUR CONSTRUCTIVE AND POSITIVE APPROACH. THESE INDICATIONS HAD HELPED TO GIVE A GREATER UNDERSTANDING OF THE PRIME MINISTER'S MESSAGE. THEY WERE VERY SIGNIFICANT. HOWEVER, HE STILL HAD SOME QUESTIONS TO WHICH WERE INTENDED INCREASE MUTUAL UNDERSTANDING AND MAKE THE TALKS MORE FRUITFUL AND CONSTRUCTIVE.

10. YAO THEN PUT FORWARD FIVE MAIN QUESTIONS:

(A) WHAT WAS THE FORM AND NATURE OF THE UK ROLE WE ENVISAGED, AND IN WHAT WAY COULD IT BE CONSISTENT WITH CHINESE PROPOSALS?

(B) HOW WOULD THE BRITISH SIDE APPROACH THE FURTHER DISCUSSIONS ON QUESTIONS OF DETAIL?

(C) COULD WE NOT EXPLICITLY RECOGNISE CHINESE SOVEREIGNTY OVER HONG KONG AND THAT CHINA WOULD RECOVER SOVEREIGNTY? YAO UNDERSTOOD OUR EXPLANATION OF OUR DIFFICULTIES: NEVERTHELESS, AFFIRMATION OF THE CHINESE PREMISE WOULD MAKE THE TALKS MORE FRUITFUL AND LEAD TO MORE CONSTRUCTIVE DISCUSSION. THIS WOULD BE VERY IMPORTANT AND USEFUL. THE TALKS COULD THEN PROCEED SMOOTHLY TO ACHIEVE SATISFACTORY RESULTS. OTHERWISE, THE CHINESE SIDE WOULD HAVE TO REVERT TO THOSE QUESTIONS OF PRINCIPLE ON EVERY CONCRETE ISSUE. IT WOULD THEN BE QUITE LIKELY THAT THE TALKS COULD BECOME BOGGED DOWN OVER OUR DIFFERENCES AGAIN. THIS WOULD BE REGRETTABLE.

(D) WHAT KIND OF BILATERAL AGREEMENT DID WE HAVE IN MIND AND WHAT SHOULD IT ENSHRINE? YAO SAID HE DID NOT EXPECT AN IMMEDIATE REPLY ON THIS.

(E) WHAT DID WE MEAN BY ARRANGEMENTS OF LASTING VALUE?

11. HE REITERATED THAT THE CHINESE GOVERNMENT WELCOMED AND ATTACHED IMPORTANCE TO THE PRIME MINISTER'S MESSAGE AND THE PROPOSAL IT CONTAINED. THE CHINESE SIDE WOULD WELCOME QUESTIONS AND PROPOSALS FROM US. THE CHINESE SIDE WAS APPROACHING THESE DISCUSSIONS IN A CONSTRUCTIVE AND COOPERATIVE FASHION. THEY HOPED FOR SMOOTH PROGRESS LEADING TO AN EARLY AND SATISFACTORY RESULT.

12. HE SAID HE WAS ENCOURAGED BY THE SUBSTANCE AND TONE OF SOME OF YAO'S COMMENTS. THEY SUGGESTED THAT THE PRIME MINISTER'S MESSAGE HAD BEEN BETTER APPRECIATED TODAY THAN YESTERDAY. HE WOULD DO MY BEST TO ANSWER YAO'S QUESTIONS.

13. ON (A), I SAID THAT I HAD DEALT WITH OUR ROLE IN MY EARLIER STATEMENT THAT MORNING. I REPEATED THAT WE HAD NO PRECONCEIVED IDEAS. THE ROLE WOULD EMERGE IN THE COURSE OF OUR TALKS. WU XUEQIAN HAD RECOGNISED IN NEW YORK THAT THE UK MIGHT BE ABLE TO PLAY A CONSIDERABLE ROLE. EXACT DETAILS OF IT COULD ONLY BE WORKED OUT IN DETAILED DISCUSSION OF THE VARIOUS FIELDS. IF THE CHINESE SIDE SAW ANY INCONSISTENCY WITH THEIR PROPOSALS THEY WOULD, NO DOUBT, DRAW OUR ATTENTION TO IT. I SAW, HOWEVER, AN EMERGING DIFFICULTY. IT WAS CERTAINLY OUR INTENTION THAT WHATEVER UK ROLE MIGHT EMERGE SHOULD BE CONSISTENT WITH THE CHINESE PROPOSALS. HOWEVER, TO ENSURE SUCH CONSISTENCY, WE NEEDED TO KNOW MORE ABOUT WHAT THE PROPOSALS WERE. WE HAD HEARD ON 25 JULY AND IN YAO'S STATEMENT YESTERDAY A GENERAL ACCOUNT OF CHINESE PROPOSALS. IF WE WERE TO ENSURE THAT THE UK ROLE WAS CONSISTENT WITH CHINESE PROPOSALS WE NEEDED TO KNOW MORE DETAIL ABOUT THEM. WERE THESE TWO STATEMENTS ALL THE CHINESE SIDE HAD TO TELL US OR DID THEY HAVE A MORE DETAILED PLAN?

14. ON (B), I SAID THAT I HAD ALSO DEALT WITH THIS YESTERDAY. I HAD DRAWN UPON THE LEGAL SYSTEMS AS AN EXAMPLE. BY PUTTING A NUMBER OF QUESTIONS ON THE BASIS OF THE CHINESE PROPOSALS I SOUGHT TO HELP OUR COMMON UNDERSTANDING. THIS WAS A CLEAR EXAMPLE OF OUR APPROACH. I REMINDED YAO THAT I SHOULD WISH TO MOVE ON TO THE FINANCIAL SYSTEMS. WE WERE SEEKING COMMON GROUND.

15. ON (C), I SAID THIS WAS A FAMILIAR QUESTION. I HAD SAID ALL I COULD SAY ABOUT THE PREMISE IN MY OPENING STATEMENT. NEITHER I NOR THE PRIME MINISTER COULD GO FURTHER. HOWEVER, I SAW NO NEED FOR THE DISCUSSIONS TO GET BOGGED DOWN OVER THIS ISSUE IN THE FUTURE.

16. ON (D), I NOTED THAT YAO HAD INVITED US TO CONSIDER AND REFLECT. I SHOULD THEREFORE NOT PURSUE THIS QUESTION AT THIS STAGE.

17. ON (E), I SAID THAT IN GENERAL WE WERE SEEKING, AS HAD BEEN LAID UPON US BY OUR LEADERS, TO ENSURE HONG KONG'S PROSPERITY AND STABILITY INTO THE MOST DISTANT FUTURE. THIS WAS WHAT WE MEANT BY ARRANGEMENTS OF LASTING VALUE. HOWEVER, THE DETAIL IN EACH SPHERE WOULD BE DEVELOPED AS OUR DISCUSSIONS PROCEEDED.

18. I THEN MOVED ON TO TALK ABOUT THE FINANCIAL SYSTEMS IN HONG KONG. I DEALT FIRST WITH THE CURRENCY. YAO HAD SAID THAT THE DOLLAR WOULD CONTINUE TO CIRCULATE AND WOULD REMAIN FREELY CONVERTIBLE. I TOOK IT THAT THE CHINESE SIDE'S GENERAL APPROACH IN THIS, AS IN OTHER AREAS, WOULD BE THAT THE PRESENT SYSTEM SHOULD CONTINUE WITHOUT FUNDAMENTAL CHANGE. COULD WE ASSUME THAT THE CURRENCY WOULD CONTINUE TO BE THE HONG KONG DOLLAR; THAT IT WOULD BE INDEPENDENTLY MANAGED AS NOW; THAT IT

WOULD BE ISSUED BY THE TWO BANKS WHICH NOW FULFILLED THAT RESPONSIBILITY: AND THAT ITS RELATIONSHIP WITH THE RENMINBI WOULD REMAIN AS AT PRESENT? I PUT FORWARD COMPARABLE QUESTIONS ON THE EXCHANGE FUND, HONG KONG'S STATUS AS A FINANCIAL CENTRE, AND HONG KONG'S DEGREE OF FINANCIAL INDEPENDENCE. THESE WERE THE SORT OF QUESTIONS WHICH NEEDED TO BE DISCUSSED IN THE AREA OF THE FINANCIAL SYSTEMS. THERE WERE CERTAINLY OTHER AREAS NEEDING SIMILAR DISCUSSION. WE HAD NOW OFFERED PRELIMINARY COMMENTS ON TWO AREAS OF THE CHINESE PROPOSALS INTENDED TO CONFIRM THAT THE BASIC CHINESE INTENTION WAS TO LEAVE THE SYSTEMS BASICALLY UNCHANGED, AND TO ESTABLISH WHAT ASSURANCES THE CHINESE SIDE MIGHT GIVE THAT THESE SYSTEMS WOULD CONTINUE FOR A VERY LONG PERIOD. HOWEVER, FOR THE DIALOGUE TO BE CONSTRUCTIVE IT MUST BE A TWO-WAY PROCESS. IF THE CHINESE SIDE WAS WILLING TO CONTINUE WORK ON THESE AREAS, I SUGGESTED SUGGEST A MEETING AS EARLY AS 26 AND 27 OCTOBER.

19. YAO THANKED ME FOR MY PATIENT AND REPEATED REPLIES TO HIS REQUESTS FOR CLARIFICATION. HE WISHED TO MAKE FURTHER OBSERVATIONS ABOUT THE CHINESE PROPOSALS. HE MADE THE FOLLOWING POINTS:

(A) THE PROPOSALS WERE BASED ON THE NATIONAL CONSTITUTION WHICH PERMITTED THE ESTABLISHMENT OF A SAR. HE HAD ALREADY SPOKEN OF THE COMPOSITION OF THE GOVERNMENT OF THE HONG KONG SAR AND OF THE MAJOR ELEMENTS OF CHINESE POLICY TO BE PURSUED.

(B) CHINA WAS CONSIDERING KEEPING THESE POLICIES UNCHANGED FOR 50 YEARS.

(C) THE POLICIES WERE DETAILED, CONCRETE AND FORMED AN INTEGRAL WHOLE.

(D) HE WOULD WELCOME OUR VIEW ABOUT THESE CHINESE POLICIES. WE HAD ALREADY RAISED A NUMBER OF QUESTIONS ABOUT THE LEGAL SYSTEM. THIS WAS WELCOMED. THE ANSWERS TO OUR QUESTIONS WERE READILY AVAILABLE BY FURTHER STUDY OF HIS EARLIER POLICY STATEMENTS.

(E) AFFIRMATION OF OUR ACCEPTANCE OF THE CHINESE PREMISE WOULD MAKE IT POSSIBLE FOR US TO ENTER DISCUSSION OF FUTURE ARRANGEMENTS.

(F) HE WOULD RESERVE THE RIGHT TO COMMENT ON MY EXPLANATION OF OUR CONSTITUTIONAL CONSTRAINTS.

20. IN RESPONSE I SAID THAT OTHER MATTERS (COMMUNIQUE, TIMING OF NEXT MEETING) REMAINED TO BE SETTLED. I SHOULD THEREFORE OFFER ONLY THE BRIEFEST OBSERVATIONS. I WELCOMED SOME OF YAO'S POSITIVE REMARKS. I SAW NO REASON WHY THE TALKS SHOULD BECOME BOGGED DOWN OVER THE QUESTION OF THE CHINESE PREMISE. HE WAS CONSTANTLY PRESSING FOR SOMETHING MORE EXPLICIT. BUT OUR POSITION WAS VERY CLEAR. THE PRIME MINISTER'S MESSAGE SHOULD SATISFY ALL REASONABLE REQUESTS. I HAD EXPLAINED WITH GREAT CARE THAT NEITHER I NOR THE PRIME MINISTER COULD GO FURTHER. HE MUST UNDERSTAND THAT.

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21. I THEN REMINDED YAO OF MY SPECIFIC PROPOSAL THAT WE SHOULD HAVE FURTHER DETAILED DISCUSSIONS NEXT WEEK. THE DIALOGUE MUST BE TWO-WAY TO BE FRUITFUL. I TOOK HIM UP ON HIS ASSERTION THAT ANSWERS TO OUR QUESTIONS COULD BE FOUND IN HIS EARLIER STATEMENTS AND ASKED HIM FOR AN EXAMPLE OF ONE OF OUR QUESTIONS WHICH HAD ALREADY BEEN ANSWERED IN HIS EARLIER COMMENTS.

22. ON MY LETTER POINT, YAO SIMPLY REITERATED THAT FURTHER STUDY OF THE CHINESE PROPOSALS WOULD ANSWER OUR QUESTIONS. TURNING TO OUR NEXT MEETING, HE SAID THAT HE HAD GIVEN SERIOUS CONSIDERATION TO THE THINKING. HE UNDERSTOOD THAT WE MIGHT HOPE TO BUILD ON OUR MOMENTUM. BUT A SERIES OF IMPORTANT VISITORS MADE FURTHER TALKS BEFORE THE END OF THIS MONTH IMPOSSIBLE. HE PROPOSED THE 9TH OF NOVEMBER. THIS WAS IMPOSSIBLE FOR MYSELF AND THE GOVERNOR AND WE THEREFORE SETTLED ON 14/15 NOVEMBER.

PRESS STATEMENT

23. I PRESSED STRONGLY FOR A FULLER PRESS STATEMENT THAN LAST TIME. YAO WAS AT FIRST PREPARED TO OFFER ONLY THE WORD 'USEFUL' TO DESCRIBE THE TALKS. AFTER PROTRACTED ARGUMENT I GOT HIM TO ACCEPT THE ADDITIONAL WORD 'CONSTRUCTIVE' THAT WAS AS FAR AS HE WOULD GO. THE TEXT OF THE AGREED STATEMENT IS MY TELNO 1054.

24. SEE MIFT FOR COMMENT.

CRADOCK

FUTURE OF HONG KONG

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Prime Minister has

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AB 20/10

TELEGRAM NUMBER 1054 OF 20/10/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: 5TH ROUND: PRESS COMMUNIQUE

1. THE FOLLOWING IS THE TEXT OF THE AGREED PRESS COMMUNIQUE WHICH WILL BE RELEASED BY NCNA AND OURSELVES AT 0700Z TODAY.

BEGINS: "THE CHINESE AND BRITISH SIDES HELD USEFUL AND CONSTRUCTIVE TALKS ON OCTOBER 19TH AND 20TH. IT WAS AGREED THAT THE NEXT ROUND OF TALKS WILL BE HELD ON NOVEMBER 14TH AND 15TH IN PEKING."

ENDS.

2. WE AGREED WITH THE CHINESE THAT IN ANSWER TO QUESTIONS WE WOULD SAY IN ADDITION THAT INFORMAL CONTACTS WOULD CONTINUE BETWEEN THE TWO SIDES IN THE MEANTIME. WE PROPOSE TO LEAVE THIS FOR THE GOVERNOR TO USE ON ARRIVAL IN HONG KONG, AND TO SAY NOTHING OURSELVES IN THE MEANTIME. GRATEFUL IF HONG KONG WOULD DO LIKEWISE.

FOR THE GOVERNOR TO USE ON ARRIVAL IN HONG KONG, AND TO SAY
NOTHING OURSELVES IN THE MEAMTIME. GRATEFUL IF HONG KONG
WOULD DO LIKEWISE.

GRADOCK

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PS/PUS

PS/MR LUCE

MR DONALD

HD/HKD

HD/FED

COPY TO:

MR COLES, No. 10 DOWNING ST

~~RESIDENTIAL~~

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DESKBY 191300Z

Prime Minister.

We shall have to wait
to see how tomorrow
goes.

A.F.C. 19/10

FROM PEKING 191130Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1051 OF 19/10/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG: FIFTH ROUND: FIRST DAY

COMMENT

1. THERE WAS INITIALLY A NOTICEABLE IMPROVEMENT IN THE
ATMOSPHERE. YAO'S FIRST STATEMENT WAS MILDER THAN WE MIGHT HAVE
EXPECTED AND HIS WELCOME, ALBEIT QUALIFIED, FOR THE PRIME MINISTER'S
MESSAGE WAS ENCOURAGING. ALTHOUGH HIS SECOND STATEMENT,
STARTED OFF HOPEFULLY (WITH REFERENCES TO A WILLINGNESS TO
PROVIDE FURTHER EXPLANATIONS OF CHINESE POLICIES) IT

~~PROVIDE FURTHER EXPLANATIONS OF CHINESE POLICIES. IT~~
QUICKLY TURNED SOURER~~S~~ AND HE SPENT THE REST OF THE
TIME TRYING TO PIN US DOWN TO AFFIRMING CATEGORICALLY THAT WE
ACCEPTED THE CHINESE PREMISE.

2. IT IS DIFFICULT AT THIS STAGE TO SAY HOW MUCH SIGNIFICANCE
SHOULD BE ATTACHED TO YAO'S INSISTENCE ON THE PREMISE.
HE MAY HAVE RECEIVED ONLY PRELIMINARY INSTRUCTION FROM HIS
LEADERS TO SOUND US OUT AND SEE HOW FAR HE CAN PUSH US OVER IT.
LESS PLAUSIBLY BUT POSSIBLY, THE LEADERSHIP MAY HAVE DECIDED
TO INSIST ON HOLDING OUT FOR THEIR FULL TERMS TO BE MET.
IN ANY EVENT IT IS CLEAR THAT THE CHINESE ARE INTENSELY
SUSPICIOUS OF OUR NEW LINE AND MOTIVES. THEY FIND IT HARD TO
BELIEVE THAT THE PRIME MINISTER'S MESSAGE REALLY ADDS UP TO
THE STEP THAT WE ARE REPEATEDLY DESCRIBING AND EXPLAINING TO
THEM.

3. WHAT THE MESSAGE HAS IMMEDIATELY ACHIEVED IS THE ABSENCE
OF ANY FURTHER THREATS TO BREAK OFF THE TALKS.
WHAT IT HAS YET TO ACHIEVE, AND IT LOOKS AS IF IT WILL TAKE UP
THE REST OF THIS ROUND IN TRYING TO ACHIEVE IT, IS TO PERSUADE
THE CHINESE TO MOVE FORWARD TO DISCUSS THEIR PROPOSALS.

CRADOCK

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FM HONG KONG 190522Z OCT 83

TO PRIORITY FCO

TELEGRAM NUMBER 1554 OF 19 OCTOBER 1983

INFO PRIORITY HONG KONG GOVERNMENT OFFICE LONDON AND PEKING

ROBERT ADLEY MP

WE HAVE HEARD THAT ROBERT ADLEY IS PROPOSING TO VISIT HONG KONG AS SOON AS POSSIBLE WITH A VIEW TO COLLECTING MATERIAL FOR A BOOK WHICH HE HAS SAID TO BE WRITING ABOUT HONG KONG AND THE NEGOTIATIONS ON THE FUTURE FOR PUBLICATION IN U.K.

2. HE HAS NOT BEEN IN TOUCH DIRECTLY WITH US AND THE INFORMATION HAS COME FROM PAIN, EXECUTIVE DIRECTOR HONG KONG TOURIST ASSOCIATION. PAIN IS DOING HIS BEST TO PLAY IT LONG, IF ONLY BECAUSE THERE IS HEAVY DEMAND FOR HOTEL ACCOMMODATION. HE HAS SUGGESTED DECEMBER.

3. WE REALISE THAT PROBABLY LITTLE CAN BE DONE TO DISCOURAGE MR. ADLEY, BUT HIS PRESENCE HERE WILL GIVE THE LOCAL PRESS AN OPPORTUNITY TO MAKE SOMETHING OF HIS VIEWS, TO INDICATE THAT THERE MAY BE A GROUP OF MPS WHO ARE NOT AT ONE WITH MINISTERS AND DO NOT NECESSARILY GO ALONG WITH THE LINE WHICH THEY BELIEVE HMG IS TAKING. HIS PRESENCE WILL ALSO UPSET UNOFFICIALS WHO HAVE ALREADY NOTED SOME OF HIS EARLIER REMARKS IN THE HOUSE.

4. IT WOULD BE HELPFUL IF IT WERE POSSIBLE TO LEAN ON MR. ADLEY AND IN ANY CASE TO KNOW WHAT HIS PLANS ARE.

HADDON-CAVE

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/FUSD

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

COPIES TO

SIR IAN SINCLAIR LEGAL ADVISER

MR BURROWS LEGAL ADVISER

MR ROBERTS NEWS D

MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

MR FLOWER FUSD

MR COLES NO 10 DOWNING STREET

SIR A PARSONS NO 10 DOWNING STREET

MR WALKER RESEARCH D OAB 2/82

MR GOODALL, CABINET OFFICE

SIR PHILIP MOORE, BUCKINGHAM PALACE
HONG KONG GOVT OFFICE LONDON

CONFIDENTIAL

SUBJECT ee H. Q. S.
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Oms



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. 7756A/83

PRIME MINISTER • PREMIER MINISTRE
OTTAWA, K1A 0A2

PERSONAL AND CONFIDENTIAL

October 19, 1983

Dear Margaret,

Allow me to take a moment to convey my personal congratulations for your immensely successful visit to Canada in late September, the impact of which continues to be discussed in private and public. You have captured the imagination of many Canadians. As usual, I enjoyed our discussions and hope to pursue them next month in New Delhi.

I recall particularly your concerns about Britain's ongoing negotiations with China on the future of Hong Kong. Significant Canadian interests are also at play but not, of course, to anything like the extent of your own.

Fortuitously, the Chinese Foreign Minister, State Councillor Wu Xueqian, visited Ottawa in early October. During my luncheon with Mr. Wu, he spoke at some length of the future of Hong Kong and China's approach to the negotiations (all this, I must add, without any particular encouragement from me). I do not for a moment consider Wu's statements to be a disinterested account of the negotiations. I thought nevertheless you might like to have, in confidence, a brief resumé of Wu's comments.

The Right Honourable Margaret Thatcher, M.P.
Prime Minister of the United Kingdom
10 Downing Street
London, England

PERSONAL AND CONFIDENTIAL

- 2 -

The substance of Wu's presentation would be all too familiar to you. The assumption of sovereignty over all of the British administered territory was, he said, fundamental to China's current position. He emphasized that it was not China's intention to disrupt either the social or economic fabric of Hong Kong by assuming sovereignty. Indeed, he forcefully reiterated the importance of assuring stability for Hong Kong in the long term.

Your negotiators are no doubt familiar with the following points which Wu emphasized would underpin the Chinese Government's policy vis-à-vis Hong Kong following 1997:

- foreign businesses, including British businesses, would continue operating without interference;
- the judicial system would remain unchanged;
- the right of final appeal in judicial matters would be vested in Hong Kong;
- the only wording changes in existing Hong Kong laws would reflect PRC sovereignty;
- international economic relations would remain unchanged;
- the Hong Kong dollar would remain in use; and
- general elections would allow Hong Kong residents to administer Hong Kong as a "Special Administrative Region".

Throughout Wu's presentation, there was no discussion of a possible role for Britain beyond 1997. He repeated that sovereignty and administration, in Chinese eyes, must go hand in hand.

PERSONAL AND CONFIDENTIAL


- 3 -

In concluding his remarks, Wu stated that "we do not wish to export revolution" and left the implication that China had no immediate thought of communizing Hong Kong. He stated with equal emphasis that the People's Republic of China wished to keep Hong Kong as a principal trading centre not only in the Far East but in the world.

I certainly do not wish to insert myself in your delicate and complex talks with the Chinese. I would inform you nevertheless that Chinese Premier Zhao Ziyang will undertake an official visit to Canada during the second half of January. If you see any way in which that visit could be useful, I hope you will let me know.

I am aware that the next session of your ongoing negotiations on Hong Kong will take place on October 19 and 20. The emphasis which Foreign Minister Wu placed on the financial and economic arrangements for Hong Kong suggested to me that such considerations might figure more prominently in the Chinese approach in future discussions.

Yours sincerely, with
personal regards.

A handwritten signature in blue ink, appearing to read "Qian". The signature is fluid and cursive, with a large loop at the beginning and a long tail.

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PS/PUS

PS/MR LUCE

MR DONALD

[HD/HKD]

HD/FED

COPY TO:

MR COLES, No. 10 DOWNING ST

Handwritten signature

~~RESIDENT CLERK~~



00 FCO (DESKBY 191230Z)

00 HONG KONG

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SECRET

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Handwritten mark: -u/19

FROM PEKING 191040Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1050 OF 19/10/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

1. I SPOKE FIRST. I REMINDED YAO GUANG THAT THE MESSAGE I HAD CONVEYED TO HIM ON 14 OCTOBER HAD RESULTED FROM CONSULTATIONS IN LONDON WHICH HAD TAKEN PLACE BECAUSE OF THE PRIME MINISTER'S CONCERN AT THE DIFFERENCES STILL DIVIDING THE TWO SIDES. I REPEATED OUR BELIEF THAT HONG KONG'S FUTURE COULD BE ASSURED ONLY ON THE BASIS OF A NEGOTIATED SETTLEMENT AND THAT WE REMAINED COMMITTED TO A SUCCESSFUL OUTCOME OF THE TALKS. THE PRIME MINISTER'S MESSAGE WAS CLEAR EVIDENCE OF OUR SINCERITY AND OF OUR WISH TO MOVE FORWARD IN A SPIRIT OF FLEXIBILITY AND CO-OPERATION.

2. I THEN REPEATED THE PRIME MINISTER'S MESSAGE (PARAS 4 TO 7 OF FCO TEL NO 669) SO THAT IT WOULD BE FORMALLY ENTERED IN THE RECORD OF THE DISCUSSIONS.

3. I CONTINUED BY EXPRESSING OUR PROFOUND HOPE THAT THE CHINESE SIDE WOULD RECOGNISE THE IMPORTANCE AND MAGNITUDE OF THE STEP WE WERE NOW TAKING. IT WAS A MAJOR ATTEMPT TO ACCOMMODATE CHINESE VIEWS ON SOVEREIGNTY AND ADMINISTRATION AND IT CALLED FOR AN EQUIVALENT RESPONSE. WE BELIEVED THAT THE WAY SHOULD NOW BE CLEAR FOR SUBSTANTIAL PROGRESS. I REPEATED THE CONTINUING NECESSITY FOR CONFIDENTIALITY AND STRESSED THE IMPORTANCE OF THE EXISTENCE AND CONTENT OF THE PRIME MINISTER'S MESSAGE REMAINING SECRET. I AGAIN WARNED YAO THAT ANY PUBLIC MIS-REPRESENTATION OF THE IMPORTANT STEP WE WERE NOW TAKING WOULD MAKE IT NECESSARY FOR US TO CLARIFY OUR POSITION IN PUBLIC. SUCH PUBLIC STATEMENTS WOULD MAKE BOTH SIDES' TASK MORE DIFFICULT. I HOPED THAT IT WAS BY NOW EVIDENT THAT WE HAD DONE OUR UTMOST TO CREATE A CALM AND STABLE ATMOSPHERE IN WHICH TO CONTINUE THE TALKS. THIS SHOULD NOT BE PUT AT RISK BY FURTHER PUBLIC QUARRELLING. WE HOPED THAT THE IMPORTANT STEP EMBODIED IN THE PRIME MINISTER'S MESSAGE WOULD BE REFLECTED IN A MORE POSITIVE OUTCOME AND IN SUBSTANTIVE PROGRESS.

4. YAO THANKED ME FOR FORMALLY CONVEYING THE PRIME MINISTER'S MESSAGE AND FOR MY EXPLANATORY COMMENTS. HE HAD ALREADY MADE A DETAILED REPORT TO THE CHINESE GOVERNMENT. THE CHINESE SIDE WELCOMED THE PRIME MINISTER'S EXPECTATION THAT THE TALKS WOULD MAKE PROGRESS AND THAT THE CHINESE PROPOSALS WOULD BE THE BASIS FOR FURTHER DISCUSSION. THEY ATTACHED IMPORTANCE TO THE BRITISH EFFORTS TO MOVE FORWARD. THEY HOPED THIS WOULD LEAD TO A SATISFACTORY AGREEMENT AT AN EARLY DATE. IT HAD BEEN CHINA'S CONSISTENT POSITION THAT THE HONG KONG QUESTION SHOULD BE SETTLED BY FRIENDLY CONSULTATIONS. YAO NOTED THAT WE UNDER-

BE SETTLED BY FRIENDLY CONSULTATIONS. YAO NOTED THAT WE UNDERSTOOD THE INDIVISIBILITY OF SOVEREIGNTY AND ADMINISTRATION AND WERE NO LONGER INSISTING ON THE BRITISH LINK AS A PREREQUISITE. CHIND HOPED THAT THIS WOULD MAKE SUBSTANTIVE PROGRESS POSSIBLE. MEANWHILE, HE HAD FRANKLY TO POINT OUT THAT THE PRIME MINISTER STILL HELD THE VIEW THAT CONTINUING BRITISH ADMINISTRATION WAS THE BEST AND SUREST BASIS FOR HONG KONG'S CONTINUING STABILITY AND PROSPERITY AND THAT THAT VIEW HAD NOT CHANGED. YAO WONDERED HOW, IF THAT STILL REMAINED OUR VIEW, EFFECTIVE DISCUSSIONS COULD BE CONDUCTED ON THE BASIS OF THE CHINESE PROPOSALS. THE CHINESE PROPOSALS WERE BASED ON THE CHINESE PREMISE. THIS WAS FUNDAMENTAL TO THE SETTLEMENT OF THE HONG KONG QUESTION.

5. YAO THEN CONDUCTED A REVIEW OF THE COURSE OF OUR CONTACTS ON HONG KONG SINCE THE PRIME MINISTER'S VISIT LAST SEPTEMBER. HE SAID THAT THE CHINESE LEADERS HAD EXPLAINED FULLY AND CLEARLY THE PRINCIPLE UPON WHICH A SETTLEMENT COULD BE BASED: CHINA WOULD RECOVER SOVEREIGNTY WHILST MAINTAINING PROSPERITY IN HONG KONG. SOVEREIGNTY WAS NOT NEGOTIABLE. CHINA WOULD RECOVER THE ENTIRE AREA OF HONG KONG NOT LATER THAN 1997. IT HAD BEEN ON THIS PREMISE THAT THE CHINESE LEADERS HAD AGREED TO THE ORIGINAL COMMUNIQUE. THE SUBSEQUENT DELAYS HAD BEEN THE RESULT OF BRITISH DISREGARD FOR THE CHINESE PRINCIPLE ON SOVEREIGNTY AND ADMINISTRATION. THIS LESSON SHOULD BE FIRMLY BORNE IN MIND.

6. YAO GUANG REFERRED TO HIS 25 JULY STATEMENT IN WHICH HE HAD MADE A "COMPREHENSIVE STATEMENT" OF CHINA'S INTENDED POLICIES TOWARDS HONG KONG. THE CHINESE SIDE HAD EXPECTED US TO JOIN IN CONSTRUCTIVE DISCUSSION OF THESE PROPOSALS BUT HAD HAD NO POSITIVE RESPONSE. HOWEVER, THE PRIME MINISTER WAS NOW WILLING TO NEGOTIATE ON THE BASIS OF THE CHINESE PROPOSALS. HE WOULD THEREFORE REPEAT THE PRINCIPLES GOVERNING INTENDED CHINESE POLICY TOWARDS HONG KONG.

7. YAO GUANG THEN REPEATED, AS FAR AS WE CAN JUDGE WORD FOR WORD, THE POLICIES HE HAD OUTLINED ON 25 JULY (PARA 12 OF THE FULL RECORD OF THAT SESSION). HE ADDED ONLY THAT THE CHINESE GOVERNMENT WAS CONSIDERING KEEPING THESE POLICIES UNCHANGED OVER A LONG PERIOD, SAY FOR 50 YEARS. TO ENSURE THAT THE NEGOTIATIONS WOULD PROCEED SMOOTHLY ON THE BASIS OF THE CHINESE POLICIES HE CONSIDERED IT NECESSARY TO EMPHASISE THE FOLLOWING PRINCIPLES:

~~HE CONSIDERED IT NECESSARY TO EMPHASISE THE FOLLOWING PRINCIPLES:~~

- (A) A NEGOTIATED SETTLEMENT HAD BEEN THE CHINESE GOVERNMENT'S CONSISTENT POLICY BUT THE BASIC ISSUE MUST NOT BE EVADED: THE HONG KONG AREA WAS CHINESE TERRITORY AND CHINA HAD THE RIGHT TO RESUME THE EXERCISE OF SOVEREIGNTY. SOVEREIGNTY WAS NOT NEGOTIABLE. THE POLICIES HE HAD JUST RECOUNTED WERE BASED ON AND MUST PROCEED FROM THE CHINESE PREMISE. THE CHINESE SIDE WERE MAKING A CONSIDERABLE EFFORT TO REACH A SETTLEMENT WITH THE UK. THE ABOVE POINTS MUST FIRST BE CLARIFIED AND CONFIRMED.
- (B) CHINA'S INTENDED POLICIES TOWARDS HONG KONG WERE PART OF HER INTERNAL AFFAIRS AS A SOVEREIGN STATE. HOWEVER, BECAUSE OF THE FRIENDLY RELATIONS WITH THE UK AND BECAUSE OF BRITISH WILLINGNESS TO CO-OPERATE OVER THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG, CHINA WAS WILLING TO BRIEF THE UK IN ADVANCE OF A PUBLIC STATEMENT OF HER INTENDED POLICIES AND TO LISTEN TO HER USEFUL OPINIONS AND PROPOSALS.
- Q
- (C) SOME OF THE INTENDED POLICIES WERE DIRECTLY RELATED TO BRITISH INTERESTS. THE TWO SIDES COULD DISCUSS THESE POLICIES AS LONG AS THE DISCUSSION ACCORDED WITH THE PRINCIPLE OF EQUALITY BETWEEN SOVEREIGN STATES. THE CHINESE LOOKED FORWARD TO A POSITIVE RESPONSE TO THEIR INTENDED POLICIES AND THEIR
- L EXPLANATIONS OF PRINCIPLE.

8. YAO THEN TOOK UP MY COMMENTS ON CONFIDENTIALITY. HE SAID THAT THE CHINESE SIDE HAD NOT AND WOULD NOT DISCLOSE DETAILS OF THE PRIME MINISTER'S MESSAGE OR THE TALKS. ANY PUBLIC DISCUSSION OF THESE DID NOT EMANATE FROM THE CHINESE SIDE. HE DREW MY ATTENTION TO BOTH SIDES' RESPONSIBILITY TO MAINTAIN CONFIDENTIALITY.

9. AFTER A RECESS, I TOLD YAO GUANG THAT I HAD LISTENED WITH GREAT INTEREST TO HIS STATEMENT. WE WERE GLAD THAT THE CHINESE SIDE HAD BEEN ABLE TO WELCOME THE PRIME MINISTER'S MESSAGE. THIS WAS VERY ENCOURAGING FOR, I STRESSED AGAIN, IT WAS A MOST IMPORTANT MESSAGE. IT REPRESENTED A MAJOR INITIATIVE AND DESERVED A CORRESPONDING RESPONSE. THE MESSAGE SHOULD BE READ AS A WHOLE. IT MADE QUITE CLEAR THE BASIS UPON WHICH WE APPROACHED THE TALKS.

10. IN RESPONSE TO YAO³ PUZZLEMENT AT HOW WE COULD CONTINUE EFFECTIVE DISCUSSIONS ON THE BASIS OF THE CHINESE PROPOSALS WHILST RETAINING OUR BELIEF THAT BRITISH ADMINISTRATION REPRESENTED THE BEST AND SUREST BASIS FOR HONG KONG'S STABILITY AND PROSPERITY, HE SAID THAT WE HAD STATED OUR HONEST AND SINCERE VIEW BUT THAT THAT DID NOT PREVENT US, IN A SPIRIT OF ACCOMMODATION, FROM EXPLORING OTHER METHODS WITH THE CHINESE SIDE. IF WE WERE SUCCESSFUL IN CONSTRUCTING ARRANGEMENTS WHICH ALTHOUGH IN OUR VIEW NOT IDEAL, WOULD ASSURE HONG KONG'S CONTINUED STABILITY AND PROSPERITY AND MEET THE CONDITIONS IN THE PM'S MESSAGE, WE WERE READY TO RECOMMEND THEM TO PARLIAMENT.

11. IN RESPONSE TO YAO REVIEW OF THE COURSE OF OUR DISCUSSIONS, HE SAID THAT THE TEMPTATION TO RAKE OVER THE PAST SHOULD BE RESISTED. IT WAS IMPORTANT TO LOOK FORWARDS. IT WAS IN THIS SPIRIT THAT HE WOULD MOVE ON TO THE LATTER PART OF HIS STATEMENT.

12. HE TOOK YAO UP ON HIS DESCRIPTION OF HIS 25 JULY STATEMENT OF CHINESE INTENTIONS TOWARDS HONG KONG AS "COMPREHENSIVE". WE DID NOT SEE IT QUITE AS THAT BUT AS A HELPFUL STARTING POINT. WE NEEDED A GREAT DEAL MORE DETAIL. WE WERE PLEASED TO NOTE THAT THE CHINESE SIDE WAS WILLING TO BRIEF US AND TO LISTEN TO OUR REACTIONS. HE EMPHASISED THAT THESE WOULD BE HELPFUL AND CONSTRUCTIVE. WE WISHED TO BE POSITIVE. OUR AIM WAS TWOFOLD:

- (A) TO UNDERSTAND THE GENERAL PRINCIPLES UNDERLYING THE CHINESE PLAN FOR THE VARIOUS SECTORS OF HONG KONG LIFE. THE CHINESE SIDE HAD SPOKEN OF NO FUNDAMENTAL CHANGES. IT WOULD BE HELPFUL TO HAVE CONFIRMATION THAT THIS WOULD BE THEIR GENERAL APPROACH.
- (B) WE SHOULD LIKE TO HEAR MORE OF HOW HONG KONG PEOPLE AND HMG WOULD BE ASSURED THAT THIS STATE OF AFFAIRS WOULD CONTINUE. WE ATTACHED IMPORTANCE TO THE CHINESE SUGGESTION THAT THE SYSTEMS SHOULD REMAIN UNCHANGED FOR A PERIOD OF 50 YEARS. THE CHINESE GOVERNMENT HAD SAID THAT PROVISION EXISTED UNDER THEIR CONSTITUTION FOR THE ESTABLISHMENT OF AN SAR WITH SPECIAL LAWS. DID THE CHINESE SIDE HAVE OTHER ASSURANCES IN MIND TO TAKE ACCOUNT OF THE EXISTENCE OF ONE SYSTEM ON THE MAINLAND AND ANOTHER

13. I THEN MOVED ON TO TAKE THE LEGAL SYSTEM AS AN EXAMPLE. I SAID THAT IF OUR UNDERSTANDING WAS CORRECT, THE CHINESE GOVERNMENT INTENDED TO LEAVE THE HONG KONG LEGAL SYSTEM TO OPERATE BASICALLY AS IT WAS AT PRESENT. THE ONLY CHANGES WE HAD HEARD SUGGESTED WERE THAT THERE SHOULD BE NO APPEAL TO THE PRIVY COUNCIL AND THAT COLONIAL LAWS MUST CHANGE. WE NEEDED FURTHER CLARIFICATION. FOR EXAMPLE, DID THE REFERENCE TO COLONIAL LAWS IMPLY A CHANGE SOLELY TO TERMINOLOGY OR WERE THERE SPECIFIC LAWS THAT THE CHINESE SIDE CONSIDERED AS COLONIAL LAWS AND WOULD THEREFORE WISH TO ALTER. I DESCRIBED THE LEGAL SYSTEM AS AN EXAMPLE OF THE IMPORTANCE OF HONG KONG'S EXTERNAL CONNECTIONS. THE HONG KONG COURTS DREW ON DECISIONS MADE IN COURTS THROUGHOUT THE COMMONWEALTH. CERTAIN HONG KONG JUDGES WERE DRAWN FROM OTHER COMMONWEALTH COUNTRIES. WE ASSUMED THAT UNDER THE CHINESE PLAN THIS COULD CONTINUE ON THE BASIS OF NO BASIC CHANGE. THE LEGAL SYSTEM PROVIDED AN IMPORTANT EXAMPLE OF THE SORT OF CLARIFICATION WE NEEDED AND OF THE SORT OF DISCUSSIONS WE COULD PURSUE. I EMPHASISED AGAIN OUR WISH TO TALK CONSTRUCTIVELY ON THE BASIS SET OUT IN THE PRIME MINISTER'S MESSAGE. I WAS SURE THAT WE SHOULD NOW BE ABLE TO MOVE TO DETAILED DISCUSSION.

14. YAO GUANG REPLIED THAT HE HAD LISTENED WITH GREAT CARE. HOWEVER HE STILL NEEDED FURTHER CLARIFICATION ON A NUMBER OF POINTS:

(A) EXACTLY WHAT DID WE MEAN WHEN WE SPOKE IN THE PRIME MINISTER'S MESSAGE OF 'OTHER EFFECTIVE METHODS'?

(B) DID WE AGREE THAT THE PRINCIPLES HE HAD IDENTIFIED AS UNDERLYING THE CHINESE POLICY TOWARDS HONG KONG SHOULD BE GUIDING PRINCIPLES FOR OUR DISCUSSIONS?

(C) WHAT DID WE SEE AS THE NATURE AND FORM OF A FUTURE BRITISH ROLE?

(D) WHAT WAS THE DIFFERENCE BETWEEN THE BRITISH LINK TO WHICH WE WERE NOW REFERRING AND THE ONE TO WHICH WE HAD REFERRED IN THE PAST?

15. I REPLIED THAT I WAS A LITTLE CONCERNED THAT CLARIFICATION WAS STILL NEEDED ON SUCH IMPORTANT ELEMENTS OF THE MESSAGE WHICH ITSELF WAS VERY CLEAR. I WOULD REPEAT THE EXPLANATIONS I HAD

~~ITSELF WAS VERY CLEAR. I WOULD REPEAT THE EXPLANATIONS I HAD GIVEN ON 14 OCTOBER.~~

16. ON (A) I CONFIRMED THAT THIS PHRASE MEANT METHODS OTHER THAN THOSE WHICH WE HAD HITHERTO ADVOCATED, I.E. OTHER THAN BRITISH ADMINISTRATION. YAO GUANG INTERJECTED THAT HE WAS UNSURE WHETHER THIS MEANT THAT WE WOULD CONTINUE DISCUSSIONS ONLY ON THE BASIS OF THE CHINESE PROPOSALS OR HAD WE OTHER METHODS IN MIND? I REPLIED THAT I HAD ALSO ANSWERED THIS POINT ON FRIDAY. WE WERE READY TO TRY TO CONSTRUCT ARRANGEMENTS OF LASTING VALUE TO THE PEOPLE OF HONG KONG ON THE BASIS OF THE CHINESE PROPOSALS.

17. ON YAO'S POINT (B) , I SAID THAT THE MESSAGE WAS CLEAR. I RE-READ TO HIM THE RELEVANT SECTIONS OF THE FINAL PARAGRAPH OF THE MESSAGE. I SAID THAT I DID NOT THINK I NEEDED FURTHER TO INTERPRET THE MESSAGE. IT WAS CLEAR THAT WE WERE NO LONGER INSISTING UPON BRITISH ADMINISTRATION AS A PRE-REQUISITE. THE CHINESE SIDE HAD SAID BEFORE THAT OUR INSISTENCE ON MAINTAINING THE BRITISH LINK WAS AN INSURMOUNTABLE OBSTACLE TO PROGRESS. WE HAD NOW REMOVED THAT OBSTACLE AND HOPED FOR AN EQUIVALENT RESPONSE FROM THE CHINESE SIDE WHICH WOULD MAKE POSSIBLE RAPID PROGRESS. THE CHINESE SIDE HAD MADE PLAIN THAT THEY SAW THEIR PROPOSALS AND PREMISE AS BEING INDISSOLUBLY LINKED. THE MESSAGE SPOKE CLEARLY. I REPEATED IT SHOULD BE READ AS A WHOLE. I CONTINUED BY REMINDING YAO OF THE CONSTITUTIONAL CONSTRAINTS ON THE PRIME MINISTER. SOVEREIGNTY DID NOT LIE IN HER GIFT. ON THIS ONLY PARLIAMENT COULD DECIDE. BUT I EMPHASISED THAT IF WE WERE ABLE TO AGREE ARRANGEMENTS WHICH MET THE CONDITIONS IN THE MESSAGE WE WERE READY TO RECOMMEND THESE ARRANGEMENTS TO PARLIAMENT.

18. ON YAO'S POINT (C) , I SAID THAT HERE WE WERE REPEATING A PHRASE USED BY FOREIGN MINISTER WU IN HIS TALKS IN NEW YORK WITH THE SECRETARY OF STATE. WE SHOULD BE MOST INTERESTED IN CLARIFICATION OF THE CHINESE THOUGHTS. THE EXACT MEANING OF A FUTURE BRITISH ROLE SHOULD BE THE SUBJECT FOR DISCUSSION IN FURTHER DETAILED TALKS. HOWEVER I COULD CONFIRM THAT IT DID NOT MEAN BRITISH ADMINISTRATION IN THE SENSE WE HAD PREVIOUSLY ADVOCATED.

19. ON YAO'S POINT (D) I EXPLAINED AGAIN THAT OUR REFERENCE TO A BRITISH LINK WAS A SHORTHAND PHRASE FOR THE VERY CLOSE RELATIONS IN MANY SPHERES BETWEEN THE UK AND HONG KONG. WE HAD SUBMITTED MUCH MATERIAL WHICH EXPLAINED THESE VARIOUS LINKS

RELATIONS IN MANY SPHERES BETWEEN THE UK AND HONG KONG. WE HAD SUBMITTED MUCH MATERIAL WHICH EXPLAINED THESE VARIOUS LINKS. IN DETAIL ABOUT THE FUTURE RELATIONSHIP BETWEEN THE UK AND HONG KONG WOULD EMERGE FROM OUR FURTHER DISCUSSIONS. HE REPEATED AGAIN THAT WE NO LONGER INSISTED UPON CONTINUING BRITISH ADMINISTRATION AS A PREREQUISITE. WE WISHED TO MOVE FORWARDS HELPFULLY AND CONSTRUCTIVELY ON THE BASIS OF THE CHINESE PROPOSALS TO SEE WHAT WE CAN BUILD.

20. YAO THEN MADE A LONG AND RAMBLING RESPONSE. THE MAIN POINTS BOILED DOWN TO

(A) HE APPRECIATED MY EMPHASIS ON OUR CONSTRUCTIVE APPROACH:

(B) DID WE UNDERSTAND AND AGREE WITH THE THREE PRINCIPLES UNDERLYING CHINESE INTENDED POLICY FOR HONG KONG (I.E. THE CHINESE PREMISE)? IF WE DID NOT DISAGREE COULD WE CONFIRM THEM?

(C) IF THE PREMISE WERE NOT CLEARLY AFFIRMED, HOW COULD DISCUSSIONS BE CONDUCTED FURTHER, SINCE ALL THE CHINESE INTENDED POLICIES WERE BASED UPON THE PREMISE?

(D) COULD WE FIRST OF ALL REACH UNDERSTANDING ON THE PREMISE? THEN FURTHER DISCUSSION OF THE DETAIL OF THE CHINESE PROPOSALS COULD BEGIN VERY SOON.

(E) HE HAD STILL NOT CLARIFIED EXACTLY WHAT SORT OF ROLE WE ENVISAGED FOR THE UK.

(F) HE AGREED THAT WE SHOULD LOOK FORWARDS IN OUR DISCUSSIONS BUT IT WAS RELEVANT FOR THE UK SIDE TO ASK ITSELF WHERE THE BLAME FOR THE LACK OF PROGRESS HITHERTO LAY.

21. WE THEN ADJOURNED. HE TOLD YAO THAT HE WOULD REPLY ON 20 OCTOBER TO THE POINTS HE HAD MADE IN HIS FINAL STATEMENT.

22. SEE MIFT FOR COMMENT.

CRADOCK

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10 DOWNING STREET

From the Private Secretary

MS. LINDSAY WILKINSON

HONG KONG

Thank you for your minute of 11 October.
I confirm that the arrangements which you envisage for OD(K) are acceptable.

In addition, I have informed the Prime Minister that, following my conversation with Mr. Goodall last week, the Departments concerned are also considering our contingency plans in case the Chinese reject our latest formula and there is an early breakdown in the negotiations.

A. J. COLES

17 October 1983

SECRET

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SECRET

FROM PEKING 170550Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1037 OF 17/10/83

*And - full.*REPEATED FOR INFO TO IMMEDIATE HONG KONG
FUTURE OF HONG KONG

1. I SAT NEXT TO ZHOU NAN AT A DINNER FOR THE AIRBUS DELEGATION ON 15 OCTOBER. HE HAD RETURNED FROM NEWYORK ON 13 OCTOBER.
2. HE SAID HE HAD READ THE MESSAGE OF 14 OCTOBER. IN ANSWER TO MY QUESTION HE SAID IT WAS BEING STUDIED AND SUBMITTED TO CHINESE LEADERS. HE SOUGHT TO BELITTLE IT AS A SMALL STEP WITH A NUMBER OF AMBIGUITIES. HE NOTED ALSO THAT WE MAINTAINED OUR VIEW THAT BRITISH ADMINISTRATION WAS THE BEST FOUNDATION FOR PROSPERITY. I SAID THIS REMAINED OUR HONEST VIEW BUT IN A SPIRIT OF ACCOMMODATION WE WERE READY TO EXPLORE OTHER POSSIBILITIES. TO THINK OF THE MESSAGE AS A SMALL STEP WOULD BE A MAJOR MISASSESSMENT. IT REPRESENTED A VERY GREAT EFFORT ON OUR PART AND CALLED FOR A SIMILAR RESPONSE FROM THE CHINESE SIDE. IF HE FELT THERE WERE ANY AMBIGUITIES HE HAD ONLY TO ASK ME.
3. HE SAID WE HAD WASTED A LOT OF TIME WITH OUR STAND ON BRITISH ADMINISTRATION AND HE HAD WARNED US MONTHS AGO WHAT WOULD HAPPEN. I TOLD HIM NOT TO RAKE OVER THE PAST: BOTH SIDES COULD MAKE ACCUSATIONS ABOUT THAT: WHAT WE NEEDED TO DO WAS TO LOOK FORWARD. HE THEN SAID THAT WHAT THE CHINESE WANTED TO KNOW WAS WHAT WE WANTED IN DETAIL. THEY HAD SET OUT THEIR PROPOSALS. WHAT, FOR EXAMPLE, WAS MEANT BY THE BRITISH ROLE?
4. I SAID IT WAS FOR THE CHINESE TO SPEAK IN MORE DETAIL ABOUT THEIR IDEAS. WE WERE READY TO DISCUSS THEM CONSTRUCTIVELY. WHAT THE CHINESE HAD SAID SO FAR WAS EXTREMELY VAGUE. WE HAD ASKED FOR DETAIL EARLIER AND HAD BEEN TOLD THAT WE HAD FIRST TO ACCEPT THE PREMISE. WE HAD NOW MADE A BIG BOW IN THE DIRECTION OF THE PREMISE AND WERE ENTITLED TO HEAR MORE. HE PERSISTED THAT WE SHOULD GIVE MORE DETAIL OF OUR IDEAS. I SAID WE WERE VERY SATISFIED WITH THE PRESENT ADMINISTRATIVE SET-UP. IF THE CHINESE WISHED TO CHANGE IT THEY SHOULD SAY WHERE.
5. IN ANSWER TO MY CLAIM THAT ^{CHINESE} ~~CHINESE~~ PROPOSALS WERE EXCESSIVELY GENERALISED, ZHOU CITED THE CHINESE STATEMENT THAT THE LEGAL SYSTEM SHOULD REMAIN BASICALLY UNCHANGED. I ASK WHAT THEY MEANT BY BASICALLY. HE SAID IT MEANT NO APPEALS TO LONDON OR PEKING BUT A FINAL COURT OF APPEAL IN HONG KONG. HE ALSO SAID ^{THAT} THE CURRENCY COULD BE EASILY DISCUSSED AND SETTLED. THIS SUGGESTS THAT DESPITE POTENTIAL WRANGLING ON WHO MOVES FIRST, WE SHOULD BE ABLE TO MAKE PROGRESS ON CERTAIN IMPORTANT AREAS. IT WOULD BE WISE TO GO FOR THEM.

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6. ZHOU SAID ^{TIA} HW CHINA DID NOT SEEK DISTURBANCES IN HONG KONG. HE HOPED WE DID NOT. HE THEN ASSERTED THAT THE FALL IN THE HONG KONG ^{DOLLAR} DOLLAR WAS OUR DOING. I REJECTED THIS OUT OF HAND AND ASKED HIM TO TALK TO ME SENSIBLY. WHAT HE WAS SAYING WOULD DO VERY WELL IN THE PEOPLE'S DAILY BUT DID NOT BECOME AN INTELLIGENT MAN LIKE HIMSELF. I CITED OUR EFFORTS TO SUSTAIN THE DOLLAR, DESPITE ACUTE ANXIETY OVER THE FUTURE, ~~ALSO~~ ^{OUR} INTERVENTION OVER THE HANG LONG BANK. ON THE OTHER HAND I REMINDED HIM OF YAO GUANG'S REFUSAL TO ADD A WORD TO THE COMMUNIQUE ON 23 SEPTEMBER DESPITE THE OBVIOUS ADVERSE EFFECT THIS WOULD HAVE ON THE DOLLAR. HE SAID THIS WAS BECAUSE OF OUR OBSTINACY ON PRINCIPLE. I REPLIED THAT ONE IMPORTANT THING WE COULD DO ON 20 OCTOBER WOULD BE TO SAY SOMETHING POSITIVE IN OUR COMMUNIQUE. HE MADE NO COMMENT.

7. IT WAS NOT AN ENTIRELY SATISFACTORY CONVERSATION, AND PUNCTUATED BY CRIPPLING QUANTITIES OF MAOTAI. ^{ONE} ~~THE~~ PROBLEM IS THAT THE CHINESE HAVE NOT YET HAD THEIR INSTRUCTIONS. BUT TO JUDGE FROM THIS EXCHANGE IT WOULD SEEM WE ARE LIKELY TO MEET A RATHER GRUDGING RESPONSE THIS WEEK WITH A TENDENCY TO RAKE OVER THE PAST IN A SELF-RIGHTEOUS WAY. THERE IS ALSO LIKELY TO BE A PROBLEM ABOUT WHO GOES INTO DETAIL FIRST. ONE OF THE DIFFICULTIES HERE, I SUSPECT, IS THAT THE CHINESE HAVE NOT DONE MUCH DETAILED THINKING. WE MUST AVOID A SITUATION IN WHICH WE ARE CONSTANTLY PUTTING FOWARD OUR IDEAS, TO BE TOLD TO GO AWAY AND DO OUR HOMEWORK AGAIN. ON THE OTHER HAND, THEY ARE LIKELY TO NEED SOME HELPFUL QUESTIONING BEFORE WE CAN GET DOWN TO CONSTRUCTIVE DISCUSSION. PARA 5 ABOVE SUGGESTS THAT DESPITE THIS WRANGLING WE SHOULD BE ABLE TO DO SOME USEFUL WORK. ZHOU NAN'S FINAL ADMOCTION WAS HE HOPED WE WOULD NOW STOP MANOEUVRING AND GET DOWN TO BUSINESSLIKE DISCUSSION

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FUTURE OF HONG KONG

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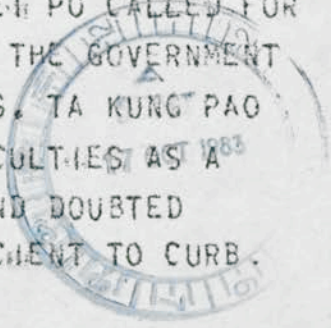
TO IMMEDIATE FCO

TELEGRAM NUMBER 1537 OF 17 OCTOBER 1983

INFO IMMEDIATE PEKING AND ROUTINE HONG KONG GOVERNMENT OFFICE LONDON, HONG KONG GOVERNMENT REPRESENTATIVES WASHINGTON, NEW YORK, BRUSSELS AND GENEVA

FUTURE OF HONG KONG: PRESS COVERAGE

1. THE MAIN STORY IN ALL PAPERS OVER THE HOLIDAY WEEKEND WAS THE FINANCIAL SECRETARY'S ANNOUNCEMENT OF NEW MEASURES TO STABILISE THE EXCHANGE RATE OF THE HONG KONG DOLLAR. THE TIMING OF THE ANNOUNCEMENT WAS LINKED BY MOST PAPERS WITH THE NEXT ROUND OF SINO/BRITISH TALKS ON 19/20 OCTOBER. THE MEASURES WERE WIDELY WELCOMED IN THE INDEPENDENT PRESS. THE COMMUNIST NEWSPAPERS TOOK A MORE CAUTIOUS LINE, SAYING THEY WERE BETTER LATE THAN NEVER BUT DID NOT GO FAR ENOUGH IN CURBING SPECULATION. WE WERE CALLED FOR AN OVERALL REFORM OF THE MONETARY SYSTEM AND URGED THE GOVERNMENT TO REVISE THE MECHANISM FOR THE ISSUE OF BANK NOTES. TA KUNG PAO ARGUED THAT COMMERCE AND INDUSTRY WOULD FACE DIFFICULTIES AS A RESULT OF THE ANTICIPATED RISE IN INTEREST RATES AND DOUBTED WHETHER USE OF THE FOREIGN EXCHANGE FUND WAS SUFFICIENT TO CURB SPECULATION.



2. ALL PAPERS ON 15 OCTOBER CARRIED ACCOUNTS GIVEN BY AN ELECTED URBAN COUNCILLOR, DR. DENNY HUANG, OF A MEETING WITH THE HEAD OF THE HONG KONG AND MACAU AFFAIRS OFFICE, JI PENGFEI, ON 27 SEPTEMBER. HUANG SAID THAT JI HAD TOLD HIM CHINA WOULD: QUOTE DEFINITELY NOT ALLOW HONG KONG TO BECOME INDEPENDENT BUT WOULD RECOVER SOVEREIGNTY AND ADMINISTRATIVE JURISDICTION IN JULY 1997 UNDER THE PRINCIPLE OF HONG KONG PEOPLE TO RULE HONG KONG UNQUOTE. THE LATTER ENTAILED A QUOTE HIGH DEGREE UNQUOTE OF SELF RULE;

LATTER ENTAILED A QUOTE HIGH DEGREE UNQUOTE OF SELF RULE:

A) MAINTENANCE OF HONG KONG LAWS AND THE SPIRIT OF THE RULE OF LAW - EXCEPT THOSE LAWS QUOTE CONNECTED WITH THE COLONIAL RULE UNQUOTE:

B) FINAL COURT OF APPEAL WILL BE IN HONG KONG:

C) CHINA WILL BE RESPONSIBLE FOR HONG KONG'S DEFENCE BUT WILL NOT STATION TROOPS HERE:

D) CHINA WILL BE RESPONSIBLE FOR HONG KONG'S EXTERNAL AFFAIRS BUT HONG KONG WILL HAVE THE FULL RIGHT TO MANAGE THEM (E.G. LOCAL CONTROL OVER IMMIGRATION AND TRADE MATTERS):

E) FREEDOM OF ENTERPRISE AND THE FLOW OF CAPITAL:

F) EXCEPT FOR THE HIGHEST POSTS QUOTE EXPATRIATES UNQUOTE CAN HOLD PUBLIC AND PRIVATE APPOINTMENTS AND ENJOY VARIOUS CIVIC RIGHTS:

G) LOCAL NOMINATION OF THE GOVERNOR OF HONG KONG, FORMALLY APPOINTED BY CHINA:

H) THE CHINESE GOVERNMENT WILL NOT IMPOSE TAXES IN HONG KONG.

3. THE COMMUNIST PRESS PUBLISHED HUANG'S ACCOUNT WITHOUT FURTHER COMMENT. THE INDEPENDENT PRESS GENERALLY SAW NOTHING NEW OR PARTICULARLY REASSURING IN JH'S COMMENTS. AN EDITORIAL IN MING PAO (INDEPENDENT) DESCRIBED THESE CHINESE PROPOSALS AS QUOTE DEMOCRATIC AND GENEROUS UNQUOTE. HOWEVER, IT SAW CHANGES IN THE CHINESE LEADERSHIP BY 1997 AS A MAJOR OBSTACLE TO THEIR BEING IMPLEMENTED.

4. THE NEW EVENING POST AND CHING PO (BOTH COMMUNIST) AND SOME INDEPENDENT PAPERS RAN AN AFP REPORT QUOTING COMMENTS MADE BY HUAN XIANG AND FU HAO (OF CASS) AT A SEMINAR IN PARIS. THEY WERE REPORTED AS SAYING THAT IF HONG KONG'S ECONOMY CONTINUED TO DETERIORATE CHINA WOULD NOT RULE OUT THE POSSIBILITY OF TAKING BACK HONG KONG BEFORE 1997. IF BRITAIN DECIDED TO GIVE UP HONG KONG CHINA WAS PREPARED TO SHOULDER THE RESPONSIBILITY FOR THE TERRITORY IMMEDIATELY AND WOULD MAKE MAJOR INVESTMENTS IN IT. BUT CHINA WOULD NOT SETTLE THE QUESTION OF HONG KONG'S FUTURE BY FORCE.

5. MOST INDEPENDENT (BUT NOT COMMUNIST) PAPERS CARRIED COMMENTS MADE BY PORTUGUESE VICE PREMIER AND DEFENCE MINISTER, DR. MOTA PINTO, ON HIS ARRIVAL FOR A FIVE DAY VISIT TO MACAU. PINTO SAID THAT WHILST LISBON WAS CONFIDENT THAT THE STABILITY OF MACAU'S POLITICAL AND ADMINISTRATIVE SYSTEMS COULD BE MAINTAINED, HE WAS CONCERNED OVER THE PROLONGED SINO/BRITISH TALKS ON THE FUTURE OF HONG KONG. HE SAID THAT DRAWN OUT TALKS MIGHT DAMAGE MACAU IN SOME WAY BUT DID NOT ELABORATE.

6. A NUMBER OF PAPERS (COMMUNIST AND INDEPENDENT) CARRIED WITHOUT

6. A NUMBER OF PAPERS (COMMUNIST AND INDEPENDENT) CARRIED WITHOUT FURTHER COMMENT AN NCHA (PEKING) DESPATCH ON FOREIGN MINISTER WU XUEGIAN'S ADDRESS TO BUSINESSMEN IN CHICAGO ON 14 OCTOBER. HIS SPEECH FOCUSED ON SINO-US RELATIONS OVER TAIWAN.

YOUDE

NNNN

17 October 1983

Future of Hong Kong: letter from the Lord Chancellor

The Prime Minister was grateful for your letter of 7 October enclosing a letter from Lord Hailsham to the Foreign Secretary which she has read with interest.

JOHN COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

K

GR 300

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SECRET

DESKBY FCO 150800Z
DESKBY PEKING 150500Z
FM HONG KONG 1500420Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1530 OF 15 OCTOBER
INFO IMMEDIATE PEKING

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Read in full.

A.S.C.

FUTURE OF HONG KONG: CHINESE LEAK

1. CLAIRE HOLLINGWORTH, WHO WRITES FROM HERE FOR THE SUNDAY TELEGRAPH, HAS GIVEN US IN CONFIDENCE THE GIST OF A CONVERSATION ON 14 OCTOBER WITH LI RUCHE, A RELATIVELY JUNIOR MEMBER OF THE QUOTE DIPLOMATIC UNQUOTE WING OF NCNA, WITH WHOM SHE MAINTAINS REGULAR CONTACT.
2. LI ASKED WHETHER MISS HOLLINGWORTH KNEW THE CONTENT OF THE QUOTE IMPORTANT MESSAGE UNQUOTE WHICH SIR P CRADOCK WAS CONVEYING TO THE CHINESE VICE FOREIGN MINISTER. HE EXPRESSED SURPRISE (QUOTE WAS THERE NOTHING ON THE BBC? UNQUOTE) WHEN HOLLINGWORTH DENIED KNOWLEDGE OF ANY SUCH MESSAGE. LI SAID HE HOPED THE MESSAGE WOULD CONTAIN AN ASSURANCE THAT BRITAIN RECOGNISED CHINA'S SOVEREIGNTY OVER HONG KONG, REFERRING IN THIS CONTEXT TO QUOTE A LETTER UNQUOTE THE PRIME MINISTER HAD WRITTEN TO ZHAO ZIYANG. HE ALSO HOPED SUCH AN ASSURANCE ON SOVEREIGNTY WOULD BE GIVEN BEFORE THE RESUMPTION OF THE TALKS ON 19 OCTOBER SINCE THE CHINESE SIDE WAS QUOTE FED UP UNQUOTE WITH BRITAIN'S INFLEXIBLE STANCE.
3. ASSISTANT POLITICAL ADVISER OFFERED NO (NO) COMMENT ON MISS HOLLINGWORTH'S ACCOUNT OF THIS CONVERSATION. HE GOT THE IMPRESSION THAT SHE MIGHT TRY TO GET A PIECE BASED ON IT INTO TOMORROW'S SUNDAY TELEGRAPH.

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4.

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9
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DESKBY FCO 150800Z
DESKBY HONG 150900Z
FM PEKING 150725Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1030 OF 15 OCTOBER
AND IMMEDIATE INFO HONG KONG

MT

HONG KONG TELEGRAM NO 1530: FUTURE OF HONG KONG : CHINESE LEAK
THE MFA HAVE KNOWN THAT I WAS BRINGING AN IMPORTANT MESSAGE
SINCE WE REQUESTED AN INTERVIEW ON 8 OCTOBER. THEY TRIED IN
A CLUMSY WAY TO DISCOVER FROM US IN OUR VARIOUS CONTACTS WITH
THEM LAST WEEK WHAT ITS CONTENTS WERE. LI RUOHE'S APPROACH
TO MISS HOLLINGWORTH IS PRESUMABLY ANOTHER SUCH CLUMSY ATTEMPT.
LI WAS PROBABLY NOT AWARE THAT I WAS HANDING OVER THE MESSAGE
THE SAME DAY (14 OCTOBER).

2. WE SHOULD NOT WISH TO MAKE A DEMARCHE TO THE CHINESE ABOUT
THIS. HOWEVER WE EXPECT TO SEE LUO JIAHUAN ON MONDAY FOR A
ROUTINE TALK ABOUT THE MECHANICS OF THE NEXT TALKS, AND WOULD
BE PREPARED TO TAX HIM WITH LI'S INDISCRETION. FOR THIS TO BE
PRACTICAL WE SHOULD NEED TO MENTION BOTH LI AND MISS HOLLINGWORTH
BY NAME.

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DESKBY FCO 141100Z
FM PEKING 140930Z OCT
TO IMMEDIATE FCO
TELEGRAM NUMBER 1029 OF 14 OCTOBER
INFO IMMEDIATE HONG KONG

39

MIPT: FUTURE OF HONG KONG: PRIME MINISTER'S MESSAGE

COMMENT

1. IT TOOK TIME AND CONSIDERABLE REPETITION, BUT I AM FAIRLY CONFIDENT THAT YAO GUANG EVENTUALLY UNDERSTOOD THE MESSAGE. I DID NOT EXPECT SUBSTANTIVE COMMENT FROM HIM AND DID NOT GET IT. YAO IS NOT GOOD AT SPONTANEOUS DISCUSSION AND HIS FIRST REPLY ON THE HISTORICAL BACKGROUND AS THE CHINESE SAW IT WAS MERE REITERATION OF A STOCK BRIEF. THIS WAS REALLY JUST PROTECTIVE COVERING.
2. YAO'S QUESTIONS WERE DESIGNED IN A RATHER CLUMSY WAY TO SEE WHETHER WE WERE PROPOSING TO PUT FORWARD SOME OTHER SCHEME FOR HONG KONG DIFFERENT FROM THAT ENVISAGED IN THE CHINESE PREMISE. I THINK HE GRASPED THAT WE WERE NOT.
3. ALTHOUGH THE CHINESE WILL LOOK VERY CAREFULLY THROUGH THE PRIME MINISTER'S MESSAGE TO SEE WHETHER THERE ARE HIDDEN SNAGS, I AM FAIRLY CONFIDENT THAT THE REPORT THAT YAO NOW MAKES TO THE LEADERSHIP WILL BE REASONABLY CLEAR, AND THAT THE RIGHT CONCLUSIONS WILL BE DRAWN. I DOUBT WHETHER WE SHALL GET ANY FURTHER RESPONSE BEFORE THE TALKS START NEXT WEEK.

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DESKBY FCO 141100Z

FM PEKING 140930Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1028 OF 14 OCTOBER

INFO IMMEDIATE HONG KONG

28

MF

YOUR TELNO 669: FUTURE OF HONG KONG: MESSAGE FROM THE
PRIME MINISTER

1. I CALLED ON VICE-FOREIGN MINISTER YAO GUANG THIS MORNING. I EXPLAINED THAT I HAD JUST RETURNED FROM LONDON AFTER CONSULTATIONS WITH THE PRIME MINISTER, YOU AND MR LUCE. THE PRIME MINISTER HAD CONCLUDED THAT CONSULTATION HAD BECOME NECESSARY IN VIEW OF THE DIFFERENCES SEPARATING THE TWO SIDES IN THE TALKS. THE RESULT OF THE CONSULTATIONS WAS A MESSAGE FROM THE PRIME MINISTER. I THEN SPOKE AS IN PARAS 4-7 OF TUR AND LEFT A COPY OF THE MESSAGE.
2. I FOLLOWED UP THE MESSAGE WITH SOME PERSONAL OBSERVATIONS. I EXPRESSED THE HOPE THAT THE CHINESE SIDE WOULD RECOGNISE THE IMPORTANCE AND MAGNITUDE OF THE STEP WE WERE TAKING. THE PRIME MINISTER'S MESSAGE WAS CLEAR EVIDENCE OF THE BRITISH SIDE'S PROFOUND WISH TO MOVE FORWARD CONSTRUCTIVELY AND IN A SPIRIT OF COOPERATION. WE CONSIDERED IT VITAL TO THE MAINTENANCE OF HONG KONG'S STABILITY AND PROSPERITY THAT THE TALKS SHOULD NOT FAIL. WE WERE DEEPLY COMMITTED TO A SUCCESSFUL OUTCOME. THE MESSAGE WAS A SINCERE EFFORT TO ACCOMMODATE CHINESE VIEWS ON SOVEREIGNTY AND ADMINISTRATION. REFERRING TO THE PRIME MINISTER'S LETTER OF 10 MARCH TO ZHAO ZIYANG, I REPEATED THE CONSTITUTIONAL CONSTRAINTS ON THE PRIME MINISTER'S FREEDOM OF ACTION AS FAR AS A TRANSFER OF SOVEREIGNTY WAS CONCERNED. I STRESSED THE CONTINUING NECESSITY FOR SECRECY. ANY PUBLIC MISREPRESENTATION OF THE STEP WE WERE TAKING WOULD MAKE IT NECESSARY FOR US TO CLARIFY OUR POSITION IN PUBLIC. SUCH PUBLIC STATEMENTS WOULD ONLY MAKE BOTH SIDES' TASK MORE DIFFICULT. I HOPED THAT, AS A RESULT OF THE PRIME MINISTER'S MESSAGE, WE SHOULD BE ABLE TO MAKE SUBSTANTIAL PROGRESS IN THE NEXT ROUND. I ADDED THAT WE DID NOT CONSIDER THAT THE MESSAGE REQUIRED A FORMAL CHINESE REPLY. WE HOPED THAT THE CHINESE REACTION TO THE MESSAGE WOULD BE APPARENT IN THE FURTHER CONDUCT OF THE TALKS. IF YAO GUANG HAD ANY QUESTIONS IN CLARIFICATION, I WOULD DO MY BEST TO ANSWER THEM.
3. YAO GUANG THANKED ME FOR CONVEYING THE MESSAGE. HE HAD TAKEN NOTE OF ITS CONTENT AND OF MY COMMENTS. HE WOULD REPORT FULLY TO THE CHINESE GOVERNMENT. THE CHINESE SIDE WOULD STUDY THE MESSAGE CAREFULLY AND WOULD COMMENT UPON IT ON 19 OCTOBER.

SECRET

/4. YAO

4. YAO CONTINUED THAT BEFORE ASKING QUESTIONS HE WOULD LIKE TO MAKE SOME COMMENTS. HE REFERRED TO THE COMMON GROUND AS WELL AS THE DIFFERENCES OF PRINCIPLE BETWEEN THE TWO SIDES OVER HONG KONG. DURING THE PRIME MINISTER'S TALKS LAST YEAR AND IN SUBSEQUENT BILATERAL CONTACTS, THE CHINESE HAD MADE CLEAR THEIR INTENTION TO RESUME THE EXERCISE OF SOVEREIGNTY, INCLUDING ADMINISTRATION, WHILST MAINTAINING HONG KONG'S STABILITY AND PROSPERITY. THE CHINESE HAD REPEATEDLY STATED THAT THE RESUMPTION OF THE EXERCISE OF SOVEREIGNTY WAS THE PREMISE AS WELL AS THE BASIS FOR A SETTLEMENT. BY CLEARLY ACCEPTING THE PREMISE IT WOULD BE EASY TO SOLVE OTHER MATTERS. THE CHINESE SIDE ATTACHED IMPORTANCE TO THE DIFFERENCES BECAUSE THEY WERE ONES OF PRINCIPLE. WITHOUT THEIR RESOLUTION IT WOULD BE DIFFICULT TO CONDUCT THE TALKS. CHINA HOPED TO SOLVE THE HONG KONG QUESTION THROUGH NEGOTIATION. THE HONG KONG PROBLEM WAS ONE LEFT OVER FROM HISTORY. CHINESE POLICY HAD BEEN TO MAINTAIN THE (NEXT TWO WORDS UNDERLINED) STATUS QUO AND TO SOLVE THE PROBLEM THROUGH NEGOTIATION WHEN CONDITIONS WERE RIPE. THEY BELIEVED THAT THE CONDITIONS WERE NOW RIPE.

5. YAO GUANG ALSO DREW ATTENTION TO BRITISH REFERENCES TO SEEKING THE AGREEMENT OF THE PEOPLE OF HONG KONG TO ANY SETTLEMENT. HE DID NOT WISH TO DWELL ON THE POINT BUT NOTED THAT WE HELD DIFFERENT VIEWS ON THIS ISSUE.

6. HE THEN RAISED TWO QUESTIONS: DID THE UK SIDE HAVE ANY IDEA WHAT FORM THE '' OTHER EFFECTIVE METHODS'' IN PARA 4 OF THE MESSAGE MIGHT TAKE: AND DID WE INTEND TO PROPOSE SUCH '' OTHER EFFECTIVE METHODS'' AT THE NEXT ROUND?

7. I RE-READ TO YAO GUANG THE FINAL PARAGRAPH OF THE MESSAGE. I NOTED THAT HIS REMARKS WERE OF AN HISTORICAL CHARACTER, DEALING AS THEY DID WITH THE SITUATION BEFORE THE PRIME MINISTER'S MESSAGE. I HOPED THAT THE CHINESE SIDE'S ATTACHMENT TO PRINCIPLE DID NOT MEAN THAT THEY WOULD INSIST ON DWELLING ON THESE ISSUES. WE WERE TRYING TO GET OVER THEM. THE MESSAGE WAS A GREAT EFFORT TOWARDS THEIR RESOLUTION. YAO GUANG SHOULD LOOK FORWARDS AND NOT BACKWARDS. YAO GUANG COMMENTED THAT IT WAS HARD TO FORGET THESE DIFFERENCES OF PRINCIPLE. I SAID IF IT MADE HIM FEEL MORE COMFORTABLE HE COULD TALK ABOUT THEM, BUT WE REALLY MUST LOOK AHEAD.

8. IN RESPONSE TO HIS SPECIFIC QUESTIONS, I SAID THAT THE WORD ''OTHER'' WAS VERY IMPORTANT. IT MEANT '' OTHER THAN BRITISH ADMINISTRATION''. WE WERE READY TO SEE IF WE COULD CONSTRUCT TOGETHER, ON THE BASIS OF THE CHINESE PROPOSALS, A SYSTEM WHICH WOULD ASSURE HONG KONG'S FUTURE. IF WE WERE ABLE TO AGREE ACCEPTABLE ARRANGEMENTS ON THIS BASIS WE WOULD RECOMMEND THEM TO PARLIAMENT. ON HIS SECOND QUESTION WE, OURSELVES WERE NOT GOING TO PUT FORWARD A NEW METHOD AT THE NEXT MEETING. WE HOPED TO LEARN MORE OF THE CHINESE PROPOSALS AND BUILD ON THEM.

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/s/ YAO GUANG

9. YAO GUANG THEN ASKED FOR A CLEAR EXPLANATION OF OUR USE OF THE TERM 'BRITISH LINK'. I SAID THAT THIS EXPRESSION HAD BEEN USED AS SHORTHAND FOR ALL THE VARIOUS CONNECTIONS HONG KONG HAD WITH THE UK AS SET OUT IN THE PAPERS WE HAD SUBMITTED. WE HAD FIRST SPOKEN OF BRITISH ADMINISTRATION, BUT HAD LATER CONCLUDED THAT AS HONG KONG WAS VERY LARGELY SELF-GOVERNING THIS WAS AN INACCURATE DESCRIPTION. HOWEVER, ALL THIS PREDATED THE PRIME MINISTER'S MESSAGE. ALTHOUGH WE NATURALLY HOPED THAT THE OUTCOME OF THE NEGOTIATIONS WOULD PRODUCE A SUBSTANTIAL ROLE FOR THE UK IN HONG KONG, THE PRIME MINISTER'S MESSAGE MADE CLEAR THAT WE WERE WILLING TO SEE IF WE COULD BUILD UPON THE CHINESE PLAN.

10. YAO CUANG ASKED IF THE '' OTHER EFFECTIVE METHODS'' WOULD BE THOSE CONNECTED WITH THE BRITISH LINK. I REITERATED OUR WILLINGNESS TO START FROM THE CHINESE PLAN.

11. YAO GUANG, OVER WHOM THE MISTS WERE BEGINNING TO LIFT BY THIS STAGE, THEN ASKED, AT THE SUGGESTION OF LUO JIAHUAN, IF OUR WILLINGNESS TO SEEK TO CONSTRUCT ARRANGEMENTS ON THE BASIS OF THE CHINESE PROPOSALS MEANT THAT WE WERE ACCEPTING THE CHINESE PREMISE. I SAID THAT FOR THE PURPOSES OF OUR DISCUSSIONS WE WERE NO LONGER INSISTING ON BRITISH ADMINISTRATION AS THE PREREQUISITE. WE WERE READY TO SEE WHAT COULD BE BUILT ON THE CHINESE PROPOSALS. AT DINNER ON 23 SEPTEMBER KE ZAISHUO HAD SAID THE PROPOSALS AND PREMISE WERE INDISSOLUTELY LINKED. THE MESSAGE WAS VERY CLEAR: BUT THE CHINESE SIDE WOULD HAVE TO DECIDE IF IT MET THEIR PREMISE.

12. I SAID THAT I WAS AVAILABLE AT ANY TIME FOR FURTHER CLARIFICATION BEFORE THE NEXT ROUND.

13. SEE MIFT FOR COMMENT.

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FUTURE OF HONG KONG

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MR COLES NO 10 DOWNING STREET

SIR A PARSONS NO 10 DOWNING STREET

MR WALKER RESEARCH D OAB

MR GOODALL, CABINET OFFICE

3
SECRET

CONFIDENTIAL

Bol



file

10 DOWNING STREET

From the Private Secretary

14 October 1983

HONG KONG

I should be grateful if you could ensure that I receive advance copies of telegrams about Hong Kong in the same way that I receive advance copies of other telegrams of particular interest to the Prime Minister.

As you know, I earlier requested that a suitable arrangement should be made but the procedure is still not satisfactory. You told me at about 3.45 pm today that you had received an advance copy of Sir Percy Cradock's report on his latest talk with the Chinese about the state of the negotiations. One hour later the Prime Minister's party in Blackpool asked me what had happened during Sir Percy Cradock's call. I was able to give them a brief summary as a result of what you had told me. But it would have been better had I already read the full report.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

NR



With the compliments of

FOREIGN AND COMMONWEALTH OFFICE
LONDON, SW1A 2AH

too unimportant to require their advice, or too urgent to admit of their advice being given by the time within which it may be necessary for him to act in respect of any such matters. In all such urgent cases he shall, at the earliest practicable period, communicate to the Executive Council the measures which he may so have adopted, with the reasons therefor.

Governor alone entitled to submit questions.

XI. The Governor shall alone be entitled to submit questions to the Executive Council for their advice or decision; but if the Governor decline to submit any question to the Council when requested in writing by any Member so to do, it shall be competent to such Member to require that there be recorded upon the Minutes his written application, together with the answer returned by the Governor to the same.

Governor may act in opposition to Executive Council.

XII. The Governor may, in the exercise of the powers and authorities granted to him by Our said recited Letters Patent, act in opposition to the advice given to him by the Members of the Executive Council, if he shall in any case deem it right to do so; but in any such case he shall fully report the matter to Us by the first convenient opportunity, with the grounds and reasons of his action. In every such case it shall be competent to any Member of the said Council to require that there be recorded at length on the Minutes the grounds of any advice or opinion he may give upon the question.

Reporting grounds for so doing.

Members may require their adverse opinions to be recorded on Minutes.

Constitution of Legislative Council.

(Amended on
30.4.38.
1.7.64.
6.1.66.
28.2.69.
5.2.71.
14.7.72.
24.9.76.
26.8.77.)

XIII. The Legislative Council of the Colony shall consist of the Governor, the persons for the time being lawfully discharging the functions of Chief Secretary, Attorney-General, Secretary for Home Affairs, and Financial Secretary of the Colony, who are hereinafter referred to as *ex officio* Members, and such other persons holding office under the Crown in the Colony, and not exceeding twenty in number at any one time, as We may from time to time appoint by any Instructions or Warrants under Our Sign Manual and Signet, or as the Governor, in pursuance of Instructions from Us through one of Our Principal Secretaries of State, may from time to time appoint by an Instrument under the Public Seal of the Colony, and all such persons shall be styled Official Members of the Legislative Council; and further of such persons, not exceeding twenty-five in number at any one time, as the Governor, in pursuance of Instructions from Us through one of Our Principal Secretaries of State, may from time to time appoint by an Instrument under the Public Seal of the Colony, and all such persons shall be styled Unofficial Members of the Legislative Council.

Official Members.

Unofficial Members.

If any Official Member of the Legislative Council cease to hold office under the Crown in the Colony, his seat in the Council shall thereupon become vacant.

Provisional appointment of Members.
(Amended on
30.4.38.)

XIV. Whenever any Member of the Legislative Council, other than an *ex officio* Member, shall, in the manner hereinafter provided, have resigned his seat in the Council or shall die, or whenever the seat of any such Member shall otherwise become vacant, or whenever

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27

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DESKBY FCO 131200Z
DESKBY PEKING 140100Z
FM HONG KONG 131050Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1522 OF 13 OCTOBER
INFO IMMEDIATE PEKING (PERSONAL FOR CHARGE)

FOLLOWING STRICTLY PERSONAL FOR CLIFT (HKD)
MIFT.

STABILISATION OF EXCHANGE RATE.

FOLLOWING IS TEXT OF STATEMENT WHICH THE FINANCIAL SECRETARY
WILL MAKE AT NOON HONG KONG TIME SATURDAY OCTOBER 15.

1. I WANT TO TELL YOU ABOUT TWO STEPS WHICH THE GOVERNMENT IS TAKING
NOW TO STABILISE THE EXCHANGE RATE OF THE HONG KONG DOLLAR.

2. FIRST LET ME GIVE YOU SOME BACKGROUND. FOR 37 YEARS FROM
1935 TO JULY 1972 THE HONG KONG DOLLAR WAS PEGGED TO STERLING.
IN THOSE DAYS THE STERLING AREA EXISTED AND FOR MOST OF THAT
PERIOD THE INTERNATIONAL MONETARY SYSTEM WAS CHARACTERISED BY
FIXED EXCHANGE RATES. FROM 1972 TO NOVEMBER 1974 THE HONG KONG
DOLLAR WAS PEGGED TO THE US DOLLAR. SINCE 1974 HONG KONG IN
COMMON WITH OTHER MAJOR MARKET ECONOMIES HAS HAD A FREELY FLOATING
EXCHANGE RATE. THIS FLOATING SYSTEM HAS SERVED US WELL. IT HAS
GIVEN US A MEASURE OF INSULATION FROM THE UPS AND DOWNS OF OTHER
ECONOMIES, AND UNDER IT HONG KONG HAS RECORDED VERY HIGH RATES
OF ECONOMIC GROWTH. LIVING STANDARDS HAVE RISEN ACCORDINGLY.

3. TOWARDS THE END OF LAST YEAR THE EXCHANGE RATE STARTED MARKEDLY
TO WEAKEN, REFLECTING AMONGST OTHER FACTORS UNCERTAINTIES ABOUT
HONG KONG'S FUTURE.

4. BEFORE THE GOVERNMENT ANNOUNCED THREE WEEKS AGO THAT IT WAS
CONSIDERING PROPOSALS TO STABILISE THE EXCHANGE RATE CURRENCY
DEPRECIATION WAS TENDING INCREASINGLY TO FEED ON ITSELF IN AN
UNSTABLE AND IRRATIONAL MANNER. THIS DEPRECIATION WAS NOT JUSTIFIED
BY EITHER CURRENT ECONOMIC DEVELOPMENTS OR FUTURE PROSPECTS.
THE ECONOMY HAS REBOUNDED AND IS DOING VERY WELL. THERE IS LITTLE
UNEMPLOYMENT AND EXPORTS ARE BOOMING. HONG KONG HAS SUBSTANTIAL
FOREIGN CURRENCY RESERVES, A GENERALLY LIQUID BANKING SYSTEM
AND VIRTUALLY NO GOVERNMENT DEBT.

5. THE GOVERNMENT HAS BEEN CONCERNED BY THE FALLING EXCHANGE RATE
AND HAS DONE EVERYTHING IN REASON, WITHIN THE ESTABLISHED FRAMEWORK,
TO ATTEMPT TO STABILISE IT. THESE EFFORTS HAVE ACHIEVED ONLY
LIMITED SUCCESS.

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6. THE CIRCUMSTANCES OF HONG KONG PRECLUDE EXCHANGE CONTROL. AFTER A THOROUGH EXAMINATION OF REALISTIC OPTIONS, WE HAVE NOW DECIDED TO ALTER THE FRAMEWORK WITHIN WHICH THE EXCHANGE RATE IS DETERMINED. WITH EFFECT FROM MONDAY 17 OCTOBER, THE TWO NOTE-ISSUING BANKS WILL PAY THE GOVERNMENT'S EXCHANGE FUND FOR ADDITIONAL CERTIFICATES OF INDEBTEDNESS, WHICH THEY ARE REQUIRED TO HOLD AS BACKING FOR ANY INCREASE IN THEIR NOTE ISSUES, IN FOREIGN EXCHANGE AT A FIXED RATE OF HK DOLLARS X.XX EQUALS US DOLLARS 1.

7. FROM THE SAME DATE, WHEN NOTES ARE WITHDRAWN FROM CIRCULATION AND THE NOTE-ISSUING BANKS SURRENDER CERTIFICATES OF INDEBTEDNESS THE EXCHANGE FUND WILL PAY THEM THE EQUIVALENT FOREIGN EXCHANGE AT THE SAME FIXED RATE. IT IS OUR INTENTION TO HOLD THIS RATE UNCHANGED.

8. THE RATES OF EXCHANGE WHICH A BANK CUSTOMER WILL OBTAIN, WHETHER EXCHANGING BANK NOTES OR MAKING ANY OTHER FOREIGN CURRENCY TRANSACTIONS, WILL CONTINUE TO BE DETERMINED BY MARKET FORCES, BUT WILL IN PRACTICE BE CLOSE TO THE FIXED RATE OF HK DOLLARS X.XX EQUALS US DOLLARS 1. THIS WILL BE THE CASE BECAUSE FROM NEXT MONDAY MARKET FORCES WILL OPERATE AGAINST THE BACKGROUND OF THE FIXED RATE FOR CERTIFICATES OF INDEBTEDNESS. I MUST EMPHASISE THAT THESE NEW ARRANGEMENTS WILL MEAN BUSINESS AS USUAL BETWEEN BANKS AND THEIR CUSTOMERS AT STABILISED RATES.

9. YOU WILL ASK ABOUT THE IMPLICATIONS FOR THE ECONOMY OF STABILISING THE EXCHANGE RATE IN THIS WAY. IN THE SHORT TERM THERE MAY BE SOME UPWARD PRESSURES ON HONG KONG DOLLAR INTEREST RATES. ONCE THE STABILITY OF THE EXCHANGE RATE BECOMES EVIDENT AND ACCEPTED, INTEREST RATES SHOULD FALL BELOW PRESENT LEVELS. LOOKING FURTHER AHEAD CHANGES IN THE EXCHANGE RATE WILL NO LONGER BE AN ELEMENT IN OUR ECONOMY'S ADJUSTMENT PROCESS. FACTORS SUCH AS INTEREST RATES AND MONEY SUPPLY WILL ADJUST TO BALANCE OF PAYMENTS PRESSURES AUTOMATICALLY WITHOUT GOVERNMENT INTERVENTION.

10. THE GOVERNMENT BELIEVES THAT THIS NEW ARRANGEMENT MUST NOW BE PREFERRED TO THE FREELY FLOATING EXCHANGE RATE SYSTEM. WE CANNOT RUN THE RISK OF FURTHER SPIRALLING DEPRECIATION, WITH THE RAMPANT INFLATION AND DISTRESS WHICH THAT WOULD BRING TO ALL OUR COMMUNITY. A RETURN OF CONFIDENCE IN OUR CURRENCY IS ESSENTIAL.

11. I SAID THAT I HAD TWO MEASURES TO ANNOUNCE. THE SECOND IS THIS. AS FROM MONDAY 17 OCTOBER INTEREST ON HONG KONG DOLLAR DEPOSITS WITH FINANCIAL INSTITUTIONS WILL NO LONGER BE TAXED. THIS MEANS THAT THERE WILL NO LONGER BE A TAX ADVANTAGE IN HOLDING FOREIGN CURRENCY DEPOSITS OR IN HOLDING HONG KONG DOLLAR DEPOSITS OFFSHORE.

SECRET

12. AS I SAID LAST MONTH, THE GOVERNMENT IS WORRIED ABOUT POSSIBLE SERIOUS EROSION OF PROFITS TAX REVENUE ARISING FROM THE REMOVAL OF INTEREST TAX. WE ARE STILL STUDYING THIS COMPLEX ISSUE. IN REMOVING INTEREST TAX ON HONG KONG DOLLAR DEPOSITS WITH FINANCIAL INSTITUTIONS, WE ARE DOING THE MOST THAT IS POSSIBLE, PENDING THE OUTCOME OF OUR STUDY. I HOPE TO BE IN A POSITION TO PROPOSE MORE LASTING REFORMS IN THESE FIELDS OF TAXATION IN THE BUDGET NEXT FEBRUARY.

13. THESE MEASURES ARE DESIGNED TO STABILIZE THE EXCHANGE VALUE OF THE HONG KONG DOLLAR, AND THUS TO PROVIDE A CLIMATE FOR GROWING PROSPERITY WITH RESTRAINED INFLATION. THE GOVERNMENT HAS CONFIDENCE IN THE STABILISED EXCHANGE RATE. SO CAN THE PEOPLE OF HONG KONG. LET US NOW GET ON WITH OUR BUSINESS.

YOUDE

LIMITED
HD/HKD
HD/ERD(MR APPELYARD)
PS/
PS/MR LUCE
PS/PUS
MR GIFFARD
MR EVANS
MR DONALD

COPIES TO:
MR BURROWS LEGAL ADVISERS
MR PERRETZ TREASURY
MR D HOLLAND BANK OF ENGLAND

GRS400

SECRET

26

H. Cole (No 10)

SECRET

DESKBY FCO 131200Z

DESKBY PEKING 140100Z

FM HONG KONG 131100Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1521 OF 13 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

mf

FOLLOWING STRICTLY PERSONAL FOR CLIFT (HKD)

MY TELNO 1501 (NOT TO PEKING)

STABILISATION OF THE EXCHANGE RATE

EXECUTIVE COUNCIL ACCEPTED THIS MORNING (IF SOMEWHAT PASSIVELY) THAT THE PROPOSED STABILISATION SCHEME SHOULD BE IMPLEMENTED FROM MONDAY, OCTOBER 17; AND THAT AN ANNOUNCEMENT SHOULD BE MADE AT 12 NOON HONG KONG TIME ON SATURDAY OCTOBER 15.

2. THE ONLY "DECLARATION OF POSITION" WAS MADE BY SIR S.Y. CHUNG WHO SAID THAT HE THOUGHT THAT THE SCHEME WOULD IN THE LONG TERM BE DETRIMENTAL TO THE FUTURE OF HONG KONG BUT IF THE ADMINISTRATION FELT THAT THERE WAS A NEED TO PROCEED FOR SHORTER TERM ECONOMIC REASONS HE WOULD NOT WISH TO STAND IN OUR WAY. (HE DID NOT EXPLAIN HOW IT WOULD BE DETRIMENTAL BUT MAY HAVE HAD IN MIND HIS VIEW THAT ECONOMIC DIFFICULTIES IN HONG KONG ARE THE STRONGEST PRESSURE ON THE CHINESE TO COMPROMISE ON ADMINISTRATION). SANDBERG HAD EARLIER INDICATED THAT HIS PREFERENCE WOULD HAVE BEEN TO DO NOTHING; BUT DID NOT SPEAK AT THE END. (THE HONG KONG BANK'S VIEW WAS RECORDED IN PARA 19 OF MYTEL UNDER REF.)

3. THE TEXT OF THE FINANCIAL SECRETARY'S STATEMENT WHICH WILL BE MADE ON SATURDAY IS IN M.L.F.T.

4. WE HAVE APPROVED THE IMPLEMENTATION OF THE SCHEME FOR THE REASONS SET OUT IN PARA 28 OF THE MEMORANDUM. ALTHOUGH THE RISKS ARE APPARENT WE CONSIDER THAT THERE ARE FAR GREATER RISKS IN INACTION. OVER THE PAST YEAR THERE HAS BEEN A SERIES OF DOWNWARD LURCHES IN THE DOLLAR RATE AND THE LAST ONE BROUGHT WITH IT "A WHIFF OF PANIC". IF ANXIETY BUILDS UP AROUND NEXT WEEKS TALKS AS IT DID ON 23 SEPTEMBER AND/OR THE CHINESE FAIL TO AGREE TO AN ENCOURAGING COMMUNIQUE THERE COULD BE ANOTHER SEVERE AND POSSIBLY IRREVERSIBLE SLIDE IN THE EXCHANGE RATE. IT COULD WELL BE THAT IT IS ONLY BEING HELD NOW BY THE EXPECTATION IN THE MARKET THAT THE GOVERNMENT IS ABOUT TO COME UP WITH A PLAN. IN ANY CASE THERE REMAINS THE REAL RISK THAT WE SHALL REACH ANOTHER IMPASSE WITH THE CHINESE SOMEWHERE ALONG THE LINE; AND ALL THE EXPERT ADVICE IS TO THE EFFECT THAT IT IS BETTER TO ACT WHEN THE RATE IS RELATIVELY STATIC THAN WHEN IT IS FALLING.

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/5. I SHALL

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5. I SHALL ALSO COMMENT POSITIVELY ON THE SCHEME AND PRESENT IT AS AN EXPRESSION OF OUR CONFIDENCE IN THE CURRENCY AND THE ECONOMY UNDERLYING IT.

6. SATURDAY NOON WAS CHOSEN TO ENSURE THAT THE FIRST IMPACT OF THE SCHEME WILL BE ON THE HONG KONG MARKET ON MONDAY AND NOT ON MARKETS ABROAD AS WOULD BE THE CASE IF THERE WERE AN ANNOUNCEMENT TONIGHT.

YOUDE

LIMITED MR GIFFARD
HD/HKD
HD/ERD(MR APPELYARD)
PS/
PS/MR LUCE MR EVANS
PS/PUS MR DONALD

COPIES TO:

MR BURROWS LEGAL ADVISERS
MR D PERRETZ TREASURY
MR D HOLLAND BANK OF ENGLAND

SECRET



Sub
25

10 DOWNING STREET

From the Private Secretary

13 October 1983

HONG KONG

With your letter of 12 October you enclosed a draft telegram to Hong Kong about the proposed measures to stabilise the Hong Kong dollar.

This is simply to record that your Resident Clerk was informed yesterday evening that the Prime Minister had seen the draft and was content with it.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

SECRET

NR

*Hong Kong
future*

行政立法兩局
非官守議員辦事處

香港遮打道九至二十五號
太古大廈十三樓



Office of Unofficial Members of
Executive and Legislative Councils

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

電話：

Tel:

來函檔號 Your Ref:

Date: 12 October 1983

本函檔號 Our Ref: SYC/N7/LH

67

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

Dear Prime Minister,

My Unofficial Colleagues and I are most grateful to you for spending your valuable time with us on 7 October at your office to discuss Hong Kong's political future and in particular to develop HMG's strategy during the next round of Anglo-Chinese talks in Peking.

We are greatly encouraged by the interest and attention which you personally give to this matter.

With our best wishes,

Yours sincerely,

S Y Chung
Senior Unofficial Member
of the Executive Council

SECRET



cc AT
24
Teleprinted to
Blackpool on Foreign and Commonwealth Office
12/10 at 1630 hrs, London SW1A 2AH

12 October 1983

Dear John,

Hong Kong

With my letter of 11 October I enclosed a telegram about proposed measures to stabilise the Hong Kong dollar. The Governor has now told us by telephone that he had a difficult but inconclusive meeting with EXCO this morning. A further meeting will be held first thing tomorrow morning. It is quite likely that the outcome will be that he will not obtain either full endorsement or outright opposition but that a majority of members will record that they do not wish to advise against the Governor implementing the measures if he judges it right.

The Governor has asked for an indication of Ministers' views on the contingency either of opposition or of grudging assent from EXCO. We shall need to send instructions tonight. The Foreign Secretary, who is on his way back from Athens, has not yet considered the latest position but, to save time, I enclose a telegram drafted by officials which might form the basis of a reply.


Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	SECRET	IMMEDIATE DESKBY 130005Z

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	SECRET
CAVEATS	4	
DESKBY	5	DESKBY 130005Z
FM FCO	6	FM FCO
PRE/ADD	7	TO IMMEDIATE HONG KONG
TEL NO	8	TELEGRAM NUMBER
	9	PERSONAL FOR GOVERNOR
	10	PROPOSED FINANCIAL MEASURES
	11	1. Ministers have considered your proposals against the
	12	background of the political situation, including the talks with
	13	the Chinese. They recognise that constitutionally the decision
	14	is for you but in the circumstances they believe it would be
	15	helpful to you to be able to confirm that you had kept in close
	16	touch with them. They also need to take account of the fact that
	17	the matter could come up in Parliament and that they may be asked
	18	there or elsewhere what their view of the measures was.
	19	2. If at the meeting with EXCO today you face outright
	20	opposition to the proposals, you would clearly wish to consider
	21	every alternative, including delay, before going ahead this week.
///	22	Given the need to maintain good relations with EXCO and to help
//	23	the Council's standing in the Territory, Ministers would expect
/	24	that you would go ahead only if you judged that otherwise the risk
	25	of an imminent collapse was unacceptable. If you did in all the

NNNN ends telegram	BLANK	Catchword circumstances
File number	Dept Private Office	Distribution
Drafted by (Block capitals) JE Holmes		PS HKD Mr Burrows Mr Donald PS/Mr Luce Sir I Sinclair Mr Giffard Mr Donald Mr Appleyard
Telephone number 233 4641		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats

SECRET

Page

2

<<<<

1 <<<<
 2 circumstances so judge, they would not wish to dissuade you, and
 3 would make clear as necessary, if asked publicly, that while the
 4 final decision was for you to make on the spot, they had been
 5 aware of what was proposed and had confidence in your judgement
 6 of the situation.
 7 3. If EXCO do not oppose outright and a majority record that
 8 they would not advise against implementation, Ministers would be
 9 prepared to leave the question of implementation and its timing
 10 to your judgement and again would give you backing, with the
 11 same public line as in para 2 above.
 12 4. In either event I should of course be grateful for a full
 13 account of the basis of your decision for use in Parliament and
 14 elsewhere.
 15 5. I can in any case give contingent approval for the transfer
 16 of HK\$250 million from the Exchange Fund to the general revenue
 17 amount in case you decide to go ahead with the abolition of the
 18 withholding tax on interest on Hong Kong dollar deposits.

20 HOWE
 21 NNNN

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//

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31
 32
 33
 34

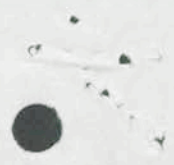
NNNN ends
 telegram

BLANK

Catchword

Hong Kong
Future
A9

447



02 OCT 1953



SECRET

Teleprinted to
Blackpool on 12/10 at
1630 hrs.

MR. BUTLER

cc: Mr. Turnbull

23

Note:- Mr Butler phoned from Blackpool
to say Prime Minister content. FCO
Resident Clerk informed 20.00 hrs
AT 12/10

HONG KONG

I attach an FCO letter and a draft telegram to
Hong Kong.

The telegram has to be sent tonight. The Foreign
Secretary may have views (he is being consulted when
he gets back from Athens). But is the Prime Minister
generally content with the telegram?

We have checked paragraph 5 with the Treasury
who are happy with it.

Should you need further information on the
constitutional position, the following is the relevant
extract from the Letters Patent:

Governor
may act in
opposition
to Executive
Council.

Reporting
grounds for
so doing.

Members
may require
their adverse
opinions to
be recorded
on Minutes.

XII. The Governor may, in the exercise of the powers and
authorities granted to him by Our said recited Letters Patent, act in
opposition to the advice given to him by the Members of the Executive
Council, if he shall in any case deem it right to do so; but in any such
case he shall fully report the matter to Us by the first convenient
opportunity, with the grounds and reasons of his action. In every
such case it shall be competent to any Member of the said Council to
require that there be recorded at length on the Minutes the grounds
of any advice or opinion he may give upon the question.

Andrew Turnbull, who is on duty tonight, has seen
the papers and will take your reply.

A. J. C.

AJC

12 October 1983

SECRET

SECRET

HONG KONG

WITH MY LETTER OF 11 OCTOBER I ENCLOSED A TELEGRAM ABOUT PROPOSED MEASURES TO STABILISE THE HONG KONG DOLLAR. THE GOVERNOR HAS NOW TOLD US BY TELEPHONE THAT HE HAD A DIFFICULT BUT INCONCLUSIVE MEETING WITH EXCO THIS MORNING. A FURTHER MEETING WILL BE HELD FIRST THING TOMORROW MORNING. IT IS QUITE LIKELY THAT THE OUTCOME WILL BE THAT HE WILL NOT OBTAIN EITHER FULL ENDORSEMENT OR OUTRIGHT OPPOSITION BUT THAT A MAJORITY OF MEMBERS WILL RECORD THAT THEY DO NOT WISH TO ADVISE AGAINST THE GOVERNOR IMPLEMENTING THE MEASURES IF HE JUDGES IT RIGHT.

THE GOVERNOR HAS ASKED FOR AN INDICATION OF MINISTERS' VIEWS ON THE CONTINGENCY EITHER OF OPPOSITION OR OF GRUDGING ASSENT FROM EXCO. WE SHALL NEED TO SEND INSTRUCTIONS TONIGHT. THE FOREIGN SECRETARY WHO IS ON HIS WAY BACK FROM ATHENS, HAS NOT YET CONSIDERED THE LATEST POSITION BUT, TO SAVE TIME, I ENCLOSE A TELEGRAM DRAFTED BY OFFICIALS WHICH MIGHT FORM THE BASIS OF A REPLY.

DRAFT TELEGRAM FROM FCO TO HONG KONG

SECRET

PROPOSED FINANCIAL MEASURES

MINISTERS HAVE CONSIDERED YOUR PROPOSALS AGAINST THE BACKGROUND OF THE POLITICAL SITUATION, INCLUDING THE TALKS WITH THE CHINESE. THEY RECOGNISE THAT CONSTITUTIONALLY THE DECISION IS FOR YOU BUT IN THE CIRCUMSTANCES THEY BELIEVE IT WOULD BE HELPFUL TO YOU TO BE ABLE TO CONFIRM THAT YOU HAD KEPT IN CLOSE TOUCH WITH THEM. THEY ALSO NEED TO TAKE ACCOUNT OF THE FACT THAT THE MATTER COULD COME UP IN PARLIAMENT AND THAT THEY MAY BE ASKED THERE OR ELSEWHERE WHAT THEIR VIEW OF THE MEASURES WAS.

IF AT THE MEETING WITH EXCO TODAY YOU FACE OUTRIGHT OPPOSITION TO THE PROPOSALS, YOU WOULD CLEARLY WISH TO CONSIDER EVERY ALTERNATIVE, INCLUDING DELAY, BEFORE GOING AHEAD THIS WEEK. GIVEN THE NEED TO MAINTAIN GOOD RELATIONS WITH EXCO AND TO HELP THE COUNCIL'S STANDING IN THE TERRITORY, MINISTERS WOULD EXPECT THAT YOU WOULD GO AHEAD ONLY IF YOU JUDGED THAT OTHERWISE THE RISK OF AN IMMINENT COLLAPSE WAS UNACCEPTABLE. IF YOU DID IN ALL THE CIRCUMSTANCES SO JUDGE, THEY WOULD NOT WISH TO DISSUADE YOU AND WOULD MAKE CLEAR AS NECESSARY IF ASKED PUBLICLY THAT WHILE THE FINAL DECISION WAS FOR YOU TO MAKE ON THE SPOT, THEY HAD BEEN AWARE OF WHAT WAS PROPOSED AND HAD CONFIDENCE IN YOUR JUDGEMENT OF THE SITUATION.

IF EXCO DO NOT OPPOSE OUTRIGHT AND A MAJORITY RECORD THAT THEY WOULD NOT ADVISE AGAINST IMPLEMENTATION, MINISTERS WOULD BE PREPARED TO LEAVE THE QUESTION OF IMPLEMENTATION AND ITS TIMING TO YOUR JUDGEMENT AND AGAIN WOULD GIVE YOU BACKING WITH THE SAME PUBLIC LINE AS IN PARAGRAPH 2 ABOVE.

IN EITHER EVENT I SHOULD OF COURSE BE GRATEFUL FOR A FULL ACCOUNT OF THE BASIS OF YOUR DECISION FOR USE IN PARLIAMENT AND ELSEWHERE.

I CAN IN ANY CASE GIVE CONTINGENT APPROVAL FOR THE TRANSFER OF HK\$ 250 MILLION FROM THE EXCHANGE FUND TO THE GENERAL REVENUE AMOUNT IN CASE YOU DECIDE TO GO AHEAD WITH THE ABOLITION OF THE WITHHOLDING TAX ON INTEREST ON HONG KONG DOLLAR DEPOSITS.

SECRET

226

PRIME MINISTER

HONG KONG

The attached note from the Cabinet Office suggests that the first meeting of the new OD Sub-Committee should be on 25 October because no decisions will be needed until after the next round of talks.

✓ This seems acceptable, but I am a little worried as to whether we are really ready to deal with the situation which will arise if, unexpectedly, the Chinese reject our latest formula and there is a breakdown next week. I have therefore told the Cabinet Office that I think they should look urgently at the contingency plans so far made and consider what other work needs to be done in case things do go wrong in the near future. In that case the OD Sub-Committee may need to meet rather sooner than suggested.

AJC.

11 October 1983

SECRET

AJC
12/10

22A

A-J-C. 12/10

h.a.

GR 240
SECRET
FM PEKING 110930Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1005 OF 11 OCTOBER
INFO IMMEDIATE HONG KONG

SECRET

FUTURE OF HONG KONG

1. AT A LUNCH FOR ELLIOTT AND WALKER GIVEN BY WESTERN EUROPEAN DEPARTMENT, MFA, ON 11 OCTOBER LUO JIAHUAN, WHO LOOKED MORE THAN USUALLY TIRED AND WORRIED, EXPRESSED GLOOM ON THE PROSPECTS FOR THE HONG KONG NEGOTIATIONS, AND ASKED ABOUT THE CONTENT OF THE AMBASSADOR'S MESSAGE. HEAD OF CHANCERY SAID THAT HE COULD NOT ANTICIPATE THE AMBASSADOR, BUT THAT THE MESSAGE WOULD BE AN IMPORTANT ONE. LUO SAID THAT IF WE DID NOT CHANGE OUR TUNE IT WAS DIFFICULT TO SEE HOW THE TALKS COULD CONTINUE. H OF C REPLIED THAT A BREAKDOWN WOULD DO GREAT DAMAGE AND BE IN THE INTERESTS OF NEITHER SIDE. LUO REMARKED THAT HE AGREED BUT THAT, UNLESS THERE WAS A CHANGE IN SUBSTANCE ON THE BRITISH SIDE, THE CHINESE HAD NO CHOICE.

2. WHEN TAXED WITH WU XUEQIAN'S REMARK IN OTTAWA THAT NO MATTER HOW NEGOTIATIONS WENT CHINA INTENDED TO ANNOUNCE HER PLAN IN SEPTEMBER 1984 (OTTAWA TELNO 589), LUO SAID THAT IF AN AGREEMENT BETWEEN THE TWO SIDES WAS REACHED THE CHINESE WERE OF COURSE OPEN TO DISCUSSION ON THE FORM OF AN ANNOUNCEMENT.

COMMENT

3. LUO'S REMARK IN PARAGRAPH 1 TENDS TO SUPPORT OUR SUSPICION THAT THE CHINESE HAVE BEEN PREPARING FOR A BREAKDOWN IN THE NEXT ROUND UNLESS THERE IS A SHIFT IN OUR POSITION.

CLARK

FUTURE OF HONG KONG

LIMITED
HD/HKD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/LADY YOUNG
PS/MR LUCE
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD
MR WRIGHT

COPIES TO

SIR IAN SINCLAIR LEGAL ADVISER
MR BURROWS LEGAL ADVISER
MR ROBERTS NEWS D
MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE
MR FLOWER PUSD
MR COLES NO 10 DOWNING STREET
SIR A PARSONS NO 10 DOWNING STREET
MR WALKER RESEARCH D CAB

SECRET

~~CONFIDENTIAL~~



Ref. A083/2862

MR COLES

Hong Kong

There are no decisions for the new Ministerial Sub-Committee (OD(K)) to take at the moment following the Prime Minister's meeting on 7 October with the Hong Kong Executive Council to decide upon the instructions to be given to our Ambassador in Peking on 14 October. The Foreign and Commonwealth Office have confirmed that they will not need any further Ministerial directions until there is some reaction from the Chinese, which they do not expect until the negotiations resume on 19 October. This points to the first meeting of the Sub-Committee taking place around the middle of the week beginning 24 October. The Secretary of State for Defence will be away in Canada from 26 to 28 October. The Foreign and Commonwealth Office will prepare a background note for the benefit of those members of the Sub-Committee who are new to the topic, and a minute from the Foreign and Commonwealth Secretary which will report the reactions of Peking.

2. I should be grateful if you would confirm that you are content with these arrangements.

3. I have arranged a provisional slot in the Prime Minister's diary for a meeting of the new Sub-Committee at 11.30 am on Tuesday 25 October.

LINDSAY WILKINSON

11 October 1983

~~CONFIDENTIAL~~

SECRET

cc AJC

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010



Foreign and Commonwealth Office

London SW1A 2AH

Discussed with the Prime Minister
who agreed the telegram of instruction
provided the Foreign Secretary and
the Chancellor were content. 11 October, 1983

Dear John,

FEB

Hong Kong 17.10.

As you know, the Governor of Hong Kong will be discussing with his Executive Council on 12 October the scheme which has been devised to stabilise the Hong Kong dollar. I enclose a copy of a telegram which we have sent this evening to the Foreign Secretary in Athens to bring him up-to-date on the background. As you will see, there may be a need for some very quick decisions on 12 October. We will be in touch as necessary during the course of the day. Meanwhile we would welcome any initial views you may have on the issues raised in the telegram.

I am copying this letter to John Kerr (HM Treasury), Richard Hatfield (Cabinet Office) and John Bartlett (Bank of England), with the same request.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

OUT TELEGRAM

Classification and Caveats

Precedence/Deskby

SECRET

IMMEDIATE

ZCZC 1
GRS 2
CLASS 3
CAVEATS 4
DESKBY 5
FM FCO 6
PRE/ADD 7
TEL NO 8

ZCZC
GRS
SECRET
FM FCO OCT 83

TO IMMEDIATE ATHENS

TELEGRAM NUMBER *Bone from*

9 Following Personal for Private Secretary
10 HONG KONG: PROPOSED FINANCIAL MEASURES

11 1. On 12 October the Governor of Hong Kong proposes to put
12 to the Executive Council ^{the} ~~a~~ scheme to stabilise the Hong Kong
13 dollar. There is a possibility (no more) that EXCO will be
14 opposed to the scheme. No decisions are required now since
15 Sir E Youde will report his discussion with EXCO before any
16 action is taken. But the Secretary of State may wish to have
17 some of the background now since urgent decisions may be
18 required by the evening of 12 October on whether to support the
19 Governor in the event that he wishes to introduce the sheme in
20 the face of EXCO's opposition. Even if EXCO are content, the
21 Secretary of State will be asked to approve a proposal that
22 \$250 million should be transferred from the Exchange Fund to
23 General Revenue Account to enable the scheme to go ahead.
24 2. The Secretary of State is aware of the general background.
25 In the view of Treasury officials the proposed measures are

FIRIN ends telegram	BLANK	Gateword technically
File number	Desk Private Office	Distribution PS — PS/A/LUCE HKD PS/PUS Mr Burrows <i>As shifted</i> <i>As Donald</i>
Directed by (Block capitals) JOHN HOLMES	Telephone number	
Authorised for despatch <i>John Holmes 27/10</i>	Corcon reference	Time of despatch

OUT TELEGRAM (CONT)

Classification and Caveats

SECRET

IMMEDIATE

Page

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1 <<<<
 2 technically feasible. The Chancellor has not sought to
 3 dissuade the Governor from going ahead. The Prime Minister has
 4 noted the Hong Kong Government's intentions.
 5 3. The scheme has three components:
 6 (i) to issue and redeem against US dollars, at an
 7 exchange rate fixed by the authorities, the
 8 Certificates of Indebtedness issued by the Exchange
 9 Fund to banks issuing Hong Kong dollar notes;
 10 (ii) a simultaneous abolition of the withholding tax on
 11 interest on Hong Kong dollar deposits;
 12 (iii) a transfer of HK\$250 million from the Exchange Fund
 13 to General Revenue Account in order to make up for
 14 the resulting loss of revenue. (The Secretary of
 15 State's approval is required).
 16 4. The Governor believes that EXCO might possibly be opposed
 17 to his proposals. The scheme would place the banks in the
 18 front line. The burden of higher interest rates would fall on
 19 borrowers, notably home buyers and such highly-g geared companies
 20 as those in the distressed property sector. In the Governor's
 21 view pressure on the banks and on interest rates would be
 22 preferable to pressure on the Exchange Fund and the exchange
 23 rate. He would put this view strongly to EXCO, as well as
 24 the point that such an arrangement would help HMG's stance
 25 in the negotiations. However, EXCO might not agree, since
 26 banking and property interests are strongly represented amongst
 27 them.
 28 5. The Governor is empowered to act in opposition to the
 29 advice given to him by EXCO if he deems this right but has
 30 to report to the Secretary of State on the grounds and reasons
 31 for his action. He will thus be seeking political backing
 32 vis-a-vis EXCO members rather than formal authorisation to
 33 proceed. But it is highly unusual for the Governor to act
 34 against the advice of EXCO. We cannot find any precedent for

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Catchword
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OUT TELEGRAM (CONT)

Classification and Remarks

SECRET

IMMEDIATE

Page

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- 1 <<<<
- 2 the past 20 years.
- 3 6. The Governor is very conscious of the significance and
- 4 difficulty of such a step now. Clearly it would harm his
- 5 relationship at a particularly awkward moment. However he
- 6 only intends to act against EXCO's advice if the financial
- 7 position makes this absolutely necessary and after every effort
- 8 to persuade them.
- 9 7. There is one potential legal difficulty. Article 4 of the
- 10 Exchange Fund Ordinance requires banks to pay to the Fund the
- 11 'face value' of Certificates of Indebtedness, expressed in
- 12 Hong Kong dollars. The proposal however is that banks should in
- 13 future be required to pay in US dollars. However, the Hong Kong
- 14 Government and its legal advisers do not see any immediate need
- 15 for amending legislation.
- 16 8. In the rather unlikely event of a legal challenge the
- 17 matter could be regularised by legislative amendment, which
- 18 could if necessary be retrospective. If the LEGCO refused to
- 19 cooperate such legislation could be adopted by Order in Council
- 20 under the powers reserved to the Crown.
- 21 9. The proposed transfer from the Exchange Fund to General
- 22 Revenue Account does not appear to raise any legal or financial
- 23 problems.
- 24 10. EXCO will meet on the morning of 12 October. The idea is
- 25 to implement the measures after markets close for a long
- 26 weekend on the evening of 13 October. If the Secretary of State's
- 27 support needs to be sought by the Governor, this will be during
- 28 the day of 12 October.
- 29 11. The initial view here is that it would be right, in the
- 30 event that the Governor decides to act despite EXCO's opposition,
- 31 to back him up. This might take the form of authority to the
- 32 Governor to inform EXCO that the British Government have
- confidence in his judgement. If this step is to be taken, we
- will want to be sure that at least the Prime Minister and

EXCO 10/10/79

10/10/79

Chancellor

OUT TELEGRAM (CONT)

Classification and Caveats

SECRET

IMMEDIATE

Page

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1 <<<<
 2 Chancellor are content before a final decision is taken. We
 3 are warning their offices accordingly.
 4 12. If we proceed as in paragraph 11 above, it will be
 5 clear that HMG have given their approval to the scheme
 6 and parliamentary and other questions will be answered
 7 accordingly. If, on the other hand, EXCO agree with the
 8 scheme, the immediate problem will be less but there may
 9 still be parliamentary interest (especially if ^{the scheme} subsequently
 10 goes wrong). Ministers may be ^{asked} ~~pressed~~ as to whether or not
 11 they gave the scheme their approval. We therefore need
 12 consciously to decide whether to put ourselves in a position
 13 where we would answer such a question in the affirmative,
 14 or whether to take the view that we regarded this as a
 15 matter for the Hong Kong government on which HMG as such
 16 was not called upon to take a view. ~~We shall be considering~~ ^{These are the two ends}
 17 ~~this further with the Department.~~ ^{of the question. The department are considering what form}
 18 ^{of words the Secretary of State might most helpfully and}
 19 ^{accurately use in practice.}
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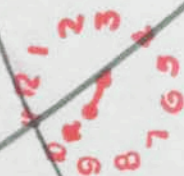
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11 OCT 1983



11 OCT 1983



GRS 100

CONFIDENTIAL

CONFIDENTIAL

FROM PEKING 100650Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 995 OF 10/10/83

REPEATED FOR INFO TO PRIORITY HONG KONG

Al 11/10
h-a.

FCO TEL NO 668: FUTURE OF HONG KONG

1. WE SPOKE TO THE MFA ON 8 OCTOBER STRESSING THAT THE AMBASSADOR WOULD BE BEARING AN IMPORTANT MESSAGE. THE MFA HAVE NOW TOLD US THAT YAO GUANG MUCH WISHES TO ACCEDE TO THE AMBASSADOR'S REQUEST. HIS DIARY IS VERY FULL FOR 14 OCTOBER, BUT THE MFA ARE NEVERTHELESS TRYING TO ARRANGE A CALL FOR THE AMBASSADOR SOMETIME DURING THE COURSE OF THAT DAY, PERHAPS IN THE EVENING. THE MFA WILL CONFIRM ARRANGEMENTS FOR THE CALL ON 13 OCTOBER.

2. PLEASE CONFIRM THAT THE AMBASSADOR WILL RETURN TO PEKING ON BAO03 ON 13 OCTOBER

CLARK

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/PUSD

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

COPIES TO

SIR IAN SINCLAIR LEGAL ADVISER

MR BURROWS LEGAL ADVISER

MR ROBERTS NEWS D

MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

MR FLOWER PUSD

MR COLES NO 10 DOWNING STREET

SIR A PARSONS NO 10 DOWNING STREET

MR WALKER RESEARCH D OAB 2/82

CONFIDENTIAL

S E C R E T



CC MASTER SET

10 DOWNING STREET

From the Private Secretary

10 October 1983

HONG KONG

I sent you, with my letter of 7 October, an account of the discussion which took place at the Prime Minister's meeting with the Unofficial members of EXCO on that day.

As you know, the meeting with EXCO was preceded by two internal meetings on 5 and 6 October. For the record, I now enclose summaries of the discussions at those two meetings.

I am copying this letter and enclosures to Richard Mottram (Ministry of Defence), John Kerr (H.M. Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

John Holmes Esq.,
Foreign and Commonwealth Office.

S E C R E T

RECORD OF A MEETING AT No. 10 DOWNING STREET AT 1630 HOURS
ON WEDNESDAY 5 OCTOBER 1983

PRESENT

The Prime Minister
Foreign and Commonwealth Secretary
Chancellor of the Exchequer
Secretary of State for Defence
Mr. Luce
Sir Robert Armstrong
Sir Antony Acland
Sir Percy Cradock
Mr. Donald
Sir Anthony Parsons
Mr. Coles

The Prime Minister said that we were now faced with an acutely difficult problem in the negotiations with China. She was not sure that all the possible options were set out in the minute of 4 October by the Foreign and Commonwealth Secretary. She wondered whether an alternative option was to produce a document describing what the Chinese were apparently prepared to offer in regard to the future system for running Hong Kong. This document would put special emphasis on the concept of a 50-year period of autonomy starting in 1997. If the Chinese provoked a breakdown in the negotiations the document could usefully be published. We had been on the defensive for too long and needed some device for regaining the initiative.

The Foreign and Commonwealth Secretary said that he could see the value of having available a document which might in due course be published. But there could be difficulty in drawing up a paper for presentation to the Chinese at the present stage. It might turn out later that there were further concessions that we could have obtained. It might be that we had not yet reached the point where we could define in any detail the Chinese prescription for the future of Hong Kong.

/The Prime Minister

The Prime Minister commented that the Chinese aim seemed to be to ensure that Hong Kong was not under British administration after 1997. If they could not be moved on this point, perhaps our aim should be to achieve a Singapore-type autonomy for Hong Kong preserved by a treaty lasting for 50 years. Our immediate objective had to be to keep the talks going. If the Chinese claimed publicly that we had surrendered British administration, the document she had described would be valuable in showing what we believed the Chinese to have offered in return.

Sir Percy Cradock said that it might be useful to draw up a document to clear our own minds. But it would be dangerous to give it to the Chinese. It would be taken as setting out our maximum demands. But it might be shown in the event that we could have done better. Our position would have been rigidified. Flexibility was preferable so that we were able to extract the maximum advantage for Hong Kong. Moreover, the Chinese might interpret the document as British acceptance without qualification of the Chinese premise. It would be better to give a conditional acceptance along the lines that if satisfactory arrangements could be agreed, then the Government would be prepared to recommend them to Parliament. If, at the end of the negotiations, the package was unsatisfactory, we would have the right to reject it just as we were still able, following the Prime Minister's letter of 10 March to the Chinese Premier, to reject the proposition that China would obtain sovereignty over Hong Kong in 1997.

Agreeing, Mr. Luce thought that it would be the wrong tactic to table such a paper now. The aim must be to get the Chinese to reveal their hand. So he favoured the kind of formula which Sir Percy Cradock had described.

The Chancellor of the Exchequer said that he had recently read for the first time the list of "special policies" which China had decided to adopt towards Hong Kong, as elaborated to the Ambassador in Peking in the talks on 25 July. His first impression was one of some surprise that the Chinese had been prepared to go so far. He agreed with the Prime Minister that

/if China

if China stated publicly after the next round of talks that Britain had now expressed readiness to concede British administration, that would have a damaging effect on the markets.

Sir Percy Cradock said that if we now entered into a period of confrontation with China, damage to Hong Kong was certain. If we put forward the formula proposed in Option D of the Foreign and Commonwealth Secretary's minute, we ran the risk of Chinese misinterpretation. But if they did claim publicly that we had made a concession we should be able to rebut this with the argument that we were simply doing what any prudent negotiator would do, exploring all the possible options. At the end of the day, we retained the right to reject whatever package was on offer.

Mr. Luce said that the public relations aspect was important. The question was whether a formula of this kind would induce the Chinese to stop their propaganda which was having a serious effect on opinion in Hong Kong. If it did not have this effect, we should explain to Hong Kong publicly what we were trying to achieve. He had met many people on his recent visit to Hong Kong. He was struck by their great fear of living under a Communist regime. To be able to live in freedom in the future was more important to them than the existence of a British Governor.

Sir Robert Armstrong said that the difficulty with Option D was that it repeated in respect of administration the formula which we had adopted on sovereignty. Could we not instead ask the Chinese to explain in detail their position on administration? Sir Percy Cradock said that the Chinese were not prepared to discuss details until a bow had been made in the direction of their premise. A formula along the lines of that in Option D was the only way in which we could discover what they had in mind.

/The Prime Minister said

The Prime Minister said that Option D presented difficulties. We had employed a conditional formula in respect of sovereignty. As a result, the Chinese had convinced everyone that we had surrendered sovereignty. The suggestion now was that we should concede that the right of administration should pass to China. In her view, the right of administration should pass to the residents of Hong Kong. That was what autonomy meant. It was extremely difficult to envisage that administration could be conceded. The document that she had in mind would, of course, be a conditional statement. It would sell no passes. We still had sovereignty in perpetuity over Hong Kong and Kowloon. It was still open to us to bring the people close to independence by 1997. At that point, Peking would have to deal with the people of Hong Kong.

The Foreign and Commonwealth Secretary said that any future arrangements in Hong Kong would depend crucially on China's consent and acquiescence. It was true that legally we had the right to sovereignty over eight per cent of the territory after 1997. But this was not a good guide to our overall policy on the problem. Initially, we had tried to separate sovereignty and administration. But we had not been successful in promoting a negotiation about the details of a future administration. We now needed to enter into talks on what elements of administration should be preserved in order to guarantee stability and prosperity. The Chinese "special policies", accompanied by a 50-year guarantee and credible elements of a British presence, might well be the best possible outcome.

The Chancellor of the Exchequer said that he did not find it surprising that the Chinese would not accept a British Governor after 1997. He thought that something along the lines of Option D in the Foreign and Commonwealth Secretary's minute might be the best way forward, though the particular formula suggested might not be suitable.

/Sir Antony Acland

Sir Antony Acland said that it was not clear that a paper setting out our interpretation of the Chinese position would remove the deadlock in the talks. The Chinese might still refuse to discuss it unless we accepted their premise.

The Prime Minister commented that any formula would have to make it clear that we were prepared to discuss administrative arrangements only in the context of her letter of 10 March to the Chinese Premier. But it remained her goal that effective administration should pass not to China but to the residents of Hong Kong. The Foreign and Commonwealth Secretary said that perhaps it was not necessary to refer in the formula to the right of administration passing to China in 1997. It was worth noting that the Prime Minister's letter of 10 March did not refer explicitly to British administration. It might be sufficient to make clear to the Chinese that we were not envisaging the continuation of British administration. The Prime Minister said that it must be remembered that we were committed to the proposition that any arrangements agreed with the Chinese must be acceptable to the people of Hong Kong.

Sir Percy Cradock said that it was only in co-operation with China that we could reach an agreement which was in the interests of the people of Hong Kong. We could do nothing for them if we were in confrontation with China.

Summing up the discussion, the Prime Minister asked that two documents should be prepared for consideration at a meeting the following day:-

- (a) A draft telegram of instructions to H.M. Ambassador in Peking which would set out in general terms what we understood the Chinese proposals for the future to be, emphasising in particular the requirement that Hong Kong should have autonomy; which would express our willingness to see whether the elaboration of this description conformed with the conditions laid down in the Prime Minister's letter of 10 March; and which would move sufficiently far in the direction

/of the

SECRET

- 6 -

of the Chinese premise to avoid deadlock in the talks and promote detailed discussion of the future of Hong Kong.

- (b) A draft paper setting out what, on the basis of the Chinese proposals so far made, might be achievable in the continued negotiations about the future of Hong Kong.

The meeting ended at 1800 hours.

A-F C.

10 October 1983

SECRET

RECORD OF A MEETING AT No. 10 DOWNING STREET AT 1600 HOURS
ON THURSDAY 6 OCTOBER 1983

PRESENT

The Prime Minister
Foreign and Commonwealth Secretary
Chancellor of the Exchequer
Secretary of State for Defence
Mr. Luce
Sir Robert Armstrong
Sir Antony Acland
Sir Percy Cradock
Sir Edward Youde
Mr. Donald
Sir Anthony Parsons
Mr. Robin Butler
Mr. Coles

Sir Edward Youde said that the opinion of the Unofficials, whom the Prime Minister would be meeting the next day, had changed since he had last discussed ^{the situation} with them in Hong Kong. They had then been keen to maintain the current policy of insisting on British administration after 1997. Now, a number had come round to the view that it might be wiser to consider a formula which would enable the negotiations to progress. Nevertheless, others felt that there was a risk that if we made a concession to China we should receive nothing in return. This group also argued that if confrontation was inevitable it was better to have it now while Hong Kong was strong. Some of the Unofficials, especially the bankers among them, recognised that a breakdown in the talks would bring serious consequences.

The Foreign and Commonwealth Secretary said that his impressions were similar. Some Unofficials argued that it was better to face confrontation now. Others were more inclined to argue that it was wrong to precipitate a breakdown until every avenue had been explored; but we should not unconditionally accept the Chinese position. Agreeing, Mr. Luce said that the
/mood of the

mood of the Unofficials was more open now than when he had met them in Hong Kong nine days ago.

The Prime Minister said that we had earlier worked on the assumption that if we made a conditional concession with respect to sovereignty, the negotiations would proceed smoothly. That had not proved true. The proposition now was that we should make a conditional concession on administration and that negotiations would then proceed smoothly. But if they did not, what would the next Chinese demand be?

The Foreign and Commonwealth Secretary said that the term "British administration" had become a shorthand device for suitable arrangements in the future. But the term itself, which was not used in the Prime Minister's letter of 10 March, had become a stumbling block. The "special policies" announced by China clearly added up to something less than Chinese administration. Sir Percy Cradock commented that Article 31 of the Chinese Constitution allowed the Chinese Government to create any arrangements they chose in the special administrative regions.

The Prime Minister suggested that the meeting should discuss the two documents enclosed with Mr. Holmes' letter of 6 October to Mr. Coles, namely:-

- (a) A draft telegram of instructions to H.M. Ambassador in Peking;
- (b) an outline of points which would need to be covered in negotiating a system of assurances for Hong Kong.

A number of detailed drafting amendments were suggested to the draft telegram. It was agreed that a revised text should be prepared and submitted to the Prime Minister for her approval.

/As regards the

As regards the second paper, the Foreign and Commonwealth Secretary stressed that it was a purely internal document, at least at this stage. The Chancellor of the Exchequer commented that it could be very useful for publication at a later stage as an indication of the British aims in the negotiation. Sir Edward Youde commented that in due course it would be necessary to consult EXCO about the various elements in the paper. In his view, our objective in the talks should be to make the Chinese negotiate us down from the present position obtaining in Hong Kong, i.e. it was tactically wiser to let the Chinese state what they objected to in the present system, with the implication that everything to which they did not specifically object would be retained.

The Prime Minister said that the second paper should be regarded as a draft which at this stage would be for purely internal use. It should be further elaborated and refined in consultation with those departments principally interested in the matter. In due course, it might be necessary for the new OD Sub-Committee to consider the document.

Following discussion of the handling of the meeting with the Unofficials on the following day, the meeting ended at 1800 hours.

A.J.C.

10 October 1983



Foreign and Commonwealth Office

London SW1A 2AH

7 October 1983

MS

Prime Minister

A.S.C. 10/10.

Dear John,

Future of Hong Kong: Letter from the Lord Chancellor

The Prime Minister may be interested in seeing the enclosed letter to the Foreign Secretary from Lord Hailsham, who recently attended the 7th Commonwealth Law Conference in Hong Kong.

The Foreign Secretary thought that it was perceptive and worth reading.

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.



HOUSE OF LORDS,
SW1A 0PW

*See how much
Vulpe wings
?? complete to
No. 10, OD??*

27th September, 1983

CONFIDENTIAL

The Right Honourable
Sir Geoffrey Howe, QC MP
Secretary of State for Foreign
and Commonwealth Affairs,
Foreign and Commonwealth Office,
London, SW1A 2AL.

*HKS-0
AS
AS/Dr. Howe
Dr. G. ...
Dr. ...*

gls

My dear Geoffrey:

I think I should report shortly on my visit to Hong Kong. The Seventh Commonwealth Law Conference demands no special comment. It was very well run and by common consent it was pronounced a success. I made two speeches, the first opening the Conference, the second laying the foundation stone of the new Court building which was almost complete. Both speeches were potentially politically sensitive. Both received fairly wide coverage on the various media. But neither, so far as I am aware, excited adverse comments.

This was the more satisfactory since my visit coincided with the resumption of talks in Beijing (Pekin) at which Sir Edward Youde was present as a member of the British delegation, and with a currency crisis engendered by uncertainty as to the outcome of the talks. In my opinion this crisis was entirely brought about by the repeated breaches of confidentiality and the aggressive attitude exhibited by the People's Republic of China (PRC). It is for consideration whether this was done with the deliberate intention of creating panic or whether it was simply an example of the total inability of Communist regimes to understand the meaning of confidence or enterprise or the working of a free enterprise economy. In neither event is the prospect particularly encouraging. Despite attempts to make people believe that they do not wish to destroy the economy of Hong Kong which even now gives them a useful source of hard currency, by their actions the PRC leaders are creating a situation which, if it is not remedied, might be quite difficult to hold. In the meantime they blame us for "playing the economic card" and "playing the public opinion card". But we are not playing cards. The Governor (who as you know has served in Peking) believes (I think rightly) that, whatever the explanation of their behaviour, the "political imperatives" of the PRC take such a dominant place in their thinking and actions that they are simply indifferent to economic consequences. If this is so, the outlook is bleak, and whether or not the talks are resumed is simply a question of political judgment.

/...

CONFIDENTIAL

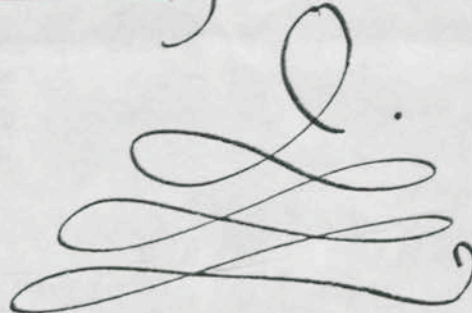
of/

Whilst I was there two British political figures occupied a small part of the scene without doing much noticeable good. One was Ted Heath who came hotfoot from the PRC and addressed the Unofficial Members of the Executive and Legislative Councils, repeating more or less as gospel the line taken by the PRC. Since they had heard it before the worthy burgers were not much pleased. But it was Ted who stormed out without partaking of the dinner/which he had been invited to partake. This, with various comments, was widely reported. The other British figure was our ex colleague Billy Rees-Davies who, since his father was a former Chief Justice of Hong Kong, was more prominent there than he usually is here. He tried to nobble all and sundry (including me and my daughter) with his own solutions, which did not impress me. They may, however, have weakened the hand of the Governor in the minds of those who listened to him.

Anything which can be done to support the morale of the population would be to the good. Those who can get out are in danger of voting with their feet. But it is difficult to know what to say or do which will restore their confidence. Whether the PRC line is due to ignorance or malice, or, as seems more likely, a combination of the two, the fact remains that militarily the territory is indefensible, that it buys a significant part of its water through a pipe from across the border, and also much of its supply of fresh vegetables and other food. However, the lease only expires in 1997, and, with a little luck things might quieten down. Given confidence, and basic supplies, the economy would be sound.

In view of the contents of this letter I am marking it "Confidential", and since it is D.O. as we used to say in the Army, I am not circulating it. It is for you to give it what circulation (if any) you wish.

yrs:

A large, stylized handwritten signature in black ink, consisting of several loops and flourishes.

1602 1. 11



RESTRICTED

GRS 690

RESTRICTED

FM OTTAWA 072235Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 529 OF 07 OCTOBER

INFO IMMEDIATE TO WASHINGTON, HONG KONG, PEKING

Prime Minister

with notes

VISIT BY CHINESE FOREIGN MINISTER

MIPT

ms

A.S.C. 10/10

FOLLOWING IS DEA'S TRANSCRIPT OF QUESTIONS AND ANSWERS ON HONG KONG IN CHINESE FOREIGN MINISTER'S PRESS CONFERENCE IN OTTAWA ON 6 OCTOBER.

1. NEXT QUESTION, WARNER TROYER, CITY TELEVISION.

W.T.(UNDERLINED) MINISTER, IF I CAN USE A PHRASE WHICH WILL NOT MAKE A BAD PUN IN TRANSLATION. WHILE YOU HAVE BEEN WOOING FOREIGN BUSINESSMEN AND INVESTORS IN CANADA TO COME TO CHINA, THE ONTARIO PREMIER WILLIAM DAVIS AND HIS MINISTER OF TRADE AND INDUSTRY, FRANK MILLER, HAVE BEEN IN HONG KONG TRYING TO ATTRACT SOME OF THE NERVOUS BUSINESSMEN AND INDUSTRIALISTS THERE, AND ENCOURAGE THEM TO PUT MONEY INTO ONTARIO. I WONDER WHETHER AS A RESULT OF SECRET NEGOTIATIONS WHICH PRIME MINISTER THATCHER TOLD US ABOUT HERE TEN DAYS AGO ON THE FUTURE OF HONG KONG, YOU HAVE ANY WORDS OF REASSURANCE FOR THOSE INVESTORS IN HONG KONG WHO ARE NOW CONSIDERING PUTTING MONEY INTO SINGAPORE AND KUALA LUMPUR, AND INDEED NOW, INTO ONTARIO ?

MR. WU (UNDERLINED) I THINK THE FOREIGN INVESTORS, INCLUDING THE CANADIAN AND BRITISH INVESTORS, AND OWNERS OF PROPERTIES IN HONG KONG SHOULD NOT BE NERVOUS AT ALL. AS THE CHINESE POLICY WHICH WE HAVE STATED ON MANY OCCASIONS - HAVE STIPULATED - AFTER WE RESUME THE EXERCISE OF SOVEREIGNTY OF HONG KONG, WE WILL NOT TOUCH, IN FACT WE WILL KEEP ALL THE PROPERTIES, THE PRIVATE PROPERTIES IN HONG KONG, INTACT. THEY WILL BE ALLOWED TO MAINTAIN THEIR CONTACTS AND RELATIONS WITH FOREIGN COUNTRIES, AND DO THE TRANSACTIONS AS USUAL. HERE I WOULD LIKE TO TAKE THE OPPORTUNITY TO TELL OUR FRIENDS THAT, UNDER THE PEOPLE'S REPUBLIC OF CHINA, THERE ARE GOING TO BE TWO SPECIAL ADMINISTRATIVE REGIONS - NAMELY, HONG KONG AND TAIWAN. AFTER REPEATED AND CAREFUL CONSIDERATION OF THE SPECIAL CONDITIONS THERE, WE THINK THAT WE SHOULD ADOPT SPECIAL POLICIES TOWARDS THESE TWO REGIONS. THE MOST IMPORTANT ASPECT OF SUCH SPECIAL POLICIES IS THAT THE SOCIAL SYSTEM IN THESE TWO REGIONS WILL REMAIN UNCHANGED, . OTHER ASPECTS OF THE SPECIAL POLICIES, WITH RESPECT TO HONG KONG, FOR INSTANCE, ARE THAT THE JUDICIAL SYSTEM WILL REMAIN UNCHANGED, AND OF COURSE AFTER CHINA RESUMES THE EXERCISE OF SOVEREIGNTY OVER HONG KONG, THERE SHOULDN'T BE SUCH WORDING AS HER MAJESTY, THE QUEEN'S

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GOVERNMENT IN HONG KONG LAW, AND THIS - SUCH WORDING WILL BE CHANGED, BUT THE JUDICIAL SYSTEM, THE LAW WILL NOT CHANGE. AND THEN THE RIGHT OF FINAL JUDGEMENT WILL BE VESTED IN HONG KONG AND THE HONG KONG DOLLAR WILL REMAIN, AND IT WILL BE ALLOWED TO CONTINUE ITS ECONOMIC RELATION WITH FOREIGN COUNTRIES, AND SO FORTH. THE MAINLAND WILL NOT SEND PEOPLE TO ADMINISTER THE REGION. WELL, I CANNOT GO INTO DETAILS AND SPECIFICS OF THE SPECIAL POLICIES TOWARDS THE FUTURE OF HONG KONG IN A COMPREHENSIVE MANNER, BUT THERE IS THE QUESTION THAT SOME PEOPLE MAY DOUBT THAT WHEN CHINA REGAINS ITS SOVEREIGNTY OVER HONG KONG SUCH POLICIES WILL CHANGE. IT IS OUR HOPE THAT THE BRITISH GOVERNMENT WILL BE SENSIBLE, BECAUSE THE QUESTION OF SOVEREIGNTY IS NOT NEGOTIABLE, CHINA WILL NOT CHANGE ITS POSITION ON THIS QUESTION. ON THIS CONDITION WE ARE WILLING TO SIT DOWN TO DISCUSS WITH THE BRITISH GOVERNMENT THE TWO QUESTIONS. FIRST, HOW TO MAINTAIN PROSPERITY AND STABILITY IN HONG KONG IN THE PERIOD FROM NOW UNTIL 1997, THE YEAR WHEN WE WILL RECOVER OUR SOVEREIGNTY OVER HONG KONG. THE SECOND, IS HOW TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG AFTER THE RECOVERY OF SOVEREIGNTY BY CHINA IN 1997. WELL, HEREIN LIES OUR DIFFERENCES WITH THE BRITISH GOVERNMENT, IN THEIR VIEW, THAT THERE SHOULD BE A SEPARATION OF SOVEREIGNTY AND ADMINISTRATION. WELL, IN OUR VIEW, SOVEREIGNTY IS INSEPARABLE FROM ADMINISTRATION. THE BRITISH SIDE WANTS TO MAINTAIN ADMINISTRATIVE CONTROL AFTER CHINA REGAINS ITS SOVEREIGNTY OVER HONG KONG. IN ESSENCE, THEY'RE RELUCTANT TO CONCEDE SOVEREIGNTY TO CHINA. BUT WE THINK IF THEY CAN ACCEPT OUR POSITION ON THIS POINT, THEN OTHER PROBLEMS WILL BE EASIER FOR OUR TWO SIDES TO DISCUSS, AND THERE IS MUCH FOR THE BRITISH SIDE TO DO. AND WE CAN HAVE VERY GOOD COOPERATION TOO.

2. NEXT QUESTION, PAUL (MAJENDIE OF REUTERS?)

P.(UNDERLINED) DO YOU THINK THE BRITISH HAVE MIS-MANAGED THE NEGOTIATIONS SO FAR, AND DO YOU CONSIDER THAT PROGRESS HAS BEEN SLIM, YOU HAVE BEEN TALKING ABOUT A 1984 DEADLINE ?

MR. WU (UNDERLINED) 1984...???

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/ P. (UNDERLINED)

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P. (UNDERLINED) FOR THE CONCLUSION OF THE TALKS.

MR. WU (UNDERLINED) NO MATTER HOW THE NEGOTIATIONS WILL GO ON, WE INTEND TO ANNOUNCE IN SEPTEMBER 1984, OUR DECISION TO RESUME OUR EXERCISE OUR SOVEREIGNTY OVER HONG KONG IN THE YEAR 1997. WE ARE ONLY SAYING THAT, WE WILL CERTAINLY ANNOUNCE THIS DECISION BY SEPTEMBER 1984.

P. (UNDERLINED) MY QUESTION WAS, DO YOU THINK THE BRITISH HAVE MIS-MANAGED THE NEGOTIATIONS SO FAR, BY BEING TOO INSISTENT, AND DO YOU THINK THERE HAS BEEN NO PROGRESS ?

MR. WU (UNDERLINED) WELL, THE THINGS THAT THE BRITISH SIDE HAS INSISTED ON, SHOULD NOT BE DISCUSSED IN THE PRESENT NEGOTIATIONS BETWEEN THE TWO SIDES. SO, SO FAR THERE IS NO PROGRESS.

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FM OTTAWA 072359Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 528 OF 07 OCTOBER

INFO IMMEDIATE TO WASHINGTON, PEKING, HONG KONG

MY TEL NO 519: VISIT OF CHINESE FOREIGN MINISTER: REMARKS ABOUT HONG KONG.

1. FULL TEXT OF MR WU'S PRESS CONFERENCE, AS TRANSCRIBED BY DEA, FOLLOWS BY BAG. FOR EXTRACT GIVING QUESTIONS AND ANSWERS ON HONG KONG PLEASE SEE MIFT. A FURTHER EXTRACT ON CHINESE/SOVIET RELATIONS IS BEING TELEGRAPHED SEPARATELY.

2. HADWEN, DIRECTOR GENERAL EAST ASIA BUREAU IN DEA HAS GIVEN US FOLLOWING ADDITIONAL BRIEFING.

3. HONG KONG WAS NOT RAISED BY EITHER SIDE IN TALKS BETWEEN WU AND MACEACHEN. IT DID COME UP IN A CONVERSATION BETWEEN WU AND TRUDEAU DURING A LUNCH HOSTED BY REGAN (MINISTER OF STATE, INTERNATIONAL TRADE) AT WHICH BUSINESSMEN WERE PRESENT. WU GAVE A LONG ANALYSIS WHICH SEEMS TO HAVE BEEN ALONG THE LINES OF HIS REMARKS TO THE PRESS, EMPHASISING THAT SOVEREIGNTY MUST BE TRANSFERRED, BUT THAT IT IS IMPORTANT TO MAINTAIN BUSINESS CONFIDENCE.

4. BACKGROUND ON THE FIRST QUESTION IN MIFT. DAVIS, LOUGHEED AND DEVINE, THE PREMIERS OF ONTARIO, ALBERTA AND SASKATCHEWAN, HAVE BEEN BRIEFED BY THE DEA TO TAKE A STATESMANLIKE APPROACH WHEN SEEKING INVESTMENT FROM HONG KONG AND TO AVOID APPEARING TO SCAVENGE. THERE ARE TEN THOUSAND CANADIANS IN HONG KONG AND HUNDREDS OF MILLIONS OF DOLLARS WORTH OF CANADIAN INVESTMENT. THE CANADIANS RECEIVE 40 TO 50 APPLICATIONS A DAY FROM HONG KONG ENTREPRENEURS WILLING TO INVEST BETWEEN A QUARTER AND HALF A MILLION DOLLARS IN CANADA, WHICH ENTITLES THEM TO JUMP THE IMMIGRATION QUEUE.

5. A COMMENT ON MR WU'S LAST ANSWER TO THE PRESS. MR WU WAS VERY TIRED AT THIS POINT, AND SLIGHTLY CONFUSED. THE TRANSLATOR WAS ALSO CONFUSED. THOUGH VERY GOOD, MR WU WAS NOT EQUIPPED FOR DEALING WITH PERSISTENT LEADING QUESTIONS OF THIS TYPE. DEA ADVISE AGAINST LAYING TOO MUCH EMPHASIS ON ANY PARTICULAR INTERPRETATION OF WHAT MR WU APPEARS TO HAVE SAID AT THAT POINT.

6. IN ANSWER TO PRESS QUESTIONS DEA ARE TAKING THE FOLLOWING LINE:

A. DO MR WU'S REMARKS CONTAIN ANYTHING RADICALLY NEW? WE THINK NOT.

DID HONG KONG COME UP BETWEEN WU AND MR TRUDEAU? YES. TRUDEAU WILL HAVE MADE IT CLEAR THAT CANADA IS INTERESTED IN HONG KONG, BUT IS NOT, OF COURSE, DIRECTLY INVOLVED.

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7. IF ASKED WHETHER HONG KONG WAS DISCUSSED BETWEEN MR TRUDEAU AND MRS THATCHER, DEA ARE SAYING NO.

8. AFTER THE PRESS CONFERENCE HADWEN HAD A CONVERSATION OVER LUNCH WITH ZHU QIZHEN, THE ASSISTANT MINISTER FOR FOREIGN AFFAIRS AND DIRECTOR OF DEPARTMENT OF AMERICAS AND OCEANIA AFFAIRS. HADWEN TOLD HIM THAT MR WU'S REMARKS, WHILE NOT DRAMATIC, STRUCK HIM AS SOMEWHAT DIFFERENT FROM WHAT HE HAD HEARD IN THE PAST, AND WARNED ZHU THAT HE THOUGHT THERE WOULD BE PRESS INTEREST IN TORONTO AND MONTREAL. HE TOLD ZHU WHAT LINE THEY WERE TAKING WITH THE PRESS (PARA 6 ABOVE). HE ASKED ZHU WHAT THE CHINESE MEANT WHEN SAYING THAT QUOTE THEY (HONG KONG) WILL BE ALLOWED TO MAINTAIN THEIR CONTACTS AND RELATIONS WITH FOREIGN COUNTRIES AND DO THE TRANSACTIONS AS USUAL UNQUOTE. HONG KONG HAD SOME USEFUL RELATIONS WITH THE EEC THROUGH BRITAIN'S MEMBERSHIP OF THE EEC. HONG KONG WAS PART OF THE COMMONWEALTH. DID THE CHINESE MEAN THAT SOME OF THESE CONNECTIONS COULD BE MAINTAINED? ZHU SAID THAT THEY HAD NEVER THOUGHT OF THAT, AND HE DID NOT KNOW. THEY WOULD HAVE TO THINK ABOUT FINDING THE RIGHT LANGUAGE, AND HOW TO DEAL WITH THOSE QUESTIONS. HADWEN COMMENTS THAT ZHU IS SENIOR, BUT NOT DIRECTLY IN CHARGE OF HONG KONG QUESTIONS.

9. THE DEA HOPE THAT THEIR QUIET LINE WITH THE PRESS WILL BE HELPFUL TO US. BUT THEY WOULD BE GRATEFUL FOR ANY COMMENTRY WE CAN PASS BACK TO THEM ABOUT WU'S LINE, AND ABOUT ANY NEW ELEMENTS IT MAY CONTAIN.

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Prime Minister

To be aware.

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Now overtake.

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RECORD OF A MEETING BETWEEN THE CHANCELLOR OF THE EXCHEQUER
AND THE GOVERNOR OF HONG KONG:
4.00 P.M., 7 OCTOBER, NO.11 DOWNING STREET

Sir E Youde said that he had been very grateful for the recent advisory visit by Mr Peretz and Mr Goodhart in connection with the proposed scheme to stabilize the Hong Kong exchange rate. They had done an excellent job. The Hong Kong Financial Secretary was preparing a paper on the scheme for EXCO: he would see it on his return to Hong Kong on 9 October; and EXCO would consider the paper on 12 October. If they approved the scheme, it would be introduced on the evening of 13 October. Predicting EXCO's reactions was difficult: their reactions might in part be affected by the health of the Hong Kong \$ during the course of next week.

2. The Chancellor said that Peretz and Goodhart had thought the scheme workable and appropriate. It was of course important not to expect too much of it. The awkward Hong Kong political situation was bound to have an adverse financial manifestation; and no financial scheme, however ingenious, could prevent that. The question was where to take the strain, on interest rates or on the exchange rate. If the Governor thought it best to shift it away from the exchange rate, we would certainly not wish to dissuade him. Moreover the scheme would remedy a long term weakness in the Hong Kong monetary system, to which the Bank of England had long drawn attention, and which had been highlighted by the political crisis.

3. Sir E Youde thought that some in EXCO might feel, if the movement of the Hong Kong \$ next week was similar to this weeks, that the crisis had passed, and did not call for a major change, such as the introduction of the scheme. He was however inclined to feel that considerable underlying instability would remain. But if the scheme were introduced, and the next round of talks with Peking went well and produced no adverse reactions, he might be criticised for an unnecessary "panic measure". The Chancellor thought that such criticism would be unreasonable. The insulation provided by the scheme was bound to be



tested at some stage over the year ahead; and indeed the present apparent stability might be largely because the Hong Kong markets were awaiting an expected announcement. It would of course be a considerable advantage to introduce the scheme at a time of relative stability: this would reduce the risk that interest rates would rise sharply. And stabilization would become more painful if postponed to a period of higher inflation.

4. Sir E Youde said that he expected to be asked what alternative measures he had considered, and some would have in mind pegging the Hong Kong \$ to the £. The Chancellor pointed out that this too would provide no solution to the underlying problems; and might have additional disadvantages. There would be a problem of credibility; and, with so much of Hong Kong's trade being in US \$, the dual currency system would undoubtedly remain, so that the shift away from the Hong Kong \$ might actually be quicker. The US \$ seemed the right currency to use in the scheme, given that most of Hong Kong's trade, financial, and entrepot dealings were only US \$-denominated. Sir E Youde agreed that Hong Kong tended to think in US \$. He also agreed that the further alternative of massive intervention to try to hold the exchange rate would not make sense.

5. Sir E Youde said that his conclusion was that the Chancellor did not wish to dissuade him from going ahead with the scheme; and that if Hong Kong were to decide to do so, the Chancellor's view was that it might be best to do so as soon as possible. The Chancellor agreed; and said that we would continue to watch developments with particularly close and sympathetic attention.

J O KERR

10 October 1983

Distribution

Mr Turnbull: No.10
 Mr Fall: FCO
 Mr Bartlett: Bank of England
 Economic Secretary
 Mr Middleton
 Sir T Burns
 Mr Littler
 Mr Peretz



9 OCT 1983

S E C R E T

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DD 080100Z PEKING
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DESKBY 080100Z
FM FCO 071430Z OCT 83
TO IMMEDIATE PEKING (PERSONAL FOR CHARGE)
TELEGRAM NUMBER 669 OF 7 OCTOBER
INFO IMMEDIATE HONG KONG

20
Mr 10/6
f.a.

MIPT:FUTURE OF HONG KONG

1. FOLLOWING CONSULTATION WITH THE UNOFFICIAL MEMBERS OF EXCO, MINISTERS HAVE NOW CONSIDERED THE FUTURE COURSE OF THE TALKS, IN PARTICULAR THE RISK, AS A RESULT OF CHINESE INTRANSIGENCE, OF AN EARLY BREAKDOWN WITH CONSEQUENT SEVERE DAMAGE TO THE HONG KONG ECONOMY AND TO THE WELL-BEING OF ITS PEOPLE.
2. THE BRITISH GOVERNMENT'S AIM THROUGHOUT HAS BEEN TO PRESERVE THE ESSENTIAL FREEDOMS AND COMMERCIAL AND FINANCIAL VITALITY OF HONG KONG. THEY CONTINUE TO SEE THE BEST INTERESTS OF HONG KONG PEOPLE BEING SERVED BY A NEGOTIATED SETTLEMENT, TO THE SUCCESSFUL IMPLEMENTATION OF WHICH BOTH BRITAIN AND CHINA WOULD BE COMMITTED. THEY RECOGNISE THAT CONFRONTATION WOULD BRING SEVERE AND POSSIBLE IRRETRIEVABLE DAMAGE IN ITS TRAIN, AND HAVE THEREFORE CONSIDERED OTHER WAYS OF MAKING PROGRESS CONSISTENT WITH THE PRIME MINISTER'S LETTER OF 10 MARCH.
3. AGAINST THIS BACKGROUND YOU SHOULD SEEK AN EARLY MEETING WITH VICE FOREIGN MINISTER YAO GUANG AT WHICH YOU SHOULD CONVEY THE FOLLOWING MESSAGE, SAYING YOU ARE SPEAKING ON THE INSTRUCTIONS OF THE PRIME MINISTER.
BEGINS.
4. THE PRIME MINISTER RECALLS HER VISIT TO PEKING IN SEPTEMBER 1982 AND THE IMPORTANT DISCUSSIONS SHE THEN HELD WITH CHAIRMAN DENG XIAOPING AND PREMIER ZHAO ZIYANG. AT THE CONCLUSION OF THOSE TALKS BOTH SIDES AGREED TO HOLD DIPLOMATIC DISCUSSIONS ON HONG KONG WITH THE OBJECT OF MAINTAINING ITS FUTURE STABILITY AND PROSPERITY. THE BRITISH GOVERNMENT REMAIN OF THE VIEW THAT WITH

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STATESMANSHIP ON BOTH SIDES AN AGREEMENT CAN BE ACHIEVED THAT WOULD BE IN THE INTEREST OF BOTH BRITAIN AND CHINA AND, MOST IMPORTANT OF ALL, WOULD CONTINUE TO ASSURE THE WELL-BEING OF THE PEOPLE OF HONG KONG.

5. IN HER LETTER OF 10 MARCH TO PREMIER ZHAO ZIYANG MRS THATCHER SAID THAT, PROVIDED AGREEMENT COULD BE REACHED BETWEEN THE BRITISH AND CHINESE GOVERNMENTS ON ADMINISTRATIVE ARRANGEMENTS 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, SHE WOULD BE PREPARED TO RECOMMEND TO PARLIAMENT THAT SOVEREIGNTY OVER THE WHOLE OF HONG KONG SHOULD REVERT TO CHINA. IN THE NEGOTIATIONS SO FAR THE BRITISH SIDE HAVE MADE PLAIN THEIR SINCERE VIEW THAT A CONTINUATION OF BRITISH ADMINISTRATION IS THE BEST AND SUREST BASIS FOR THE CONTINUED STABILITY AND PROSPERITY OF HONG KONG AND THEY HAVE PRESENTED SUBSTANTIAL MATERIAL IN SUPPORT OF THIS VIEW. THEIR VIEW HAS NOT CHANGED. HOWEVER THE CHINESE GOVERNMENT HAVE TAKEN A DIFFERENT VIEW. THE BRITISH GOVERNMENT ASSUME THE CHINESE GOVERNMENT AGREE THAT A CONFRONTATION WOULD NOT SERVE THE COMMON AIM OF MAINTAINING STABILITY AND PROSPERITY IN HONG KONG AND WOULD BE IN THE INTERESTS OF NEITHER SIDE. THE FUTURE OF HONG KONG CAN BE ASSURED ONLY ON THE BASIS OF A NEGOTIATED SETTLEMENT.

6. THE CHINESE GOVERNMENT IN THE NEGOTIATIONS SO FAR, IN VARIOUS PUBLIC STATEMENTS AND IN THE TALKS BETWEEN FOREIGN MINISTER WU AND SIR GEOFFREY HOWE IN NEW YORK, HAVE MADE CERTAIN PROPOSALS ON THE ARRANGEMENTS THEY ENVISAGE FOR HONG KONG AFTER 1997. THE BRITISH GOVERNMENT IS PARTICULARLY INTERESTED IN THOSE ELEMENTS WHICH, WITH ADEQUATE SAFEGUARDS MIGHT ENSURE AUTONOMY FOR THE HONG KONG PEOPLE, THE PRESERVATION OF THEIR EXISTING FREEDOMS, LIFESTYLE AND THE LEGAL SYSTEM: THE MAINTENANCE THE ECONOMIC SYSTEM INCLUDING THE FREE CONVERTIBILITY OF THE HONG KONG DOLLAR, A CONTINUING IMPORTANT ROLE FOR BRITAIN, AND A GUARANTEE THAT THESE SPECIAL ARRANGEMENTS FOR HONG KONG WOULD LAST FOR AT LEAST 50 YEARS.

7. IN THE CIRCUMSTANCES, THE PRIME MINISTER PROPOSES, IN

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22988 - 1

PURSUANCE OF HER LETTER OF 10 MARCH, AND WITHOUT PREJUDICE TO ANY FINAL AGREEMENT, THAT THE NEGOTIATORS ON THE TWO SIDES SHOULD DISCUSS WHAT OTHER EFFECTIVE METHODS MIGHT BE DEvised TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG AND SHOULD EXPLORE FURTHER THE CHINESE IDEAS. THEIR PURPOSE WOULD BE TO SEE WHETHER BRITAIN AND CHINA COULD TOGETHER CONSTRUCT ON THE BASIS OF THE PROPOSALS PUT FORWARD BY CHINA, ARRANGEMENTS OF LASTING VALUE TO THE PEOPLE OF HONG KONG. IF, ON THIS BASIS, ARRANGEMENTS COULD BE AGREED THAT WOULD ENSURE THE MAINTENANCE OF STABILITY AND PROSPERITY IN HONG KONG, THE BRITISH GOVERNMENT WOULD BE PREPARED TO RECOMMEND TO PARLIAMENT A BILATERAL AGREEMENT ENSHRINING THEM AND TO DO ITS UTMOST TO HELP WITH THE INTRODUCTION AND IMPLEMENTATION OF SUCH ARRANGEMENTS. ENDS.

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DD PEKING 080100Z
GRS 330
SECRET
DESKBY 080100Z
FM FCO 071200Z OCT 83
TO IMMEDIATE PEKING (PERSONAL FOR CHARGE')
TELEGRAM NUMBER 668 OF 7 OCTOBER
INFO IMMEDIATE TO HONG KONG
FUTURE OF HONG KONG

19
A.S.C. 10/10

1. MINISTERS HAVE REVIEWED THE COURSE OF THE TALKS AND FUTURE TACTICS THIS WEEK. THEY HAVE ALSO DISCUSSED THE SITUATION WITH THE GOVERNOR AND UNOFFICIALS.

THE RESULT IS THE INSTRUCTIONS TO SIR PERCY CRADOCK IN MIFT. THESE WERE ENDORSED UNANIMOUSLY BY THE UNOFFICIALS AT THEIR MEETING WITH THE PRIME MINISTER ON 7 OCTOBER. AT THE PRIME MINISTER'S REQUEST, MIFT HAS BEEN DRAFTED IN SUCH A WAY THAT IF AT A LATER STAGE THE TALKS WERE TO BREAK DOWN, IT COULD BE PUBLISHED. IT WAS ALSO AGREED THAT IN SUCH A CONTINGENCY THE PRIME MINISTER'S LETTER OF 10 MARCH MIGHT ALSO HAVE TO BE PUBLISHED. HOWEVER ALL CONCERNED PROFOUNDLY HOPED WE WOULD NOT REACH SUCH A PASS.

2. ON RECEIPT OF THIS TELEGRAM, YOU SHOULD APPROACH THE MINISTRY OF FOREIGN AFFAIRS AND SEEK AN INTERVIEW FOR THE AMBASSADOR WITH YAO GUANG IMMEDIATELY ON HIS RETURN, IE AN INTERVIEW FOR 14 OCTOBER. YOU SHOULD SAY THAT HE HAD AN IMPORTANT MESSAGE TO CONVEY. THERE WOULD BE ADVANTAGE IN MAKING THIS APPROACH TO THE FOREIGN MINISTRY SOON, SINCE THIS MIGHT DISCOURAGE FURTHER HOSTILE CHINESE PROPAGANDA IN THE INTERVENING PERIOD.

3. THE INTENTION IS THAT WHEN THE MESSAGE IS DELIVERED IT WILL BE SUPPORTED BY CERTAIN ORAL POINTS TO BE MADE BY THE AMBASSADOR, IN PARTICULAR A REMINDER TO YAO GUANG OF THE IMPORTANCE OF THE STEP HMG ARE NOW TAKING. HE WOULD ALSO EMPHASISE THE VITAL IMPORTANCE OF SECRECY AND WARN THE VICE MINISTER THAT IN THE EVENT OF MISREPRESENTATION OF OUR POSITION WE WOULD BE BOUND TO SET THE RECORD STRAIGHT. IT MIGHT ALSO BE DESIRABLE FOR THE AMBASSADOR TO EXPLAIN ONCE MORE TO YAO GUANG THE CONSTITUTIONAL CONSTRAINTS ON

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THE PRIME MINISTER, NAMELY THAT THE MOST SHE CAN DO IS TO MAKE RECOMMENDATIONS TO PARLIAMENT.

4. IT IS APPRECIATED THAT THE MESSAGE MAY NOT IN EXPLICIT TERMS MEET THE CHINESE PREMISE, BUT IT IS HOPED THAT IT WILL ALLOW US TO EDGE THROUGH THE DOOR.

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Subject



10 DOWNING STREET

From the Private Secretary

7 October 1983

Dear John,

Meeting with the Unofficial Members of
EXCO

I enclose:-

- a) A record of the discussion between the Prime Minister and the Unofficial Members of EXCO which took place at 10 Downing Street this morning.
- b) The revised telegram of instructions to HM Ambassador in Peking which was approved by the Prime Minister after the meeting.
- c) A press statement which was issued from here at the end of the talks.

I am copying this letter and enclosures to John Kerr (HM Treasury), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

I should be grateful if you and they would ensure that these documents (the press statement apart) are seen only by those who have an essential need, for operational purposes, to see them.

Yours ever
John Kerr

John Holmes Esq
Foreign and Commonwealth Office.

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54

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RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE
GOVERNOR OF HONG KONG AND THE UNOFFICIAL MEMBERS OF EXCO
AT 0935 HOURS ON FRIDAY, 7 OCTOBER 1983 AT 10 DOWNING STREET

Present:

Prime Minister	Governor of Hong Kong
Foreign and Commonwealth Secretary	Sir Sze-Yuen Chung
Mr Luce	Mr O V Cheung
Sir Antony Acland	Mr R H Lobo
Sir Percy Cradock	Mr Li Fook Wo
Mr Donald	Mr M G R Sandberg
Mr Butler	Mr L Tak Shing
Mr Coles	Mr D Kennedy
	Miss L Dunn
	Mr Lee Quo-Wei
	Mr Chen Shou-Lam
	Miss M Tam Wai-Chu

The Prime Minister welcomed the Governor and the Unofficials. The object of the meeting was to consider our approach to the next round of talks with China about the future of Hong Kong. It was very important to get this right. She was deeply conscious of the possible consequences for the ordinary people of Hong Kong if we acted in such a way as to bring about confrontation with China. The aim of any negotiator must be to avoid situations from which it was impossible to recover. The people of Hong Kong were used to living with freedom and justice. We wanted them to be able to continue to do so. The next round of talks would be critical, especially in view of the Chinese attitude at the last round. The object must be to keep the talks going and to arrive at the point where we could probe Chinese proposals, as EXCO had wanted earlier.

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The Foreign and Commonwealth Secretary then summarised the outcome of his own meeting with the Unofficials on 6 October. The anxieties felt on both sides had been fully considered. The Unofficials had been briefed on the latest position of China, following his talk with the Chinese Foreign Minister in New York. The main current Chinese objection was that we were trying to retain British administration. If there was no adjustment to the British position there was a prospect of breakdown at the next round. We all recognised that the Chinese position was unreasonable. But the consequences of breakdown, whenever these occurred, could be very serious. Some of the Unofficials had felt that if confrontation was inevitable at some time, it should be faced now rather than later. This group had also argued that if we made a concession to the Chinese now they would simply try to extract more concessions. Others had felt, however, that it would be very difficult to justify confrontation when we had not yet fully explored all the possibilities for a negotiated settlement. They had argued that it would be better to face the possibility of confrontation at a time of our own choosing.

We had been working on a formula which would make some move towards the Chinese but without any prejudice to our ultimate right to take decisions. The final settlement could not in any case be prejudiced because the British Parliament was sovereign and it alone could decide whether to accept or reject it.

The Unofficials had shown willing to examine the formula with a view to establishing what progress could be made while retaining the substance of those arrangements which were at the roots of Hong Kong's present stability and prosperity.

/The Prime Minister

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The Prime Minister recalled that the Chinese had offered to guarantee any arrangement for a period of 50 years. If we proceeded to confrontation now, and it then emerged that the Chinese were willing to offer a reasonably satisfactory arrangement for 50 years, how would the ordinary people of Hong Kong react to the fact that we had not even explored this offer? What would they think if we had not explored the possibility of an agreement of this length which preserved not only Hong Kong's present economic arrangements but also freedom and justice?

Sir S-Y Chung said that the Unofficials were very grateful for the opportunity of a further meeting with the Prime Minister. He wished to make a brief statement which he thought represented the consensus of their views,

It was a year since the Prime Minister had visited Peking and it was now time to take stock. There had been no substantial progress in that period. HMG had tried various ways of promoting a meaningful dialogue, including the device of the Prime Minister's letter of 10 March to the Chinese Premier. But China had accepted every concession without giving anything away. Their attitude on the indivisibility of sovereignty and administration had hardened. They had stepped up their propaganda and fuelled the fears of the people of Hong Kong. Most people in Hong Kong believed that the Chinese plan would not work.

Hong Kong had experienced another panic during the week of 19 September. The value of the Hong Kong dollar vis-a-vis the US dollar went down from 7,9 on 16 September to 9,5 on 24 September, a drop of 20 per cent in a week. The Hang Seng index had fallen by over 150 points to the 1983 low of 780. The exchange rate of the Hong Kong dollar was now hovering between 8 and 9. The Hang Seng index had continued its downward

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CONFIDENTIAL

-4-

trend and had broken the 700 barrier last Tuesday.

All this had happened despite the improvement in Hong Kong's export led economy. The export of locally manufactured products had grown by 9 per cent in money terms for the first four months of 1983, 14 per cent in the first half of the year and 18½ per cent in the first eight months.

Most people in Hong Kong understood that Britain had no intention to keep Hong Kong as a colony. As the Prime Minister had rightly said in a recent interview, but for its special status Hong Kong would have been independent years ago and would have been another Singapore. Hong Kong had had a phased plan for 1949 for an elected legislative council with the ultimate aim of independence. But the plan was shelved due to the changed political scene in China,

China was able to seek the support of the Hong Kong people for its position on sovereignty and administration. But the British Government and the Unofficials had not thought it advisable to advocate in public the need for continuing British administration. They had to reflect rather passively the views and wishes of the Hong Kong people.

The Unofficials believed that the exchange rate of the Hong Kong dollar, the state of the securities market and the reactions of the Hong Kong people to the Chinese plan would eventually influence the Chinese position on the future of Hong Kong. For this reason, both HMG and the Hong Kong Government had been letting the state of confidence in Hong Kong find its own level. It had been their hope that this would shake the Chinese leaders and make them change their stand. But it now appeared that the Chinese were using this situation to test our own nerves.

CONFIDENTIAL

/Basically

CONFIDENTIAL

-5-

Basically there were three options open to the British Government:-

- a) To maintain the object of continuing British administration for as long as possible (there could be variations in the details to make this option more acceptable to the Chinese - one possibility would be to limit the period of British administration after 1997).
- b) To capitulate i.e. to agree to return to the Chinese in 1997 both sovereignty and administration over the whole of Hong Kong and try to get the best deal possible.
- c) A compromise between the first and second option.

China was well known for its hard bargaining. It was going all out to canvas support and influence public opinion. Those who did not know the Chinese mind found it difficult to resist such propaganda. Most of the people of Hong Kong wished to maintain the current state of freedom and rule of law and had no faith in Chinese Communist Government. They did not believe that the capitalist system and freedom could exist for long within Communist China unless there was some kind of effective guarantee or insulation.

It was the unanimous recommendation of the Unofficials that HMG should adopt the first option and seek to continue British administration after 1997 for as long as possible. But, if necessary, the Hong Kong people would accept a limited period during which China could develop a track record.

/The Unofficials

CONFIDENTIAL

CONFIDENTIAL

-6-

The Unofficials were also unanimous that acceptance of capitulation would lead to a further deterioration in confidence in Hong Kong. Now was not the time for HMG to compromise on principle. This was particularly so since many Unofficials believed that there were signs of concern on the part of Chinese Communists in Hong Kong about the falling dollar and there was a distinct possibility that the Chinese might wish to have a short term conciliation.

As regards the next session of talks, the Unofficials had noted the view of Sir Percy Cradock that if HMG did not make a concession at the next round there was more than a 50:50 chance of breakdown. They believed that we should be firm on the principal objective and at the same time try to avoid a stalemate. The Unofficials were pleased to hear at their meeting yesterday that Sir Percy had found a formula which, without prejudice to the British position, might induce the Chinese to let us have details of their plan for examination. This would hopefully avoid a breakdown of the talks in October. But if a stalemate was inevitable, a large number of the Unofficials, after carefully weighing the pros and cons, believed that the risk must be accepted. If there were a breakdown in October or later, the Hong Kong people were aware of the possible consequences and were prepared for them. In an optimistic scenario the Hong Kong dollar and the property market would fall but the fall would not be very great and any panic would be short lived. More pessimistically there could be a sharp fall in the exchange rate coupled with a rather rapid rise in prices. This could spark runs on banks and supermarkets with a possible consequence of civil disturbance in some areas of Hong Kong. Under such circumstances, the

/Hong Kong

CONFIDENTIAL

CONFIDENTIAL

-7-

Hong Kong Government might have to impose a curfew as it had done in the mid-60s. With the exception of one of their number the Unofficials were confident that Hong Kong would be able to survive this turbulence.

We should not forget that the Chinese were also assessing the risks of stalemate or breakdown. Disruption of Hong Kong would not serve China's interest.

As regards the Chinese propaganda campaign, the Unofficials did not think that a public confrontation with the Chinese would serve any useful purpose at this stage. But the people of Hong Kong needed some assurance from HMG. Mr. Luce's recent visit had been helpful in reaffirming Britain's commitment to finding a solution which was acceptable to the majority of the people of Hong Kong.

If at the end of the October talks, we did not obtain Chinese co-operation in issuing a reasonable statement, we could act to minimise the fall in confidence. One way would be to convey to the people of Hong Kong the British stance and determination in the negotiations. But the method of doing this, without causing confrontation, needed careful consideration.

In conclusion, it was the unanimous view of the Unofficials that HMG should maintain its basic objective of continuing British administration after 1997. We should listen to any counter proposals that the Chinese might make but the chance of their doing so was remote.

The Chinese slogan was that sovereignty and administration were inseparable and everything else was negotiable. Our own slogan should be that the British link between HMG and the Governor was unseverable and anything else could be discussed.

CONFIDENTIAL /The Unofficials

CONFIDENTIAL

-8-

The Unofficials did not under-estimate the grave consequences of stalemate or breakdown but believed they could survive such turbulence. Many of the Unofficials also believed that the Chinese were concerned about the deteriorating value of the Hong Kong dollar. It would be unfortunate if we changed course at this crucial moment. We should continue with resolution and determination and not let down the people of Hong Kong.

/The Prime Minister

CONFIDENTIAL

CONFIDENTIAL

- 9 -

The Prime Minister said that the objectives of HMG and the Unofficials were the same. We were walking on a tightrope and had to make the right decision.

Mr. Cheung said that he entirely agreed with the Prime Minister's opening statement. He had been glad to hear Sir Percy Cradock say yesterday that his formula might keep the talks going. He himself saw no purpose in confrontation now and he would do all he could to avoid it for the reasons given by the Prime Minister and expanded on by Sir S.Y. Chung.

Last Friday the first Director of the New China News Agency in Hong Kong had sought out Sir S.Y. Chung and Mr. Lee. Although he had followed the usual Chinese line he had made some points which were perhaps significant. He had said that it was a pity that Britain and China were at loggerheads. This could only benefit third parties. He had further stated that it had been a mistake to start talks so early (though of course we had taken the initiative because we were worried about the termination of leases in 1997). The most practical suggestion he had made was that the two sides should devise a method for leasing land in the New Territories after 1997; this might stop the present erosion of confidence and restore the Hong Kong dollar.

This could be a significant departure in the Chinese attitude because Lord Maclehoze had been told in 1979 that any such suggestion was inappropriate. The impression derived from this conversation was that the Chinese wished to come back from the brink.

Sir E. Youde asked whether Mr. Cheung was aware that this incident had been checked in Peking and it had emerged that the person in question had not been authorised to speak as he did. Mr. Cheung said that this was surprising. But if a way could be found to organise such leases, this would be a good step forward. If it were possible to proceed on the basis of identifying areas of common interest, and thereby avoid breakdown, he would favour this course.

CONFIDENTIAL

/ Sir Percy Cradock

Sir Percy Cradock said that the Chinese had made it plain that unless we made a bow in their direction they were not prepared to enter into detailed discussion. So the immediate problem we faced was that unless we were able to modify our position we would face a breakdown.

The Prime Minister said that we could only envisage a conditional modification of our position. Any move would have to be on the condition that a satisfactory agreement was reached in the end. Our problem was that the Chinese had stated that they intended to announce their plan. We had had to work hard to stop this last June. Now the Chinese were threatening to announce their plan towards the end of 1984. If the talks broke down later this month the Chinese would be likely to announce their plan then and we would have no possibility of influencing the details. It was necessary to face up to the real meaning of a collapse of currency. It meant a collapse of society as well. We in Europe had seen this in the Weimar Republic. Sir S.Y. Chung said that this had also been seen in China at the end of 1940. Mr. Cheung said that he was fully in support of seeking a suitable formula.

The Prime Minister said that we could proceed to confrontation if we had better long-term cards. But the fact was that by the terms of the Treaties, the Chinese would obtain sovereignty and administration over the bulk of the area in 1997 by just sitting and waiting. There would then be a totally Communist regime. It was true that we could seek to retain sovereignty over Hong Kong Island and Kowloon. But that might only last for a few months. Meanwhile the currency and the existing systems would collapse.

As to why talks had been started last year, we were being bombarded with questions as to the future and had had no option. It was clear that there could be no stability and prosperity without freedom and justice. But we had to think of ways of saving China's face. The question was how we could walk the tightrope. It was a matter of tactics. We did not intend to give anything away.

Mr. T.S. Lo said that he understood the reasons for adopting a more moderate line and understood the dangers if we did not do so. But the people of Hong Kong, despite Chinese propaganda, were firm on retaining the British link. This should not be underestimated. Those people in Hong Kong who had voted with their feet knew that we were dealing with guerillas who understood one tactic only. Advance and make the other side retreat. He did not believe that we could gain with a more moderate line.

The Prime Minister said that she thought it would be well to look at a written formula. The text which we had drawn up for the instructions to the Ambassador in Peking did not go beyond the fundamental statement of our position in her letter of 10 March. It was to be noted that that letter had deliberately avoided referring to British administration because of the likely Chinese reaction.

Mr. Lo reiterated that if the Chinese thought we were retreating they would go on pushing. The Prime Minister replied that in 1997 China could anyway acquire 92% of the territory under the terms of the Treaties. There was a period through which we could try to seek arrangements to preserve freedom and justice and the continuation of a link with Britain. We should not throw this opportunity away. Mr. Lo said that the Chinese would not begin to negotiate until they saw our bottom line - and our willingness to go to confrontation would be a test of that. The Prime Minister reminded the Unofficials that the Chinese had once said that they would rather have sovereignty over a poverty-stricken Hong Kong than a prosperous Hong Kong over which they had no sovereignty. Miss Dunn said that it was a question of tactics. She accepted all that the Prime Minister had said. But she did not believe that there was no flexibility in the Chinese position. We would never see what leverage there was if we kept on retreating. She was not advocating confrontation. But the only way to extract some flexibility was to show at some point that we too had a bottom line. The Prime Minister commented that her letter of 10 March was our bottom line.

CONFIDENTIAL

But if the talks broke down we would never be able to explore such flexibility as there might be in the Chinese position.

The Foreign and Commonwealth Secretary said that he had been struck by the very careful words used by the Chinese Foreign Minister at the end of their recent meeting. He had emphasised that Britain could play a great role and that if the current British position was modified, detailed discussion on all practical aspects could begin immediately.

The Prime Minister then suggested that there should be a break in the meeting while the Unofficials considered the draft instructions to H.M. Ambassador in Peking. This had been drafted with a view to publication if necessary - because it was not possible to continue to allow the Chinese to monopolise public statements on the talks.

After an interval of some 30 minutes, the Governor and the Unofficials returned to the meeting. Sir S.Y. Chung said that it was the unanimous view of the Unofficials that the text represented an excellent position in its attempt to get the Chinese to present their view without conceding elements of our own position. The Unofficials were glad ^{that we} were prepared to publish the document in the event of a Chinese leak.

The Prime Minister said that she was most grateful. She wished to draw attention to the following points. The opening words of paragraph 5 reiterated the fundamental principles of her letter of 10 March. That paragraph made plain that we had presented substantial material in support of our view that British administration was the best basis for continued stability and prosperity and that our view had not changed. The text emphasised that the future of Hong Kong could be assured only on the basis of a negotiated settlement. Paragraph 6 was based on a summary of the Chinese proposals and stressed our interest in a continuing important role for Britain and the 50-year guarantee. Paragraph 7 was explicitly stated to be in pursuance of the Prime Minister's letter of 10 March and without

CONFIDENTIAL

/ prejudice

CONFIDENTIAL

- 13 -

prejudice to any final agreement. If we could not obtain what we wanted, we would retain the option of confrontation. The rest of the document was designed to persuade the Chinese to conduct talks on this basis. The proposals in paragraph 7 referred back to paragraph 6.

Mr. Lo commented that the document was very good.

The Prime Minister said that she hoped it would unlock the door to reasonable talks at the next round. We would let the Chinese Government know that the Ambassador wished to call on his interlocutor before the formal talks. Sir Percy Cradock said that the object of this was so that the Chinese negotiators could obtain instructions in good time. He would stress the great importance of the message and the vital need for secrecy, adding that if the talks misrepresented the British position we should be bound to explain ourselves publicly. The Prime Minister said that the hope was that the text of the instructions could remain confidential. Agreeing, Mr. Sandberg said that the Chinese might try to suggest that we could climb down. Sir S.Y. Chung said that in the past Peking had leaked their version of the talks. If they did so again, we must counter-attack. Mr. Newbigging said that the document was excellent and he was glad that we were willing to publish it if necessary. In that event it would be worth considering whether it would also be useful to publish the Prime Minister's letter of 10 March. The Foreign and Commonwealth Secretary said that we should not think in terms of publishing unless this was absolutely necessary. The Prime Minister agreed. Publication was a fall-back.

The meeting then agreed a press statement to be issued at the end of the talks.

Sir S.Y. Chung stated that the Unofficials much welcomed the appointment of Sir Percy Cradock to the post of adviser to the Prime Minister on Foreign Affairs and to a post in the Foreign and Commonwealth Office supervising the conduct of negotiations with Hong Kong. The Unofficials

/ had

CONFIDENTIAL

CONFIDENTIAL

- 14 -

had every confidence in him and in the Government.

The Unofficials were greatly encouraged by the Prime Minister's resolution and determination. The Prime Minister said that we in our turn were encouraged by the loyalty and understanding of the Unofficials.

The meeting ended at 1125.

A-10.

7 October 1983

CONFIDENTIAL

FUTURE OF HONG KONG

1. Following consultation with the Unofficial Members of EXCO, Ministers have now considered the future course of the talks, in particular the risk, as a result of Chinese intransigence, of an early breakdown with consequent severe damage to the Hong Kong economy and to the well-being of its people.
2. The British Government's aim throughout has been to preserve the essential freedoms and commercial and financial vitality of Hong Kong. They continue to see the best interests of Hong Kong people being served by a negotiated settlement, to the successful implementation of which both Britain and China would be committed. They recognise that confrontation would bring severe and possibly irretrievable damage in its train, and have therefore considered other ways of making progress consistent with the Prime Minister's letter of 10 March.
3. Against this background you should seek an early meeting with Vice Foreign Minister Yao Guang at which you should convey the following message, saying you are speaking on the instructions of the Prime Minister.

Begins.

4. The Prime Minister recalls her visit to Peking in September 1982 and the important discussions she then held with Chairman Deng Xiaoping and Premier Zhao Ziyang. At the conclusion of those talks both sides agreed to hold diplomatic discussions on Hong Kong with the object of maintaining its future stability and prosperity. The British Government remain of the view that with statesmanship on both sides an agreement can be achieved that would be in the interest of both Britain and China and, most important of all, would continue to assure the well-being of the people of Hong Kong.

5. In her letter of 10 March to Premier Zhao Ziyang Mrs Thatcher said that, provided agreement could be reached between the British and Chinese Governments on administrative arrangements 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, she would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China. In the negotiations so far the British side have made plain their sincere view that a continuation of British administration is the best and surest basis for the continued stability and prosperity of Hong Kong and they have presented substantial material in support of this view. Their view has not changed. However the Chinese Government have taken a different view. The British Government assume the Chinese Government agree that a confrontation would not serve the common aim of maintaining stability and prosperity in Hong Kong and would be in the interests of neither side. The future of Hong Kong can be assured only on the basis of a negotiated settlement.

6. The Chinese Government have in the negotiations so far, in various public statements and in the talks between Foreign Minister Wu and Sir Geoffrey Howe in New York, made certain proposals about the arrangements which they envisage for Hong Kong after 1997. The British Government is particularly interested in those elements which, with adequate safeguards, might ensure autonomy for the Hong Kong people; the preservation of their existing freedoms, lifestyle and the legal system; the maintenance of the economic system including the free convertibility of the Hong Kong dollar; a continuing important role for Britain; and a guarantee that these special arrangements for Hong Kong would last for at least 50 years.

7. In the circumstances, the Prime Minister proposes, in pursuance of her letter of 10 March, and without prejudice to any final agreement, that the negotiators on the two sides should discuss what other effective methods might be devised to maintain the stability and prosperity of Hong Kong and should explore further the Chinese ideas. Their purpose would be to see whether Britain and China could together construct, on the basis of ^{the} proposals put forward by China, arrangements of lasting value to the people of Hong Kong.

If, on this basis, arrangements could be agreed that would ensure the maintenance of stability and prosperity in Hong Kong, the British Government would be prepared to recommend to Parliament a bilateral agreement enshrining them and to do its utmost to help with the introduction and implementation of such arrangements.
Ends.

VISIT OF EXCO TO LONDON

1. The Prime Minister met the Governor of Hong Kong and Unofficial Members of the Executive Council on 7 October. This followed a meeting on 6 October with the Foreign and Commonwealth Secretary and the Minister responsible for Hong Kong in the Foreign and Commonwealth Office, Mr. Richard Luce.

2. These meetings, which were also attended by Her Majesty's Ambassador to Peking, Sir Percy Cradock, are part of the continuing process of consultation on the future of Hong Kong. Ministers reaffirmed HMG's aim of seeking a solution acceptable to Parliament, to China and to the people of Hong Kong.

3. There was a thorough review of developments since the Unofficials last visited London on 4 and 5 July. This took place in a warm and positive atmosphere; it produced a valuable exchange of views and complete understanding on the issues involved. The Governor and the Unofficials expressed their appreciation of this further opportunity to meet the Prime Minister and other Ministers and for the continuing commitment of Her Majesty's Government to Hong Kong.

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DRAFT TELEGRAM

TO IMMEDIATE PEKING

RFI IMMEDIATE HONG KONG

FUTURE OF HONG KONG

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Ends.

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10 DOWNING STREET

From the Private Secretary

MR HATFIELD

FUTURE OF HONG KONG

Thank you for your minute of 7 October.

I am afraid that the amendments suggested by Sir Robert Armstrong to the telegram of instructions to Sir Percy Cradock reached me after the Prime Minister had approved the text. You will see the revised version together with my record of this morning's talks with the unofficial members of EXCO.

A. J. COLES

7 October, 1983

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A handwritten signature or set of initials, possibly 'R', located in the bottom right corner of the page.



Ref. A083/2816

MR COLES

Future of Hong Kong

Sir Robert Armstrong has asked me to suggest two amendments to the redrafted telegram of instructions to Sir Percy Cradock covered by John Holmes letter to you of 6 October. *with 195c*

2. Paragraph 1

Sir Robert suggests that this should end after the word "talks" in the second line and the remainder of the text be deleted.

3. Paragraph 2

Sir Robert suggests this might be redrafted to read as follows:

"..... Britain and China would be committed. A breakdown in the talks before all possible options had been explored would bring about severe damage to the Hong Kong economy and to the well-being of its people. Ministers have therefore considered alternative ways of making progress consistent with the Prime Minister's letter of 10 March."

R P HATFIELD

7 October 1983

THE POLITICAL FUTURE OF HONG KONG

Prime Minister,

① My Unofficial Colleagues and I would like to thank you, Prime Minister, most sincerely for taking time out in your very busy schedule to meet with us ^{yet again} on the political future of Hong Kong. We are very grateful indeed for the interest and attention which you have personally taken in this matter.

② It has been a year since the Prime Minister's historic visit to China in September 1982 and I think it is timely to take stock of the progress made to date.

Review of Progress

~~As we all recall, the Prime Minister and the Chinese leaders met and agreed in September 1982 that diplomatic talks should begin on the political future of Hong Kong with the common aim of maintaining Hong Kong's stability and prosperity. However, the Chinese attempted right at the beginning of the preliminary talks to impose a pre-condition that HMG would recognise Chinese sovereignty over the whole of Hong Kong. Because of this Chinese attempt there was no progress until May 1983 after you, Prime Minister, wrote in March to your counterpart in China saying that you would be prepared to recommend to Parliament for the return to China of the sovereignty over whole Hong Kong if you were satisfied with the arrangement for maintaining Hong Kong's stability and prosperity after 1997.~~

~~After much bargain the Chinese eventually agreed to the order of the agenda with arrangement after 1997 as the first of the three items on the agenda. At that time, we thought that there were signs that the Chinese might take a more flexible and cooperative attitude during the negotiation. We also thought that by giving the Chinese a hint of returning the sovereignty over the whole Hong Kong after reaching satisfactory conclusion, the Chinese would probably accept the separation of administration from sovereignty.~~

~~Nonetheless, our hopes turned out to be wishful thinking. During the four sessions of talks spread over three months from July to September 1983, the Chinese not only did not show any flexibility nor provide any cooperative gesture but in fact have hammered us harder both inside and outside the negotiation. The Chinese spoke very strongly about the indivisibility of sovereignty and administration and resorted to a number of threats. One major threat is that if there is no agreement by September 1984, the Chinese will unilaterally announce their plan for Hong Kong. Another threatening statement by the Chinese is that if the British could not run Hong~~

~~Kong properly the Chinese might recover sovereignty and administration over Hong Kong earlier than 1997.~~

④ At the same time, the Chinese have stepped up their united front propaganda and fuelled the fear of the Hong Kong people by regularly issuing unhelpful statements about their arrangements for the future of Hong Kong which, as most of the Hong Kong people believe, would not work.

⑤ Consequently, Hong Kong had experienced another panic during the week of 19 September. The value of Hong Kong dollar vis-a-vis the US dollar went down from 7.9 on 16 September to 9.5 on 24 September - a drop of 20% in a week. The stock market also took a severe beating by plunging over 150 points on the Hang Seng Index to the 1983 year low of 780 level. Whilst the exchange rate of the Hong Kong dollar is now hovering between 8 and 9, the stock market continues with its downward trend and broke the 700 barrier on Tuesday last.

⑥ Such a slump in both the value of the Hong Kong dollar and the stock market must be seen from the background that the Hong Kong's export-led economy has been much improved over the year. The export of locally manufactured products grew by 9% in money terms for the first four months of 1983, 14% for the first half of the year and 18% for the first eight months. It is therefore obvious that ^{about the future is} the uncertainty ~~1997 jitters~~ are the only reason for the dramatic fall of the local currency and stock market.

~~The British Ambassador to Peking has given us a comprehensive analysis of the diplomatic talks whilst he was in Hong Kong on 27 September. Generally speaking, it was indeed a bleak picture. At the negotiation table, the atmosphere was becoming less friendly and the language used by the Chinese negotiators were stronger and at times even insulting. Greater pressure was put to the British side to accept the premise of indivisibility between sovereignty and administration. There was no attention given by the Chinese side to the facts presented by the British side. The Chinese also showed no apparent concern on Hong Kong's falling economy and blamed HMG and in particular the HKG for not taking any action to stabilize the local dollar. The Chinese were accusing the British using what they called the "economic card" and "public opinion card" to pressurize them to yield.~~

③ For over a year, there has been no real progress in the talks. ^{see back of this page} In fact, the Chinese attitude towards the indivisibility of sovereignty and administration has hardened. ~~The only consolation, as far as the people of Hong Kong is concerned, is the announcements by the~~

⊕ HMG have tried various means to get the Chinese to start a meaningful dialogue including a letter from you, Prime Minister. When you agreed to propose to Parliament the concession of sovereignty for the whole territory if the arrangement after 1997 are satisfactory. But the Chinese have taken every concession without giving anything in return. In fact,

~~Chinese that they would recover sovereignty and administration over Hong Kong in 1997 which implies not earlier.~~

The British and the Chinese Positions

~~I think it would be useful if I recapitulate at this stage the~~ respective British and Chinese positions ^{as} we know todate. The British position is that in order to maintain the stability and prosperity of Hong Kong beyond 1997, it is necessary to retain British administration in Hong Kong. The British administration will provide an effective buffer or insulator between the capitalist system in Hong Kong and the communist system in China and will also serve as an assurance for the Chinese to honour their agreement. It has been explained to the Chinese that the essence of British administration is that the Governor of Hong Kong would be appointed by and accountable to HMG in London. Basically, the British position is built on the premise that administration is separated from sovereignty.

The Chinese position, on the other hand, is that sovereignty and administration are inseparable and that they will regain both sovereignty and administration over the whole Hong Kong in 1997. The Chinese refused to provide the British side with details of their plan for Hong Kong except to say that the current life styles as well as legal, economic and social systems in Hong Kong would remain unchanged. The Chinese also related to the British negotiators that the Chinese plan for Hong Kong was built on the premise that ~~sovereignty and administration are inseparable.~~

The British and the Chinese Strategies

⑦ Despite the Chinese propaganda, many people in Hong Kong ^{understand} ~~know~~ that in today's world Britain have no intention to keep Hong Kong as a colony. As ^{you} the Prime Minister, ^{has} rightly said during a recent news conference for American correspondents in London that but for its special status Hong Kong would have been independent years ago and would have been another Singapore. In fact, Hong Kong did have a phased plan in 1949 for an elected Legislative Council with an ultimate aim for independence. The plan was however shelved later due to the changed political scene in China in the turn of the mid-century.

⑧ Whilst the Chinese Government can make use of its united front tactics to canvas the support of Hong Kong people for its stand on Chinese sovereignty and administration, it is understood and accepted that the British Government and even the Unofficials

^{advised} would not be advisable to go public in seeking support for continuing British administration. On our side, we have to act rather passively to reflect the views and wishes of the Hong Kong people.

⑨ It is our belief that it is the exchange rate of the Hong Kong dollar, the state of the securities market as well as the voices of and actions taken by the Hong Kong people in response to the publicized Chinese plan that will eventually influence the Chinese decision on the future of Hong Kong. For this reason and belief, both HMG and the HKG have been remaining practically neutral in letting the state of confidence in Hong Kong ~~to~~ find its own level.

⑩ It ~~is~~ ^{was} our hope that the gradual down turn of Hong Kong's confidence will shake the Chinese leaders and make them change their stand. However, it now appears that the Chinese are also using the very strategy of ours, that is, the gradual downturn and crisis of Hong Kong's confidence, against us and to test our nerves.

Options Open to the British Government

⑪ There are ~~generally speaking~~ three basic options, ~~for the British Government~~. The first is to maintain ~~its~~ ^{the} objective of seeking continuing British administration for the whole Hong Kong after 1997 for as long as possible. However, there might be some variations on the details of this option, if these variations could make the Chinese ~~more susceptible to this option~~. ^{this option more acceptable to the Chinese} One example of ^{possibility} such variations is to define a definite period of British administration after 1997. Another example is to maintain the major British link between HMG and the Governor and to agree to discuss other changes.

⑫ The second option is capitulation. This means that we agree to return to the Chinese in 1997 both the sovereignty and administration over the whole Hong Kong. ^{and} ~~On this premise HMG would try to get the best deal for the Hong Kong people and to protect the British interests in Hong Kong.~~ ^{possible}

⑬ The third option is a compromise ~~one and lies somewhere between the first and the second option~~. Although the British Government has lost its control over Hong Kong with regard to day to day operations, it retains some of its influence over the HKG. The exact outcome is difficult to predict at this juncture. Nonetheless,

~~as an example, HMG could play a monitoring role in the local administration and have a veto power in any change of Hong Kong's own constitution. In other words, the Chinese Government cannot go back on their words and unilaterally change Hong Kong's state of freedom and rule of law.~~

Recent Development

Immediately upon his return from Peking on 29 September, the First Director of New China News Agency initiated a meeting with two Unofficial Members of the Executive Council. The Unofficials believed that there are two messages from the Chinese. The first one is loud and clear and that is the Chinese are very firm on their stance of indivisibility between sovereignty and administration. Nonetheless, they seem to imply that anything other than this is negotiable. This Chinese position is nothing new.

However, the second message is not so clear. If the two Unofficials' interpretation is correct, the Chinese are concerned about the continual and fast downward trend of Hong Kong economy and the Hong Kong dollar in particular and there are signs that the Chinese are hinting for having a short-term conciliation to stabilize the Hong Kong economy and currency. The First Director believed that the basic problem confronting Hong Kong was the individual land leases in the New Territories which have a deadline date of 1997 and intimated that the Chinese have a solution to resolve the problem but, even at repeated requests, refused to elaborate further.

The Choice of Option

14 The Chinese are well-known for their hard bargaining strategy and "united front" tactics. It is no doubt that they have been and are still going all out both inside and outside Hong Kong to influence public opinion. For those people who have no knowledge and experience of the Chinese united front tactics, it is quite difficult to resist such effective propaganda. However, the majority of the Hong Kong people have either personal experience or intimate knowledge of the Chinese communist system and united front tactics. Most of the Hong Kong people wish to maintain their current state of freedom and rule of law and have no faith

in the Chinese communist government. They also do not believe that the Hong Kong capitalist system ^{and state of freedom} could exist for long within ~~the Chinese communist system~~ ^{China} unless there would be some kind of effective guarantee or insulation.

15 Knowing the views and wishes of the Hong Kong people as the Unofficials do, it is our unanimous recommendation that HMG should adopt the first option in seeking continuing British administration after 1997 for as long as possible. However, if it is necessary we believe that the Hong Kong people would accept a definite period, ^{for China to develop a track record,} say 25 to 50 years after 1997, instead of an indefinite period.

16 It is also the unanimous view of the Unofficials that acceptance of the second option of capitulation would lead to further deterioration and not restoration of confidence in Hong Kong. We are of the opinion that it is not the time for HMG to take any option of compromise on principle at this juncture. This is particularly so when ^{many Unofficials believe that} there are signs of Chinese concern ^{by the Chinese communists in Hong Kong} on the falling dollar and there is a distant possibility that the Chinese might wish to have a short-term conciliation in order to stabilise the fall of Hong Kong dollar, ~~and to cool off the confrontation within the negotiating room and without.~~

The October Session

17 Sir Percy Cradock gave us on 27 September a comprehensive assessment ^{of the state of talks.} It is difficult for the Unofficials to advise our professional negotiators how to handle their Chinese counterparts at the negotiating table but we believe that we should be firm on the principal objective and at the same time try not to reach a stalemate in the negotiation. ^{see back of this page} ~~Nonetheless,~~ ^{great majority of} if a stalemate is inevitable, ^{we} the Unofficials after weighing both the pros and cons believe that ^a stalemate ^{is} would be a risk ^{that has to be accepted.} worthy of taking at this juncture.

18 I am sure, ^{Ben} the Prime Minister, would like to know what are the possible consequences in Hong Kong if the talks do breakdown at the October meeting. On the optimistic side, one could say that the Hong Kong people are already aware of the possibility ^{of such a breakdown} and prepared for it. There would be a further decline of the value of Hong Kong dollar and the stock and property markets. However, the drop would not be very great and ^{only} the panic would be short-lived.

△ Prime Minister, the Unofficials were very pleased to hear yesterday afternoon at a meeting with the Secretary of State that Sir Percy had found a formula which, without prejudice to the British position, would be able to induce the Chinese to give us details of their plan for an examination. This will hopefully avoid a breakdown of the talks in October. But, if ---

From the pessimistic point of view, there could be a sharp fall on the exchange rate coupled with a very rapid rise in prices. This could spark runs on banks and supermarkets with a possible consequence of civil disturbance in some areas of Hong Kong. Under such circumstances, HKG might have to impose curfew as in the days of the mid-1960's. *Except for one Unofficial, we are* Despite this pessimistic development, ~~I am~~ confident that we in Hong Kong will be able to survive ~~from~~ these turbulences.

19 We must not forget that the Chinese are also assessing their risks for any stalemate or breakdown of the talks. A disrupted Hong Kong with internal unrest and falling economy will also not serve China's interest. ~~The two Unofficials, who had a 4-hour talk with the First Director of NCNA in Hong Kong last week, might be wrong in their assessment. If on the other hand their interpretation is not very far off, the Chinese are indeed very much concerned about the deterioration of confidence in Hong Kong and may wish to seek a cooling off period. It would be disastrous if at the very critical moment HMG backs down from its stance.~~

~~Furthermore, in the light of the intimation given by the First Director of NCNA in Hong Kong, it appears worthwhile prior to the next session of talks for a suitable embassy staff in Peking exploring informally with the Chinese side regarding the content of the talks of Mr. Xu Jiatusun with the two Unofficials and in particular the point raised by Mr. Xu in connection with the grant of individual leases in the New Territories beyond the year 1997.~~

Counter-action of the Chinese United Front Tactics

20 *At this stage, we* We do not think a public confrontation with the Chinese would serve any useful purpose. In fact, it could be detrimental to our objective. Nonetheless, the people of Hong Kong are now in need of some assurance from HMG. The Minister of State's visit to Hong Kong in September was helpful in reassuring Britain's commitment in finding a solution for Hong Kong's political future which is acceptable by the majority of Hong Kong people.

21 At the end of the October session, if we do not get the cooperation of the Chinese in scheduling a date for the next meeting nor in

agreeing to issue a joint statement for a more friendly stalemate, we must be able ^{act} to do something in order to minimise ^{the} any rapid fall in confidence. One way is to effectively convey to the people of Hong Kong the British stance and determination ^{in the negotiation} ~~is necessary~~. How such a message can best be given to the Hong Kong people without causing rebuff and confrontation from the Chinese is a matter that needs careful consideration.

Conclusion

22 ~~All in all, It is the unanimous view of the Unofficials that HMG should continue with its basic objective of maintaining British administration in Hong Kong after 1997, but should be prepared to discuss variations in order to increase the chance of acceptance by the Chinese.~~ *this does not mean of course, that we should not listen to any counter proposals that Chinese may make, although we believe that the chance of this is remote.*

23 ~~In contrast to the Chinese slogan that sovereignty and administration are inseparable and everything else is negotiable, ours should be that the British link between HMG and the Governor of Hong Kong are ^{inseparable} unbreakable and anything else can be discussed.~~

24 We do not under-estimate the grave consequence of any stalemate or breakdown in the coming October session but we believe we could survive ~~from~~ such turbulence. *many of the Unofficials* We also believe the Chinese are also concerned about the deteriorating value of the Hong Kong dollar, ~~and there are signs of some change of their position.~~ It would be very unfortunate if we change our course at this crucial moment. We must continue with our resolution and determination and do not let down the great majority of the 5.3 million people in Hong Kong,



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CCFLO
GOW/BOFE

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10 DOWNING STREET

From the Private Secretary

7 October 1983

Hong Kong

You attached to your letter of 6 October David Peretz's report on the scheme which has been devised for stabilising the Hong Kong dollar. The Prime Minister has noted that the Hong Kong Government now wish to introduce this scheme and that the Chancellor is in agreement with this.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and John Bartlett (Office of the Governor of the Bank of England).

AT

John Kerr, Esq.,
H.M. Treasury.

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10 DOWNING STREET

From the Private Secretary

6 October 1983

LETTERS FROM THE HONG KONG
AND KOWLOON TRADES UNION
COUNCIL

Thank you for your letter of 5 October. I agree that you should handle the letter of 14 September from the above Council to the Prime Minister in accordance with your normal practice.

A. J. COLES

John Holmes Esq
Foreign and Commonwealth Office

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PRIME MINISTER

HONG KONG

Since your programme will not allow you to see Lord MacLehose today I rang him this morning to ask if there was anything in addition to his letter which he would like me to pass on to you.

He said he had just come back from Singapore where he was the guest of Lee Kuan Yew. Lee had said (and this was rather different to remarks he made earlier) that he was surprised by the way the negotiations had gone. He wondered if it was realised in London that the right way to deal with China was to give way on positions of principle and then recover the ground in discussion of detail. If the Chinese were opposed on matters of principle they reacted in such a way that discussion of detail became impossible.

Lord MacLehose then said that it was he who had recommended the present members of EXCO, and he, indeed, who had appointed them. He had not appointed them in order that they should dictate British policy towards China but to help over a series of economic and social reforms which he had wished to carry out to make Hong Kong strong before the talks with China opened. The EXCO team was fairly well equipped to help for this limited purpose. But they were not people of great wisdom, nor did they have the moral courage or the training to face up to a situation like the present one. They would expect a strong lead from the British Government. If the Prime Minister gave them a frank appraisal of the course we should follow they would be rather relieved and they would, at the very least, be split in their views. One or two might react unfavourably but would probably not do so in public.

Lord MacLehose repeated what he had said in his letter, namely that if there is controversy about the line the British Government is following he would engage in the public debate in support of the Government. He was sure that the course currently ~~continued~~ *advocated*

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- 2 -

by EXCO would be disastrous for Hong Kong.

Finally, he said that the right way to deal with EXCO is not to harangue them. It is better to let them talk themselves out first. Ask them what they feel. Urge others to speak. Then, when they have finished, if the prudent way forward is described they will tend to rally behind it.

A. J. C.

6 October, 1983

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The National Archives

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10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

HONG KONG

Thank you for your minute of 5 October.

The Prime Minister agrees that a sub-committee of OD should be constituted with the terms of reference described in your paragraph 2 and the membership as listed in your paragraph 10.

The Prime Minister has further endorsed the suggestions in your paragraph 11.

A. J. COLES

6 October, 1983

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(AMENDED DISTRIBUTION 6 OCTOBER)

FM CANBERRA 060600Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 524 OF 6 OCTOBER

INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR), PEKING,
UKMIS NEW YORK

AR 7/10
h-a

UKMIS NEW YORK TELEGRAM NO 942 TO YOU: SECRETARY OF STATE'S
MEETING WITH THE AUSTRALIAN FOREIGN MINISTER: HONG KONG

1. WHEN MR WHITNEY CALLED ON HENDERSON, SECRETARY IN THE
AUSTRALIAN DFA, ON 6 OCTOBER, THE LATTER SAID THAT HE WANTED
TO BRING MR WHITNEY UP-TO-DATE ON HONG KONG. FOLLOWING UPON
HIS DISCUSSION WITH THE SECRETARY OF STATE, MR HAYDEN HAD
HAD A MEETING WITH WU ON 3 OCTOBER.

2. WU HAD REPEATED A LINE FAMILIAR TO MR HAYDEN. HE HAD
STUCK TO THE CHINESE POSITION ON THE INDIVISIBILITY OF
SOVEREIGNTY AND ADMINISTRATION. SOVEREIGNTY COULD NOT BE PLACED
ON ONE SIDE, AS THE BRITISH APPEARED TO WISH. MOREOVER, BRITAIN
WAS OVERSTATING THE PRESENT DIFFICULTIES IN HONG KONG, AND HAD
CONTRIVED THE PRESENT WEAKNESS OF THE HONG KONG DOLLAR ACCORD-
INGLY. HOWEVER, SEPTEMBER 1984 REMAINED THE DEADLINE FOR THE
COMPLETION OF DISCUSSIONS IN PEKING, AFTER WHICH, IF SATIS-
FACTORY PROGRESS HAD NOT BEEN MADE, THE CHINESE WOULD UNILATERALLY
DECLARE THEIR INTENTION TO REPOSSESS SOVEREIGNTY IN 1997.
NONE OF THIS WAS NEW TO MR HAYDEN.

3. IN REPLY, MR HAYDEN HAD TOLD WU THAT BRITISH CONCERNS
WERE NOT TO BE DISMISSED LIGHTLY. THEY WERE GENUINELY WORRIED
ABOUT A FLIGHT OF CAPITAL FROM HONG KONG ARISING OUT OF THE
PRESENT UNCERTAINTIES. IT SEEMED TO MR HAYDEN THAT INADEQUATE
CHINESE RECOGNITION OF THE SPECIAL CHARACTERISTICS OF HONG
KONG COULD LEAD TO INSTABILITY IN THE REGION, WHICH THE
AUSTRALIANS, WITH THEIR INTEREST THERE, WOULD DEPLORE.

4. MR WHITNEY THANKED HENDERSON FOR MR HAYDEN'S HELPFUL
INTERVENTION. THE MORE THE AUSTRALIANS COULD EXPLAIN THE
REALITIES OF THE POSITION TO THE CHINESE, THE BETTER FOR ALL
CONCERNED. MR WHITNEY UNDERTOOK THAT WE WOULD KEEP IN CLOSE
TOUCH WITH THE AUSTRALIANS ON THE SUBJECT.

MASON

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/PUSD

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

COPIES TO

SIR IAN SINCLAIR LEGAL ADVISER

MR BURROWS LEGAL ADVISER

MR ROBERTS NEWS D

MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

MR FLOWER PUSD

MR COLES NO 10 DOWNING STREET

SIR A PARSONS NO 10 DOWNING STREET

MR WALKER RESEARCH D OAB

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Foreign and Commonwealth Office

London SW1A 2AH

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6 October 1983

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h.a.

Dear John,
Hong Kong

In preparation for the Prime Minister's meeting this afternoon, I enclose:

- (a) a draft telegram of instructions to Sir P Cradock;
- (b) an outline of points which would need to be covered in negotiating a system of assurances for Hong Kong.

The second paper is not necessarily an exhaustive list. We have not been authorised to discuss the negotiations with other Whitehall departments. We would need to do this in order to ensure that every area had been covered in detail before any paper was handed over to the Chinese. Otherwise there would be a risk that important points might go by default. But the note does list the main areas of concern and could be used for discussion, initially with EXCO and later with the Chinese.

Yours ever
John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

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DRAFT TELEGRAM

TO IMMEDIATE PEKING
RFI IMMEDIATE HONG KONG

FUTURE OF HONG KONG

1. Following consultation with the Unofficial Members of EXCO, Ministers have now considered the future course of the talks. They have taken particularly into account the serious situation created by the Chinese insistence that continued British administration after 1997 is ~~totally unacceptable~~ and the risk of an early breakdown in the talks with consequent severe damage to the Hong Kong economy and to the well-being of its people.

2. The British Government's aim throughout has been to preserve ~~as far into the future as possible~~ the essential freedoms and commercial and financial vitality of Hong Kong. They continue to see the best interests of Hong Kong people being served by a negotiated settlement, (to the successful implementation of which both Britain and China would be committed.) They recognise that confrontation would bring irretrievable damage in its train.

3. Against this background you should seek an early meeting with Vice Foreign Minister Yao Guang at which you should convey the following message, saying you are speaking on the instructions of the Prime Minister.

Begins.

4. The Prime Minister recalls her visit to Peking in September 1982 and the important discussions she then held with Chairman Deng Xiaoping and Premier Zhao Ziyang. At the conclusion of those talks both sides agreed to hold diplomatic discussions on Hong Kong with the object of maintaining its future stability and prosperity. The British Government remain of the view that with statesmanship on both sides an agreement can be achieved that would be in both Chinese and British interests and, most important of all, would continue to assure the well-being of the people of Hong Kong.

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5. In her letter of 10 March to Premier Zhao Ziyang Mrs Thatcher said that, provided agreement could be reached between the British and Chinese Governments on administrative arrangements 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, she would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China. In the negotiations so far the British side have made plain their sincere view that a continuation of British administration is the best and surest basis for the continued stability and prosperity of Hong Kong. That view has not changed. However the Chinese Government take a different view. The British Government believe that a confrontation with China would not serve the common aim of maintaining stability and prosperity in Hong Kong and would be in the interests of neither side. The future of Hong Kong can be assured only on the basis of a negotiated settlement.

6. The Chinese Government have in the negotiations so far, in various public statements and in the talks between Foreign Minister Wu and Sir Geoffrey Howe in New York, given some indication of the kind of regime they envisage for Hong Kong after 1997. The British Government is particularly interested in those elements which with adequate safeguards might ensure (a high degree of) autonomy for the Hong Kong people, the preservation of their existing freedoms, economy and lifestyle, a continuing important role for Britain, and a ^{guarantee} provision that these special arrangements for Hong Kong would last for 50 years.

7. In the circumstances, the Prime Minister proposes, in pursuance of her letter of 10 March, and without prejudice to any final agreement that the negotiators on the two sides should discuss what other effective methods might be devised to maintain the stability and prosperity of Hong Kong and should explore further the Chinese ideas. Their purpose would be to see whether Britain and China could together construct on the foundation of the Chinese plan something of lasting value to the people of Hong Kong. If, on this ^{guarantee} basis, arrangements can be agreed that will ensure the maintenance of stability and prosperity in Hong Kong, the British Government will be prepared to recommend to Parliament a bilateral agreement

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enshrining them and to do its utmost to help with the introduction and implementation of such arrangements. Ends.

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HONG KONG: POSSIBLE PATTERN OF FUTURE ADMINISTRATION

Introduction

1. This paper lists the main areas to be covered in a future administration in which the administrative link with London had ceased. It is intended particularly to underline those points on which effective guarantees would be required from China. It is not a legal document or outline constitution, nor is it the complete list of all the points which could feature in an agreement.

Sovereignty

2. Sovereignty would pass to China at 1997. But effective autonomy for Hong Kong would be stipulated in a bilateral UK/China agreement and would be included in legislation by China under Article 31 of the Constitution.

Time Limit

3. A stipulation that the autonomous arrangements would last for at least 50 years should be written into an agreement and into legislation.

Governor/Administrator

4. He should be elected or appointed (eg by LEGCO/EXCO). There should be no nomination or endorsement by the Chinese or British Governments.

Legislation

5. The power to enact new legislation would remain with the Governor/Administrator in Council but the right of disallowance by the Crown would cease. Specific undertakings should be made in the agreement and in any relevant Chinese legislation that the present system of laws, including common law, should continue. An independent Legal Commission would be established to monitor any relevant changes in law, eg in Britain or the Commonwealth and propose corresponding amendments to Hong Kong legislation. The Commission would be composed of legal experts from Hong Kong and the Commonwealth.

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Local Administration

6. The Sino-British agreement and associated legislation would stipulate that the power of administration would rest with the Hong Kong authorities, both for local affairs and for external commercial relations. Explicit undertakings of non-interference would be made by both Britain and China.

Flags

7. The Chinese and British flags would be flown in the buildings of their respective representatives. Elsewhere a new Hong Kong flag would be flown.

Freedoms

8. Explicit provision should be made for freedoms of:

- (a) Speech/correspondence;
- (b) Press;
- (c) Assembly;
- (d) Travel/change of domicile, in and out of Hong Kong;
- (e) Political activity/religion.

These should be specified in a separate Bill of Rights and explicitly mentioned in a bilateral agreement.

Judiciary

9. The existing system of courts would continue. Appeals to the Privy Council would be transferred to the Hong Kong Supreme Court. Judges would be appointed by the Governor/Administrator but with the present constraints on their removal.

Finance and Economic Independence

10. The independence and convertibility of the local currency would be guaranteed. (Its real value would of course depend on the degree of confidence that the economy was truly independent.) The following would need to be specified:

- (a) Independence of Hong Kong's free port system;
- (b) Free flow of capital, specie, foreign exchange in and out of Hong Kong;
- (c) Private ownership of property and industrial investment;
- (d) Undertakings of non-interference by Peking in the Exchange Banks Association and the Exchange Fund Advisory Commission.

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International Economic Relations

11. Maximum autonomy should be specified for the Territory's economic representation abroad and participation in international economic organisations. This would be particularly important in covering commodity agreements.

Defence and Internal Security

12. British forces would be withdrawn. Specific undertakings by China and Britain not to send forces to Hong Kong would be needed. Adequate provision would be necessary for a strong local police force, to avoid giving China any excuse for interference.

Nationality

13. Arrangements would be needed to protect the interests of existing BDTCs in Hong Kong. Those born in Hong Kong after 1997 would be Chinese citizens.

Treaties

14. Treaties already applied to Hong Kong would in principle be continued but a joint UK/China/Hong Kong commission would be set up to examine and recommend on these.

Autonomy and the British role

15. Continued participation by British personnel (as local residents) in Hong Kong Government could assist confidence. Particular jobs to be filled by Britons might be specified, eg Chief Secretary and Attorney General. But the key-note must be Hong Kong's autonomy. We should not insist on any special British position which would give the Chinese Government an excuse to demand a comparable role.

16. This would apply to the position of a "British Commissioner". While a representative would be necessary it would not help HMG or Hong Kong to demand for him eg the right to advise on the appointment of a Governor or on major policy or legislation. This would allow a "Chinese Commissioner" to exercise a similar function.

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International Attitude

17. HMG would have a major role in persuading other Western governments and organisations, including the European Community, to back the new arrangements, both politically and by encouraging investment in Hong Kong. In the field of international trade we could also persuade allies and partners to make clear to China that the continuation of favourable regimes for Hong Kong goods (eg in the MFA) would depend on China abiding by its undertakings of non-interference.

Hong Kong Department

6 October 1983

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Foreign and Commonwealth Office

London SW1A 2AH

6 October 1983

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h.a.

Dear John,

Hong Kong

Following tonight's meeting with the Prime Minister on Hong Kong, I enclose a redraft of the telegram of instructions to Sir P Cradock and a draft communique which might be issued by No 10 after tomorrow's meeting with the Unofficial members of EXCO. The Foreign Secretary has not seen this revision or the draft communique, but will be looking at it in parallel.

I am copying this letter to Richard Mottram (MOD), John Kerr (Treasury) and Richard Hatfield (Cabinet Office).

Yours ever
John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

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DRAFT TELEGRAM

TO IMMEDIATE PEKING
RFI IMMEDIATE HONG KONG

FUTURE OF HONG KONG

1. Following consultation with the Unofficial Members of EXCO, Ministers have now considered the future course of the talks, in particular the risk, as a result of Chinese intransigence, of an early breakdown with consequent severe damage to the Hong Kong economy and to the well-being of its people.
2. The British Government's aim throughout has been to preserve the essential freedoms and commercial and financial vitality of Hong Kong. They continue to see the best interests of Hong Kong people being served by a negotiated settlement, to the successful implementation of which both Britain and China would be committed. They recognise that confrontation would bring severe and possibly irretrievable damage in its train, and have therefore considered other ways of making progress consistent with the Prime Minister's letter of 10 March.
3. Against this background you should seek an early meeting with Vice Foreign Minister Yao Guang at which you should convey the following message, saying you are speaking on the instructions of the Prime Minister.

Begins.

4. The Prime Minister recalls her visit to Peking in September 1982 and the important discussions she then held with Chairman Deng Xiaoping and Premier Zhao Ziyang. At the conclusion of those talks both sides agreed to hold diplomatic discussions on Hong Kong with the object of maintaining its future stability and prosperity. The British Government remain of the view that with statesmanship on both sides an agreement can be achieved that would be in the interest of both Britain and China and, most important of all, would continue to assure the well-being of the people of Hong Kong.

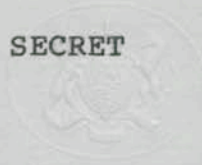
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5. In her letter of 10 March to Premier Zhao Ziyang Mrs Thatcher said that, provided agreement could be reached between the British and Chinese Governments on administrative arrangements which would guarantee the future prosperity and stability of Hong Kong and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, she would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China. In the negotiations so far the British side have made plain their sincere view that a continuation of British administration is the best and surest basis for the continued stability and prosperity of Hong Kong and they have presented substantial material in support of this view. Their view has not changed. However the Chinese Government have taken a different view. The British Government assume the Chinese Government agree that a confrontation would not serve the common aim of maintaining stability and prosperity in Hong Kong and would be in the interests of neither side. The future of Hong Kong can be assured only on the basis of a negotiated settlement.

6. The Chinese Government have in the negotiations so far, in various public statements and in the talks between Foreign Minister Wu and Sir Geoffrey Howe in New York, given some indication of the kind of ^{arrangements} regime they envisage for Hong Kong after 1997. The British Government is particularly interested in those elements which, with adequate safeguards, might ensure autonomy for the Hong Kong people; the preservation of their existing freedoms, lifestyle and the legal system; the maintenance of the economic system including the free convertibility of the Hong Kong dollar; a continuing important role for Britain; and a guarantee that these special arrangements for Hong Kong would last for at least 50 years.

7. In the circumstances, the Prime Minister proposes, in pursuance of her letter of 10 March, and without prejudice to any final agreement that the negotiators on the two sides should discuss what other effective methods might be devised to maintain the stability and prosperity of Hong Kong and should explore further the Chinese ideas. Their purpose would be to see whether Britain and China could together construct, on the basis of ^{the} proposals put forward by China, arrangements of lasting value to the people of Hong Kong.

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If, on this basis, arrangements could be agreed that would ensure the maintenance of stability and prosperity in Hong Kong, the British Government would be prepared to recommend to Parliament a bilateral agreement enshrining them and to do its utmost to help with the introduction and implementation of such arrangements.
Ends.

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Prime Minister

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Agree X? Paras 7 & 8 of the attached note set out the pros and cons. The case for linking with US \$ rather than £ seems strong

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

AT 6/10

6 October 1983

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

mt.

Dear Andrew,

HONG KONG

As you will recall from my letter of 30 September, David Peretz from the Treasury and Charles Goodhart from the Bank of England have been in Hong Kong to look at the scheme the Hong Kong Government have devised for stabilising the Hong Kong dollar, and to give technical advice on its implementation.

...

The Chancellor thought the Prime Minister would like to see the attached summary report produced by David Peretz, who arrived back in London this morning. Charles Goodhart is staying in Hong Kong for a further 24 hours to write up a more detailed technical appreciation of the scheme at the request of the Hong Kong authorities.

The Chancellor thinks that Peretz and Goodhart have done a good job, and we know that the Hong Kong Government found their visit and advice most helpful.

In brief, the conclusions are:-

i. The present Hong Kong monetary system is unsatisfactory. Since 1974 there has been no effective form of monetary discipline either through control of the money supply or through the exchange rate.

ii. The scheme the Hong Kong Government have under consideration is technically feasible. It does not prevent further falls in asset values: no such scheme could, for the roots of the present problem of confidence are political not financial. And it entails risks, for it means taking the pressures, which could be intense, on interest rates. But these risks have to be weighed against those of a self-feeding collapse in the currency, if nothing is done.

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iii. Given the novelty of the scheme and the risks of quite sharp reactions, at least temporarily, it is most important that the Hong Kong Government should have thought through all the things that could go wrong, and have contingency plans ready for dealing with them. Good presentation at the outset will also be important.

iv. The obvious currency to provide the link required in the scheme is the US dollar, which is already for many purposes a second currency in the Colony. If the scheme were introduced with a sterling link it would have less chance of success since most Hong Kong residents would prefer to hold US dollars; and presentation would be more difficult. In the worst case it could also lead to wider pressures on sterling.

v. On timing, although there is a case for going ahead as quickly as possible, the Governor is clear that he would need to consult his Executive Council on a matter of this kind. The authorities have a good deal more preparatory work and planning to do. And a weekend launch has considerable operational advantage. These factors all tend to point towards Friday 14 October, which is a public holiday in Hong Kong.

vi. The scheme is the only one being considered in Hong Kong, and therefore ready for early implementation. Although the final decision must be for the Hong Kong authorities, there seems a strong case for their going ahead. But it would be wrong for us to try to persuade them to go ahead against their own judgement, and could carry awkward implications about our own commitment to help if things went wrong.

X | The Governor, who appears to favour the scheme, will be calling on the Chancellor tomorrow, and the Chancellor plans not to dissuade him from going ahead with it.

I am copying this letter and enclosure to Brian Fall (FCO) and John Bartlett (Bank of England).

Yours ever,
J. O. Kerr

J O KERR

VISIT TO HONG KONG

Charles Goodhart (from the Bank of England) and I spent 4 and 5 October in Hong Kong. We went at the request of the Hong Kong Government to give technical advice on the proposal they have been developing to improve monetary control and stabilise the exchange rate for the Hong Kong dollar. Goodhart is writing up his detailed technical appreciation for the Hong Kong Government, and will bring a copy back to London on 7 October. This note describes the scheme, gives a summary assessment of it, how it might best be implemented, and how it compares with other possible options.

2. In the course of our visit we had discussions with those most concerned at a technical level in the Monetary Affairs Branch; with the Financial Secretary, the Chief Secretary and the Governor; with two leading bankers; and with outside economists, including Sir Alan Walters' contact Mr John Greenwood, who have been involved with developing the proposal.

Monetary Policy in Hong Kong

3. The striking feature of Hong Kong's monetary system is that the Colony has survived since 1974 with neither a fixed exchange rate nor any means of enforcing domestic monetary control. It is perhaps a comment on the underlying strength and adaptability of the economy that inflation has remained within bounds over the period. The points that John Greenwood made in this respect are obviously right. It is a message that visitors from the Bank of England have been conveying to the Hong Kong administration for many years. The scheme now proposed would, if implemented, provide a mechanism of monetary control of a kind that has been missing up to now.

The Scheme

4. The proposal as it has been developed is basically what is known as a "currency board" arrangement. It is also very similar

to the proposals made by Greenwood, who has been quite active in helping officials to work it up.

5. The essential elements are:-

(a) The official Exchange Fund (EF) guarantees the US \$ (or other foreign currency) value of UK \$ notes - through the mechanism of issuing so called certificates of indebtedness to note-issuing banks. The foreign currency in the EF - now around US \$5 billion - comfortably exceeds the present HK \$^{1.4} billion note issue. If extra notes are issued this will only be against the deposit of equivalent foreign currency with the EF. This means, in effect, that HK \$ notes will be convertible into foreign currency at an exchange rate stated by the authorities; and the HK Government's liability is confined to the size of the existing note issue.

(b) Opportunities for arbitrage mean the market exchange rate will never move far from this "official" exchange rate.

(c) If there are pressures therefore they will fall not on the exchange rate or on the Exchange Fund, but on banks. We assumed, and this assumption was shared by all who we spoke to, that banks at all costs would want to maintain convertibility between HK \$ bank deposits held with them and bank notes. In a society like Hong Kong's, where queues to withdraw cash are not uncommon at times of uncertainty, no bank could risk the blow to public confidence in it that a refusal to permit cash withdrawals could bring about.

(d) Banks would then have a choice. HK banks (or rather the banking system as a whole) could either switch foreign currency into Hong Kong dollars, so as to acquire extra HK \$ notes to meet any extra demand (or banks could permit customers to switch from HK \$ deposits to US \$ deposits without themselves seeking to make a corresponding switch in the currency of their assets). Or they could bid HK \$ interest rates up to the point where customers no longer wished to move into notes or foreign currency.

6. There are a number of circumstances favourable to the scheme in Hong Kong. The HK banking system at present has a substantial net foreign currency position, so it should in principle be prepared to make some switch into HK \$s (there is a particularly strong position at ^{the} Hongkong and Shanghai Bank). The presence of a number of major foreign banks would also be a potential source of strength if they were prepared to switch into HK \$s, as they might have to if they wished to continue in business in Hong Kong. It is also a source of strength that many HK businesses are thought to have built up large US \$ holdings (through leads and lags on trade payments) over recent months, and that the Colony is to a large extent already on a dual currency basis. Rather than borrow at very high HK \$ interest rates they might prefer to draw on their US \$ holdings, or borrow at lower rates in US \$s against them, or against expected future \$ earnings, thereby reducing the pressure on HK \$ interest rates.

Arguments for and against

7. It is hard to predict what effect the scheme would have in practice, but there are certainly serious risks. There could easily be teething problems, with the possibilities of runs on local Chinese banks, or huge demand for US \$ notes - both of which the authorities would need to be ready to meet. At best the scheme would help restore confidence generally, maybe even reducing interest rates. With the exchange rate seen to have been stabilised there would be little if any upward pressure on interest rates. At worst there would be a rush to try to get out of the HK \$ while the rate was thought to be "pegged". The way the scheme works this would put the main strain first on banks; and then on interest rates - which could rise very sharply indeed. The effect of this could (some said would) be to precipitate further collapses in the already weakened property sector. It would also be uncomfortable for the many individuals who have financed house purchase with floating rate loans. In the end however, if everyone became convinced the peg would last there should in principle be no difference between US \$ and HK \$ interest rates - though rates on both currencies might be higher in Hong Kong than elsewhere to reflect the political risk.

8. Against these possible outcomes has to be weighed the risk of inaction: the effect of a continuing, possibly accelerating, fall in the exchange rate, and the impact that would have on prices. Rising prices have caused riots before in Hong Kong, and could do so again. There are strong memories there of Shanghai in 1948. Such unrest could increase the political uncertainties, bringing further pressure on the exchange rate: a vicious circle.

Assessment

9. Nearly all those we met, including the commercial bankers, thought that in the circumstances it was right to go ahead with the scheme. One consideration is the need for some action now that expectations have been raised. Some thought that in principle better ideas might have been devised. But there is nothing else at anything like such an advanced state of readiness; or that could be introduced with so few institutional changes.

10. The balance of risks described in paragraphs 7 and 8 above is easier for those in Hong Kong to judge than for outsiders. The decision is one for the Hong Kong Government to take, and during our visit we made it clear that we could only advise on technical merits and practicalities. But there does seem a strong case for going ahead with the scheme, particularly if proper contingency arrangements can be devised in advance for handling foreseeable risks and potential teething problems, and if a variety of other detailed improvements we were able to suggest can be incorporated.

The choice of currency link

11. Those who have been involved with working up the scheme have assumed that the link would be with the US \$. There is also fairly general agreement that the right rate to go for is HK \$8 to the US \$. Anything higher would look over-ambitious, particularly with further political uncertainties ahead. Anything much lower would risk locking in an unnecessary degree of inflation.

12. The possibility of a link with sterling was mentioned, but the arguments against are strong:-

(a) The US \$ is already a second currency in the Colony. A sterling link would both be less natural, and tend to make the scheme harder for the population to understand and accept.

(b) There may be a political aspect vis-a-vis the negotiations with the Chinese.

(c) Since most HK residents probably want to hold US \$s rather than sterling (reflecting in part the direction and denomination of their trade) it could tend to put downward pressure on sterling.

Timing

13. We met the Governor on 4 October. After we had explained our technical appreciation of the scheme to him it sounded very much as if he had decided to go ahead. But he was clear he could not proceed on a matter of this kind without first consulting his Executive Council, which could not be until their return from London next week. Meanwhile a paper for the Executive Council is being prepared for the Governor's return on Monday. There are strong operational and market reasons for making changes of this kind over public holidays and weekends. There is also a good deal of necessary contingency planning and preparation to be done before the Hong Kong Government is ready for a properly prepared launch. So exchange markets permitting, there is a good reason for delaying an announcement until late on Thursday 13 October, just before a long weekend starting with a Hong Kong public holiday on 14 October.

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FM HONG KONG 061005Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1487 OF 6 OCTOBER

INFO IMMEDIATE PEKING ROUTINE HONG KONG GOVERNMENT OFFICE LONDON
(FOR HONG KONG GOVERNMENT REPRESENTATIVES) WASHINGTON NEW YORK
GENEVA BRUSSELS

1027/10

h-a

FUTURE OF HONG KONG: PRESS COVERAGE

1. ALL SECTIONS OF THE PRESS GAVE EXTENSIVE AND WIDESPREAD COVERAGE TO THE GOVERNOR'S LEGCO ADDRESS YESTERDAY. THIS WAS GENERALLY FAVOURABLY RECEIVED, WITH MOST PAPERS NOTING THAT THE SEARCH FOR A SETTLEMENT OF HONG KONG'S FUTURE WAS THE MOST IMPORTANT ISSUE. THERE WAS SOME CRITICISM, NOTABLY IN THE COMMUNIST PRESS, THAT THE SPEECH FAILED TO ELABORATE MEASURES TO BOLSTER THE HONG KONG DOLLAR (SEE PARA 3 BELOW).

2. AMONGST THE EDITORIALS IN THE INDEPENDENT PRESS, MING PAO, SHING TAO, WAH KIU YAT PO AND THE EXPRESS ALL COMMENTED THAT A POSITIVE AND OPTIMISTIC ATTITUDE HAD BEEN TAKEN TOWARDS LONG-TERM DEVELOPMENT PROJECTS. THIS WAS A MARK OF THE GOVERNMENT'S CONFIDENCE AND SHOULD HELP TO SET THE PUBLIC'S HEART AT EASE. FINANCIAL DAILY SAID THAT PENDING AN AGREEMENT IN THE SINO/BRITISH TALKS IT WAS IMPORTANT FOR LOCAL RESIDENTS TO KEEP THEIR NERVE. WHILST GENERALLY WELCOMING THE ADDRESS, THE ECONOMIC JOURNAL SAID THAT THE PUBLIC HAD HOPED FOR RATHER MORE QUOTE DIRECTION UNQUOTE.

3. TA KUNG PAO AND WEN PO (COMMUNIST) EMPHASISED IN THEIR HEADLINES THAT THE GOVERNOR HAD NOT ANNOUNCED MEASURES TO SHORE UP THE HONG KONG DOLLAR. WEN WEI PO SAID THAT ALTHOUGH AN EXPORT-LED RECOVERY WAS UNDERWAY, THE WEAK DOLLAR WOULD FORCE UP THE RATE OF INFLATION. IN ITS EDITORIAL, TA KUNG PAO SAID THAT MEASURES SHOULD BE ANNOUNCED SOON TO CURB QUOTE SPECULATION UNQUOTE AND ADDED THAT THE GOVERNMENT APPARENTLY LACKED THE DETERMINATION TO INTRODUCE SUCH MEASURES. NOTING THE PRIORITY GIVEN TO THE SEARCH FOR A SETTLEMENT ON HONG KONG'S FUTURE, THE EDITORIAL MAINTAINED THAT THE BIGGEST STUMBLING BLOCK WAS BRITAIN'S QUOTE HARDENED ATTITUDE UNQUOTE.

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4. THE INDEPENDENT (BUT NOT COMMUNIST) PRESS CARRIED A DENIAL BY A CHINA RESOURCES COMPANY SPOKESMAN THAT CHINA HAD DECIDED TO SETTLE ACCOUNTS IN U.S. DOLLARS RATHER THAN HONG KONG DOLLARS IN TRADING WITH HONG KONG. (THIS FOLLOWED A REPORT IN THE RIGHT-WING KUNG SHEUNG DAILY NEWS ON 3 OCTOBER THAT CHINESE TRADERS HAD TOLD MALAYSIAN IMPORTERS TO PAY IN U.S. AND NOT HONG KONG DOLLARS).

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DESKBY 060945Z

FROM PEKING 06091-Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 992 OF 6/10/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MIPT: " COMMENT

ML 2/10

1. THIS COMMENTATOR PIECE, WHICH CONTAINS EVEN MORE EMOTIVE AND VITRIOLIC LANGUAGE THAN YESTERDAY NCNA COMMENTARY, IS YET A FURTHER PROPAGANDA ESCALATION. A PEOPLE'S DAILY COMMENTATOR IS USUALLY A SENIOR PARTY FIGURE IN THE PEOPLE'S DAILY ESTABLISHMENT: ON THIS OCCASION THERE CAN BE LITTLE DOUBT THAT THE PIECE WAS AUTHORIZED AT A HIGH LEVEL.

2. MOST OF THE POINTS IN THE COMMENTARY ARE FAMILIAR, THOUGH SOME ARE EXPRESSED MORE STRONGLY THAN BEFORE. THERE IS HOWEVER, FOR THE FIRST TIME IN THE PUBLIC MEDIA, A VERY CLEAR THREAT THAT CHINESE PATIENCE IS NOT INFINITE: THIS STRENGTHENS OUR SUSPICION THAT THE CHINESE ARE PREPARING PUBLIC OPINION HERE FOR A POSSIBLE BREAKDOWN IN THE TALKS IF THE BRITISH DO NOT MOVE. THIS SUSPICION IS FURTHER STRENGTHENED BY THE STATEMENT THAT THE BRITISH GOVERNMENT MUST TAKE ALL THE RESPONSIBILITY IF THE TALKS FAIL.

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DESBKY 060945Z OCT 83

FROM PEKING 060850Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 991 OF 6/10/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: PEOPLE'S DAILY COMMENTATOR ON MR LUCE'S
REMARKS

1. PEOPLE'S DAILY OF 6 OCTOBER CARRIES AN ARTICLE ON PAGE 2 BY
A 'COMMENTATOR' OF THE PAPER ENTITLED 'COME OFF IT MR LUCE'.
IT IS LENGTHY AND SEVERE IN TONE. COMMENT IS IN MIFT. A SUMMARY
OF THE PIECE FOLLOWS.

2. THE ARTICLE STATES THAT ON 28 SEPTEMBER MR LUCE ATTACKED
THE CHINESE GOVERNMENT FOR OPENLY CRITICISING THE BRITISH POSITION
IN THE TALKS. HE THREATENED TURBULENCE IF THE TALKS DID NOT REACH
A SATISFACTORY OUTCOME. ALL CONCERNED WITH HONG KONG'S FUTURE
WOULD CONSIDER THAT SUCH EXTRAORDINARY REMARKS WOULD BE OF NO HELP
IN FINDING A RATIONAL SOLUTION.

3. IT WAS PUTTING THE BLAME ON OTHERS AND MISLEADING THE
PUBLIC TO ACCUSE THE CHINESE OF BREACHING CONFIDENTIALITY. THE
CHINESE GOVERNMENT HAD NEVER PUBLICLY SPOKEN OF THE PROGRESS
OF THE TALKS OR THEIR AGENDA. EVERYONE KNEW CHINA'S BASIC
POSITION CONCERNING THE RESUMPTION OF SOVEREIGNTY AND ADMIN-
ISTRATION IN HONG KONG. THERE WAS NO SECRET ABOUT IT. THE
CHINESE HAD THE RIGHT TO MAKE IT KNOWN TO THEIR PEOPLE., INCLUD-
ING THOSE IN HONG KONG. THE BRITISH SIDE, MR LUCE HIMSELF INCLUDED,
HAD TIME AND AGAIN ANNOUNCED THEIR 'AIM', IE THEIR POSITION,
IN THE TALKS. WHAT KIND OF LOGIC WAS IT THAT ALLOWED THE
BRITISH TO STATE THEIR POSITION WHILE THE CHINESE COULD NOT?

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4. THROUGH MEDIA UNDER THEIR CONTROL, THE BRITISH SIDE ADVOCATED THE EXCHANGE OF SOVEREIGNTY FOR ADMINISTRATION. THE BRITISH WERE USING THE MASS MEDIA TO PUT PRESSURE ON CHINA. THE CHINESE GOVERNMENT AND PEOPLE COULD NOT ACCEPT THAT TYPE OF ARGUMENT IN THE BRITISH PRESS, AND HAD TO REFUTE IT. MR LUCE ACCUSED THE CHINESE SIDE OF CONDUCTING 'MEGAPHONE DIPLOMACY'. BUT WOULD HE NOT ADMIT THAT THE MISTAKEN ARGUMENT IN THE BRITISH PRESS WAS THE BRITISH POSITION IN THE TALKS? MR LUCE'S ATTITUDE WAS NOT A RESPONSIBLE ONE. HE SHOULD ALSO REMEMBER THAT THE GOVERNOR OF HONG KONG, WHO WAS TAKING PART IN THE TALKS AS A MEMBER OF THE BRITISH DELEGATION AND WAS THEREFORE ANSWERABLE TO THE BRITISH GOVERNMENT, REGULARLY BRIEFED MEMBERS OF HONG KONG'S EXECUTIVE COUNCIL ON THE PROGRESS OF THE TALKS. WHO IN FACT WAS BREACHING CONFIDENTIALITY AND PUBLICISING THE CONTENT OF THE TALKS?

5. MR LUCE HAD SAID THAT IT WAS UNHELPFUL TO SET A TIME LIMIT FOR THE TALKS. TO SAY THIS COULD NOT BUT BRING IN THE QUESTION OF THE VERY NATURE OF THE TALKS. THE FACT WAS THAT CHINA HAD A RIGHT TO RECOVER SOVEREIGNTY AND ADMINISTRATION OVER ITS SACRED TERRITORY AT ANY TIME. IN VIEW PRINCIPALLY OF THE FRIENDLY RELATIONS BETWEEN BRITAIN AND CHINA, CHINA WAS WILLING TO SOLVE THE HONG KONG QUESTION THROUGH NEGOTIATION. BUT THIS DID NOT MEAN THERE WAS ANY ROOM FOR BARGAINING OVER THE MATTER OF SOVEREIGNTY. IF THE BRITISH VIEWED CHINA'S SINCERE AND COOPERATIVE ATTITUDE TOWARDS SOLVING THE HONG KONG QUESTION IN AN APPROPRIATE MANNER AS A SIGN OF WEAKNESS THAT COULD BE EXPLOITED, AND SO OBSTINATELY HELD TO THEIR MISTAKEN POSITION, THEN NATURALLY CHINA COULD NOT WAIT FOR A LONG TIME, FAR LESS INDEFINITELY. SHE WOULD HAVE NO ALTERNATIVE BUT TO ANNOUNCE CLEARLY HER OWN POLICIES TOWARDS HONG KONG AT A SUITABLE MOMENT.

6. IN ISSUING VARIOUS THREATS ABOUT THE EVENTUALITY OF A FAILURE IN THE TALKS, MR LUCE HAD CLEARLY UNDERESTIMATED THE DETERMINATION OF THE CHINESE GOVERNMENT AND PEOPLE TO RECOVER SOVEREIGNTY AND ADMINISTRATION OVER HONG KONG. HE HAD ALSO EXPOSED THE BRITISH INTENTION TO CONTINUE OCCUPYING THE TERRITORY. MR LUCE SHOULD UNDERSTAND THE THREATS OF ANY KIND WOULD NOT HAVE THE LEAST EFFECT. IF THE TALKS WERE SADLY TO BREAK DOWN BECAUSE OF BRITAIN MAINTAINING ITS COLONIALIST STAND, THEN RESPONSIBILITY FOR ALL THE CONSEQUENCES WOULD REST WITH THE BRITISH GOVERNMENT.

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7. MR LUCE HAD WAVED THE BANNER OF HONG KONG OPINION. HE HAD ATTEMPTED TO SUGGEST THAT WHAT WAS A BILATERAL MATTER SHOULD BE A TRIANGULAR ONE BETWEEN CHINA, BRITAIN AND HONG KONG. HOW COULD THIS BE WHEN THE FACT WAS THAT BRITAIN HAD OCCUPIED CHINA'S TERRITORY? IF BRITAIN REALLY WISHED TO 'FULFIL ITS COMMITMENT' TO THE PEOPLE OF HONG KONG, IT SHOULD ADOPT A COOPERATIVE ATTITUDE TOWARDS THE CHINESE GOVERNMENT AND HAND BACK HONG KONG TO THE MOTHERLAND AS SOON AS POSSIBLE. 98 PER CENT OF HONG KONG'S POPULATION WERE CHINESE. BRITAIN HAD NO RIGHT TO REPRESENT THEM. HONG KONG'S CHINESE RESIDENTS RECOGNISED THIS

WHEN MR LUCE AND CERTAIN PAPERS UNDER BRITISH INFLUENCE TALKED OF 'PUBLIC OPINION' THEY OVERLOOKED ONE FACT: ONE BILLION CHINESE PEOPLE, INCLUDING 5 MILLION COMPATRIOTS IN HONG KONG, FIRMLY DEMANDED THE RETURN OF HONG KONG TO CHINA. ATTEMPTS TO USE 'PUBLIC OPINION' TO EXERT PRESSURE ON CHINA OR OBSTRUCT HER RESUMPTION OF SOVEREIGNTY WERE UTTERLY FUTILE.

8. THE TALKS WOULD BE CONTINUING. MR LUCE HAD SAID THAT BRITAIN WAS 'ALREADY LOOKING TO THE FUTURE'. CHINA HOPED THAT THE BRITISH GOVERNMENT WOULD NOT SIMPLY LET THEIR EYES REST ON THEIR OWN 'AIMS', BUT WOULD TAKE A BROAD, LONG-TERM VIEW. THEY SHOULD RECOGNISE THE TIDE OF HISTORY, ADOPT A SINCERE AND COOPERATIVE ATTITUDE AND, THROUGH FRIENDLY TALKS, BRING ABOUT A SPEEDY AND SATISFACTORY SOLUTION TO THE MATTER OF RETURNING HONG KONG TO CHINA, THEREBY PROMOTING THE DEVELOPMENT OF FRIENDLY RELATIONS BETWEEN THE TWO COUNTRIES. THIS ALONE WAS TRULY CONSISTENT WITH BRITAIN'S INTEREST.

9. SEE MIFT.

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Foreign and Commonwealth Office

London SW1A 2AH

5 October 1983

Dear John,

Hong Kong: Call by Governor and Unofficial
Members of the Executive Council,
7 October 1983

I attach a short background note on
the Executive Council and personality notes
on the Unofficial Members.

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street



THE EXECUTIVE COUNCIL OF HONG KONG

1. Article V of the Letters Patent to the Governor of Hong Kong provides for the establishment of an Executive Council. Article X of the Royal Instructions states that "in the execution of the powers and authorities granted to the Governor by Our said Letters Patent, he shall in all cases consult with the Executive Council, excepting only in cases relating to the appointment, disciplinary control or removal from office of a public officer, or in cases which may be of such a nature that, in his judgement, Our service would sustain material prejudice by consulting the Council thereupon, or when the matters to be decided shall be too unimportant to require their advice, or too urgent to admit of their advice being given by the time within which it may be necessary for him to act in respect of any such matters". The Governor is not obliged to accept the advice he receives from the Council, but if he does not he must report his reasons to HMG.

2. The Executive Council at present consists of four ex-officio members - The Chief Secretary, the Commander British Forces, the Financial Secretary and the Attorney General - and two Official and eleven Unofficial members appointed by the Governor for fixed periods on the Instructions of the Secretary of State. The Council meets every Tuesday morning, and its proceedings are confidential. Over the past year, the Council held a second weekly meeting, on Wednesday morning, specifically to discuss matters relating to the future of Hong Kong.



UNOFFICIAL MEMBERS OF THE EXECUTIVE COUNCIL

SIR SZE-YUEN CHUNG CBE

Senior Unofficial Member of the Executive Council. Born 1917. Educated University of Hong Kong and University of Sheffield. Chairman of Sonca Industries Ltd. (Manufacturer of Electronic Equipment) and Grindlays - Dao Heng Bank. Member of the Legislative Council from 1968-1974. Member of the Executive Council since 1972 and Senior Unofficial Member since September 1980. Widower, three children.

OSWALD VICTOR CHEUNG CBE QC

Born 1922. Educated in Hong Kong and Oxford. A barrister and Queens Counsel. Member of Legislative Council from 1978-81. Member of Executive Council since 1974. Married to Pauline, one son.

ROGERIO HYNDMAN LOBO CBE

Senior Unofficial Member of the Legislative Council. Born 1923, Macao. Educated in Macao and Hong Kong. A businessman. Member of Legislative Council since 1972 and of Executive Council since 1978. Married to Margaret Mary, ten children.

LI FOOK WO CBE

Born 1916. Educated in Hong Kong and USA. A banker. Chairman of Barclays Asia Ltd. Member of Legislative Council 1973-81 and of Executive Council since 1978. Married to Laura, five children.

MICHAEL GRAHAM RUDDOCK SANDBERG OBE

Born 1927. Educated in Oxford. A former Army Officer, has served



with the Hong Kong and Shanghai Banking Corporation since 1949 (now Chairman). Member of Executive Council since 1978. Married to Carmel, four children.

LO TAK SHING CBE

Born 1935. Educated in Hong Kong and UK. A solicitor. Partner of Lo and Lo Solicitors. Member of Legislative Council since 1974 and Member of Executive Council since 1980. Chairman, Transport Advisory Committee and UMELCO Police Group. Married to Tierney, three children.

DAVID KENNEDY NEWBIGGING OBE

Born China 1934. Educated in Canada and England. Joined Jardine Matheson & Ltd 1954. Became Director 1967, Managing Director 1970 and Chairman in 1975. Member of Legislative Council 1978 to 1982 and of Executive Council since 1981. Chairman, Hong Kong Tourist Board. Married to Carolyn, three children.

LYDIA DUNN CBE (MISS)

Born 1940. Educated in Hong Kong and the University of California, Berkeley. Director of John Swire and Sons Ltd. Member of the Legislative Council since 1976 and of Executive Council since 1982. Chairman, Hong Kong Trade Development Council. Single.

LEE QUO-WEI CBE

Born Macau 1918. Educated in Hong Kong. Chairman and Chief Executive of Hang Seng Bank. Former member of Executive and Legislative Council, from which he retired in 1978 because of ill health. Reappointed to Executive Council in 1983. Former Chairman of Board of Education. Married.

CHEN SHOU-LAM OBE

Born 1925. Educated in UK. Director of Hong Kong Electric Co Ltd and Cable and Wireless (HK) Ltd. Member of Legislative Council



since 1976. Appointed to Executive Council 1983. Chairman of Hong Kong Productivity Council. Married to Doris, two children.

MARIA TAM WAI-CHU (MISS)

Born 1945. Educated in Hong Kong and UK. Barrister. Member of Legislative Council since 1981. Appointed to Executive Council 1983. Elected Urban Councillor and District Board Member. Involved in a number of social welfare organisations. Single.

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Foreign and Commonwealth Office

London SW1A 2AH

5 October 1983

Dear Ian,

GR PPs?

Letters from the Hong Kong and Kowloon Trades Union Council

Willie Rickett wrote to me on 21 September enclosing a letter the Prime Minister had received from the Hong Kong and Kowloon Trades Union Council. The Council, who have written in similar terms to Sir Geoffrey Howe and Mr Luce, have strong right wing (ie Taiwan) links. They are likely to give publicity to a letter from the Prime Minister herself, or even from a Private Secretary at No 10. In addition, the Council's name is somewhat misleading in that less than 20% of Hong Kong's unions are affiliated to it. In any event our general policy has been to send departmental replies to letters of this sort. We would propose to handle this similarly unless you see objection.

Yours ever
J. E. Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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SECRET

Sir A. Inman.
5 October 1983

Prime Minister.

B

MR. COLES

HONG KONG

1. The negotiating crisis is on us. It has come roughly at the time we anticipated. Its outward manifestations - Chinese rigidity, a build up of Chinese propaganda, and a slippage of confidence in Hong Kong, were also anticipated at the outset of the negotiations.

2. I have discussed Hong Kong with a wide variety of people in the last six months or so. These include informed journalists, interested businessmen and knowledgeable outsiders both in and out of Parliament. The following is my reading of informed British public opinion:-

(i) There is no romanticism about British obligations to the people of Hong Kong. China is not Argentina and Hong Kong is not the Falklands. If our negotiating tactics led to a confrontation with China, including the shadow of a military clash with the Chinese and/or of a mass exodus of Hong Kong Chinese in the direction of the United Kingdom, we would not be praised for firmness. We would be blamed for adopting an unrealistically inflexible and dangerous posture.

(ii) All sensible people recognise that, in the circumstances, we have no choice but to reach an agreement in cooperation with China. They realise that such an agreement is bound to leave Hong Kong worse off than it would have been under perpetual British rule, and a great deal of (probably misplaced) faith would have to be invested in Chinese goodwill. But virtually anything would be better than a confrontation which would be dangerous and damaging to us and would make things even worse for the people of Hong Kong.

(iii) There are two areas of criticism here which would be developed if things started to go seriously wrong. First, there is still widespread belief in Britain that we gratuitously poked the Chinese sleeping dog in the ribs last year. 1997 still seems a long way away to many people. Secondly, many of my interlocutors find it hard to understand why we have failed to develop democratic
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institutions in Hong Kong over the past century. If we can produce the full apparatus of democracy in microscopic Caribbean Islands, why could we not have done the same for a place like Hong Kong? Thus, we are in no position to test Hong Kong opinion on a wide basis, just at the time when we need to most.

3. It is this last point in para 2(iii) above - Hong Kong opinion - that I think must be borne most carefully in mind in the next two or three days. Although I lack expert knowledge, I am convinced by the argument that our present course will not "bring the Chinese to their senses" but will quickly lead to confrontation and disaster. I also have a feeling, which I think Percy Cradock shares, that, if we could get down to negotiating "maximum autonomy without a link" with the Chinese, they might very well bend over backwards to be accommodating. They could afford to be. They would have made their nationalistic point and could then concentrate on their own economic self interest - continuing Hong Kong prosperity - and the Taiwan analogy.
4. The problem is the attitude of the EXCO unofficials led by Sir S Y Chung, the nearest we can get to a Hong Kong view. If we decided, as an act of state, to make the all-important concession to the Chinese on the link, either overtly or through adopting an expedient such as Option D in para 5 of FCO telno 999 to Hong Kong, in the teeth of opposition from the EXCO unofficials, and if this came out into the open, we would come under serious criticism here. This would be true even if many people in this country thought that we were right and that EXCO were wrong. By the same token, we cannot afford to appear to have pulled wool over EXCO's eyes.
5. Hence, the outcome of the Prime Minister's meeting with the EXCO unofficials on Friday is crucial. My hope is that they can be persuaded to acquiesce in our proceeding as proposed in Option D.
- FLAG A. | Teddy Youde's telegram number 1469 (received since I drafted the above) reveals how difficult this is going to be. But, if we act as some of the unofficials wish us to, I cannot see how we would get the negotiations back on the rails except in a much worse situation. If the Chinese filled the confrontation period with rhetoric, they would find it increasingly difficult to show any flexibility and we would find it harder to resume negotiations except in humiliating circumstances. Meanwhile, the slide in Hong Kong would gather dangerous momentum, and criticism would mount here.

A.D. PARSONS

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FM FCO 010800Z OCT 83
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 999 OF 1 OCTOBER
INFO IMMEDIATE PEKING

MIPT: FUTURE OF HONG HONG: DRAFT PAPER FOR EXCO
BEGINS:

INTRODUCTION

1. MEMORANDUM XCX(83)54 DESCRIBED THE ELEMENTS OF THE CHINESE POSITION AS REVEALED IN THE FIRST THREE ROUNDS OF THE TALKS IN JULY AND AUGUST. IT ALSO DISCUSSED THE SITUATION WHICH WE WOULD FACE SHOULD THE CHINESE PROVE IMMOVEABLE ON THE INDIVISIBILITY OF SOVEREIGNTY AND ADMINISTRATION. THIS PAPER SEEKS TO IDENTIFY THE OPTIONS NOW AVAILABLE TO HMG IN THE LIGHT OF THE LATEST ROUND OF THE TALKS ON 22/23 SEPTEMBER. MEMBERS WILL WISH TO REFLECT ON THESE OPTIONS BEFORE DISCUSSING THE SITUATION WITH MINISTERS IN LONDON ON 7 OCTOBER. NO CONCLUSIONS ARE DRAWN AND NO RECOMMENDATIONS ARE MADE.

(BEGIN UNDERLINING) CHINESE POSITION (CEASE UNDERLINING)

2. CHINESE STATEMENTS AT THE FOURTH PLENARY SESSION OF THE TALKS ON 22/23 SEPTEMBER REVEALED NO CHANGE IN THE CHINESE POSITION AS SET OUT IN MEMORANDUM XCX(83)54. IF ANYTHING THEIR LINE HAS HARDENED. IN PARTICULAR:

- (A) THE CHINESE ARE ADAMANT THAT BOTH SOVEREIGNTY AND ADMINISTRATION WILL BE RECOVERED BY 1997 AND HAVE CHARACTERISED OUR INSISTENCE ON BRITISH ADMINISTRATION AS AN INSUPERABLE OBSTACLE TO PROGRESS. THEY HAVE HINTED STRONGLY THAT THEY WILL BREAK OFF THE TALKS IF THERE IS NO CHANGE IN THE BRITISH POSITION.
- (B) THEY HAVE REJECTED OUR PROPOSAL FOR A JOINT EXAMINATION OF THE FACTS ABOUT THE SYSTEMS IN HONG KONG AND HAVE DISMISSED THE FOUR PAPERS SUBMITTED BY THE BRITISH NEGOTIATORS AT THE 2/3 AUGUST SESSION OUT OF HAND. THEY TAKE THE LINE THAT THE FACTS

IN THESE PAPERS WERE TWISTED TO SUIT THE BRITISH THESIS (WHICH THEY DO NOT ACCEPT) THAT CONTINUING BRITISH ADMINISTRATION IS NECESSARY TO MAINTAIN CONFIDENCE.

(C) THEY CONCEDE THAT THERE IS A PROBLEM OF CONFIDENCE IN HONG KONG BUT ATTRIBUTE THIS ENTIRELY TO BRITISH 'RIGIDITY', ACCUSING US OF ATTEMPTING TO PLAY PUBLIC OPINION AND ECONOMIC 'CARDS' IN AN ATTEMPT TO PUT PRESSURE ON THEM. THEY HAVE SAID THAT THEY WILL NOT BE SCARED BY SUCH TACTICS AND HAVE DECLINED TO DO ANYTHING TO HELP BOLSTER CONFIDENCE IN THE HONG KONG DOLLAR.

(D) THEY HAVE REITERATED THAT IF THERE SHOULD BE MAJOR DISTURBANCES IN HONG KONG THEY WOULD BE OBLIGED TO RECONSIDER THE TIMING AND FORMULA FOR THE RECOVERY OF SOVEREIGNTY.

3. IN THE LIGHT OF WHAT THE CHINESE HAVE SAID THE FOLLOWING RISKS ARE APPARENT.

(I) THAT WITHOUT A SHIFT IN THE BRITISH POSITION THE CHINESE WOULD NOT AGREE TO A FURTHER SESSION OF THE TALKS AFTER THE ONE SCHEDULED FOR 19 AND 20 OCTOBER.

(II) THAT, SINCE THE CHINESE ARE UNLIKELY TO AGREE TO A MORE OR LESS FRIENDLY PAUSE FOR REFLECTION, SUCH A BREAK IN THE TALKS WOULD RESULT IN A CONFRONTATION BETWEEN BRITAIN AND CHINA OVER HONG KONG WITH RESULTANT GRAVE DAMAGE TO THE HONG KONG ECONOMY.

(III) THAT THE CHINESE WOULD BE READY IF NECESSARY TO SACRIFICE THE ECONOMIC BENEFITS THEY OBTAIN FROM HONG KONG IN ORDER TO ACHIEVE THEIR POLITICAL OBJECTIVES.

(IV) THAT A BREAKDOWN WOULD LEAD THE CHINESE TO TAKE INCREASINGLY HARD PUBLIC POSITIONS FROM WHICH THEY WOULD NOT BE ABLE TO WITHDRAW WITHOUT DAMAGING LOSS OF FACE. EVEN IF THE CHINESE DID NOT ANNOUNCE THEIR OWN PLAN UNILATERALLY AND WERE PREPARED TO RESUME NEGOTIATIONS, THE TERMS WHICH THEY WOULD THEN BE WILLING TO OFFER MIGHT BE WORSE THAN THOSE WHICH COULD BE NEGOTIATED NOW. (BEGIN UNDERLINING) PRESENT SITUATION (CEASE UNDERLINING)

4. DURING THE LAST ROUND OF THE TALKS THE CHINESE SAID INFORMALLY THAT THEY WOULD NOT BE PREPARED TO EMBARK ON DETAILED DISCUSSION OF THEIR PLAN WITHOUT PRIOR BRITISH ACCEPTANCE OF THEIR PREMISE THAT BOTH SOVEREIGNTY AND ADMINISTRATION WILL PASS

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TO CHINA IN 1997. THE CHINESE FOREIGN MINISTER TOLD THE SECRETARY OF STATE ON 27 SEPTEMBER THAT THE CHINESE HAD IDEAS WHICH THEY WISHED TO DISCUSS BUT ONLY IF THE QUESTION OF SOVEREIGNTY WAS PROPERLY SETTLED FIRST. THE TACTIC DEPLOYED ON 22/23 SEPTEMBER THEREFORE LOOKS UNLIKELY TO ACHIEVE ITS INTENDED PURPOSE OF PROVIDING FURTHER OPPORTUNITIES TO CONVINCE THE CHINESE THAT THEIR PLAN WOULD NOT WORK AND THAT CONTINUED BRITISH ADMINISTRATION IS ESSENTIAL.

(BEGIN UNDERLINING) OPTIONS (CEASE UNDERLINING)

5. AGAINST THIS BACKGROUND THE FOLLOWING OPTIONS APPEAR TO BE AVAILABLE.

(A) TO CONTINUE TO PRESS THE CASE FOR THE CONTINUATION OF BRITISH ADMINISTRATION ON PRESENT LINES.

(BEGIN UNDERLINING) COMMENT (CEASE UNDERLINING)

THIS COURSE WOULD SHOW OUR RESOLVE AND BEST REPRESENTS OUR CONTINUING VIEWS. BUT THERE WOULD BE A STRONG RISK OF A BREAKDOWN AT THE NEXT SESSION OF THE TALKS AND OF SUBSEQUENT PUBLIC CONFRONTATION WITH THE CHINESE. THIS WOULD HAVE SEVERE CONSEQUENCES FOR CONFIDENCE AND THE HONG KONG DOLLAR. IT MIGHT BE IMPOSSIBLE TO RESTART NEGOTIATIONS.

(B) TO SEEK TO MAINTAIN THE BRITISH ADMINISTRATIVE LINK THROUGH A GOVERNOR RESPONSIBLE TO HMG, BUT WITH MAJOR ADMINISTRATIVE CHANGES DESIGNED TO MAKE THIS MORE PALATABLE TO THE CHINESE.

(BEGIN UNDERLINING) COMMENT (CEASE UNDERLINING)

THE CHINESE WOULD PROBABLY REGARD THIS AS NOT SIGNIFICANTLY DIFFERENT FROM (A). THEIR LINE SO FAR HAS BEEN THAT THE CONTINUATION OF THE BRITISH LINK THROUGH A GOVERNOR RESPONSIBLE TO LONDON WOULD BE UNACCEPTABLE. IF THEY DID SHOW THEMSELVES INTERESTED IN EXPLORING IN THIS CONTEXT THE CONCESSIONS WE MIGHT BE WILLING TO MAKE, WE WOULD HAVE TO BE VERY CAREFUL NOT TO GET INTO A POSITION WHICH IT WOULD SUBSEQUENTLY BE DIFFICULT TO CLAW BACK IF THE CHINESE STUCK TO THEIR GUNS ON THE LINK THROUGH THE GOVERNOR.

(C) TO ACCEPT THE CHINESE PREMISE THAT SOVEREIGNTY AND ADMINISTRATION MUST PASS TO CHINA IN 1997, AND TO NEGOTIATE THE BEST DEAL POSSIBLE FOR HONG KONG ON THAT BASIS.

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(BEGIN UNDERLINING) COMMENT (CEASE UNDERLINING)
 THIS WOULD OPEN THE WAY TO DETAILED DISCUSSION OF CHINESE IDEAS AND MIGHT CREATE SOME GOODWILL ON THE CHINESE SIDE. BUT ACCEPTANCE OF THE CHINESE POSITION ON THESE POINTS WOULD, IF LEAKED, HAVE A SEVERE EFFECT ON CONFIDENCE. MOREOVER, WE MIGHT LOSE LEVERAGE IN THE SUBSEQUENT NEGOTIATIONS.

(D) TO MAINTAIN OUR PRESENT VIEW THAT CONTINUED BRITISH ADMINISTRATION IS THE BEST WAY TO MAINTAIN CONFIDENCE, BUT TO SEEK A FURTHER FORMULA THROUGH WHICH WE COULD EXPLORE WHAT FLEXIBILITY THERE MIGHT BE IN THE CHINESE CONCEPT OF ADMINISTRATION, AND WHAT GUARANTEES IN THE FORM OF CONTINUING BRITISH LINKS THE CHINESE WOULD BE PREPARED TO BUILD INTO THEIR PLAN. ONE WAY OF DOING THIS WOULD BE TO SEEK TO EXTEND THE FORMULA DEPLOYED OVER SOVEREIGNTY IN THE PRIME MINISTER'S LETTER TO PREMIER ZHAO ZIYANG OF 10 MARCH TO THE RIGHT (REPEAT RIGHT) OF ADMINISTRATION.

(BEGIN UNDERLINING) COMMENT (CEASE UNDERLINING)
 THIS MIGHT BE SUFFICIENT TO PERSUADE THE CHINESE TO EXPLAIN THEIR IDEAS IN MORE DETAIL AND TO KEEP THE TALKS GOING. IT MIGHT THUS ALLOW US TO FIND OUT WHETHER CHINESE TERMS COULD BE MADE ACCEPTABLE. BUT IT MIGHT STILL NOT BE ACCEPTABLE TO THEM SINCE WE SHOULD HAVE TO MAKE IT CLEAR THAT WE STILL BELIEVED THAT CONTINUED BRITISH ADMINISTRATION WAS THE BEST WAY TO MAINTAIN CONFIDENCE. ANOTHER PROBLEM WOULD BE THE RISK OF THE CHINESE MISREPRESENTING OUR POSITION AS UNQUALIFIED ACCEPTANCE OF THEIRS.

(BEGIN UNDERLINING) PUBLIC PRESENTATION (CEASE UNDERLINING)
 6. WHATEVER OPTION WAS CHOSEN WE SHOULD NEED TO HAVE READY BOTH FOR BACKGROUND BRIEFING AND, IF NECESSARY, FOR PUBLIC USE A CAREFUL STATEMENT OF OUR REASONS FOR ADOPTING IT. THIS WOULD NEED TO BALANCE A CLEAR RESERVATION OF OUR OWN POSITION AGAINST THE RISK OF STALEMATE AND CONFRONTATION. ENDS

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FUTURE OF HONG KONG

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 HD/HKD
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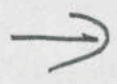
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DESKBY 041130Z
FM HONG KONG 040945Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1469 OF 4 OCTOBER
INFO IMMEDIATE PEKING

YOUR TELNOS 998, 999 AND 1001: FUTURE OF HONG KONG: DISCUSSION WITH EXCO.

1. EXCO DISCUSSED THE POSITION THIS MORNING ON THE BASIS OF THE PAPER IN YOUR SECOND TEL UNDER REF. IT EXPLAINED THAT THE PAPER HAD BEEN PRODUCED TO HELP MEMBERS PREPARE FOR THE DISCUSSIONS WITH MINISTERS LATER THIS WEEK. IT DELIBERATELY CONTAINED NO CONCLUSIONS OR RECOMMENDATIONS AND MINISTERS HAD SO FAR EXPRESSED NO VIEWS ON THE OPTIONS DESCRIBED IN IT. AFTER TAKING MEMBERS THROUGH EACH IT ASKED THEM NOT TO REACH DEFINITE CONCLUSIONS OR OFFER FORMAL ADVICE UNTIL THEY HAD BEEN ABLE TO DISCUSS THE SITUATION WITH MINISTERS. IT THEN INVITED ANY PRELIMINARY COMMENTS THEY WISHED TO MAKE, AND SUGGESTIONS FOR ADDITIONAL OPTIONS.

h 2. WITHOUT SPECIFICALLY SUPPORTING OPTION D, MR O.V. CHEUNG AND MR D.K. NEWBING THOUGHT THAT SOME WAY SHOULD BE FOUND TO GET A GENUINE DIALOGUE GOING IN ORDER TO EXPLORE THE CHINESE POSITION FURTHER. ALL THE OTHER UNOFFICIALS MADE CLEAR THAT THEIR CHOICE WILL BE OPTION A. THEY ACCEPTED THAT THERE WAS A MORE THAN EVEN RISK OF A BREAKDOWN AND OF PUBLIC CONFRONTATION, BUT TOOK THE VIEW THAT THERE WAS AT LEAST A CHANCE THAT THE CHINESE WOULD SHIFT THEIR POSITION AND RETURN TO THE NEGOTIATING TABLE WHEN THEY SAW THE ECONOMIC CONSEQUENCES FOR HONG KONG. REMINDERS OF THE RIGIDITY OF THE CHINESE POSITION, THE LIKELY HOSTILITY OF THE CHINESE REACTION, AND THE DIFFICULTIES WHICH HONG KONG MIGHT THEN FACE LEFT THEM UNMOVED. IN ANY CASE THEY BELIEVED THAT THE PURSUIT OF ANY OTHER COURSE WOULD LEAD TO A CRISIS OF CONFIDENCE SOONER OR LATER AND THAT THE RISKS INHERENT IN OPTION A WOULD THEREFORE HAVE TO BE ACCEPTED (MISS DUNN FOR EXAMPLE COMMENTED THAT ALL THE OPTIONS OTHER THAN OPTION A WERE DIRECTLY, OR BY IMPLICATION, FORMS OF CAPITULATION.) SOME OF THESE MEMBERS, INCLUDING SIR S.Y. CHUNG, SUGGESTED THAT IF THE CHINESE MADE PROPOSALS ON THE LINES OF OPTION B OR D THE BRITISH NEGOTIATORS SHOULD BE PREPARED TO LISTEN. THEY GAVE NO INDICATION HOW THEY THOUGHT THE CHINESE MIGHT BE INDUCED TO PUT FORWARD SUCH PROPOSALS: BUT WERE SURE THAT THE BRITISH SIDE SHOULD MAKE NO FURTHER CONCESSIONS.



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3. IN RESPONSE TO QUESTIONS HE DECLINED TO INDICATE MY OWN PREFERENCE AMONG THE OPTIONS. BUT HE ASKED EACH MEMBER TO CONSIDER VERY SERIOUSLY THE IMPLICATIONS OF HIS OR HER PREFERRED COURSE OF ACTION, ITS CONSEQUENCES AND WHAT HE WAS LIKELY TO ACHIEVE, BEFORE GIVING ADVICE TO MINISTERS.

4. WHILE THIS WAS STILL A PRELIMINARY DISCUSSION, THE VIEWS EXPRESSED BY THE UNOFFICIALS WERE CLEAR. UNLESS MINISTERS ARGUE POSITIVELY FOR SOME OTHER OPTION WHILE WE ARE IN LONDON, HE HAVE NO DOUBT THAT THE MAJORITY ADVICE WILL BE TO STICK TO OPTION A: AND UNDEED IN THE LIGHT OF THIS MORNING'S DISCUSSION THIS IS LIKELY TO BE THEIR ADVICE IN ANY CASE.

YOUDE

(REPEATED AS REQUESTED)

FUTURE OF HONG KONG

LIMITED

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PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

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MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

MR FLOWER PUSD

MR COLES NO 10 DOWNING STREET

SIR A PARSONS NO 10 DOWNING STREET

MR WALKER RESEARCH D OAB 2/82

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Prime Minister

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Could you kindly indicate
your view?

A. S. C. 5/10.

Ref. A083/2777

MR COLES

Hong Kong

Thank you for your minute of 4 October.

2. I recommend that the Committee to supervise the negotiations with the Chinese on the future of Hong Kong should be constituted as a Sub-Committee of the Defence and Oversea Policy Committee, with the following terms of reference:

"To keep under review all aspects of the conduct of the negotiations with the Chinese Government on the future of Hong Kong."

I have deliberately cast these terms of reference wide enough ["all aspects of"] to clear the Sub-Committee to discuss such related matters as the defence of the Hong Kong dollar and other measures to maintain confidence. I would propose to give the Sub-Committee the prefix OD(K).

3. The following Ministers should clearly be included in the membership:

Prime Minister
Lord President of the Council
Foreign and Commonwealth Secretary
Chancellor of the Exchequer
Secretary of State for Defence
Attorney General

4. The Prime Minister will wish to consider whether to include the Lord Chancellor: but if so, it should be for political reasons rather than for legal advice, the source of which must be the Attorney General.

5. The Home Secretary has a strong interest, in view of the number of people in Hong Kong who have British passports and British overseas citizenship; we could wait until later to bring him in, but if a Committee is being set up it would perhaps be as well to bring him in from the outset.



6. The Secretary of State for Trade and Industry has a considerable Departmental (trade) interest; and might provide a useful source of advice on domestic political reactions.

7. The Prime Minister will wish to consider whether the Lord Privy Seal should be included, to reflect the views of Government supporters in the House of Commons.

8. I doubt whether this is a Committee in which the Chancellor of the Duchy of Lancaster need be invited to serve; but the Prime Minister will wish to consider whether she would like to include him.

9. In view of the involvement which the Minister of State, Foreign and Commonwealth Office (Mr Luce) is likely to have, I think he might be included as a member in his own right of a Committee which will otherwise consist of Cabinet Ministers.

10. If the Prime Minister is prepared at this stage to go a little beyond the nucleus of Ministers most closely concerned, I would recommend:

- ✓ Prime Minister
- ✓ Lord President of the Council
- ✓ Foreign and Commonwealth Secretary
- ✓ Home Secretary
- ✓ Chancellor of the Exchequer
- ✓ Secretary of State for Defence
- ✓ Lord Privy Seal
- ✓ Secretary of State for Trade and Industry
- ✓ Attorney General
- ✓ Minister of State, Foreign and Commonwealth Office (Mr Luce)

✓ 11. I suggest that this is not a Sub-Committee to which officials would normally be invited. Nonetheless, it is a Sub-Committee of OD, the Chief of the Defence Staff can be invited if military considerations had to be taken into account; and I suggest that the Foreign and Commonwealth Secretary should be authorised to bring with him, as and when appropriate, any one or all of the Governor of Hong Kong, the British Ambassador in Peking



and the Deputy Under Secretary of State in the Foreign and Commonwealth Office in charge of the Hong Kong Unit.

12. If the Prime Minister is content, I will promulgate accordingly.

RF

Approved by
ROBERT ARMSTRONG
and signed in his absence

5 October 1983

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FM HONG KONG 050800Z OCT 83

TO PRIORITY F C O

TELEGRAM NUMBER 1474 OF 5 OCTOBER

INFO PRIORITY PEKING AND HONG KONG GOVERNMENT OFFICE LONDON.

FOLLOWING IS SUMMARY OF GOVERNOR'S ADDRESS TO LEGCO ON
5 OCTOBER:-

THE GOVERNOR DELIVERED HIS SECOND ANNUAL ADDRESS TO THE LEGISLATIVE COUNCIL THIS (WEDNESDAY) AFTERNOON. IT WAS BROADCAST LIVE BY THE TWO RADIO STATIONS AND FOR THE FIRST TIME BY TVB-JADE (CHINESE CHANNEL) AND ATV-ENGLISH. AFTER A BRIEF INTRODUCTION, SIR EDWARD YOUDE IMMEDIATELY TURNED HIS ADDRESS TO THE FUTURE OF HK. HE SAID THROUGHOUT THE PAST YEAR, THERE HAD BEEN NO MORE IMPORTANT ISSUE FOR THE GOVERNMENT THAN THE SEARCH FOR A SETTLEMENT OF THE FUTURE OF HK. "THAT SEARCH HAS BEEN OUR FIRST AND OVER-RIDING CONCERN, AND IT WILL REMAIN OUR HIGHEST PRIORITY UNTIL A SETTLEMENT IS FOUND," HE SAID. SIR EDWARD REITERATED THAT THE AIM, AS STATED BY THE BRITISH GOVERNMENT REMAINED THAT OF REACHING A SOLUTION ACCEPTABLE TO THE BRITISH PARLIAMENT, TO CHINA AND TO THE PEOPLE OF HK. THE GOVERNOR SAID IT WOULD BE TO THE BENEFIT OF ALL FOR THE TALKS TO BE CONDUCTED IN AN ATMOSPHERE OF CALM AND DELIBERATION. AS HE HAD SAID ON MAY OCCASIONS, IT WAS NOT TO BE EXPECTED, GIVEN THE COMPLEXITY AND IMPORTANCE OF THE ISSUES, THAT THE TALKS COULD REACH QUICK RESULTS. "BUT WE REMAIN DETERMINED TO DO ALL WITHIN OUR POWER TO PURSUE THEM TO A SUCCESSFUL CONCLUSION," HE ADDED.

THE GOVERNOR AGAIN CONCENTRATED ON THE QUESTION OF HK'S FUTURE IN THE CONCLUSION OF HIS 37-PAGE SPEECH. HE SAID: "HONOURABLE MEMBERS, THE YEAR AHEAD WILL BE A CHALLENGING ONE FOR US ALL. I FULLY UNDERSTAND THE ANXIETIES AND CONCERNS OF ALL OUR PEOPLE AND THEIR WISH TO KNOW, AS FAR AS IT IS WITHIN THE POWER OF MAN TO JUDGE, WHAT THE FUTURE HOLDS. I AM DEEPLY CONSCIOUS OF THE IMPORTANCE WHICH THEY ATTACH TO THE ESSENTIALS OF THE FREE SOCIETY WHICH HAVE MADE HONG KONG WHAT IT IS TODAY AND THEIR DEEP DESIRE THAT THESE ESSENTIALS SHOULD BE MAINTAINED. IT IS THEIR CONCERN AND THEIR ASPIRATIONS WHICH WILL GOVERN OUR THINKING AND OUR ACTIONS IN THE YEAR TO COME.

"LET ME CONCLUDE BY SAYING THAT IF WE WISH OTHERS TO HAVE CONFIDENCE IN US, WE SHOULD NOT LOSE CONFIDENCE IN OURSELVES. IN SPITE OF THE FINANCIAL TURBULENCE WE FACE FROM TIME TO TIME WE HAVE A STRONG UNDERLYING ECONOMY, A GIFTED AND RESILIENT POPULATION, A HIGHLY MOTIVATED PUBLIC SERVICE AND A WILL TO SUCCEED. AGAINST THIS BACKGROUND, YOUR GOVERNMENT WILL BE GETTING ON WITH THE JOB OF MAKING HONG KONG A BETTER PLACE IN WHICH THE PEOPLE OF HONG KONG CAN LIVE, WORK AND BRING UP THEIR CHILDREN. IN CONCERT WITH THE EXECUTIVE AND LEGISLATIVE COUNCILS, IT WILL BE MY CONSTANT CONCERN TO ENSURE THAT HONG KONG CONTINUES TO ENJOY STEADY AND PROGRESSIVE GOVERNMENT: AND LET THERE BE NO DOUBT IN ANY QUARTER ABOUT OUR DETERMINATION TO DO OUR UTMOST TO SEEK A SUCCESSFUL OUTCOME TO THE TALKS. PATIENCE, CALM AND RESOLUTION ARE THE QUALITIES WHICH HAVE BROUGHT HONG KONG THROUGH DIFFICULT TIMES BEFORE. I HAVE NO DOUBT THAT THEY WILL DO SO AGAIN."

/ALTHOUGH.

M²/10
h.a.

ALTHOUGH HE DEALT IMMEDIATELY WITH THE QUESTION OF THE FUTURE, THE GOVERNOR MADE VERY CLEAR WHAT HE DESCRIBE AS THE TWO MAJOR TASKS FOR NEXT YEAR - THE LONG-TERM STRATEGIC DEVELOPMENT OF HONG KONG AND EDUCATION. ON DEVELOPMENT, HE SAID THE AMBITIOUS NEW TOWN DEVELOPMENT PROGRAMME STARTED IN THE 1970S SHOULD BE LARGELY COMPLETED BY THE END OF THE DECADE AND THE TIME HAD NOW COME TO LOOK FURTHER AHEAD TO ENSURE THAT 'WE SHALL BE ABLE TO MAINTAIN THE MOMENTUM OF OUR INDUSTRIAL AND COMMERCIAL DEVELOPMENT, AND MEET THE REQUIREMENTS OF OUR HOUSING, EDUCATION AND OTHER SOCIAL PROGRAMMES.' A DEVELOPMENT STRATEGY WAS NEEDED TO MEET HK'S LONG-TERM NEEDS INTO THE 1990S AND THE NEXT CENTURY. ON EDUCATION, THE OTHER MAJOR TASK, HE SAID IT WAS NOW NECESSARY TO TAKE A FRESH LOOK AT THE EDUCATION SYSTEM AS A WHOLE TO ENSURE THAT IT WOULD CONTINUE TO MEET THE ASPIRATIONS OF THE COMMUNITY AND THAT IT REMAINED GEARED TO THE FUTURE NEEDS OF HK. (DETAILS OF HIS REMARKS ON THESE TWO ISSUES ARE CONTAINED IN THE FOLLOWING GENERAL SUMMARY OF SIR EDWARD'S ADDRESS).

WORK OF LEGCO:

THE GOVERNOR GAVE AN OUTLINE OF THE LEGISLATION PASSED BY LEGCO LAST YEAR AND NOTED THAT MAJOR ITEMS OF LEGISLATION EXPECTED TO COME BEFORE THE COUNCIL INCLUDED AMENDMENTS TO THE BANKING AND DEPOSIT-TAKING COMPANIES ORDINANCES TO IMPROVE THE FRAMEWORK OF REGULATION OF THESE INSTITUTIONS; LEGISLATION TO REGULATE THE HIRE PURCHASE AND OUTBOUND TRAVEL INDUSTRIES, TO PROVIDE IMPROVED SICKNESS AND SEVERANCE PAY BENEFITS FOR EMPLOYEES, TO ESTABLISH A SECOND POLYTECHNIC, TO AMEND THE CROWNS LANDS RESUMPTION ORDINANCE TO PROVIDE ADDITIONAL PAYMENTS FOR LAND RESUMED FOR PUBLIC PURPOSE AND TO REVISE AND UPDATE HK'S LAW ON PROPERTY AND CONVEYANCING.

ON THE RECENTLY EXPANDED MEMBERSHIP OF EXCO AND LEGCO, THE GOVERNOR SAID: 'THE YET LARGER MAJORITY WHICH THE UNOFFICIAL MEMBERS NOW HOLD IN THESE COUNCILS MEANS THAT, IN SEEKING TO FORMULATE POLICIES AND MAKE LAWS WHICH REFLECT THE AMBITIONS, THE HOPES AND BEST INTERESTS OF ALL THE PEOPLE OF HONG KONG, THE ADMINISTRATION AND WE HAVE ACCESS TO A STILL WIDER RANGE OF OPINION AND ADVICE. WE WELCOME THIS WIDER REPRESENTATION, AND THE IMPROVED LINKS WITH THE DISTRICT BOARDS AND THE URBAN COUNCIL WHICH IT PROVIDES.

'WITH SUCH A DIVERSE CHAMBER, WE HOPE THERE WILL BE EVEN GREATER SCOPE FOR THE SORT OF LIVELY DEBATE WHICH WAS RECENTLY HEARD IN THIS COUNCIL ON THE OVERALL REVIEW OF EDUCATION. FOR IT IS IN DEBATE THAT THE WORK OF THIS COUNCIL FINDS PUBLIC EXPRESSION. IT BRINGS PROOF TO THE SCEPTICS THAT THE UNOFFICIALS WHO REPRESENT THE PUBLIC DO UNDERSTAND AND CARE ABOUT THE ISSUES OF OUR SOCIETY. IT DEMONSTRATES THE VARIETY OF VIEWS WHICH THE COMMUNITY HOLDS ABOUT THOSE ISSUES. ABOVE ALL, IT SHOWS REASON AT WORK IN THE GOVERNANCE OF OUR COMMUNITY AND THE POWER OF PERSUASION IN A FREE AND OPEN SOCIETY.'

ECONOMIC AND FINANCIAL SITUATION:

DEVELOPMENTS SO FAR INDICATED THAT AN EXPORT-LED RECOVERY IS UNDERWAY. DOMESTIC EXPORTS ARE EXPECTED TO GROW BY 11 PER CENT IN REAL TERMS AND THE GDP BY FIVE AND A HALF - SIX PER CENT IN 1983. THIS IS VERY ENCOURAGING AND ILLUSTRATES THE RESILIENCE OF HK'S ECONOMY AND ITS ABILITY TO RESPOND QUICKLY TO A REVIVAL IN DEMAND IN OUR MAJOR EXPORT MARKETS.

THE RATE OF INFLATION IS NOW JUST OVER 9 PER CENT PER YEAR. THE RECENT SHARP FALL IN THE VALUE OF THE HK DOLLAR WILL CONTINUE TO HAVE AN ADVERSE EFFECT ON THE RATE OF INFLATION FOR THE REST OF THE YEAR. HK SHOULD CONTINUE TO BENEFIT FROM THE IMPROVEMENTS OF THE WORLD'S ECONOMY WHICH ARE LIKELY TO CONTINUE. THE GOVERNOR SAID HE WOULD NOT DEAL WITH THE QUESTION OF THE EXCHANGE VALUE OF THE HK DOLLAR, BUT ADDED THAT IT IS AN ISSUE OF DAILY ATTENTION AND CONSTANT CONCERN. THE ERRATIC FLUCTUATIONS OF RECENT WEEKS DO NOT REFLECT THE ECONOMIC AND POLITICAL REALITIES OF THE SITUATION NOR THE STRENGTHS OF HK'S ECONOMY AND SOCIETY.

PUBLIC FINANCES:

GOVERNMENT REVENUE SO FAR THIS YEAR HAS BEEN LOWER THAN EXPECTED DUE MAINLY TO THE DEPRESSED STATE OF THE PROPERTY MARKET AND THE RESULTING SHORTFALL IN THE YIELDS FROM LAND SALES. IT IS LIKELY THAT THE DEFICIT ON GENERAL REVENUE ACCOUNT WILL BE IN THE REGION OF THE BUDGETTED DOLLARS 3.2 BILLION. THE GOVERNMENT INTENDS TO CONTAIN ITS EXPENDITURE WITHIN THE BUDGETTED LIMIT OF DOLLARS 35.5 BILLION.

FINANCIAL AND COMMERCIAL SECTORS:

THE GOVERNMENT INTENDS TO RESTORE THE LONG-TERM VIABILITY OF HANG LUNG BANK WHICH WAS TAKEN OVER BY THE GOVERNMENT LAST WEEK AND IN DUE COURSE TO RETURN IT UNDER SOUND MANAGEMENT TO PRIVATE OWNERSHIP. THE GOVERNMENT WILL DRAW FROM THIS EXPERIENCE ANY NECESSARY LESSONS FOR THE BETTER REGULATION OF HK'S BANKING SYSTEM. THE GOVERNMENT IS NOW CONSULTING BUSINESS AND PROFESSIONAL ORGANISATIONS ABOUT THE PROPOSALS DRAWN UP BY THE SECURITIES COMMISSION FOR REQUIRING THE DISCLOSURE OF SHAREHOLDINGS AND DEALINGS. THE PROPOSALS HAVE BEEN APPROVED BY EXCO IN PRINCIPLE. LEGISLATION IS BEING DRAFTED TO PROVIDE CONTROL FOR AND REGULATION OF THE OUTBOUND TRAVEL BUSINESS THROUGH REGISTRATION AND LICENSING. A BILL IS ALSO BEING DRAFTED TO PROVIDE A STATUTORY FRAMEWORK FOR HIRE PURCHASE TRANSACTIONS.

TRADE AND INDUSTRY:

IF THE RECOVERY OF THE WORLD ECONOMY IS MAINTAINED, HK IS WELL PLACED TO TAKE ADVANTAGE OF THE RESULTING INCREASED OPPORTUNITIES FOR TRADE. FORTUNATELY FOR HK, THE 1982 GATT MINISTERIAL MEETING REAFFIRMED THE SUPPORT OF GOVERNMENTS FOR AN OPEN TRADING SYSTEM AS ESSENTIAL TO WORLD ECONOMIC RECOVERY. THE MEETING ALSO DECIDED THAT GATT SECRETARIAT SHOULD CONDUCT AN URGENT STUDY OF THE PROBLEMS RELATING TO TRADE IN TEXTILES AND CLOTHING. ON INDUSTRY, THE GOVERNMENT HAS DECIDED TO AMALGAMATE THE INDUSTRY ADVISORY BOARD AND THE INDUSTRIAL DEVELOPMENT BOARD INTO A NEW INDUSTRY DEVELOPMENT BOARD. THE GOVERNMENT WILL CONTINUE TO SUPPORT OTHER STATUTORY OR INDEPENDENT BODIES IN THIS FIELD.

THE GOVERNMENT IS ASSESSING THE VIABILITY OF A CONSULTANCY STUDY WHICH RECOMMENDS BUILDING AN EXHIBITION CENTRE IN WANCHAI. THE COMPLEX WILL INCLUDE EXHIBITION HALLS, CONFERENCE CENTRE, A HOTEL AND OFFICE ACCOMMODATION. INTEREST OF THE PRIVATE SECTOR IN PARTICIPATING IN THE PROJECT IS ALSO BEING EXPLORED.

INFRA-STRUCTURE DEVELOPMENT:

THE LONG-TERM DEVELOPMENT STRATEGY SHOULD ACCOMMODATE THE NEEDS OF A SEVEN MILLION POPULATION BY THE TURN OF THE CENTURY AND THE NEEDS OF A WORKFORCE OF ABOUT 3.4 MILLION. TO THIS END, WORK HAS BEEN PROCEEDING STEADILY FOR THE PAST THREE YEARS WITH SUB-REGIONAL STUDIES OF THE NORTHWEST NEW TERRITORIES, THE HARBOUR AREA, LANTAU AND JUNK BAY. RESULTS OF THESE STUDIES WILL BE MADE PUBLIC OVER THE COMING MONTHS AND DECISIONS ARE EXPECTED BY THE MIDDLE OF NEXT YEAR. ON TRANSPORT, FEASIBILITY STUDIES ARE UNDERWAY OF A NEW ROAD THROUGH TAI MO SHAN LINKING THE NORTHWEST N.T. WITH TSUEN WAN AND OF A NEW ROAD THROUGH LION ROCK OR MA ON SHAN LINKING THE NORTHEAST N.T. WITH KOWLOON. ALTHOUGH A BRIDGE AT LEI YUE MUN HAS BEEN FOUND TO BE IMPRACTICABLE FOR TECHNICAL REASONS, OTHER CROSSING OPTIONS ARE BEING INVESTIGATED. THESE INCLUDE BORED OR SUBMERGED TUNNELS AT LEI YUE MUN BETWEEN TAI KOO SHING AND CHA KWO LING, OR ALONGSIDE THE EXISTING CROSS-HARBOUR TUNNEL.

ON LAND SUPPLY, THE GOVERNMENT WILL CONTINUE TO MAKE AVAILABLE AS MUCH LAND AS IS REQUIRED FOR GENUINE DEVELOPMENT WITH A YIELD OF 593 HECTARES FOR THIS FINANCIAL YEAR. THE GOVERNMENT HAS NOT HAD AND DOES NOT HAVE A 'HIGH LAND PRICE' POLICY.

ON PUBLIC UTILITIES, THE CHINA GAS IS SEEKING A GRANT OF LAND TO BUILD A SECOND PRODUCTION PLANT. THE COST OF ELECTRICITY IN HK IS AMONG THE LOWEST IN ASIA AND IT IS STILL FALLING IN REAL TERMS AS A RESULT OF THE INTRODUCTION OF COAL-FIRED UNITS. THE GOVERNMENT IS STUDYING A REPORT ON THE FINANCIAL IMPLICATIONS OF BUYING ELECTRICITY FROM THE GUANGDONG N-PLANT. THE REPORT RAISES A NUMBER OF IMPORTANT ISSUES WHICH WILL NEED TO BE DISCUSSED WITH THE CHINESE AUTHORITIES. IF THESE DISCUSSIONS PROVE SATISFACTORY, IT OUGHT TO BE POSSIBLE TO NEGOTIATE AN OFF-TAKE AGREEMENT WHICH WILL BE OF BENEFIT TO ALL CONCERNED.

ON PORT FACILITIES, KWAI CHUNG CONTAINER TERMINAL IS TO UNDERGO AN EXPANSION PROGRAMME. THE RECLAMATION OF THE KWAI CHUNG CREEK IS EXPECTED TO BE COMPLETED IN 1987 AND SHOULD INCREASE THE CAPACITY OF THE EXISTING FIVE TERMINALS BY ABOUT 57 PER CENT. NEGOTIATIONS ARE EXPECTED TO COMMENCE SHORTLY FOR THE CONSTRUCTION OF A SIXTH TERMINAL TO BE COMPLETED IN THE LATE 1980'S. AS FOR AIR SERVICES, THE KAI TAK AIRPORT TERMINAL WILL BE EXPANDED TO COPE WITH THE INCREASING AIRPORT PASSENGER TRAFFIC WHICH IS FORECAST TO GROW FROM 10 MILLION PASSENGERS IN 1984 TO ABOUT 18 MILLION IN 1990. WE CANNOT, AND INDEED NEED NOT ON PRESENT TRAFFIC ESTIMATES, PROCEED WITH OUR PLANS FOR THE DEVELOPMENT OF A NEW AIRPORT.

SOCIAL PROGRAMMES:

THE EDUCATION REPORT COMPILED BY THE VISITING GROUP OF OVERSEAS EXPERTS, TOGETHER WITH PUBLIC COMMENTS THEREON, SHOULD BE SUBMITTED TO THE EXECUTIVE COUNCIL FOR DECISION BEFORE THE END OF THIS YEAR. 'THE FINANCING OF ANY IMPROVEMENTS TO OUR SYSTEM OF EDUCATION WILL NEED TO BE CAREFULLY CONSIDERED, BUT I BELIEVE THAT THE PEOPLE OF HONG KONG ATTACH GREAT IMPORTANCE TO EDUCATION, AND ARE PREPARED TO PAY FOR IMPROVEMENTS,' THE GOVERNOR SAID.

A DECISION ON WHETHER PLANNING FOR A THIRD UNIVERSITY SHOULD PROCEED IS EXPECTED BY THE END OF THE YEAR OR EARLY NEXT YEAR: THE UNIVERSITY AND POLYTECHNIC GRANTS COMMITTEE HAS ADVISED THAT A THIRD UNIVERSITY SHOULD BE ESTABLISHED WITH AN EMPHASIS ON PROFESSIONAL AND TECHNICAL STUDIES.

THE UPGC HAS ALSO ADVISED ON A PROPOSAL OF THE UNIVERSITY OF HK TO INTRODUCE AN EXTERNAL DEGREE PROGRAMME AND IS CONSIDERING THE FEASIBILITY OF DEVELOPING OTHER FORMS OF EDUCATION IN HK, SUCH AS AN OPEN UNIVERSITY AND THE EXTENSION OF EDUCATIONAL TV.

AN EXCO DECISION IS EXPECTED LATER THIS MONTH ON WHETHER THE SECOND POLYTECHNIC - CITY POLYTECHNIC - SHOULD ACQUIRE TEMPORARY PREMISES IN ORDER TO MAKE A START IN 1984-85. TWO NEW INDUSTRIAL TRAINING COMPLEXES SHOULD BE IN OPERATION BY LATE 1984 AND A SEAMEN'S TRAINING CENTRE IS SCHEDULED FOR NEXT YEAR.

ON PUBLIC HOUSING, ABOUT 130 000 FLATS ARE UNDER CONSTRUCTION AND BETWEEN NOW AND END OF THIS DECADE, OVER 300 000 FLATS WILL BE PRODUCED FOR RENT OR SALE. BY THE TURN OF THE CENTURY, THERE SHOULD BE DECENT HOMES FOR MOST IF NOT ALL OF THOSE FAMILIES WHO ARE NOW ELIGIBLE FOR PUBLIC HOUSING. OVER 34 000 FAMILIES HAVE BEEN REHOUSED FROM SQUATTER HUTS DURING THE LAST FOUR YEARS. THE LATEST CENSUS INDICATES THAT SOME 100 000 FAMILIES STILL LIVE IN TEMPORARY HUTS. IT IS EXPECTED THAT ABOUT HALF OF THESE FAMILIES WILL BE REHOUSED OVER THE NEXT FIVE YEARS. THE REMAINING FAMILIES WILL BENEFIT FROM A NEW PROGRAMME TO IMPROVE SAFETY, SANITATION AND ENVIRONMENTAL CONDITIONS IN SQUATTER AREAS.

ON MEDICAL SERVICES, WORK ON THE PRINCE OF WALES HOSPITAL IS EXPECTED TO BE COMPLETED BEFORE THE END OF THE YEAR AND IT SHOULD BE IN OPERATION BEFORE THE MIDDLE OF NEXT YEAR. SITE FORMATION WORK HAS STARTED ON THE DOLLARS 752 MILLION PROJECT TO UPGRADE THE FACILITIES AT THE QUEEN MARY HOSPITAL AND CONSTRUCTION OF THE TUEN MUN HOSPITAL IS DUE TO COMMENCE EARLY NEXT YEAR. THERE ARE PLANS FOR THREE NEW HOSPITALS AT CHAI WAN, EAST KOWLOON AND TAI PO, EACH WITH BETWEEN 1 200 AND 1 500 BEDS AND EACH COSTING OVER ONE BILLION DOLLARS AT CURRENT PRICES. THERE WILL BE A CORRESPONDING EXPANSION OF MEDICAL TRAINING FACILITIES. THESE WILL INCLUDE PLANS TO BUILD FIVE NURSE TRAINING SCHOOLS AND TO EXPAND THE INTAKES OF MEDICAL STUDENTS IN THE TWO UNIVERSITIES.

ON SOCIAL WELFARE, THE GOVERNOR SAID THAT APART FROM THE ONGOING WELFARE PROGRAMME, THE SCHEME FOR THE CARE OF THE ELDERLY HE ANOUNCED LAST YEAR IS MAKING HEADWAY. 80 FLATS TO ACCOMMODATE ABOUT 470 PEOPLE IN SHA TIN HAVE BEEN PURCHASED. A FURTHER 23 FLATS HAVE BEEN IDENTIFIED FOR PURCHASE IN THE URBAN AREA. A WORKING PARTY IS REVIEWING PRE-SCHOOL CARE, TRAINING AND EDUCATION OF DISABLED CHILDREN AND IS EXPECTED TO REPORT IN EARLY 1984. THERE WILL ALSO BE A STEPPED-UP PROGRAMME OF PUBLIC EDUCATION, AIMED AT ENCOURAGING PUBLIC UNDERSTANDING AND ACCEPTANCE OF THE DISABLED, TO HELP THEIR INTEGRATION INTO THE COMMUNITY. ON THE LABOUR FRONT, THE LABOUR ADVISORY BOARD IS FINALISING ITS PROPOSAL FOR AN INCREASE IN THE RATE OF SEVEREANCE PAY. THE WORKING GROUP WHICH WAS SET UP BY THE GOVERNOR LAST YEAR TO EXAMINE THE PROBLEMS OF EMPLOYEES OF COMPANIES IN RECEIVERSHIP, HAS RECOMMENDED THAT A WAGE SECURITY FUND SHOULD BE SET UP AND THESE RECOMMENDATIONS HAVE BEEN ACCEPTED IN PRINCIPLE BY EXCO.

ON ENVIRONMENTAL PROTECTION THE GOVERNOR DESCRIBED THE ENACTMENT OF THE AIR POLLUTION CONTROL ORDINANCE LAST YEAR AS A MILESTONE: HE NOTED THAT TOLO HARBOUR WILL BECOME HK'S FIRST WATER CONTROL ZONE IN 1984 AND THAT EXCO WOULD SHORTLY BE DEALING WITH CONSULTANCY RECOMMENDATION FOR THE SAFE, SANITARY DISPOSAL OF SPECIFIC TYPES OF WASTES.

ON BROADCASTING, THE GOVERNMENT HAS DECIDED THAT THERE SHOULD BE COMPREHENSIVE REVIEW OF BROADCASTING WELL AHEAD OF THE EXPIRY OF THE PRESENT TV LICENCES IN 1988 AND OF THE SOUND BROADCASTING LICENCE IN 1989. THE REVIEW WILL ASSESS LONG-TERM NEEDS FOR TV AND RADIO, TAKING INTO ACCOUNT THE MAJOR TECHNOLOGICAL ADVANCES WHICH HAVE OCCURED SINCE THE LAST REVIEW AND WILL RECOMMEND A POLICY FOR THE FUTURE DEVELOPMENT OF BROADCASTING IN HK. THE REVIEW WILL ALSO INVESTIGATE THE QUOTE GREAT POTENTIAL UNQUOTE FOR INCREASING THE CONTRIBUTION WHICH TELEVISION CAN MAKE TO ALL FORMS OF EDUCATION.

LAW, ORDER AND SECURITY:

THE GOVERNMENT IS CONCERNED ABOUT THE HIGH INCIDENCE OF CRIMES, MANY OF A SERIOUS AND VIOLENT NATURE, BEING COMMITTED BY YOUNG MALES AGED BETWEEN 14 AND 20. THE 1983-84 FIGHT CRIME CAMPAIGN WILL BE TARGETTED AT THIS GROUP OF YOUNG PEOPLE. AN IMPROVED COMPUTER ASSISTED COMMAND AND CONTROL SYSTEM, WHICH WILL BECOME THE HUB OF THE POLICE BEAT RADIO SYSTEM, WILL BE IN OPERATION BY 1988.

THE INCREASING INVOLVEMENT OF YOUNG PEOPLE IN DRUGS IS DISTURBING. GREATER EMPHASES IS TO BE GIVEN TO PREVENTIVE EDUCATION IN JUNIOR SECONDARY SCHOOLS: SPECIAL ATTENTION IS TO BE PAID TO THE TREATMENT OF YOUNG FIRST-TIME ADDICTS AND TO THEIR AFTER CARE: THE HELP OF PARENTS IN STEERING THEIR CHILDREN AWAY FROM DRUGS WILL CONTINUE TO BE SOUGHT, AND EVERY ENCOURAGEMENT WILL BE GIVEN TO YOUNG PEOPLE TO TAKE PART IN RECREATIONAL PROGRAMMES AND TO FOLLOW OTHER HEALTHY ACTIVITIES.

ON IMMIGRATION, THERE HAS BEEN A SIGNIFICANT AND WELCOME REDUCTION IN ILLEGAL IMMIGRATION FROM CHINA. HOWEVER, SMUGGLING OF YOUNG CHILDREN BY TRAFFICKERS WHO HAVE LITTLE REGARD FOR THE SAFETY OF THEIR PASSENGERS, HAS BEEN OF PARTICULAR CONCERN TO THE GOVERNMENT WHICH IS CO-OPERATING WITH THE CHINESE AUTHORITIES TO PUT A STOP TO QUOTE THIS DEPLORABLE AND DANGEROUS TRAFFIC UNQUOTE. THERE WILL BE NO (NO) AMNESTY FOR ILLEGAL IMMIGRANTS AND THE OPERATIONS OF THE SECURITY FORCES WILL NOT (NOT) BE RELAXED. THE ARRANGEMENTS WITH THE CHINESE AUTHORITIES INTRODUCED LAST DECEMBER TO REGULATE THE NUMBER OF VISITORS FROM CHINA HAVE WORKED WELL. THE GREAT MAJORITY OF VISITORS HAVE RETURNED TO CHINA IN ACCORDANCE WITH THE TERMS OF THEIR VISIT PERMITS: THE FEW OVERSAYERS ARE SOONER OR LATER DETECTED AND REPATRIATED.

ON VIETNAMESE REFUGEES, THE NUMBER OF ARRIVALS HAS REDUCED TO 2900 IN THE 12-MONTH PERIOD ENDING SEPTEMBER 1983 AS COMPARED WITH 8220 IN THE PREVIOUS 12 MONTHS. THE NUMBER OF VR'S LEAVING FOR RESETTLEMENT ALSO DROPPED FROM 10155 TO 3844 IN THE SAME TWO PERIODS. THE GOVERNOR SAW NO QUICK OR EASY SOLUTION TO THIS INTRACTABLE PROBLEM.

ON CORRECTIONAL SERVICES, THE POPULATION IN THE CORRECTIONAL INSTITUTIONS IS GROWING, DUE IN PART TO THE INCREASING NUMBER OF LONG-TERM PRISONERS. TO COPE WITH THIS, MORE CORRECTIONAL INSTITUTIONS ARE BEING PROVIDED AND NEW SCHEMES FOR TRAINING AND REHABILITATION ARE BEING INTRODUCED. ON CORRUPTION, HK MAKES A VERY DETERMINED EFFORT TO ERADICATE CORRUPTION AND HAS ACHIEVED CONSIDERABLE SUCCESS. THE LEVEL OF CORRUPTION IN HK DOES NOT COMPARE BADLY WITH OTHER PARTS OF THE WORLD. THE ICAC HAS THE FULL BACKING AND CONFIDENCE OF THE GOVERNMENT IN SUSTAINING ITS PRESSURES ON THE CORRUPT.

URBAN COUNCIL AND DISTRICT BOARDS:

THE DISTRICT BOARDS HAVE MORE THAN PROVED THEIR WORTH. THEY HAVE MADE AN IMPACT ON LOCAL ENVIRONMENTAL PROBLEMS, PRODUCING BALANCED AND CONSTRUCTIVE ADVICE ON MATTERS AFFECTING LIFE IN THE DISTRICTS AND HAVE PROMOTED LOCAL PARTICIPATION IN RECREATIONAL AND CULTURAL EVENTS. THE GOVERNMENT WILL CONTINUE TO SUPPORT THE DISTRICT BOARDS OF WHICH THE 489 MEMBERS CONSTITUTE THE LARGEST ADVISORY BODY OF OPINION IN HK. THE GOVERNOR HAS ORDERED THAT THE EXISTING ARRANGEMENTS FOR LOCAL ADMINISTRATION AND THE ORGANISATION OF GOVERNMENT DEPARTMENTS TO GIVE EFFECT TO THE DECISIONS OF THE URBAN COUNCIL AND THE ADVICE OF DISTRICT BOARDS SHOULD BE EXAMINED TO CONSIDER WHETHER THEY MIGHT BE IMPROVED.

CIVIL SERVICE:

CONSIDERABLE SUCCESS HAS BEEN ACHIEVED IN RESTRAINING THE GROWTH OF THE CIVIL SERVICE. THE GOVERNMENT AIMS TO PERMIT NO GROWTH IN 1984-85 EXCEPT WHERE IT IS ESSENTIAL TO PROVIDE STAFF FOR NEW FACILITIES AND WHERE SUCH STAFF CANNOT BE PROVIDED BY REDEPLOYMENT.

YOUDE

(REPEATED AS REQUESTED)

FUTURE OF HONG KONG

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SIR J BULLARD

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MR ROBERTS NEWS D

MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

MR FLOWER PUSD

MR COLES NO 10 DOWNING STREET

SIR A PARSONS NO 10 DOWNING STREET

MR WALKER RESEARCH D OAB 2/82

HKGO, LONDON

GR 250

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FM PEKING 050915Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 988 OF 5 OCTOBER

INFO IMMEDIATE HONG KONG

OR 2/10.
f.a.

MIPT: FUTURE OF HONG KONG: XINHUA COMMENTARY COMMENT

1. THOUGH THERE ARE NO NEW POINTS IN THIS COMMENTARY, THE USE OF A NEW CHINA NEWS AGENCY COMMENTARY IS IN ITSELF A SLIGHT ESCALATION OF THE PROPAGANDA. THE REFERENCE BACK TO THE PRIME MINISTER'S REMARKS IN SEPTEMBER 1982, AND TO WHAT IS DESCRIBED AS QUOTE WAVES OF PROTESTS ON THE TERRITORY OF CHINA UNQUOTE AT THE TIME SHOWS THAT THE REFERENCES TO INDEPENDENCE FOR HONG KONG, ALBEIT AN ENTIRELY HYPOTHETICAL INDEPENDENCE, HAVE CAUGHT THE CHINESE ON THE RAW. THERE IS A CERTAIN INCREASE IN THE EMOTIONAL LANGUAGE, IN PARTICULAR THE SUGGESTION OF "SERIOUS CONCERN" ABOUT THE PRIME MINISTER'S REMARKS ON INDEPENDENCE, AND THE ALLEGED "RIDICULOUS" NATURE OF THE SUGGESTION THAT BRITAIN GAINS NOTHING FROM HONG KONG. NEVERTHELESS THE COMMENTARY RETURNS TO THE SUGGESTION OF FRIENDLY COOPERATION OVER HONG KONG IN ITS FINAL NOTE, AND IS THEREFORE NOT UNREMITTINGLY POLEMIC IN TONE.

2. WHILE THIS IS NO DOUBT PART OF THE GENERAL PROPAGANDA PRESSURE ON THE UK TO MAKE CONCESSIONS IN THE TALKS, WE SUSPECT THAT THE COMMENTARY MAY ALSO BE DEALING WITH POTENTIAL INTERNAL CRITICISM OF A NATIONALIST NATURE OF THE CHINESE GOVERNMENT'S CONTINUED PURSUIT OF TALKS WITH THE UK OVER HONG KONG.

CLARK

FUTURE OF HONG KONG

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GRS 700
UNCLASSIFIED

FROM PEKING 050855Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 987 OF 5/10/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TELNO 973: FUTURE OF HONG KONG: XINHUA COMMENTARY

1. PEOPLES DAILY OF 5 OCTOBER CARRIES A LENGTHY NCNA COMMENTARY CRITICAL OF THE PRIME MINISTER'S 23 SEPTEMBER REMARKS ON HONG KONG. TEXT IS AS FOLLOWS.

BEGINS: BRITISH PRIME MINISTER MARGARET THATCHER'S RECENT STATEMENT ON THE HONG KONG ISSUE AGAIN REVEALED BRITAIN'S INTENTION TO CONTINUE ITS COLONIAL RULE OVER HONG KONG AND TO FIND NEW PRETEXTS TO PREVENT CHINA FROM RESUMING THE EXERCISE OF HER SOVEREIGNTY OVER HONG KONG.

MRS. THATCHER SAID IN HER STATEMENT TO AMERICAN REPORTERS IN LONDON ON SEPTEMBER 23 THAT "BUT FOR THE PECULIAR SITUATION OF HONG KONG AND THE LEASES (OF THE NEW TERRITORIES), BUT FOR THAT, HAD IT BEEN AN ORDINARY BRITISH COLONY, SHE WOULD HAVE BEEN INDEPENDENT YEARS AGO. " "SHE WOULD HAVE BEEN ANOTHER SINGAPORE".

SHE STATED THAT BRITAIN "CANNOT BE ACCUSED OF COLONIALISM IN ANY WAY " IN RELATION TO HONG KONG.

"BRITAIN DOESN'T TAKE A PENNY PIECE OUT OF HONGKONG" AND IS ONLY CONCERNED ABOUT THE "BENEFIT" OF THE PEOPLE OF HONG KONG, SHE ALLEGED.

IT IS KNOWN TO ALL THAT HONG KONG HAS SINCE ANCIENT TIMES BEEN PART OF CHINESE TERRITORY. IT WAS ONLY IN 1840 THAT BRITISH COLONIALISTS CROSSED VAST OCEANS AND SEIZED HONG KONG ISLAND AND LATER KOWLOON WITH GUNSHIPS. THE "NEW TERRITORIES" TOO WERE "LEASED" UNDER DURESS TO BRITAIN FOR 99 YEARS. FOR OVER A CENTURY, THE CHINESE PEOPLE, IN THE FACT OF NATIONAL HUMILIATIONS, HAVE NEVER ACCEPTED THE THREE UNEQUAL TREATIES IMPOSED ON CHINA. IN EVERY WAY, THESE TREATIES ARE ILLEGAL AND INVALID.

HONG KONG DOES NOT FALL INTO THE CATEGORY OF COMMONLY-DEFINED COLONIES. THE QUESTION IS ONLY FOR CHINA TO RESUME THE EXERCISE OF ITS SOVEREIGNTY THERE. THERE IS ABSOLUTELY NO QUESTION OF "INDEPENDENCE".

M 2/10
h.c.

|AS

AS EARLY AS IN MARCH , 1972, THE CHINESE REPRESENTATIVE TO THE UNITED NATIONS HAD EXPLICITLY STATED THIS POSITION OF CHINA ON HONGKONG IN HIS LETTER TO THE CHAIRMAN OF THE U.N. SPECIAL COMMITTEE ON DECOLONIZATION.

MRS THATCHER KNOWS ONLY TOO WELL THAT THE INDEPENDENCE OF HONGKONG IS IMPOSSIBLE AND THAT THE CHINESE GOVERNMENT AND PEOPLE WILL NEVER AGREE TO THIS. THEN WHY DID SHE BOTHER TO MAKE SUCH REMARKS? DID SHE WANT TO ABET OUR HONGKONG COMPATRIOTS IN SEPARATING FROM THEIR MOTHERLAND? DID SHE ATTEMPT TO EXERT PRESSURE ON THE CHINESE GOVERNMENT SO AS TO BLOCK ITS RECOVERY OF SOVEREIGNTY OVER HONGKONG? OR DID SHE HAVE BOTH IN MIND? ONE CANNOT BUT BE SERIOUSLY CONCERNED ABOUT THIS:

THE CHINESE PEOPLE FIRMLY OPPOSE AND STRONGLY CONDEMN ANY STATEMENTS OR ACTIONS MEANT TO DISMEMBER A COUNTRY OR A NATION. IT WOULD BE WISE NOT TO FORGET THE WAVES OF PROTESTS ON THE TERRITORY OF CHINA INCLUDING HONGKONG CAUSED BY A SPEECH IN SEPTEMBER LAST YEAR PREACHING THE THREE UNEQUAL TREATIES ON HONGKONG AS ''STILL VALID''.

FURTHER, IT SOUNDS RIDICULOUS TO CLAIM THAT '' BRITAIN DOES'NT TAKE A PENNYPIECE OUT OF HONGKONG''. THE HONGKONG AND SHANGHAI BANKING CORPORATION ADMITTED IN A REPORT LAST JUNE THAT MAJOR AND PROFITABLE BRITISH INVESTMENTS IS VISIBLE IN ALMOST EVERY SECTOR OF THE HONGKONG ECONOMY. BRITAIN REVENUE IN HONGKONG HAS EXCEEDED ITS PRESENT VISIBLE TRADE DEFICIT. EVEN BRITISH UNDER-SECRETARY FOR FOREIGN AND COMMONWEALTH OFFICE RICHARD LUCE HAD TO ACKNOWLEDGE THAT HONGKONG IS VITAL TO BRITAIN SINCE IT IS ITS LARGEST EXPORT MARKET IN THE FAR EAST. SINCE SOME BRITISH OFFICIALS STATED TIME AND AGAIN THAT BRITAIN HAS A ''MORAL RESPONSIBILITY'' FOR HONG KONG, THEN, THEY SHOULD CHANGE THEIR USUAL PRACTICE AND CEASE TO PUT OBSTACLES IN THE WAY FOR HONGKONG TO RETURN TO THE EMBRACE OF ITS MOTHERLAND. THIS SHOULD BE BRITAIN'S ''MORAL RESPONSIBILITY'' FOR HONGKONG. NOW IN THE 1980S, IT IS EVIDENTLY IMPOSSIBLE FOR ANYONE TO HAVE HIS WAY BY REVIVING THE POLICY OF THE 19TH CENTURY. WE HOPE THAT BRITAIN WOULD GO WITH THE TIDE, ABANDON THE LINGERING DREAM OF A COLONIALIST EMPIRE AND COOPERATE FRIENDLY WITH CHINA IN A SINCERE AND CONSTRUCTIVE ATTITUDE FOR A FAIR SETTLEMENT OF THE HONGKONG ISSUE SO AS TO ENSURE THE STABILITY AND PROSPERITY OF HONGKONG.

ENDS

2. SEE MIFT FOR COMMENT.
CLARK

FUTURE OF HONG KONG

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MR WALKER RESEARCH D OAB 2/82

SECRET



Foreign and Commonwealth Office

London SW1A 2AH

4 October 1983

Prime Minister informed.

Dear John,

Hong Kong

will request if req. 7/10.

John Kerr wrote to Andrew Turnbull on 30 September about action taken by the Chancellor of the Exchequer to make technical advice available to the Hong Kong Government in connection with a suggested local measure to resist pressure on the Hong Kong dollar exchange rate. This action was taken by agreement with the Foreign and Commonwealth Secretary.

I am sure that you will bear fully in mind, in this connection, that the EXCO members know nothing whatsoever of the financial contingency planning which is in hand in Hong Kong and Whitehall. Knowledge of this is restricted to a very small number of officials in the Hong Kong Government. The Unofficial Members of EXCO could derive a seriously wrong impression if the subject came up during their discussions in London.

I am copying this letter to John Kerr (Treasury) and to John Bartlett (Bank of England), and to Richard Hatfield (Sir R Armstrong's office).

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET

London, Ontario
London, Ontario



154 061





PM/83/76

M 17/10.

h-a-

PRIME MINISTER

Hong Kong

1. In preparation for your meeting on 5 October, I attach a list of the policy options open to us on the future of Hong Kong, together with comment. The effective choice, as I see it, lies between Options A and B on the one hand, and Option D on the other. Options A and B both insist on maintaining the British administrative link. Option D is a means of exploring without final commitment what guarantees the Chinese would be prepared to build into their own plan. I have excluded C which is simply swallowing the Chinese plan whole. Option E also seems to me impracticable since it is clear we would not be able to achieve an amicable suspension of talks; the result would be the same as A. Option F is combinable with other options but, most obviously, with D.

2. Given the Chinese insistence that we must accept that sovereignty and administration pass to them in 1997, Options A and B would almost certainly lead to a breakdown in the talks in the very near future, quite possibly after the next round on 19/20 October. This would lead to a collapse in confidence and very severe damage to the Hong Kong economy. It would be a dangerous misjudgement to expect that the Chinese would soften their position in face of this damage: they are ready to sacrifice the prosperity of Hong Kong if need be in order to attain their overriding political objective.

3. Option D might be approached by using the same kind of formula as was successfully used over sovereignty in your

/letter



your letter of 10 March to Premier Zhao Ziyang. We could say in effect that if arrangements could be devised to ensure the prosperity and stability of Hong Kong while giving the Chinese the right of administration we would be prepared to recommend such arrangements to Parliament. We would, of course, retain the right to reject the package if, after exploration, it proved unacceptable to us. The advantages of this course are that it would give us the best (and perhaps only) chance of exploring whether we could build up effective assurances against Chinese interference and preserve a large part of Hong Kong's freedoms and business vitality after 1997. My conversation with the Chinese Foreign Minister in New York on 27 September indicates that if we were ready to move towards the Chinese in this way we could expect a positive response. In particular, his official repetition of Deng Xiaoping's suggestion that Hong Kong's autonomous status should last for fifty years was a clear signal.

4. The choice between these two broad courses is clearly crucial. EXCO have expressed preliminary views in favour of the confrontation course. But I believe that they are seriously underestimating Chinese determination and national pride and may not have sufficiently pondered the damage to the population of Hong Kong as a whole inherent in the course they advocate. Clearly we need to decide how to handle EXCO but we need first to be clear about our own views.

5. There can be no assurance that if we go for course D we shall be able to work out effective and acceptable arrangements for Hong Kong's future. But it is the only means available of getting out of the present deadlock, exploring the possibilities open to us in negotiation and thereby enabling us to make a

/final



final decision in full possession of the facts, rather than as now in ignorance of how much can be built on the Chinese premise. This should be defensible publicly either now, if the Chinese chose to leak what was going on or at a later time of our choosing: we would be seen to aim at assurances for a genuinely autonomous Hong Kong, rather than for the continuation of a British regime for its own sake; we would be doing what any prudent negotiator should do, i.e. exploring the other side's position fully; and we would reserve the right to reject the package if it proved in the end to be unacceptable to us. Rejection would of course result in confrontation but we would be better placed in this confrontation, at least publicly, because we should demonstrably have explored every avenue.

6. I have not gone into detail about how we would publicly present these various course, though clearly this will require careful thought once a decision has been made.

7. I am copying this minute to the Secretary of State for Defence, the Chancellor of the Exchequer and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
4 October 1983

FUTURE OF HONG KONG - OPTIONS

- (A) To continue to press the case for the continuation of British administration on present lines.

Comment

Continued British administration is, in our view, the best way of safeguarding the future stability and prosperity of Hong Kong, but it now looks unattainable. To continue to insist on it could carry a strong risk of a breakdown at the next session of the talks and of subsequent public confrontation with the Chinese. This would have severe consequences for confidence and the Hong Kong dollar. It might be impossible to restart negotiations.

- (B) To seek to maintain the British administrative link through a Governor responsible to HMG, but with major administrative changes designed to make this more palatable to the Chinese.

Comment

The Chinese would probably see no significant difference between this and (A). They have said that the continuation of the British link through a Governor responsible to London would be unacceptable. If, even so, they did show themselves interested in exploring in this context the concessions we might be willing to make, we would have to be very careful not to get into a position which it would subsequently be difficult to claw back if the Chinese stuck to their guns on the link through the Governor.

/(C)

- (C) To accept the Chinese premise that sovereignty and administration must pass to China in 1997, and to negotiate the best deal possible for Hong Kong on that basis.

Comment

This would open the way to detailed discussion of Chinese ideas and might create some goodwill on the Chinese side. But acceptance of the Chinese position on these points would, if leaked, have a severe effect on confidence. Moreover, we should be giving away everything at once without examining the alternatives.

- (D) To maintain our present view that continued British administration is the best way to maintain confidence, but to seek a further formula through which we could explore what flexibility there might be in the Chinese concept of administration, and what guarantees, including continuing British links, the Chinese would be prepared to build into their plan. One way of doing this would be to seek to extend the conditional formula deployed over sovereignty in the Prime Minister's letter to Premier Zhao Ziyang of 10 March to the right of administration. We could tell the Chinese that if arrangements could be agreed which would ensure the maintenance of stability and prosperity in Hong Kong, the British Government would be prepared to recommend to Parliament a bilateral agreement which would include, among others, the provision that sovereignty and the right of administration should pass to China in 1997.

→ to the residents in Hong Kong.

Comment

This should improve the atmosphere of the talks, persuade the Chinese to explain their ideas in more detail and thus put us in a good position to explore practical ways of maintaining

/Hong Kong's

Hong Kong's way of life. It would also allow us to find out whether Chinese terms could be made acceptable, before we made irreversible decisions. The Chinese might demur, saying that we were not offering unqualified acceptance of their conditions, but we should have an answer to that in our constitutional position. They might also misrepresent our position as unqualified acceptance but we should be able to rebut that by explaining that we were merely exploring the possibilities as any good negotiator must do.

We have been examining two further Options:-

- (E) To maintain the view that British administration is essential, but to avoid confrontation by proposing an amicable suspension of talks. We might suggest to the Chinese that more time was needed for consideration and for the evolution of Hong Kong society and institutions, already underway, to continue. We could explain our own policy of localisation and impress on the Chinese that in the long run the results - effective autonomy for Hong Kong - would not be very different from their own objectives. We could publicise our case on these lines.

Comment

This would be a reasoned position, and, initially at any rate, might be defensible in Hong Kong and Parliament. But there is no likelihood that the Chinese would accept it or agree to wait. They would argue that their essential political conditions must be met. They would step up their propaganda and, in all probability, bring forward their unilateral announcement of their plans. Confidence in Hong Kong would not stand this. The result could be a rapid collapse.

/(F)

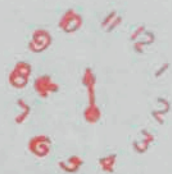
(F) To try to explore the flexibility of the Chinese position, e.g. as in (D), but not to put any formula forward in the negotiations until we had tested the water through a special emissary or through informal diplomatic contacts.

Comment

The advantage of a special emissary is that he need not commit HMG in an exploratory talk. He could explain informally our difficulties and our need to have much more detail about the Chinese plans. To have any credibility with the Chinese, and to gain the necessary access, the Chinese would have to know that he was our emissary. At the same time, his mission would have to be secret to avoid arousing unfulfillable expectations. This would be difficult in practice. More fundamentally, there is no reason to believe that the Chinese would give him an answer different from that given to us in various fora already i.e. that once we concede the premise, the rest is negotiable and details will be forthcoming. If we want to contact the Chinese before the next round of talks, informal diplomatic contacts, e.g. the Ambassador to Zhao Nan, have the advantage of being secret, and could also be handled without committing us.



-4 OCT 1960





Secretary of State

Beoch,
Maybole,
Ayrshire, KA19 8EN

MR 6/10

SECRET

~~CONFIDENTIAL~~

4th October, 1983.

Mr Clive HUD

cc. PS ←
PS/HR huc
PS/Pus
Mr G. H. ...
Mr Donald ...

(Perseus address)

My dear Minister of State,

HONG KONG: NEXT ROUND OF TALKS IN PEKING

I was involved in the meetings with the P.M. before and after her visit to Peking last year, and I advised her not to make an issue of sovereignty over Kowloon and the Island (though to explain Parliamentary requirements), but to try to have continuing British administration over the whole territory under Chinese sovereignty, since this would be infinitely the best way of maintaining confidence.

Since then the F.C.O. have kept me generally in the picture by showing me a selection of papers. Obviously advice from me with such a restricted background should not be considered as against that of Teddy Youde, Percy Cradock or your own advisers.

Subject to this reserve, I am writing because it can well be argued that Chinese reactions to the line I once recommended have reached such a pitch that they, the Chinese, may be expected to break off, and eventually announce their own arrangements for the future of Hong Kong without further reference to us, if our line is not changed at the next round of talks, and changed unequivocally. If they did break, the immediate economic effects in Hong Kong and the long-term implications for evolving workable arrangements would be very serious.

I realise that strong views are held that we should stick to our line and that this will cause the Chinese to accept British administration; or alternatively that the prospects under Chinese administration, however qualified, would not be worth considering. These views overstate the safety to be expected from British administration in the face of opposition from the sovereign power, and understate what might be obtained from the Chinese - before we know exactly what it would be. Consequently I disagree.

I think the immediate need is:-

- a) To stop Chinese public attacks which are destroying Hong Kong confidence.
- b) To engage the Chinese in detailed and positive discussion of their plans for the future of Hong Kong and see if we can work them up into something we could recommend to Hong Kong and Parliament.

.../



But to do this we would have to concede to the Chinese:-

- c) That after 1997 sovereignty and administrative control will rest with Peking, and that the talks would be about how this control would be exercised so as best to preserve stability and prosperity. We would have to drop our insistence that the latter should not exclude British administration if this were against the wishes of the sovereign power.

In this case we would have given very little away. It would still be for H.M.G. to decide whether to agree or give public support to the arrangements and accompanying pledges that emerged from the discussions as the best the Chinese would concede. If we could do so it would be conclusive over both confidence in Hong Kong and I presume legislation in London, and this the Chinese would know. Alternatively if the arrangements were unsatisfactory H.M.G. could refuse to be associated with them unless they were amended.

If H.M.G. decided on such a change of line and it results in criticism whether in the U.K. or Hong Kong, I should like you to know, if it would help, that I would give all the support I could to a step which I believe less dangerous than soldiering on as at present, and also which still carries a possibility of a satisfactory outcome with China.

I shall be in London until mid-day on Thursday and can be contacted through someone who is acting as Secretary on 219 4467.

With apologies if I appear to
interfere,

Yours,
Mr. R. Luce.

R. Luce, Esq., M.P.,
Minister of State,
Foreign & Commonwealth Office,
Downing Street,
LONDON, S.W. 1.

SECRET



8 file JP

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

HONG KONG

BK 11
The Prime Minister wishes to establish a Ministerial Committee of the Cabinet, under her Chairmanship, to deal with the negotiations with the Chinese about the future of Hong Kong. She would be grateful for your very early recommendations on the membership and terms of reference of the Committee. The Prime Minister's preliminary view is that it should consist of the Foreign and Commonwealth Secretary, Mr. Richard Luce, the Defence Secretary, the Chancellor, the Lord President of the Council and the Attorney General. You will no doubt also wish to consider whether the Home Secretary should attend.

A. J. COLES

4 October 1983

RESTRICTED

RESTRICTED

FROM PEKING 040850Z MCT 83

TO ROUTINE FCO

TELEGRAM NUMBER 978 OF 4/10/83

MS

REPEATED FOR INFO TO ROUTINE HONG KONG

ESTABLISHMENT OF NEW OFFICE FOR THE REUNIFICATION OF CHINA.

1. XINHUA REPORTED ON 30 SEPTEMBER THAT THE CHINESE PEOPLE'S POLITICAL CONSULTATIVE CONFERENCE (CPPCC) HAS SET UP A SPECIAL OFFICE TO WORK FOR THE COUNTRY'S REUNIFICATION. ITS FIRST MEETING TOOK PLACE ON 29 SEPTEMBER. THERE ARE 27 MEMBERS SELECTED BY THE CPPCC NATIONAL COMMITTEE. MOST OF THEM HAVE RELATIONS OR FRIENDS IN TAIWAN, HONG KONG AND MACAO. HEAD OF THE OFFICE IS QU WU, WHO IS A VICE-CHAIRMAN OF BOTH THE CPPCC NATIONAL COMMITTEE AND THE CENTRAL COMMITTEE OF THE REVOLUTIONARY COMMITTEE OF THE CHINESE KUOMINTANG. AMONG QU'S FIVE DEPUTIES IS WANG KUANG, FORMER NCNA DIRECTOR IN HONG KONG.
2. THE FUNCTION OF THE OFFICE WILL BE TO PUBLICIZE POLICIES ON THE COUNTRY'S REUNIFICATION THROUGH ALL POSSIBLE MEDIA. IT WILL STUDY THE POLITICAL, ECONOMIC AND SOCIAL CONDITIONS IN TAIWAN, HONG KONG AND MACAO, AND STRENGTHEN CONTACTS WITH PEOPLE ELSEWHERE WHO ARE WORKING FOR REUNIFICATION OF CHINA.

COMMENT

3. THE OFFICE HAS NO DOUBT BEEN CREATED AS ANOTHER VEHICAL FOR THE CHINESE TO PUBLICISE THEIR POSITION ON HONG KONG AND TO POINT TO THE WIDESPREAD SUPPORT THEIR POLICIES SUPPOSEDLY ENJOY. AS AN ALLEGED NON-GOVERNMENTAL ORGANIZATION, IT COULD ALSO BE USED TO LEAK DETAILS OF THE TALKS WITHOUT LAYING THE CHINESE GOVERNMENT OPEN TO THE CHARGE OF BREACHING CONFIDENTIALITY

CLARK

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FUTURE OF HONGKONG

ADVANCE COPIES 7

IMMEDIATE

ADVANCE COPY

PS

PS/PUS

PS/MR LUCE

MR DONALD

HD/HKD

HD/FED

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DESKBY FCO 041200Z

DESKBY PEKING 041130Z

FM HONG KONG 040950Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1468 OF 4 OCTOBER

INFO IMMEDIATE PEKING



M 10/6
T.A.

FUTURE OF HONG KONG: EXCO DISCUSSION

1. AT TODAY'S EXCO MEETING SIR S Y CHUNG GAVE A BRIEF ACCOUNT OF THE CONVERSATION WITH NCNA DIRECTOR XU JIATUN REPORTED IN MY TELSNOs 1456 AND 1457. A RECORD OF THE CONVERSATION WAS ALSO CIRCULATED.

2. MEMBERS WERE INTRIGUED BY XU'S REFERENCE TO THE POSSIBILITY OF SELLING LAND IN THE NEW TERRITORIES FOR PERIODS EXTENDING BEYOND 1997. SOME THOUGHT THIS WAS ESSENTIALLY A PERIPHERAL ISSUE AND THAT THE EFFECT ON CONFIDENCE WOULD BE COMPARETEVELY SMALL EVEN IF THE CHINESE WERE PREPARED TO AGREE TO SOME SUCH ARRANGEMENT. OTHERS SAW XU'S REMARKS AS AN INDICATION THAT THE CHINESE ARE SERIOUSLY WORRIED ABOUT THE HONG KONG ECONOMY AND THE DOLLAR AND THAT THEY MAY SEE A NEED FOR SOME CONCRETE ACTION TO STABILISE THE SITUATION IN THE SHORT TERM. SIR S Y CHUNG (WHOSE INTERPRETATION IS SET OUT IN MY SECOND TELEGRAM UNDER REFERENCE) SUGGESTED THAT A CHECK SHOULD BE MADE IN PEKING TO SEE WHETHER XU WAS AUTHORISED TO SPEAK AS HE DID, AND IF SO WHAT THE CHINESE HAVE IN MIND.

3. IT SEE ADVANTAGE IN SEEKING CLARIFICATION QUICKLY. THERE WILL OTHERWISE BE A RISK THAT THE POSSIBILITY OF ACTION ON LAND LEASES WILL COLOUR THE THINKING OF SOME AT LEAST OF THE UNOFFICIALS WHEN

THEY MEET MINISTERS LATER THIS WEEK, AND IF THE CHINESE WERE TO BE READY TO REVERSE THEIR VIEW ON THIS ISSUE IT WOULD BE NO BAD ^{THING.} I THEREFORE RECOMMEND THAT THE EMBASSY SHOULD BE INSTRUCTED TO RAISE THE MATTER INFORMALLY WITH A MEMBER OF THE CHINESE NEGOTIATING TEAM AS SOON AS POSSIBLE, ON THE FOLLOWING LINES:

(A) IN A CONVERSATION WITH SIR S Y CHUNG AND MR Q W LEE ON 30 SEPTEMBER THE FIRST DIRECTOR OF THE NCNA IN HONG KONG SAID THAT IF A MEANS COULD BE FOUND FOR LAND IN THE NEW TERRITORIES TO BE SOLD FOR PERIODS EXTENDING BEYOND 1997 THIS WOULD SERVE TO RESTORE CONFIDENCE IN THE PROPERTY MARKET. HE DID NOT ELABORATE BUT LEFT SIR S Y CHUNG AND MR LEE WITH THE IMPRESSION THAT HE HAD SOME FORMULA IN MIND.

(B) ON 5 JULY 1979 SIR P CARDOCK PUT FORWARD A PROPOSAL TO THE FOREIGN MINISTRY WHICH WOULD HAVE ENABLED INDIVIDUAL LAND LEASES IN THE NEW TERRITORIES TO BE GRANTED FOR PERIODS EXTENDING BEYOND 1997. IN THEIR REPLY DELIVERED TO THE AMBASSADOR ON 24 SEPTEMBER 1979 THE FOREIGN MINISTRY INDICATED THAT THE CHINESE GOVERNMENT REGARDED THE PROPOSED MEASURES AS UNNECESSARY AND INAPPROPRIATE.

(C) WE WERE THEREFORE PUZZLED BY MR XU'S REMARKS. IT WOULD BE HELPFUL TO KNOW WHETHER THE CHINESE HAVE RECONSIDERED THEIR EARLIER VIEW AND, IF SO, WHAT ACTION THEY HAVE IN MIND.

YOUDE

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FUTURE OF HONGKONG

ADVANCE COPIES 7

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PS/PUS

PS/MR LUCE

MR DONALD

ED/EKD

HD/FED

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IMMEDIATE

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DESKBY 041130Z

FM HONG KONG 040945Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1469 OF 4 OCTOBER

INFO IMMEDIATE PEKING

Read in file.

A.S.C. 4/10

YOUR TELNOS 998, 999 AND 1001: FUTURE OF HONG KONG: DISCUSSION WITH EXCO.

1. EXCO DISCUSSED THE POSITION THIS MORNING ON THE BASIS OF THE PAPER IN YOUR SECOND TEL UNDER REF. IT EXPLAINED THAT THE PAPER HAD BEEN PRODUCED TO HELP MEMBERS PREPARE FOR THE DISCUSSIONS WITH MINISTERS LATER THIS WEEK. IT DELIBERATELY CONTAINED NO CONCLUSIONS OR RECOMMENDATIONS AND MINISTERS HAD SO FAR EXPRESSED NO VIEWS ON THE OPTIONS DESCRIBED IN IT. AFTER TAKING MEMBERS THROUGH EACH IT ASKED THEM NOT TO REACH DEFINITE CONCLUSIONS OR OFFER FORMAL ADVICE UNTIL THEY HAD BEEN ABLE TO DISCUSS THE SITUATION WITH MINISTERS. IT THEN INVITED ANY PRELIMINARY COMMENTS THEY WISHED TO MAKE, AND SUGGESTIONS FOR ADDITIONAL OPTIONS.

2. WITHOUT SPECIFICALLY SUPPORTING OPTION D, MR O.V. CHEUNG AND MR D.K. NEWBEGGING THOUGHT THAT SOME WAY SHOULD BE FOUND TO GET A GENUINE DIALOGUE GOING IN ORDER TO EXPLORE THE CHINESE POSITION FURTHER. ALL THE OTHER UNOFFICIALS MADE CLEAR THAT THEIR CHOICE WILL BE OPTION A. THEY ACCEPTED THAT THERE WAS A MORE THAN EVEN RISK OF A BREAKDOWN AND OF PUBLIC CONFRONTATION, BUT TOOK THE VIEW THAT THERE WAS AT LEAST A CHANCE THAT THE CHINESE WOULD SHIFT THEIR POSITION AND RETURN TO THE NEGOTIATING TABLE WHEN THEY SAW THE ECONOMIC CONSEQUENCES FOR HONG KONG. REMINDERS OF THE RIGIDITY OF THE CHINESE POSITION, THE LIKELY HOSTILITY OF THE CHINESE REACTION, AND THE DIFFICULTIES WHICH HONG KONG MIGHT THEN FACE LEFT THEM UNMOVED. IN ANY CASE THEY BELIEVED THAT THE PURSUIT OF ANY OTHER COURSE WOULD LEAD TO A CRISIS OF CONFIDENCE SOONER OR LATER AND THAT THE RISKS INHERENT IN OPTION A WOULD THEREFORE HAVE TO BE ACCEPTED (MISS

DUNN FOR EXAMPLE COMMENTED THAT ALL THE OPTIONS OTHER THAN OPTION A WERE DIRECTLY, OR BY IMPLICATION, FORMS OF CAPITULATION). SOME OF THESE MEMBERS, INCLUDING SIR S.Y. CHUNG, SUGGESTED THAT IF THE CHINESE MADE PROPOSALS ON THE LINES OF OPTION B OR D THE BRITISH NEGOTIATORS SHOULD BE PREPARED TO LISTEN. THEY GAVE NO INDICATION HOW THEY THOUGHT THE CHINESE MIGHT BE INDUCED TO PUT FORWARD SUCH PROPOSALS: BUT WERE SURE THAT THE BRITISH SIDE SHOULD MAKE NO FURTHER CONCESSIONS.

3. IN RESPONSE TO QUESTIONS I DECLINED TO INDICATE MY OWN PREFERENCE AMONG THE OPTIONS. BUT I ASKED EACH MEMBER TO CONSIDER VERY SERIOUSLY THE IMPLICATIONS OF HIS OR HER PREFERRED COURSE OF ACTION, ITS CONSEQUENCES AND WHAT IT WAS LIKELY TO ACHIEVE, BEFORE GIVING ADVICE TO MINISTERS.

4. WHILE THIS WAS STILL A PRELIMINARY DISCUSSION, THE VIEWS EXPRESSED BY THE UNOFFICIALS WERE CLEAR. UNLESS MINISTERS ARGUE POSITIVELY FOR SOME OTHER OPTION WHILE WE ARE IN LONDON, I HAVE NO DOUBT THAT THE MAJORITY ADVICE WILL BE TO STICK TO OPTION A: AND INDEED IN THE LIGHT OF THIS MORNING'S DISCUSSION THIS IS LIKELY TO BE THEIR ADVICE IN ANY CASE.

YOUDE

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FM HONG KONG 030210Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1456 OF 3 OCTOBER
INFO IMMEDIATE PEKING

FUTURE OF HONG KONG: CONVERSATION WITH NCNA

1. SHR S Y CHUNG AND Q W LEE CALLED ON ME ON 1 OCTOBER TO REPORT ON A DISCUSSION THEY HAD HAD THE PREVIOUS EVENING WITH XU JIATUN (NCNA DIRECTOR, AND CHINESE COMMUNIST PARTY CENTRAL COMMITTEE MEMBER) AND LIH CHUWEN (AN NCNA DEPUTY DIRECTOR). THE MEETING WAS ARRANGED ON NCNA INITIATIVE AND AT SHORT NOTICE, NO DOUBT BECAUSE XU WHO ONLY ARRIVED BACK FROM PEKING ON 29 SEPTEMBER AFTER SEVERAL WEEKS ABSENCE, WISHED TO TALK TO SHR S Y CHUNG AND LEE BEFORE THEY LEFT FOR LONDON WITH THE OTHER UNOFFICIALS.

2. THE CONVERSATION, WHICH WAS FRIENDLY AND LASTED OVER TWO HOURS RANGED WIDELY OVER THE CHINESE POSITION ON SOVEREIGNTY AND ADMINISTRATION, THE STATE OF THE HONG KONG ECONOMY AND THE DOLLAR ETC. SHR S Y AND LEE CLEARLY SPOKE WELL IN REBUTTING STANDARD CHINESE ARGUMENTS, AND IN EXPLAINING THE COMPLEXITY OF HONG KONG, THE IMPORTANCE OF CONFIDENCE AND THE NEED FOR CONTINUING INSULATION.

3. THE MAIN POINTS OF INTEREST WERE:-

(1) XU WAS VERY FIRM ON THE INDIVISIBILITY OF SOVEREIGNTY AND ADMINISTRATION, ARGUING THAT ONCE THIS PRINCIPLE WAS CONCEDED THE CHINESE WOULD BE FOUND TO BE VERY FLEXIBLE ON EVERYTHING ELSE. THE UNOFFICIALS TOLD HIM THAT IT WAS NOT ACCEPTABLE FOR THE CHINESE TO INSIST THAT THEIR DEMANDS SHOULD BE MET BEFORE NEGOTIATIONS BEGAN.

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(2) XU ASKED ABOUT THE MEANING OF THE QUOTE BRITISH LINK UNQUOTE WHICH THE BRITISH WERE SEEKING TO MAINTAIN AFTER 1997. SIR S Y SAID THAT WAS A QUESTION FOR THE NEGOTIATIONS IN PEKING, BUT TO HIS MIND IT MEANT EFFECTIVE BRITISH CONTROL.

(3) XU ALSO REFERRED TO THE QUESTION OF LAND LEASES IN THE NEW TERRITORIES, AND SAID THAT IF ARRANGEMENTS COULD BE MADE FOR THE HONG KONG GOVERNMENT TO SELL LAND FOR TERMS EXTENDING BEYOND 1997 THE SITUATION WOULD BE GREATLY IMPROVED. ON THIS SEE MIFT.

YOUDE

(REPEATED AS REQUESTED)

FUTURE OF HONG KONG

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MR WALKER RESEARCH D OAB 2/82

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CONFIDENTIAL

Minute to Cabinet
Office.

PRIME MINISTER

M 4/10

Hong Kong

h.a.

We need to give careful thought to this week's meetings which will be of great importance both for the substance of our policy and for its public presentation.

As you know, you have up to two hours with the Unofficials from 0930 on Friday morning.

The Governor has to address the Legislative Council in Hong Kong on Wednesday and therefore cannot attend meetings here until Thursday. It is of course of great importance that there should be no suggestion in public that we are having meetings on our policy towards Hong Kong in his absence - if this got out his position in Hong Kong would be very difficult.

On the other hand I do not think we should wait until Thursday afternoon before having a policy meeting. There are some difficult decisions to be taken and the sooner we get on with it the better. Indeed, you may need two meetings. I therefore propose the following:

Wednesday 1630-1800

Meeting to consider policy, attended by Foreign Secretary, Defence Secretary, Mr. Luce, Sir Percy Cradock, Sir A. Acland, Mr. Donald, Sir A. Parsons. As explained above, Sir E. Youde could not be there.

Two questions:

(a) The financial aspect

The Treasury see no need for a meeting on the recent plan for stabilising the exchange rate which you saw over the weekend. This is a Hong Kong plan, on which the Treasury are providing advice, and may need to be implemented early this week. It might be useful for the Chancellor to be a member of the usual Hong Kong group from now on. Would you like him to be invited to the meeting on Wednesday?

Yes Mr

CONFIDENTIAL

/ (b)

(b) Cabinet Office

Sir Robert Armstrong is keen to be involved. May he be invited on Wednesday?

Thursday afternoon

I suggest that on Thursday you have in Sir E. Youde (together with the Foreign Secretary, Sir A. Acland and Sir P. Cradock) to up-date you on the situation in Hong Kong and to prepare for the meeting the next day with the Unofficials. Agree? *Yes mt*

At present we have in the diary for 1600 on Thursday the postponed meeting to discuss our strategy towards the European Community. I really do not think it will be profitable to discuss this this week when Hong Kong is so much on our minds. Can I cancel it and have the Hong Kong meeting instead? *Yes*

Finally, I now see distinct advantage in setting up a Ministerial Committee of the Cabinet to deal with Hong Kong. Our ad hoc arrangements have served well enough over the last year but the work is now growing and it would be more efficiently done if it were serviced by the Cabinet Office. I suggest that you constitute a group under your chairmanship which, subject to Sir R. Armstrong's advice, might consist of the Foreign Secretary, Mr. Luce, the Defence Secretary, the Chancellor and perhaps Lord Whitelaw and the Attorney General. Agree? *Yes mt*

A.J.C.

Home Secretary

3 October 1983

SECRET



do
W Cole
To note
AT 3/10

10 DOWNING STREET

From the Private Secretary

3 October, 1983.

6

Hong Kong

The Prime Minister has noted but has not commented upon your letter of 30 September and its attachments.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office) and John Bartlett (Bank of England).

AT

J.O. Kerr, Esq.,
HM Treasury.

SECRET

NR

GR 250

SECRET

SECRET
FM HONG KONG 030215Z OCT 83
TO IMMEDIATE FCC
TELEGRAM NUMBER 1457 OF 3 OCTOBER
INFO IMMEDIATE PEKING

MIPT: FUTURE OF HONG KONG: CONVERSATION WITH NCNA

1. XU DECLINED TO ELABORATE ON WHAT HE HAD IN MIND OVER INDIVIDUAL LAND LEASES AND IT IS NOT CLEAR WITH WHAT AUTHORITY HE SPOKE. HE MAY HAVE BEEN INFLUENCED BY HIS DISCUSSIONS WITH THE HUNG YEE KUK WHO NEVER MISS AN OPPORTUNITY TO RAISE THE QUESTION OF LAND RIGHTS IN THE NEW TERRITORIES. THE PROPOSAL WHICH WE PUT FORWARD IN 1979 FOR ACTION TO ENABLE THE HONG KONG GOVERNMENT TO GRANT LEASES IN THE NEW TERRITORIES EXTENDING BEYOND 1997 WAS FIRMLY REJECTED AT THE TIME, AND THERE HAVE BEEN NO OTHER INDICATIONS THAT THE CHINESE HAVE BEEN RECONSIDERING THE QUESTION. AUTHORITY-TATIVE CHINESE PUBLIC STATEMENTS OVER THE 1 OCTOBER HOLIDAY HAVE PUT FRESH EMPHASIS ON THE RECOVERY OF THE EXERCISE OF SOVEREIGNTY. (PEKING TELNO 971).

2. SIR S Y IS AWARE OF THE BACKGROUND BUT IS INCLINED TO INTERPRET XU'S MENTION OF LAND LEASES AS AN INDICATION THAT THE CHINESE MAY BE READY TO REACH A SHORT TERM ACCOMMODATION IN ORDER TO STABILISE THE SITUATION HERE, LEAVING A LONGER TERM SOLUTION TO BE PURSUED AT LEISURE. HE TOLD SIR S Y THAT HE WAS DRAWING LARGE CONCLUSIONS ON FLimsy EVIDENCE. WHILE HE MAY ACCEPT THIS UNINTELLECTUALLY XU'S REMARKS ARE LIKELY TO REINFORCE HIM IN HIS VIEW THAT IN THE LAST RESORT THE CHINESE WILL NOT ALLOW THE HONG KONG ECONOMY TO RUN DOWN AND THAT THE RIGHT COURSE IS THEREFORE TO STAND FIRM.

YOUDE

FUTURE OF HONG KONG

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MR COLES NO 10 DOWNING STREET

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MR WALKER RESEARCH D OAB 2/82

SECRET



10 DOWNING STREET

From the Private Secretary

3 October 1983

Hong Kong

The Prime Minister saw over the weekend the Foreign Secretary's minute with which he forwarded a proposed paper to be tabled by the Governor at the next meeting of EXCO.

The Prime Minister telephoned Sir Geoffrey Howe yesterday afternoon to discuss the paper. She expressed concern that the paper would be regarded by EXCO as a weakening of the British position and emphasised that she thought it necessary for us to devise options which would enable us to recover the initiative from the Chinese.

Following discussion, it was agreed that the paper should be amended in the following ways:

- a) There should be a passage recalling the terms of the Prime Minister's earlier letter to the Chinese Premier and making it plain that sovereignty was not in the Prime Minister's gift but was a matter for the British Parliament, that we were only prepared to consider recommending a transfer of sovereignty if suitable arrangements had been reached on future administration and that any formula for the future would have to be acceptable to the people of Hong Kong.
- b) It should be made clear that the options in the paper were not an exhaustive list, that we were working on further options and that we should be grateful for any suggestions which EXCO might care to make.

At Sir Geoffrey Howe's request I conveyed these conclusions to Mr. Clift who undertook to revise the telegram and seek Sir Geoffrey's approval for its despatch.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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DD 030100Z HONG KONG

GRS 501
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DESKBY 030100Z
FM FCO 021605Z OCT 83
TO IMMEDIATE HONG KONG
TELEGRAM NUMBER 1001 OF 2 OCTOBER
INFO IMMEDIATE PEKING, PERSONAL FOR CHARGE
MY TELS NOS 998 AND 999 AND PEKING TELNO 972. FUTURE OF HONG
KONG. DRAFT PAPER FOR EXCO

h-a.
m $\frac{3}{10}$

1. THE PRIME MINISTER HAS AGREED THE ISSUE OF THE PAPER FOR
EXCO SUBJECT TO THE FOLLOWING AMENDMENTS TO MAKE
HMG'S POSITION COMPLETELY CLEAR AND TO ENCOURAGE EXCO TO PUT
FORWARD SUGGESTIONS OF THEIR OWN. REFERENCES TO SECOND TUR.

2. AFTER PARA 4 INSERT NEW PARA 5 AS FOLLOWS

'IT IS IMPORTANT ALSO TO TAKE INTO ACCOUNT THE POSITION
WHICH THE PRIME MINISTER SPELLED OUT TO THE CHINESE
PREMIER IN HER LETTER OF 10 MARCH ON THE QUESTION OF
SOVEREIGNTY. MEMBERS WILL RECALL THAT SHE REITERATED
THAT IT WAS NOT CONSTITUTIONALLY IN HER POWER AS PRIME
MINISTER ACTING ALONE TO AGREE TO THE TRANSFER OF
SOVEREIGNTY, WHICH WAS A MATTER WHICH PARLIAMENT ALONE
HAD THE POWER TO DECIDE. SHE EXPLAINED TO PREMIER ZHAO
THAT IF PARLIAMENT WERE TO AGREE TO SUCH A TRANSFER OF
SOVEREIGNTY IT WOULD NEED TO BE PART OF AN OVERALL
PACKAGE OF MEASURES GUARANTEEING THE STABILITY AND
PROSPERITY OF HONG KONG. SHE SAID THAT FOR HER TO
MAKE A RECOMMENDATION TO PARLIAMENT THAT SOVEREIGNTY
OVER THE WHOLE OF HONG KONG SHOULD REVERT TO CHINA
IT WOULD BE NECESSARY TO REACH AGREEMENT ON
ADMINISTRATIVE ARRANGEMENTS 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.

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THAT POSITION HAS NOT ALTERED.'

3. AFTER FIRST SENTENCE OF OLD PARA 5 INSERT NEW PASSAGE AS FOLLOWS:

'THESE ARE THE OPTIONS WHICH HAVE SO FAR BEEN EXAMINED IN LONDON. HMG ARE CONSIDERING WHETHER THERE ARE OTHERS. THEY WOULD WELCOME ANY SUGGESTIONS WHICH EXCO MEMBERS WOULD WISH TO MAKE.'

4. AT END OF OLD PARA 6 INSERT ADDITIONAL PSAGE AS FOLLOWS:

'SHOULD THE CHINESE GOVERNMENT CONTINUE TO BE INTRANSIGENT WE SHOULD NEED TO CONSIDER VERY CAREFULLY AND IN MUCH GREATER DETAIL THAN BEFORE WHETHER, AND IF SO HOW, FULLER USE MIGHT BE MADE OF A PUBLIC PRESENTATION OF OUR POSITION IN ORDER TO EXPLAIN IT AND TO SHOW THAT WE WERE ACTING REASONABLY.'

5. I TAKE THE POINTS IN PEKING TUR. I BELIEVE IT IS IMPORTANT TO MENTION OPTION (B) BOTH FOR THE SAKE OF COMPLETENESS AND TO LEAD LOGICALLY TO THE OTHER OPTIONS. PLEASE MAKE THE FOLLOWING AMENDMENTS TO MEET PEKING'S CONCERN

(A) IN OLD PARA 5(B) UNDER 'COMMENT' AMEND FIRST SENTENCE TO READ: 'THE CHINESE WOULD SEE THIS AS CONTAINING NO ESSENTIAL DIFFERENCE FROM (A).'

(B) ALTER NEXT SENTENCE TO READ: 'THEY HAVE TOLD US THAT THE CONTINUATION OF THE BRITISH LINK ... '

(C) ALTER NEXT SENTENCE TO BEGIN: 'IF EVEN SO THEY SHOULD SHOW THEMSELVES INTERESTED ... '

6. PLEASE NOW CIRCULATE THE PAPER TO EXCO WITH THESE AMENDMENTS. IF YOU RECEIVE ANY COMMENTS ON IT BEFORE YOUR DEPARTURE FOR LONDON, I SHOULD BE GRATEFUL FOR AN IMMEDIATE REPORT.

HOWE

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/PUSD

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

MR DONALD

MR WRIGHT

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MR WALKER RESEARCH D OAB 2/82

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SECRET

Mr Coles 3
No 10 Downing / Fred

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DD 030100Z HONG KONG

GRS 46

SECRET

DEDIP

DESKBY 030100Z

FM F C O 021517Z OCT 83

TO IMMEDIATE HONG KONG

TELEGRAM NUMBER 1000 OF 2 OCTOBER.

Mr 3/10
p-c.

FOLLOWING PERSONAL FOR GOVERNOR FROM RESIDENT CLERK.

FCO TELNO 997 (FROM GIFFARD) FINANCIAL SITUATION.

1. TRAVEL ARRANGEMENTS AND FLIGHT TIMES IN PARA 3 OF
TUR CONFIRMED.

HOWE

LIMITED

HD/HKD

PS

PS/ MR LUCE

PS/ PUS

MR EVANS

MR GIFFARD

MR DONALD

COPIES TO

MR COLES NO10 DST

MR UNWIN, TSY

MR D HOLLAND, B/ENGLAND

SECRET

IMMEDIATE DESKBY 020100Z

ZCZC
GRS
SECRET

020100Z

FM FCO

TO IMMEDIATE HONG KONG

TELEGRAM NUMBER

REPEATED INFO IMMEDIATE PEKING

MIPT: FUTURE OF HONG HONG: DRAFT PAPER FOR EXCO

BEGINS:

Introduction

1.

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3. (4)
OF THE PUBLIC RECORDS ACT

This paper seeks to identify the options now available to HMG in the light of the latest round of the talks on 22/23 September. Members will wish to reflect on these options before discussing the situation with Ministers in London on 7 October. No conclusions are drawn and no recommendations are made.

(Begin underlining) Chinese Position (Cease underlining)

2. Chinese statements at the fourth plenary session of the talks on 22/23 September revealed no change in the Chinese

position

PRIVATE SECRETARY

FUTURE OF HONG KONG

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position as set out

If anything their

line has hardened. In particular:

- (a) The Chinese are adamant that both sovereignty and administration will be recovered by 1997 and have characterised our insistence on British administration as an insuperable obstacle to progress. They have hinted strongly that they will break off the talks if there is no change in the British position.
 - (b) They have rejected our proposal for a joint examination of the facts about the systems in Hong Kong and have dismissed the four papers submitted by the British negotiators at the 2/3 August session out of hand. They take the line that the facts in these papers were twisted to suit the British thesis (which they do not accept) that continuing British administration is necessary to maintain confidence.
 - (c) They concede that there is a problem of confidence in Hong Kong but attribute this entirely to British "rigidity", accusing us of attempting to play public opinion and economic "cards" in an attempt to put pressure on them. They have said that they will not be scared by such tactics and have declined to do anything to help bolster confidence in the Hong Kong dollar.
 - (d) They have reiterated that if there should be major disturbances in Hong Kong they would be obliged to reconsider the timing and formula for the recovery of sovereignty.
3. In the light of what the Chinese have said the following risks are apparent.
- (i) That without a shift in the British position the Chinese would not agree to a further session of the talks after the one scheduled for 19 and 20 October.
 - (ii) That, since the Chinese are unlikely to agree to a more or less friendly pause for reflection, such a break in the talks would result in a confrontation between Britain and China over Hong Kong with resultant grave damage to the Hong Kong economy.

<<<<

(iii) That the Chinese would be ready if necessary to sacrifice the economic benefits they obtain from Hong Kong in order to achieve their political objectives.

(iv) That a breakdown would lead the Chinese to take increasingly hard public positions from which they would not be able to withdraw without damaging loss of face. Even if the Chinese did not announce their own plan unilaterally and were prepared to resume negotiations, the terms which they would then be willing to offer might be worse than those which could be negotiated now. (Begin underlining) Present Situation (cease underlining)

4. During the last round of the talks the Chinese said informally that they would not be prepared to embark on detailed discussion of their plan without prior British acceptance of their premise that both sovereignty and administration will pass to China in 1997. The Chinese Foreign Minister told the Secretary of State on 27 September that the Chinese had ideas which they wished to discuss but only if the question of sovereignty was properly settled first. The tactic deployed on 22/23 September therefore looks unlikely to achieve its intended purpose of providing further opportunities to convince the Chinese that their plan would not work and that continued British administration is essential.

(begin underlining) Options (cease underlining)

5. Against this background the following options appear to be available.

(A) To continue to press the case for the continuation of British administration on present lines.

(begin underlining) Comment (cease underlining)

This course would show our resolve and best represents our continuing views. But there would be a strong risk of a breakdown at the next session of the talks and of subsequent public confrontation with the Chinese. This would have severe consequences for confidence and the Hong Kong dollar. It might

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be impossible to restart negotiations.

(B) To seek to maintain the British administrative link through a Governor responsible to HMG, but with major administrative changes designed to make this more palatable to the Chinese.

(begin underlining) Comment (cease underlining)

The Chinese would probably regard this as not significantly different from (A). Their line so far has been that the continuation of the British link through a Governor responsible to London would be unacceptable. If they did show themselves interested in exploring in this context the concessions we might be willing to make, we would have to be very careful not to get into a position which it would subsequently be difficult to claw back if the Chinese stuck to their guns on the link through the Governor.

(C) To accept the Chinese premise that sovereignty and administration must pass to China in 1997, and to negotiate the best deal possible for Hong Kong on that basis.

(begin underlining) Comment (cease underlining)

This would open the way to detailed discussion of Chinese ideas and might create some goodwill on the Chinese side. But acceptance of the Chinese position on these points would, if leaked, have a severe effect on confidence. Moreover, we might lose leverage in the subsequent negotiations.

(D) To maintain our present view that continued British administration is the best way to maintain confidence, but to seek a further formula through which we could explore what flexibility there might be in the Chinese concept of administration, and what guarantees in the form of continuing British links the Chinese would be prepared to build into their plan. One way of doing this would be to seek to extend the formula deployed over sovereignty in the Prime Minister's letter to Premier Zhao Ziyang of 10 March to the right (repeat right) of administration.

(begin

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(begin underlining) Comment (cease underlining)

This might be sufficient to persuade the Chinese to explain their ideas in more detail and to keep the talks going. It might thus allow us to find out whether Chinese terms could be made acceptable. But it might still not be acceptable to them since we should have to make it clear that we still believed that continued British administration was the best way to maintain confidence. Another problem would be the risk of the Chinese misrepresenting our position as unqualified acceptance of theirs.

(begin underlining) Public Presentation (cease underlining)

6. Whatever option was chosen we should need to have ready both for background briefing and, if necessary, for public use a careful statement of our reasons for adopting it. This would need to balance a clear reservation of our own position against the risk of stalemate and confrontation. ENDS

HOWE

NNNN

Prime Minister

Agree that the

draft paper be transmitted,

as proposed?

PM/83/75PRIME MINISTERHong Kong

MCS 1/10

1. We are now at a critical stage in the talks and there is a real danger of breakdown. I am reinforced in this view by my talks with the Chinese Foreign Minister in New York. Richard Luce's discussions with EXCO show that views are divided: some members seem ready to contemplate a collapse of the talks as not necessarily causing irreparable damage, while others argued against this.

2. Richard Luce has gone over the matter in depth with the Governor and Ambassador. I have considered their assessment very carefully. There is no doubt that we should look very carefully at our position before the next round of talks on 19 and 20 October. EXCO's visit will be a major stage in this process. It is the Governor's strong view that, before they come to London, they should be shown a paper setting out our assessment of the position and, at least in outline, the options before us. I am sure that this is right: without this sort of preparation, they will find it hard to focus on the essentials and to give clear advice. I attach the text of a suggested paper (a revised version of a draft put forward by the Governor) which could serve this purpose. Sir E Youde has asked for instructions to reach him first thing on his Monday morning (the middle of our Sunday night). For ease of handling, I have already telegraphed the text of the revised paper to him. If you are content with it, Private Secretaries can arrange for a trigger telegram to be sent by our Resident Clerk to reach Hong Kong by 030100Z.

/3. I shall

SECRET



3. I shall be sending you early next week some thoughts on where we go from here, but I hope that meanwhile we can give the Governor this chance to get EXCO to focus clearly on the problems of the next round.

GEOFFREY HOWE

Foreign and Commonwealth Office

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Handwritten: Au-fax copy

PRIME MINISTER

HONG KONG

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GEOFFREY HOWE

1 October 1983

TEXT

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Chinese Position

2. Chinese statements at the fourth plenary session of the talks on 22/23 September revealed no change in the Chinese

/ position

PART

8

ends:-

HMT to AT + att 30-9-83

~~DRAFT Tel: As/PM to Governor K/K (undated)~~

PART

9

begins:-

SS/FCO to PM 11/10/83

