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HONG KONG

POSSIBLE CHINESE OBJECTIONS AND SUGGESTED RESPONSES

1. Sovereignty is non-negotiable

We must have talks whatever the positions of our two sides are on the matters of principle. We should begin these talks without prejudice to either side's position and without pre-conditions. It is not possible to conduct talks on the basis of only one side's position but it is essential for confidence in Hong Kong that we must have talks and that there must be no public exposure of the difference between the two sides' positions. Thus in order to have talks we must put those differences on one side for the time being and begin a factual study of the problem.

2. Deng's plan is practical. We do not believe what you say about the consequences that will ensue. This is fantasy or blackmail

What I have said about the inevitable reaction of investors is based upon our long experience of administering Hong Kong and our knowledge of the international investment market in which Britain has been involved in Hong Kong and elsewhere for many years. We have spoken to investors and we suggest that you should also speak to them and ask them what would be the consequences of the measures you have proposed. If you cannot take our word for it then speak to, say, the Americans, the ~~Japanese~~, the Australians and perhaps to the IMF.

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SECRET

SECRET

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I am convinced that they will tell you that the consequences of Deng's proposal would be disastrous for Hong Kong and hence extremely detrimental to your own economy and indeed to the economy of the Far East and South East Asian region.

3. Are you suggesting that Britain would sabotage the Chinese plan for Hong Kong?

As I said in my opening statement we would do our best to avert a flight of capital from Hong Kong. We would do all we could to bolster confidence but we would in truth be powerless to prevent a collapse of confidence if the measures you have outlined to me were to be announced. Neither the British Government nor the Hong Kong Government can control investment in Hong Kong. Nor is investment in Hong Kong dominated by private British interests.

4. What do you suggest in the way of future arrangements for Hong Kong?

The solution which would be most certain to preserve the prosperity of Hong Kong would be a continuation of the status quo. This would require a legal mechanism to enable British administration to continue. There might be various ways of doing it. This is the solution which I would prefer because it is safe. I recognise that it creates difficulties for you. What we need to do is to

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SECRET



SECRET

3

examine how your difficulties could be met without bringing changes so fundamental that they would ruin Hong Kong. My Government is willing to engage in a full and confidential examination of all the possibilities with your Government. Let us seek the truth from facts.

What we have in Hong Kong now is a flourishing concern which brings great benefits to China and to Britain and to many other countries who invest or do business there. I cannot understand why you should wish to carry out a dangerous and radical experiment (which we are sure would kill the goose that lays the golden eggs) when we can offer you discussions without prejudice about the matters which concern you and to seek a mutually acceptable arrangement for the future.

I should like to make one further point. I have emphasised the negative side of this problem, ie the tragedy which would befall if drastic changes were to be introduced before we had both examined the question thoroughly together. But we should also look on the positive side. We are on the threshold of a great opportunity. If China and Britain can agree a workable solution for the future of Hong Kong this would herald a new era of cooperation which would bring great benefit to both sides and incidentally could generate enormous amounts of

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SECRET



SECRET

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capital for the development and modernisation of the Chinese economy. Our success would be welcomed by the international community and we should enjoy their respect and admiration for the flexibility and imagination that we had shown in reaching a mutually acceptable agreement.

BRITISH EMBASSY

PEKING

17 September 1982

SECRET

PRIME MINISTER'S VISIT TO CHINA

ANSWERS TO CRITICISMS CHINESE LEADERS MAY MAKE

1. Criticism: To concede sovereignty while retaining full control would be a trick.

Answer: This criticism emphasises the need to analyse the issues affecting prosperity and confidence in Hong Kong. Our analysis suggests that for the time being continued British control is essential.

I am not suggesting continuation of British control for the time being because this would be politically popular in the UK, nor because the UK derives significant financial benefit from Hong Kong. I am purely concerned with the continued prosperity of its five million inhabitants.

2. Criticism: Refuse to discuss administrative details unless the principle of sovereignty conceded in advance.

Answer: You have heard what I have said on sovereignty and I think it should meet your point. I could not recommend abrogation unless satisfied that the result would not destroy the prosperity of Hong Kong.

3. Criticism: Sovereignty is not a matter for negotiation. It cannot be made a condition for British control.

Answer: British control is not a question of principle but of practice. We can see no alternative that would assure

SECRET



confidence and so prosperity in Hong Kong at this time, and until confidence in Chinese Government policies has been re-established.

4. Criticism: We are not prepared to hold negotiations on the basis you suggest.

Answer: I hope you will reflect. Disagreement would produce very grave consequences. The next step is careful analysis of the factors involved. Until we are clear about these and about those on which we agree and disagree it would be quite wrong to break off discussion of this important and urgent question.

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PRIME MINISTER
FIRST LORD OF THE TREASURY

FUTURE OF HONG KONG

SPECIAL BRIEFING

To Be Retained

Do Not Destroy

FUTURE OF HONG KONG

LIST OF BRIEFS

1. Introduction. Tactics
2. Labour Government Statements on HMG Commitment
3. Draft Press Statement on Hong Kong
4. Draft Aide Memoire
5. Chronology of Major Events and Statement
6. Draft Opening Statement
7. Form and Structure of Negotiation
8. Further Defensive Points
9. Possible Acceptable Package
10. Possible Concession which might be made during negotiation
11. Possible Chinese objections and suggested responses
- 11a. Answers to Criticisms Chinese Leaders may make
12. FCO Special Study
 - (a) Treaty of Nanking 1842
 - (b) Text of Second Convention of 1898
 - (c) Map of New Territories
 - (d) Chinese Proposals on Taiwan
 - (e) Consultation on Hong Kong
 - (f) Options and Solution and Legislative Requirements
 - (g) Constitutional Position of Hong Kong
 - (h) External Relations
 - (i) Currency and Finance
 - (j) Defence and Internal Security
 - (k) Citizenship, Nationality, Immigration
 - (l) Legal System on Hong Kong
 - (m) External Trade
 - (n) Civil Aviation and Shipping
 - (o) Crown Land Leases in New Territories
 - (p) Illustrative Questions and Answers Following Prime Minister's Visit to China.