

I much valued my discussions with Premier Zhao Ziyang
yesterday on the question of Hong Kong.

Since I understand that you will have seen a record
of that meeting, I will not repeat in full what I
said then but there are some points I should like to
emphasise.

I hope that you agree that we have a common objective.

We share the aim of maintaining the prosperity and
stability of Hong Kong in the interests of the people
who live there.

I believe that through co-operation, consultation
and discussion we can achieve that objective.

/I also

Under the mandate

way. for

1/2 by 1987 - worth to account
for choice people

- People of the world

Change dynamics

If in 15 years - not reverse.

Step down from political arena
voluntarily.

Now. - no later than to-day.
Choice for will formally
announce its decision.

Disturbances - will not happen

I also agree with Premier Zhao Ziyang that the time is now
ripe to settle the question of Hong Kong's future.

We must keep in mind that we are talking with the eyes of the
world on us and that anything we say or do ^{now} will have
an immediate impact on confidence both in Hong Kong
itself and internationally, which is so essential to
the continued economic wellbeing of Hong Kong.

Let me also say at the outset that I understand how important
the principle of sovereignty is to China.

Premier Zhao made this very clear yesterday.

I hope that I was able to convince him that sovereignty
is also a difficult issue for me.

/Nevertheless,

Pohineu accepted to people
of H'Kop.

Invests for Britain.
Leads in year ratio.

So - difficult
- Colonization.

accepted to people of H'K.

K'opue - sun never sets

-45°

Provision

→
5/2/20

Nevertheless, I put it to him that if our two governments

could agree defined arrangements about the future

administration and control of Hong Kong, and I was

satisfied that they ⁽¹⁾ would work, that they would

⁽²⁾ command confidence and if I could justify them to

⁽³⁾ the British Parliament, and they were ⁽⁴⁾ acceptable to

the people of Hong Kong, there would then be a new

situation in which I could consider the question of
sovereignty.

But without agreement on concrete arrangements on

administration and control, I could not make any

recommendations to my government on the question of

sovereignty.

/I hope

Sov - over H-K
Kowloon. } 1957

Certain,
China does not have any
other choices.

Transition of Prosperi-
- cooperation Shanghai

Prosperi - only maintained under
District administration.
Administered by China

↓
System Political
Economic

Capitalist Society;
remains so. Law Adm.
in H'Kong

I hope that it will have been evident from what I said yesterday

why I attach such great importance to the question
of administration and control.

It is our firm belief that unless people believe that
the present arrangements for administering Hong Kong
will continue for a long time, there will be a most
damaging effect on confidence: and if changes in the
administrative control of Hong Kong by the UK were
introduced or announced now, the result would be
disastrous.

I say this in full knowledge of the plan which you ~~have in~~

outlined

~~mind~~ but as I explained to Premier Zhao, the ^{previously} ~~issue~~ ^{immediate}

is not what will happen by 1997 but what people

now in 1982 believe will happen. It is that which

will determine what they do in the coming
months with investment. / They

Lee (Korean. Year) → Policy crisis

↓ ↓

Sou Ind
Soviet

Sy. or
Pol. or
Russia

1987

H.K.

Some disturbances will happen,
- after agreement

This will mean

Avoid big disturbances

1997.

Policy decision, -

Retention

If Prosperity cannot be maintained

- effect this

No disturbances

Financial collapse

None - if disturbances - financial collapse
Timing of formula

Things will no doubt change in China
and in the wider 5 world but

They will make their judgement ^(now) against the background
of recent Chinese history, against ^{the present-} a difference
in the political systems in China and Hong Kong
~~which now exists~~ and against a modernisation programme
in China which has only just begun.

Against this background if a change is announced
now, they will lose their confidence and it is
our firm belief that investment and skill will
immediately begin to leave the territory leading
to economic collapse which, once started, will be
irreversible.

There is no time in this short visit to reconcile the
differences on this issue which exist between us.

/ We believe

leaden - deep dimension 2-

H-k

Plutonium - heavy dimension
up 1

To see appropriate reference
of H-k.

Plutonium conditions using
dpt. channels

Have study covered
this

We believe those differences can be reconciled;
and that it will be essential to maintain confidence
in Hong Kong while we work towards that reconciliation.
That is why we have proposed further talks between
us and why we believe there is an overriding
need in announcing those talks to show that we
share a common objective.

~~If I am unable to do this at my press conference
and on arrival in Hong Kong then I leave you to
imagine what the effect on confidence there will
be.~~

A press conference on the whole of my visit to
Peking has been arranged for late this afternoon (5.30p.m.)
~~What I should like to say to the press therefore this
afternoon and repeat in Hong Kong is as follows:~~ *own*
Before we finish our talks I could perhaps indicate what
would like to say to the press but it must accurately reflect
conclusions
(you could select from the attached versions, depending
on how the discussion has gone - or perhaps
till later describing your press statement).

Chairman Peng

Zhou. - explicit letters.

① Sovereignty

U.N.
Treaties

② World prosperity

③ Chinese indiv. form disun.
how to avoid turbulence
in Hong Kong.

How to maintain momentum of
H.K. after 1997.

After 1997. - in 15 years prior to
1997

Sov. - no leeway for China.
- undiscussable

Now have to give

1997. China will recover
Sov. over Hong Kong.

PRIME MINISTER

Your meeting with Deng

Your objectives are:

- (a) to reinforce the main points you made to Zhao;
- (b) to see whether there is any reaction to your offer to him;
- (c) to obtain Deng's agreement to the statement you will make to the press.

You will recall that in the time available it will not be possible to agree a joint press statement.

We have produced various versions of your press statement. We shall have Chinese versions available but the advice is that you should not hand over a text unless it is absolutely necessary for sensible discussion. You should simply describe the elements of the statement you propose to make and ascertain that Deng has no objections.

You will want to avoid giving the impression that we have a series of formulae in our pockets. If Deng objects to your first effort, you might therefore ask him to suggest a wording of his own.

You may want to use the device of sending officials off to draft. But this will only be profitable if you and Deng have agreed broad guidelines. We need his authority if a drafting exercise is to be of any use.

I attach:

- A A possible opening statement;
- B Several versions of a Press Statement, in descending order of acceptability;

- C The draft aide memoire
- D The chronology of major events and statements
- E Further defensive points
- F A short speaking note on the linkage between Hong Kong and Taiwan (which was taken out of the opening statement)
- G Possible Chinese objections and suggested responses.
- H The statement you made to Zhao today

A.J.C.

NB

23 September 1982



SECRET

DRAFT OPENING STATEMENT BY THE PRIME MINISTER
ON THE FUTURE OF HONG KONG

First visit
of Prime
Minister to
China

1. This is the first visit ever paid by a British Prime Minister to China. It is an event of importance in the relationship between our two countries to which much significance is attached by my Government. I hope my visit will result in deeper mutual understanding and friendship, wider economic and cultural cooperation and exchanges, and some initial agreement in principle between us on future arrangements for Hong Kong.

Cooperation
Hong Kong

Similar world
views

2. To start with I would like to speak to you about Hong Kong, because I have been struck in my conversations so far by the wide identity of view over a broad field of international, political and economic issues which already exist. Moreover I understand that you have taken a close personal interest in the problem of Hong Kong. It is a unique example of successful Sino-British cooperation, and against this background we should be able to solve the problem of how to agree about its future while maintaining its prosperity.

Deng/Zhao personal
interest

Good background
of cooperation

Maintenance of
prosperity

SECRET

Confidence and
its roots
provided by
British
administration

3. The prosperity of Hong Kong depends on confidence and of course this cannot exist without good relations between Britain and China bilaterally and directly over Hong Kong. But confidence and the value of the Hong Kong dollar also depend on other things such as: a financial and tax regime favouring business enterprise and which is not liable to sudden change; a familiar and internationally respected system of law; the maintenance of public order and the freedom of its political and economic systems. But for these things to be possible there must be efficient and consistent Government policies. British administration has provided these things and without them Hong Kong would not have developed in the way it has.

Chinese views

4. I have studied carefully what Premier Zhao told Mr Atkins last January and Vice Premier Deng's private remarks to Mr Heath in April. I note that you think that to maintain Hong Kong's prosperity it should continue as a free port and an international centre of commerce and finance, and also that there should be continuity of institutions. I agree.

Continuity of
local institutions
insufficient

But I must tell you seriously that general assurances that the present local systems will be preserved, and that Hong Kong must be maintained as an international centre, will not be enough by themselves

/to



SECRET

Need specific agreement about who has control

to maintain confidence. It must be made clear where administrative control would rest.

Ability of people of Hong Kong and China

5. No-one doubts that the people of Hong Kong would be capable of running their own affairs locally, but there would be a most damaging effect on confidence if changes in administrative control of Hong Kong by the UK were introduced or announced now. We all admire the way in which the Chinese leaders and people have tackled the huge problems of modernisation but the people of Hong Kong and investors from overseas are well aware of recent Chinese history and in particular the upheavals of the ten years of cultural revolution in China. Time would be needed for people in Hong Kong and abroad to have sufficient faith in new and untried arrangements to keep their money in the Territory and make new investments. But we cannot wait for this.

Recent Chinese history
Doubts of investors

Time needed but running out

Worry in Hong Kong

6. I think we agree that there is concern in Hong Kong about the future and that this concern is already having an effect on the economy, and that things will deteriorate fast unless arrangements are made about the future which will reassure people in Hong Kong and overseas traders and investors.

/It is



SECRET

Slide would
be quick

It is not a question of waiting until 1997.
Once a slide in confidence started it would be
hard to stop.

Reassurance
required now

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

Sovereignty
difficulties

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

Abrogation
alone
unacceptable

Would cause panic

9. To settle the future of Hong Kong by abrogation
alone would be unthinkable. It would produce
immediate panic in Hong Kong. It would be a
dereliction of UK responsibility and would be
rejected by the British Government and Parliament
and by the people of Hong Kong.

Need for defined
arrangements on
administration
before sovereignty
issue considered

10. But if our two Governments could agree defined
arrangements about the future administration and
control of Hong Kong, and I was satisfied that they
would work, that they would command confidence, and

/if



SECRET

if I could justify them to the British Parliament, there would then be a new situation in which I could at least consider the question of sovereignty.

Concrete
arrangements
Quick UK action
but no deal
without

11. If so, I would recommend this to my Government as soon as agreement on the details of administration and control had been reached. But without agreement on concrete arrangements I could not.

Start talks soon

12. Bearing in mind what I have said about sovereignty, I propose that for the time being we leave the question on one side, and instead that we should start official talks to reach an agreement on arrangements for the administration and control of Hong Kong which would meet the wishes of China, Britain and the people of Hong Kong and preserve its prosperity. These discussions could cover whatever proposals you may wish to make about how present arrangements might be varied. The issues are complex and need to be explored thoroughly by officials as soon as possible. If you wish before I leave we can have a preliminary discussion between ourselves about what the essential elements must be for workable arrangements. I am going to be pressed hard on this issue in Hong Kong and London, and I hope that before I leave we can agree on the next steps in handling the problem in order to maintain confidence in Hong Kong.

Cover whole field
of administration

Need to agree
on next steps

/13.



SECRET

13. a) To say nothing about Hong Kong would be disastrous to confidence;

Object of talks

b) to say we are not agreed on maintaining stability and prosperity would be equally disastrous;

c) to say we are agreed on substance when we are not would be misleading;

d) therefore only reasonable course is to express agreed objectives and announce arrangements for talks.

Declassify

FUTURE OF HONG KONG: PRIME MINISTER'S OPENING STATEMENT

I should like to begin by saying how pleased I was with our full and fruitful discussions yesterday on international matters, and with the wide identity of view over a broad field of international political and economic issues which has emerged so far. I understand that you have taken a close personal interest in the problem of Hong Kong about which I should like to speak now. This is a unique example of successful Sino British cooperation and against this background we should be able to solve the problem of how to agree about its future while maintaining its prosperity.

Pleased with yesterday.

Close personal interest in H.K.

Unique example of Sino-British co-operation.

I have studied carefully what you told the former Lord Privy Seal, Mr. Humphrey Atkins, in January, and Mr. Deng Xiaoping's private remarks to Mr. Heath in April. The two main elements of the Chinese view concern sovereignty and the continued prosperity of Hong Kong. The first of these elements is likely to be a delicate matter for both sides, and I should like to return to this point later. First, I should like to discuss the second element - prosperity. I note that you think that to maintain Hong Kong's prosperity it should continue as a free port and an international centre of commerce and finance and also that there should be a continuity of systems. I agree, but general assurances that the present local systems will be preserved and that Hong Kong must be maintained as an international centre will not any longer be enough by themselves to maintain confidence.

The

The prosperity of Hong Kong depends on confidence. Of course this cannot exist without good relations between Britain and China bilaterally and directly over Hong Kong, But confidence also depends on other things such as: a (i) stable and internationally respected currency, a financial and tax regime favouring business enterprise and which is not liable to sudden change: a familiar and internationally respected ³system of law: the maintenance of public order and the freedom of its ⁴political and economic systems. British administration has provided efficient and consistent Government policies, and without them Hong Kong would not have developed the way it has. [Thus to maintain confidence, it must be clear that administrative authority rests as it is.]

Mr. Heath has told me of his conversation with Mr. Deng Xiaoping in April. As I understand it Mr. Deng began by referring to the Chinese Nine Point Proposals for reunification of Taiwan with mainland China. We are aware of the close connection you make between the issues of Taiwan and Hong Kong, but it follows from this as I see it that if our two Governments are not able to agree to workable arrangements for the future prosperity of Hong Kong and an economic collapse in Hong Kong were to ensue, this would be the greatest disincentive for Taiwan to respond positively to China's proposals on reunification.

/ : Mr. Deng

X
Mr. Deng made several suggestions to Mr. Heath. I am bound to tell you that if the main changes envisaged in Mr. Deng's remarks were to be introduced ^{now} or even announced as a decision of your Government, the effect on confidence in Hong Kong would be disastrous. If changes in the UK's administrative control of Hong Kong were to be introduced or announced now, there would be a wholesale flight of talent and capital from Hong Kong. This is not something which Britain would prompt. Indeed, we should do all in our power to prevent it because the difficulties which it would cause us are nearly as great as those it would cause you. But you must believe me when I say we could do nothing to control it. This is a stark picture. But it is the truth. Confidence, and thus the continued prosperity of Hong Kong, depends on British administration, and any drastic change from that would destroy confidence.

We cannot predict what will happen over the years to come. However, the problem is not what will happen by 1997, but what people now in 1982 believe will happen. If confidence cannot be sustained now, Hong Kong will not be prosperous in 1983, let alone 1997.

Against the background of recent Chinese history, and given China's political system, which is so different from that in Hong Kong, time would be needed for the people in

/ : Hong

(x - y)
See possible
alternative
formula in
attached
sheet at Page A

Hong Kong and businessmen abroad to have sufficient faith in new and untried arrangements to keep their money and skills in the territory, and make new investments. But we cannot wait for this. The fact is that our common objective of maintaining the prosperity of Hong Kong can only be achieved if people believe that the present arrangements for administering Hong Kong will continue for a long time.

There is a further point relating to Britain's reputation. I have a moral obligation to the people of Hong Kong which British Governments have sustained for more than a century. I have a profound sense of responsibility for them. Moreover, our two Governments would be cast in a bad light if we failed to reach a workable agreement.

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

Let me now return to sovereignty

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

To settle the future of Hong Kong by abrogation alone would be unthinkable. It would produce immediate panic in Hong Kong. It would be a dereliction of UK responsibility and would be rejected by the British Government and Parliament and by the people of Hong Kong.

/ ; But

But if our two Governments could agree defined arrangements about the future administration and control of Hong Kong, and I was satisfied that they would work, that they would command confidence and if I could justify them to the British Parliament, there would then be a new situation in which I could consider the question of sovereignty. But without agreement on concrete arrangements on administration and control, I could not make any recommendations to my Government on the question of sovereignty,

I propose that we should start official talks to reach an agreement on arrangements for the administration and control of Hong Kong after 1997 which would meet the wishes of China, Britain and the people of Hong Kong and preserve its prosperity. These discussions could cover whatever proposals you may wish to make about how present arrangements might be varied. The issues are complex and need to be explored thoroughly by officials as soon as possible.

There is a further point we must consider. Since I am going to be pressed hard on this issue in Hong Kong and London I hope that we can reach agreement during our talks both on the next steps in handling the problem, and on what we should say in public. This last point is very important.

/ : Confidence

Confidence in Hong Kong will be affected by what I say at my press conference here in Peking and later, and by any statement made on the Chinese side.

I therefore propose:

- (a) (b) That we should agree on a very early date for the start of official talks;
- (b) (c) That we should announce ^{made a public} ~~this~~ ^{this effort.} to the press;
- (c) At the same time we should make it clear that our common objective is to strengthen ~~our cooperation~~ and maintain the prosperity and stability of Hong Kong.

F

Mr Heath has told me of his conversation with Mr Deng Xiaoping in April.

As I understand it Mr Deng began by referring to the Chinese Nine Point Proposals for reunification of Taiwan with mainland China.

We are aware of the close connection you make between the issues of Taiwan and Hong Kong, but it follows from this as I see it that if our two governments are not able to agree to workable arrangements for the future prosperity of Hong Kong and an economic collapse in Hong Kong were to ensue, this would be the greatest disincentive for Taiwan to respond positively to China's proposals on reunification.

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

6. I am bound to tell you that the changes envisaged in Mr. Deng's remarks to Mr. Heath as such that we are convinced that if this plan were to be introduced or even announced as a decision of your Government, the effect on confidence in Hong Kong would be disastrous.

If changes in the administrative control of Hong Kong by the UK were to be introduced or announced now there would certainly be a wholesale flight of capital from Hong Kong. This is not something which Britain would prompt; indeed we should do everything we could to prevent it, because the difficulties which it would cause us are nearly as great as those it would cause you. But the simple truth is that we could do nothing to control it. I am referring not simply to British money, but also to ^{very large} investments by local Hong Kong residents and to ~~enormous~~ American, Japanese, Australian and many other foreign investments, the great majority of which are controlled by private companies and individuals. This money, having left Hong Kong, would not return. It would be impossible to revive the Hong Kong economy should it collapse. What has been built up over years would be destroyed by a single act in a single day. The British and Chinese Governments would ~~therefore~~ find ourselves squabbling over a wasteland.

SECRET

SECRET

- 3 -

7. I should add that there would also be very considerable financial hardship for many people, and ~~panic~~ among large sections of the population. Many would seek to leave, creating a refugee problem which would discredit both Britain and China. Furthermore a collapse of Hong Kong would have repercussions throughout the Far East and South East Asian region, as well as wider international implications. Our two governments would be cast in a very bad light if we had failed to reach a workable agreement, and I would have failed to honour a moral obligation to the people of Hong Kong which British Governments have sustained for more than a century.

8. I am aware that it is a ^{dark} stark picture that I am painting, but I am afraid that it is no more than the simple truth. Confidence in Hong Kong and thus the continued prosperity of Hong Kong depends on British administration. Any drastic change away from that would destroy confidence. We all admire the way in which the Chinese leaders and people have tackled the huge problems of modernisation: and much will no doubt change in the years to come. But the problem is not what will happen by 1997 but what people now, in 1982, believe will happen. If confidence cannot be sustained now Hong Kong will not be prosperous in 1983, let alone 1997. Against the background of recent Chinese history, and given China's political system which is so different from that in Hong Kong, time would be needed for people in Hong Kong and abroad to have sufficient faith in new and untried arrangements to keep their money and skills in the territory and make new investments. But we cannot wait for this. The plain fact is that our common objective of maintaining the prosperity of Hong Kong can only be achieved if people believe that the present arrangements for administering Hong Kong will continue for a long time. There would be a most damaging effect on confidence if changes in the administrative control of Hong Kong by the UK were introduced or announced now.

S E C R E T

OPENING STATEMENT BY THE PRIME MINISTER ON THE FUTURE OF HONG KONG

REDRAFT

1. This is the first visit ever paid by a British Prime Minister to China. It is an event of importance in the relationship between our two countries to which much significance is attached by my Government. I hope my visit will result in deeper mutual understanding and friendship, wider economic and cultural cooperation and exchanges, and some initial agreement in principle between us on future arrangements for Hong Kong.

2. To start with I would like to speak to you about Hong Kong, because I have been struck in my conversations so far by the wide identity of view over a broad field of international, political and economic issues which already exist. Moreover I understand that you have taken a close personal interest in the problem of Hong Kong. It is a unique example of successful Sino-British cooperation, and against this background we should be able to solve the problem of how to agree about its future while maintaining its prosperity.

/ 3.

S E C R E T

*First visit
of P.M.*

Hong Kong

*Similar world
view.*

*Very personal
interest.*

*Sino - U.K.
co-operation
i.e. think
stands
& spirit
& integrity.*

*Confidence +
its roots.*

3. The prosperity of Hong Kong depends on confidence and of course this cannot exist without good relations between Britain and China bilaterally and directly over Hong Kong. But confidence and the value of the Hong Kong dollar also depend on other things such as: a financial and tax regime favouring business enterprise and which is not liable to sudden change; a familiar and internationally respected system of law; the maintenance of public order and the freedom of its political and economic systems. But for these things to be possible there must be efficient and consistent Government policies. British administration has provided these things and without them Hong Kong would not have developed in the way it has.

*Brit. admin.
essential.*

4. I have studied carefully what Premier Zhao told Mr Atkins last January and Vice Premier Deng's private remarks to Mr Heath in April. I note that you think that to maintain Hong Kong's prosperity it should continue as a free port and an international centre of commerce and finance, and also that there should be continuity of institutions. I agree. But I must tell you seriously that general assurances that the present local systems will be

*Previous
letters*

Then wishings

/preserved

S E C R E T

Sp. elements
necessity

preserved, and that Hong Kong must be maintained as an international centre, will not be enough by themselves to maintain confidence. It must be made clear where administrative control would rest.

5. No-one doubts that the people of Hong Kong would be capable of running their own affairs locally, but there would be a most damaging effect on confidence if changes in administrative control of Hong Kong by the UK were introduced or announced now. We all admire the way in which the Chinese leaders and people have tackled the huge problems of modernisation but the people of Hong Kong and investors from overseas are well aware of recent Chinese history and in particular the upheavals of the ten years of cultural revolution in China. Time would be needed for people in Hong Kong and abroad to have sufficient faith in new and untried arrangements to keep their money in the Territory and make new investments. But we cannot wait for this.

Must be British
- recent Chinese
history not
conducive to
confidence

Time - ramp
out.

6. I think we agree that there is concern in Hong Kong about the future and that this concern is already having an effect on the economy, and that things will

/deteriorate

- 3 -

S E C R E T

S E C R E T

deteriorate fast unless arrangements are made about the future which will reassure people in Hong Kong and overseas traders and investors. It is not a question of waiting until 1997. Once a slide in confidence started it would be hard to stop.

Parliament
reopened
now.

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

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

9. To settle the future of Hong Kong by abrogation alone would be unthinkable. It would produce immediate panic in Hong Kong. It would be a dereliction of UK responsibility and would be rejected by the British Government and Parliament and by the people of Hong Kong.

10. But if our two Governments could agree defined arrangements about the future administration and control

/of

Revised
arrangements

- 4 -

S E C R E T

S E C R E T

of Hong Kong, and I was satisfied that they would work, that they would command confidence (and that they would be acceptable to you and the people of Hong Kong;) and if I could justify them to the British Parliament, there would then be a new situation in which I could at least consider the question of sovereignty.

11. If so I would recommend this to my Government as soon as agreement on the details of administration and control had been reached. But without agreement on concrete arrangements I could not.

12. Bearing in mind what I have said about sovereignty, I propose that for the time being we leave the question on one side, and instead that we should start official talks to reach an agreement on arrangements for the administration and control of Hong Kong which would meet the wishes of China, Britain and the people of Hong Kong and preserve its prosperity. These discussions could cover whatever proposals you may wish to make about how present arrangements might be varied. The issues are complex and need to be explored thoroughly by officials

/as

S E C R E T

as soon as possible. If you wish before I leave we can have a preliminary discussion between ourselves about what the essential elements must be for workable arrangements. I am going to be pressed hard on this issue in Hong Kong and London, and I hope that before I leave we can agree on the next steps in handling the problem in order to maintain confidence in Hong Kong.

Nothing - discussion

To say nothing on
status - no yet

To say in general
if we are not -
rather if we could
do.

Need objectives
express them.

Announce principles
for achieving them?

- 6 -

S E C R E T

S E C R E T

OPENING STATEMENT BY THE PRIME MINISTER ON THE FUTURE OF
HONG KONG

1. It is a great pleasure to make the first visit ever paid by a British Prime Minister to China. It is an event of importance in the relationship between our two countries to which much significance is attached by HMG. We already have many common interests and objectives and I hope that my visit will result in yet better, deeper mutual understanding and friendship.

Common view
Common interests

2. I have been struck in my conversations so far by the wide identity of view over a broad field of political and economic issues which are of interest to both China and to Britain. The expansion of bilateral trade and cultural links has extended the co-operation between us. Hong Kong demonstrates in a practical fashion how far Sino-British co-operation has developed. We have a common objective in maintaining stability and prosperity in the Territory and the confidence which is a vital element in its continuing success. The actions of successive British Governments over the years have demonstrated, I hope, that Britain has no intention of harming Chinese

/interests

S E C R E T

S E C R E T

interests and will not do so. HMG does not obtain tax or other direct revenue from Hong Kong although British firms and banks like others operate profitably there. But my Government has important obligations to the people of Hong Kong deriving from 140 years of responsibility.

Confidence

3. Confidence in Hong Kong depends in large part on good relations between Britain and China and on visible co-operation between us over Hong Kong. Confidence in Hong Kong, and especially the value of the Hong Kong dollar, also depends on continuity and predictability in the administration of the Territory. There must be efficient and accepted government. I would also mention the importance of a familiar and internationally respected system of law and order and a financial and tax régime which favours business enterprise. British administration provides these as well as the framework without which Hong Kong would not have developed in the way it has. The public and investors, both within Hong Kong and from outside, are used to this system. Of course they know that co-operation with China is essential. But they also attach great importance to the link with the United Kingdom.

/4.

- 2 -

S E C R E T

S E C R E T

4. I have studied carefully what Premier Zhao told Mr Atkins last January and Vice Chairman Deng's private remarks to Mr Heath in April. I was glad to see that you share our view of the importance of the continuity of institutions and Hong Kong's value as a free port and a centre of commerce and finance. But I must tell you seriously that assurances that the present local systems will be preserved in the future, and that Hong Kong must be maintained as an international financial centre will not be enough by themselves to maintain confidence.

5. No-one doubts that the people of Hong Kong would be capable of running their own affairs locally but there would be a most damaging effect on confidence if changes in overall responsibility for Hong Kong were introduced or announced now. We all admire the way in which the Chinese leaders and people have tackled the huge problems of modernisation in the past few years but the people of Hong Kong and investors from overseas are well aware of recent Chinese history and in particular the upheavals of the ten years of cultural revolution in China. At this stage people in Hong Kong and abroad would not have
/sufficient

S E C R E T

sufficient faith in new and untried arrangements to keep their money in the Territory and make new investments.

6. There is common ground between us that there is concern in Hong Kong about the future and in particular about the termination of the New Territories lease in 1997. This concern is already having an effect on the economy and things will deteriorate fast unless arrangements are made about the future which will reassure people in Hong Kong and overseas traders and investors. It is not a question of waiting until 1997. Once a slide in confidence started it would be hard to stop.

7. The Chinese position on sovereignty is well known, and Premier Zhao alluded to this in his statement last January to Mr Atkins. I have naturally noted your view but this is not a simple point. It is politically difficult for me just as for you. Acceptance of this would involve Britain abrogating by Act of Parliament the treaties under which the British administer Hong Kong.

8. To settle the future of Hong Kong by abrogation alone would be unthinkable. It would produce immediate
/panic

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

9. However, I hope we could first build on and reinforce the second principle enunciated by Premier Zhao: that Hong Kong's special position as a free port and international centre of commerce and finance should be maintained. To some extent the idea of a special administration, different from that in the rest of China, which would preserve Hong Kong's special economic and social characteristics is similar to the nine-point proposal on Taiwan, although the two situations are basically different.

10. If our two Governments could agree defined arrangements about the future administration of Hong Kong, and I was satisfied that they would work, that they would command confidence, and that they would be acceptable to you and the people of Hong Kong; and if I could justify them to the British Parliament, there would then be a new situation in which I could at least consider the question of sovereignty. Without such agreed concrete arrangements I could not.

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S E C R E T

S E C R E T

11. I therefore propose that for the time being we leave on one side the question of title, and instead start talks to reach an agreement on arrangements for the administration of Hong Kong which would meet the wishes of China, Britain and the people of Hong Kong. There have been many proposals floated in the press and discussed in various circles about the form such arrangements might take. I must tell you frankly that some of these could not possibly work and achieve the aim of maintaining the prosperity and stability of Hong Kong. The issues are complex and need to be explored thoroughly. If you wish we could have a preliminary discussion about what the essential elements must be for workable arrangements. But I would first welcome your comments on my analysis and on the procedure which I have proposed.

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S E C R E T

SECRET



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

We can discuss in detail
(a) at lunch on Wednesday
(b) with Sir Percy Cradock in Tokyo

13 September, 1982

A. J. C. $\frac{13}{9}$

Dear Sir,

Future of Hong Kong

Your letter of 10 September requested additional material for the Prime Minister. I enclose drafts of items (a), (c), (d), (e) and (f). Item (b), the list of nominal concessions, has been telegraphed to Hong Kong and Peking for their comments and will be submitted before close of play tomorrow. The other items have been completed within the FCO without outside consultation, but based essentially on material from the special study and its annexes. I also enclose a draft press release which the Prime Minister may wish to consider discussing with the Chinese leaders if agreement on the main aims of the visit is reached.

The Prime Minister may wish to consider carefully the use of the draft aide memoire. Experience has shown that the Chinese can react to written communications of this sort by committing their own view to paper in a manner which leads to a hardening of their position and often to outright rejection of ours. This occurred in 1979 when a proposal on Crown land leases in the New Territories was put to them by diplomatic note and rejected formally in writing.

I know that the Prime Minister is concerned that we have adequate Chinese translations prepared for the opening statement, the possible press release and, if used, the aide memoire on the British position. Our Embassy in Peking are well aware of the need to get translations made in good time. When the Prime Minister has agreed on final versions of the documents in question, we shall telegraph them to Peking for immediate translation; Sir Percy Cradock will be able to report progress when he visits Tokyo.

Mr Pym, who is at Chevening talking to M. Thorn, has not seen these papers. I will let you have any comments he may have as soon as possible on 14 September.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET



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
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 - (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.