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Foreign and Commonwealth Office

London SW1A 2AH

Discussed at

today's meeting with

the Prime Minister.

1 October 1982

Dear John,

AM $\frac{1}{10}$ p-a.

CONDUCT OF TALKS ON THE FUTURE OF HONG KONG

In preparation for the meeting which the Prime Minister will be holding with Sir A Acland and other officials at 3.00 pm on 1 October, I enclose commentaries and recommendations for action from the Ambassador in Peking and the Governor in Hong Kong. (Peking telegrams numbers 588 and 596 report the talks in Peking, Peking telegrams 610 and 611, and HongKong telegram number 1105 commenting and proposing the next steps.)

HMA Peking notes that the Chinese leaders took a very tough line in the talks. They are adamant in their insistence on recovering sovereignty over the whole territory by 1997, and sought British cooperation in ensuring a smooth transition to this. They seemed prepared to allow the capitalist system in Hong Kong to continue and to take British interests into account, but showed deep ignorance of the way in which Hong Kong works and did not appear to understand that British administration is crucial for the preservation of confidence. They were, however, ready to agree to talks "to maintain the stability and prosperity of Hong Kong".

HMA Peking's assessment is that this is a predictably tough opening statement of their position. But the Chinese now have for the first time a clear statement of the British position, and will be studying it carefully. Moreover, the Prime Minister achieved our objective in obtaining an agreement to hold talks on these terms. The outlook is therefore not without hope.

The Governor does not dissent from this but paints the scene from the Hong Kong point of view. While the talks should certainly be seen as a step forward he stresses that there is considerable nervousness exacerbated by subsequent counter statements by the Chinese. This has been underlined by the continuing fall in the Hang Seng Index which today dropped a further 65.12 points to 862.06.

Peking's and Hong Kong's comments thus point out both the opportunities and the risks in the months ahead and the need for very delicate handling of the talks with the Chinese.

The Ambassador proposes that he should be authorised to approach Vice Foreign Minister Zhang Wenjin to discuss the opening of talks. He would suggest to Zhang that the talks take place in Peking, initially with a small

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British team headed by HMA, and including officials from Hong Kong, and a corresponding team on the Chinese side. The talks should be confidential but from time to time both sides might agree a short statement on progress. The guidelines for the talks should be the statement agreed by the Prime Minister and Deng Xiaoping. If Zhang insisted on an explicit acceptance of Deng's "premise" on the recovery of sovereignty by China, HMA would refer back for instructions.

If possible, he would also discuss the agenda for the first meeting, which he would suggest might take place a week later. He would ask the Chinese for a more detailed exposition of their proposals for maintaining the capitalist system in Hong Kong and ensuring its prosperity.

From the Hong Kong angle the Governor makes two main points on the handling of the talks. The first is the need to be able to demonstrate as quickly as possible that discussions are under way. He urges that the Ambassador should not make too sharp a distinction between the modalities of the talks and the guidelines and if possible to get on to substance during the first contact. This is clearly a very reasonable aim from Hong Kong's point of view, but a good deal will need to be left to the Ambassador's discretion depending upon the attitude adopted by the Chinese.

The Governor's second point concerns Hong Kong participation in the talks. We agree that it may well be necessary for this to be achieved at varying levels and in different ways. Involvement by the Governor should certainly not be ruled out. Indeed this was a point on which the Prime Minister herself placed some stress when the matter was discussed in Hong Kong. Obviously it is too early to make any hard and fast plans at this stage but we agree that the more general formulation on the composition of the British team which the Governor proposes is the right one.

I enclose a draft telegram of instructions that could be sent to HMA Peking if the Prime Minister wishes to proceed in this way.

While talks are in progress a parallel operation to continue the education of the Chinese leaders about the position of Hong Kong and the importance of British administration will clearly be necessary. The Governor has made a number of comments about this. He mentions the offer by Secretary of State Shultz to the Secretary of State that the Americans might help. This could well be useful. It would probably be best to wait to see how the first talks with the Chinese go. We shall, however, be making separate recommendations on this. In this

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context the Prime Minister asked whether it would be useful to seek the help of Lee Kuan-Yew to get across to the Chinese leaders the message about what inspires confidence in Hong Kong. I enclose a copy of Peking telegram number 607, in which HMA Peking comments on this proposal. He agrees that it might be helpful to be able to make use of trustworthy world leaders, including those in international monetary organisations, in this way, but considers that there would be difficulties in using Lee, who is unlikely to have normal contacts with Chinese leaders in the near future, and who fell out with Zhao Ziyang last year over China's support for South East Asia Communist parties. Moreover, Lee will be fully aware that Singapore would benefit in many ways from an eclipse of Hong Kong, and may therefore have an interest in bringing this about.

I also enclose telegrams from Hong Kong (numbers 1102 and 1103) about the remarks which the Governor proposes to make to the Legislative Council in his annual address on 6 October. These have been cleared with the Ambassador in Peking. They seem on exactly the right lines. If the Prime Minister has any comments, she may wish to make these at the meeting today.

Yours ever
John Holmes

J E Holmes

A J Coles Esq
10 Downing Street

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[TEXT] PERSONAL FOR AMBASSADOR

YOUR TELNOS 610 AND 611 AND HONG KONG TELNOS 1102, 1103 AND 1105: FUTURE OF HONG KONG

1. Thank you for these helpful comments. Following discussion with the Prime Minister at a meeting on 1 October, it was agreed that you should take action with the MFA as proposed in your telno 611 as amended by the last sentence of paragraph 5 of Hong Kong telno 1105. Because of the continuing nervousness in Hong Kong, there is advantage in making contact with the Chinese soon, and the Prime Minister fully accepts the Governor's points on this.

2. As regards the substance of your first contact, you

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will of course have to judge the mood of the Chinese. We hope that this will permit you to move on to a discussion of the guidelines so that we can say that talks of substance have begun. However your point about the need to avoid accepting any Chinese precondition on the discussion of sovereignty is fully taken. You should refer back for instructions if the Chinese insist on this.

3. In practice it will in any case be very difficult to keep your first contact with Zhang Wenjin secret and some announcement to the press is likely to be inevitable. We hope you can agree with the Chinese that both sides should limit this to a simple statement that talks have begun and will be continued soon. It will of course be particularly important to avoid getting into details if there has been disagreement on the lines envisaged above.

4. You should also draw the attention of the Chinese to the ill effect in Hong Kong which public statements on substance have made, and urge that as far as possible during the talks we should limit comment to agreed joint statements at suitable intervals.

NOTHING TO BE WRITTEN IN THIS MARGIN

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Mr. Hoare

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FM PEKING 231500Z SEP 82
TO IMMEDIATE FCO
TELNO 589 OF 23 SEP 82.

PERSONAL FOR PS TO SECRETARY OF STATE
FROM PRIVATE SECRETARY TO PRIME MINISTER.

PRIME MINISTER'S TALKS WITH ZHAO ZIYANG: FUTURE OF HONG KONG.

1. THE PRIME MINISTER BEGAN THE SECOND SESSION WITH ZHAO ZIYANG ON 23 SEPTEMBER WITH A STATEMENT ON HONG KONG. RECALLING WHAT ZHAO HAD TOLD MR ATKINS IN JANUARY AND DENG XIAOPING'S REMARKS TO MR HEATH IN APRIL SHE SAID SHE HAD IDENTIFIED TWO MAIN ELEMENTS IN THE CHINESE THINKING. THE FIRST WAS SOVEREIGNTY WHICH WAS LIKELY TO BE A DELICATE MATTER SEMICOLON SHE WOULD RETURN TO THAT LATER. THE SECOND WAS THE NEED TO MAINTAIN THE PROSPERITY OF HONG KONG.

2. THE PRIME MINISTER DESCRIBED WHAT SHE SAW AS THE FUNDAMENTAL ELEMENTS ON WHICH CONFIDENCE IN HONG KONG DEPENDED. BRITISH ADMINISTRATION HAD PROVIDED THESE. CHANGES SUCH AS THOSE ENVISAGED IN DENG'S REMARKS TO MR HEATH WOULD IF IMPLEMENTED OR EVEN ANNOUNCED AS A DECISION OF THE CHINESE GOVERNMENT HAVE A DISASTROUS EFFECT UPON CONFIDENCE IN HONG KONG. THERE WOULD BE ECONOMIC COLLAPSE, A FLIGHT OF CAPITAL FROM THE TERRITORY, MANY PEOPLE IN HONG KONG WOULD SUFFER FINANCIAL HARDSHIP, MANY WOULD SEEK TO LEAVE, THERE WOULD BE INTERNATIONAL REPERCUSSIONS AND BRITAIN WOULD HAVE FAILED IN ITS DUTY TO HONOUR ITS OBLIGATIONS TO THE PEOPLE OF HONG KONG WHO HAD PLACED THEIR FAITH IN BRITISH ADMINISTRATION FOR MORE THAN A CENTURY. THE PROBLEM WAS NOT WHAT WOULD HAPPEN IN 1997, BUT WHAT PEOPLE BELIEVED NOW IN 1982 WOULD HAPPEN TO THE FUTURE ADMINISTRATION OF HONG KONG. THE COMMON OBJECTIVE OF THE TWO SIDES TO MAINTAIN THE PROSPERITY OF HONG KONG COULD ONLY BE ACHIEVED IF PEOPLE BELIEVED THAT THE PRESENT ARRANGEMENTS FOR ADMINISTERING HONG KONG WOULD CONTINUE FOR A LONG TIME, BEYOND 1997. A CHANGE AWAY FROM BRITISH ADMINISTRATION WOULD HAVE A VERY DESTRUCTIVE EFFECT.

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3. SOMETHING HAD TO BE DONE VERY SOON. THE PRIME MINISTER WAS FAMILIAR WITH THE CHINESE POSITION ON SOVEREIGNTY, BUT SHE COULD ONLY MAKE RECOMMENDATIONS TO HER GOVERNMENT ON THE QUESTION OF SOVEREIGNTY IF THERE WAS AGREEMENT BETWEEN THE TWO SIDES ON CONCRETE ARRANGEMENTS FOR THE ADMINISTRATION AND CONTROL OF HONG KONG AND SHE WAS SATISFIED THAT THEY WOULD COMMAND CONFIDENCE AND WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG. THE PRIME MINISTER PROPOSED THAT OFFICIAL TALKS SHOULD BEGIN SOON TO SEEK AGREEMENT ON SUCH ARRANGEMENTS WHICH WOULD MEET THE WISHES OF CHINA, BRITAIN AND THE PEOPLE OF HONG KONG AND PRESERVE THE PROSPERITY OF HONG KONG. SHE PROPOSED THAT THESE TALKS SHOULD BEGIN VERY EARLY AND THAT THERE SHOULD BE A PUBLIC ANNOUNCEMENT TO THIS EFFECT BEFORE SHE LEFT PEKING.

4. ZHAO ZIYANG SAID THAT THE CHINESE GOVERNMENT HAD ALL ALONG STATED THAT THIS PROBLEM LEFT OVER FROM HISTORY WOULD BE SETTLED IN THE PROPER WAY WHEN CONDITIONS WERE RIPE. IT COULD BE SAID THAT CONDITIONS WERE RIPE NOW. CHINA COULD NOT BUT RECOVER ITS SOVEREIGNTY OVER HONG KONG, NO LATER THAN 1997. CHINA DID NOT ACCEPT THE TREATIES BUT IN ANY CASE BRITAIN WOULD HAVE NO LEGAL BASIS TO ADMINISTER THE NEW TERRITORIES AFTER 1997. HONG KONG ISLAND AND KOWLOON WERE SIMILARLY INSEPERABLE FROM THE TERRITORY OF CHINA, SO THE ONLY WISE AND PRACTICAL COURSE WAS THAT THE WHOLE TERRITORY SHOULD BE RETURNED TO CHINA. THE CHINESE PEOPLE WOULD NOT PERMIT THE CHINESE GOVERNMENT TO FAIL TO RECOVER SOVEREIGNTY OVER HONG KONG BY 1997, 48 YEARS AFTER THE FOUNDING OF THE PEOPLE'S REPUBLIC. ANY CHINESE GOVERNMENT WHICH FAILED TO RECOVER SOVEREIGNTY WOULD NOT BE ABLE TO ACCOUNT TO ITS PEOPLE. ON THIS ISSUE THERE WAS NO ALTERNATIVE AND NO LEEWAY FOR THE CHINESE GOVERNMENT. THE DIFFICULTIES OF BOTH SIDES ON THIS QUESTION WERE DIFFERENT IN NATURE.

5. ZHAO SAID THAT AFTER THE RECOVERY OF SOVEREIGNTY THE CHINESE GOVERNMENT WOULD PURSUE SPECIAL POLICIES DESIGNED TO MAINTAIN STABILITY AND PROSPERITY IN HONG KONG. HONG KONG COULD BECOME A SPECIAL ADMINISTRATIVE ZONE ADMINISTERED BY LOCAL PEOPLE AND ITS EXISTING ECONOMIC AND SOCIAL SYSTEM AND LIFE STYLE COULD REMAIN UNCHANGED. THE CAPITALIST SYSTEM IN HONG KONG WOULD REMAIN AS WOULD THE FREE PORT AND THE INTERNATIONAL FINANCIAL CENTRE.

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THE HONG KONG DOLLAR WOULD CONTINUE TO BE USED AND TO BE CONVERTIBLE. CHINA WOULD TAKE INTO PROPER CONSIDERATION THE ECONOMIC RELATIONSHIP BETWEEN BRITAIN AND HONG KONG, BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN AT THEIR POSTS WHEN THE SPECIAL ADMINISTRATIVE ZONE WAS SET UP.

6. TO SUM UP THE TWO ELEMENTS OF CHINA'S BASIC POLICY ON THE HONG KONG QUESTION - RECOVERY OF SOVEREIGNTY AND MAINTENANCE OF PROSPERITY - WERE INSEPERABLE, BUT RECOVERY OF SOVEREIGNTY WAS THE PREREQUISTIE. ON THE PREMISE OF RECOVERING SOVEREIGNTY, CHINA COULD EXPLORE WAYS OF MAINTAINING AND DEVELOPING THE PROSPERITY OF HONG KONG. ZHAO SAID THAT CHINA WOULD NOT MAINTAIN AND DEVELOP THE PROSPERITY OF HONG KONG AT THE EXPENSE OF THE RECOVERY OF SOVEREIGNTY. CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF, NOR PLACE HONG KONG UNDER OTHERS TRUSTEESHIP.

7. ZHAO THEN MISQUOTED THE PRIME MINISTER AS SAYING THAT IF CHINA RECOVERED SOVEREIGNTY, CONFIDENCE AND PROSPERITY IN HONG KONG WOULD BE DESTROYED. THE PRIME MINISTER CORRECTED THIS, REITERATING THAT THE PRESENT FLOURISHING SYSTEM IN HONG KONG DEPENDED UPON BRITISH ADMINISTRATION. SHE STRESSED AGAIN THAT THE URGENT NEED WAS TO RETAIN CONFIDENCE NOW, IF WHEN SHE REACHED HONG KONG AFTER LEAVING CHINA SHE HAD TO SAY THAT THERE HAD BEEN NO MEETING OF MINDS ABOUT THE FUTURE OF BRITISH ADMINISTRATION, CONFIDENCE WOULD FAIL NOW.

8. ZHAO REPEATED THAT THE CHINESE PUT THE RECOVERY OF SOVEREIGNTY BEFORE THE MAINTENANCE OF PROSPERITY. NO SOVEREIGN STATE COULD DO OTHERWISE. HE COULD NOT AGREE WITH WHAT THE PRIME MINISTER HAD SAID ABOUT THE PROSPERITY OF HONG KONG BEING DESTROYED IF CHINA RECOVERED SOVEREIGNTY. HE THOUGHT THAT AS LONG AS THE TWO SIDES SHOWED FULL COOPERATION, IT WOULD BE POSSIBLE TO AVOID CONFUSION IN HONG KONG DURING THE TRANSITIONAL PERIOD. HE THOUGHT THAT "RECENT DEVELOPMENTS" IN HONG KONG DERIVED FROM MANY REASONS, BUT THE MAIN REASON WAS NOT (UNDERLINED) THE SPREAD OF THE NEWS THAT CHINA WOULD RECOVER SOVEREIGNTY. HE DID NOT BELIEVE THAT CHINESE INVESTORS WOULD FIND BETTER PLACES FOR THEIR MONEY IF CHINA PURSUED POLICIES TO MAINTAIN THE PROSPERITY AND DEVELOPMENT OF HONG KONG. THE PRIME MINISTER INTERJECTED THAT DISINVESTMENT WAS ALREADY IN PROGRESS. ZHAO REJOINED THAT PERHAPS A FEW, BUT NOT MANY WERE DISINVESTING.

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9. ZHAO SAID THAT THE PRIME MINISTER HAD PROPOSED THAT AFTER HER VISIT THE TWO SIDES SHOULD MAINTAIN CONTACT ON HONG KONG. CHINA HELD THE SAME VIEW. BOTH SIDES SHOULD CONTINUE TO DISCUSS THE RECOVERY OF SOVEREIGNTY OVER HONG KONG AND, ON THIS PREMISE, HOW TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG.

10. THE PRIME MINISTER REITERATED THE DIFFICULTIES OF THE SOVEREIGNTY ISSUE FOR BRITAIN. THE TWO SIDES NEEDED TO CONSULT AND AGREE ABOUT HOW TO ACHIEVE A CONTINUATION OF BRITISH ADMINISTRATION IN HONG KONG. SUCH AN AGREEMENT WOULD ENABLE HER TO CONSIDER THE QUESTION OF SOVEREIGNTY. SHE THOUGHT THAT THERE WAS MUCH IN COMMON BETWEEN THE TWO SIDES. SHE HAD NOTED CHINA'S NINE POINT PROPOSALS ON TAIWAN. IF BRITAIN AND CHINA COULD REACH A SATISFACTORY AGREEMENT ON HONG KONG THIS COULD BE AN EXAMPLE. THE PRIME MINISTER SUGGESTED THAT BOTH SIDES SHOULD NOW REFLECT ON WHAT HAD BEEN SAID AND THAT DISCUSSIONS ON HONG KONG SHOULD BE RESUMED WITH DENG XIAOPING ON 24 SEPTEMBER. ZHAO AGREED.

11. THE PRIME MINISTER AND ZHAO AGREED TO ISSUE THE FOLLOWING STATEMENT TO THE PRESS. "THE TWO SIDES BEGAN DISCUSSION OF HONG KONG TODAY IN A FRIENDLY ATMOSPHERE. THE TALKS WERE USEFUL. THEY WILL BE CONTINUED TOMORROW."

12. THE PRIME MINISTER WISHES THE CONTENT OF THIS REPORT TO BE VERY CLOSELY GUARDED. IT SHOULD THEREFORE BE GIVEN EXTREMELY RESTRICTED CIRCULATION.

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TELEGRAM NUMBER 596 OF 24 SEP 82

AND TO IMMEDIATE HONG KONG (PERSONAL FOR ACTING GOVERNOR)

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TO PS TO SECRETARY OF STATE

FROM PS TO PRIME MINISTER

PRIME MINISTER'S TALKS WITH DENG XIAOPING: HONG KONG

Handwritten mark and date 16/9

1. THE PRIME MINISTER MET DENG XIAOPING ON FRIDAY 24 SEPTEMBER. DENG IMMEDIATELY RAISED THE QUESTION OF THE FUTURE OF HONG KONG AND ASKED THE PRIME MINISTER TO SPEAK FIRST.

2. THE PRIME MINISTER REPEATED MUCH OF WHAT SHE HAD SAID TO ZHAO, STRESSING THE FOLLOWING POINTS:

- A) THE TWO SIDES HAD THE COMMON OBJECTIVE OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG.
- B) THAT WHAT WAS SAID OR DONE NOW (UNDERLINED) WOULD HAVE AN IMMEDIATE IMPACT ON CONFIDENCE IN HONG KONG ITSELF AND INTERNATIONALLY:
- C) SHE KNEW HOW IMPORTANT SOVEREIGNTY WAS TO CHINA BUT IT WAS ALSO A DIFFICULT ISSUE FOR HER. HOWEVER, IF THE TWO GOVERNMENTS COULD AGREE DEFINITE ARRANGEMENTS ABOUT THE FUTURE ADMINISTRATION AND CONTROL OF HONG KONG AND IF SHE WERE SATISFIED THAT THEY COULD WORK AND COMMAND CONFIDENCE, AND IF SHE COULD JUSTIFY THEM TO THE BRITISH PARLIAMENT AND IF THEY WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG, THEN SHE COULD CONSIDER THE QUESTION OF SOVEREIGNTY. WITHOUT SUCH AGREEMENT SHE COULD NO MAKE RECOMMENDATIONS TO HER GOVERNMENT ON SOVEREIGNTY.
- D) THE IMMEDIATE ISSUE WAS NOT WHAT WOULD HAPPEN IN 1997 BUT WHAT PEOPLE NOW (UNDERLINED) THOUGHT WOULD HAPPEN IN 1997.
- E) THERE WAS NOT ENOUGH TIME DURING HER VISIT TO RECONCILE THE DIFFERENCES BETWEEN THE TWO SIDES BUT SHE BELIEVED THOSE DIFFERENCES COULD BE RECONCILED THROUGH TALKS AND AND IT WAS ESSENTIAL TO MAINTAIN CONFIDENCE MEANWHILE.

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THE PRIME MINISTER PROPOSED THAT THE TWO SIDES SHOULD ANNOUNCE BEFORE SHE LEFT PEKING THAT SHE SHOULD HAVE FURTHER TALKS, TO BE PURSUED URGENTLY, AND THAT THE COMMON OBJECTIVE OF THOSE TALKS SHOULD BE THE MAINTENANCE OF PROSPERITY AND STABILITY IN HONG KONG.

3. CHAIRMAN DENG XIAOPING SAID THAT ZHAO HAD ALREADY CLEARLY ENUNCIATED CHINA'S BASIC POSITION ON HONG KONG. THERE WERE THREE QUESTIONS - SOVEREIGNTY SEMICOLON THE CONTINUED PROSPERITY OF HONG KONG SEMICOLON AND DISCUSSIONS BETWEEN THE CHINESE AND BRITISH GOVERNMENTS ON HOW TO AVOID TURBULENCE IN HONG KONG IN THE PERIOD BETWEEN NOW AND 1997 AND HOW TO MAINTAIN HONG KONG'S PROSPERITY THEREAFTER.

4. DENG REITERATED THAT CHINA HAD NO LEEWAY ON THE SOVEREIGNTY QUESTION. IT SHOULD BE CLEAR TODAY THAT CHINA WOULD CERTAINLY RECOVER SOVEREIGNTY OVER HONG KONG IN 1997. ON THIS PRECONDITION CHINA AND BRITAIN WOULD HOLD TALKS ON FORMULAE FOR THE FUTURE OF HONG KONG AND ON POLICIES FOR MAINTAINING HONG KONG'S PROSPERITY. IN NO MORE THAN ONE OR TWO YEARS TIME THE CHINESE GOVERNMENT WOULD FORMALLY ANNOUNCE ITS DECISION TO RECOVER HONG KONG. THEY WOULD WAIT ONE OR TWO YEARS IN ORDER THAT THE TWO GOVERNMENTS COULD CONDUCT FRIENDLY CONSULTATIONS SO THAT MAJOR DISTURBANCES SHOULD BE PREVENTED AND SO THAT THE PROSPERITY OF HONG KONG WOULD BE MAINTAINED. TIME WAS NEEDED TO SETTLE THE FUTURE OF HONG KONG. BUT AN ANNOUNCEMENT COULD NOT BE PUT OFF FOR MORE THAN ONE OR TWO YEARS. HE THEN SUGGESTED THAT THE CHINESE RESUMPTION OF SOVEREIGNTY OVER HONG KONG WOULD BENEFIT BRITAIN BY BRINGING TO AN END THE PERIOD OF COLONIALISM.

5. THE PRIME MINISTER REPLIED THAT BRITAIN WAS NOT COLONIALIST SEMICOLON WE SIMPLY WANTED TO CARRY OUT OUR MORAL DUTY TO HONG KONG. WE KNEW THAT IN 1997 SOVEREIGNTY OVER 92 PERCENT OF HONG KONG WOULD PASS TO CHINA. THE BRITISH GOVERNMENT KEPT TO ITS TREATIES AND WAS NOT CONTESTING THE TERMINATION OF THE LEASE. SHE STRESSED AGAIN THE NEED TO BOLSTER INVESTOR CONFIDENCE NOW (UNDERLINED). SHE SUGGESTED THAT WE SHOULD BEGIN TALKS IMMEDIATELY IN ORDER TO OBTAIN AN AGREEMENT ACCEPTABLE TO CHINA, HONG KONG, AND THE BRITISH PARLIAMENT AND WHICH WOULD PRESERVE PROSPERITY, FOR IF WE DESTROYED PROSPERITY IT WOULD NEVER RETURN. SHE RECOGNISED THAT CHINESE HAD ITS OWN POSITION ON SOVEREIGNTY. WE TOO HAD OUR POSITION. BUT THESE POSITIONS WERE RECONCILABLE AND IN THAT SPIRIT WE COULD ENTER TALKS.

6. DENG REPLIED THAT HE HOPED WE WOULD UNDERSTAND THAT CHINA WOULD RECOVER SOVEREIGNTY OVER THE WHOLE OF HONG KONG BY 1997. HE DID NOT THINK HONG KONG'S PROSPERITY COULD ONLY BE MAINTAINED UNDER BRITISH ADMINISTRATION. THE MAINTENANCE OF PROSPERITY WOULD DEPEND FUNDAMENTALLY ON THE POLICY PURSUED BY CHINA TOWARDS HONG KONG AFTER IT HAD RECOVERED SOVEREIGNTY AND WHEN HONG KONG WAS ADMINISTERED BY CHINA. SOME CHANGES WOULD BE MADE BUT HONG KONG WOULD REMAIN A CAPITALIST SOCIETY.

7. DENG CONTINUED THAT IT WAS UNAVOIDABLE THAT THERE WOULD BE SOME QUOTE FLUCTUATIONS UNQUOTE AFTER CHINA ANNOUNCED THAT IT WOULD RECOVER SOVEREIGNTY. CHINA WOULD TRY TO AVOID MAJOR FLUCTUATIONS AND, WITH COOPERATION, THIS COULD BE DONE. MANY PEOPLE SAID THAT IF PROSPERITY IN HONG KONG COULD NOT BE MAINTAINED THIS WOULD EFFECT CHINA'S MODERNISATION DRIVE. THERE WOULD BE SOME EFFECT BUT IT WOULD NOT BE GREAT. WITH REGARD TO THE FLIGHT OF INVESTMENTS FROM HONG KONG, PROVIDED CHINA PURSUED APPROPRIATE POLICIES FOREIGN INVESTMENTS WHICH HAD LEFT WOULD RETURN. WHEN CHINA ANNOUNCED ITS INTENTION TO RESUME SOVEREIGNTY, IT WOULD AT THE SAME TIME ANNOUNCE THE POLICIES AND MEASURES TO BE ADOPTED. IF THERE WERE VERY LARGE AND SERIOUS DISTURBANCES IN THE NEXT FIFTEEN YEARS THE CHINESE GOVERNMENT WOULD BE FORCED TO CONSIDER THE TIME AND FORMULA FOR THE RECOVERY OF ITS SOVEREIGNTY. NOT ONLY SHOULD THE TWO GOVERNMENTS NOT DO ANYTHING TO THE DETRIMENT OF PROSPERITY, BUT THEY SHOULD PREVENT BUSINESSMEN FROM DOING THINGS DETRIMENTAL TO THE PROSPERITY AND STABILITY OF HONG KONG. HE PROPOSED THAT THE TWO SIDES SHOULD AGREE TO START DISCUSSIONS THROUGH DIPLOMATIC CHANNELS ON THE PRECONDITION THAT IN 1997 CHINA WOULD RECOVER SOVEREIGNTY OVER HONG KONG. ON THIS PRECONDITION THEY WOULD DISCUSS HOW TO ENSURE A GOOD TRANSITIONAL PERIOD AND WHAT WOULD BE DONE THEREAFTER.

8. THE PRIME MINISTER REPLIED THAT SHE WAS WORRIED BY DENG'S REFERENCE TO DISTURBANCES. SHE WAS NOT CONTEMPLATING DISTURBANCES SEMICOLON SHE WOULD DO EVERYTHING TO PREVENT THEM. SHE ALSO WANTED TO PREVENT FINANCIAL COLLAPSE. SHE URGED DENG NOT TO MAKE THE KIND OF STATEMENT HE HAD SUGGESTED AND ASKED HIM TO AGREE THAT THE TWO SIDES SHOULD SAY THAT THEY HAD HAD TALKS, THAT THIS HAD BEEN THE FIRST EXCHANGE, IT HAD NOT BEEN POSSIBLE TO SOLVE ALL PROBLEMS IN THIS SESSION, BUT THEY HAD AGREED TO ENTER INTO FURTHER TALKS THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIM OF MAINTAINING PROSPERITY AND STABILITY IN HONG KONG. MR DENG HAD MADE KNOWN HIS POSITION ON SOVEREIGNTY BUT SHE WAS NOT FREE TO ABROGATE TREATIES WITHOUT REFERENCE TO HER CABINET AND PARLIAMENT.

9. THE PRIME MINISTER AND DENG THEN AGREED THE STATEMENT IN MY TELNO 591 OF 24 SEPTEMBER.

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10. THE PRIME MINISTER WISHED THE CONTENT OF THIS REPORT TO BE VERY CLOSELY GUARDED. IT SHOULD THEREFORE BE GIVEN EXTREMELY RESTRICTED CIRCULATION.

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FUTURE OF HONG KONG: PRIME MINISTER'S TALKS

1. IN THIS TELEGRAM I OFFER SOME PRELIMINARY ANALYSIS AND COMMENTS ON THE CHINESE LEADERS' RESPONSE TO THE PRIME MINISTER ON THE SUBJECT OF HONG KONG. MIFT CONTAINS RECOMMENDATIONS FOR FOLLOW-UP ACTION.
2. THE CHINESE WERE COURTEOUS IN MANNER, BUT, AS FORECAST, VERY TOUGH IN SUBSTANCE. BOTH DENG AND ZHAO APPEARED TO BE SPEAKING FROM AN AGREED BRIEF AND, EXCEPT AT THE END WHEN HE AGREED THE JOINT STATEMENT, DENG SHOWED LITTLE OF THE CASUAL, ALMOST THROW-AWAY DISPLAY OF PERSONAL AUTHORITY USUALLY ASSOCIATED WITH HIM. THE CHINESE WERE ADAMANT IN THEIR INSISTENCE ON RECOVERY OF SOVEREIGNTY OVER THE WHOLE TERRITORY IN, OR IF NEED BE BEFORE, 1997. SOVEREIGNTY WAS TO THEM NON-NEGOTIABLE AND IF A CHOICE HAD TO BE MADE TOOK PRECEDENCE OVER PROSPERITY.
3. SUBJECT TO THE OVERRIDING OBJECTIVE OF RECOVERY OF SOVEREIGNTY, THE CHINESE WERE PREPARED TO PURSUE SPECIAL POLICIES IN HONG KONG AND TO ALLOW THE CAPITALIST SYSTEM TO CONTINUE. BRITISH INTERESTS IN INDUSTRY, COMMERCE, FINANCE, SHIPPING AND AVIATION WOULD BE TAKEN INTO ACCOUNT AND BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN AT CERTAIN POSTS (THE CHINESE TEXT OF ZHAO'S STATEMENT, WHICH THE FOREIGN MINISTRY HAVE NOW PASSED PASSED TO ME, INCLUDES THE WORD 'CERTAIN'). BUT ZHAO EXPLICITLY STATED THAT CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF OR PLACE HONG KONG UNDER THE TRUSTEESHIP OF OTHERS.
4. IN DISCUSSION BOTH LEADERS, DENG IN PARTICULAR, REVEALED DEEP IGNORANCE OF THE WAY THE HONG KONG SYSTEM WORKS, EG DENG SEEMED TO ENVISAGE THAT HMG COULD CONTROL OR DIRECT BRITISH BUSINESSMEN IN THEIR INVESTMENTS. BOTH SAID THEY DID NOT BELIEVE THAT WITHOUT BRITISH ADMINISTRATION AND THE LINK WITH BRITAIN THE HONG KONG ECONOMY WOULD DECLINE AND COLLAPSE. THEY DO NOT UNDERSTAND, OR THEY AFFECT NOT TO UNDERSTAND, THAT THE CRUCIAL ELEMENT FOR CONFIDENCE IS THAT LINK.
5. BOTH LEADERS SOUGHT BRITISH COOPERATION IN ENSURING A SMOOTH TRANSITION TO CHINESE SOVEREIGNTY IN 1997. DENG ADDED A WARNING THAT IF THERE WERE BIG DISTURBANCES THE CHINESE WOULD SEE THEM AS ARTIFICIALLY ENGENDERED AND HINTED THAT IN THE WORST CASE CHINA WOULD BE PREPARED TO RECOVER SOVEREIGNTY OF HONG KONG AT AN EARLIER DATE. ON THE OTHER HAND, BRITISH COOPERATION WOULD MEAN THE

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COLONIALIST ERA FOR BRITAIN AND USHER IN A NEW ERA OF SINO-BRITISH COOPERATION. BUT IN ANY CASE CHINA WOULD AMMOUNCE IN NOT MORE THAN ONE OR TWO YEARS ITS PLANS FOR HONG KONG.

6. ALTOGETHER A VERY TOUGH OPENING STATEMENT, REVEALING THE POLITICAL AND EMOTIONAL IMPERATIVES, THE ECONOMIC IGNORANCE AND THE CALLOUSNESS THAT MARK THIS REGIME.

7. DESPITE THESE CHILLING STATEMENTS, THE CHINESE WERE READY TO AGREE TO TALKS, AND HAD A NEGOTIABLE DRAFT READY. THEY MADE LITTLE DIFFICULTY ABOUT ACCEPTING OUR PROPOSAL THAT THE OBJECT OF THE TALKS WOULD BE TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG. THIS APPARENT PARADOX IS NO DOUBT LARGELY EXPLAINED BY THE CHINESE WISH TO AVOID A ROW, TO ENGAGE US IN TALKS ON THEIR TERMS AND EVENTUALLY TO TAKE OVER 'NOT ONLY THE BUSINESS BUT ALSO THE GOODWILL'. THE DANGER HERE LIES IN DENG'S STATEMENT TOWARDS THE END OF THE TALKS THAT THE PREMISE (A BETTER TRANSLATION THAN 'PRECONDITION' AS IN THE ENGLISH RECORD) FOR DISCUSSIONS WAS THAT IN 1997 CHINA WOULD RECOVER SOVEREIGNTY. FORTUNATELY, THE PRIME MINISTER LATER MADE IT PLAIN THAT SHE WAS NOT FREE TO ABROGATE TREATIES WITHOUT REFERENCE TO HER CABINET AND PARLIAMENT AND, AS EXPLAINED IN MIFT, WE HAVE THE WORDS OF THE AGREED STATEMENT TO USE AS A DEFENCE AGAINST THIS ARGUMENT.

8. WE FACE , THEREFORE, VERY TOUGH AND AS YET OBSCURE TALKS IN WHICH THE CHINESE HAVE A STRONG POSITION AND WILL SEEK TO PUT PRESSURE ON US IN A NUMBER OF WAYS, IN PARTICULAR BY THE THREAT TO ANNOUNCE THEIR PLANS AND AS A RESULT OF HONG KONG'S NEED FOR AN EARLY SATISFACTORY AGREEMENT IF CONFIDENCE IS TO BE MAINTAINED. WE SHOULD ALSO BE PREPARED FOR A PRESS CAMPAIGN BY THE CHINESE WHICH, IF NOT REVEALING THE CONTENT OF THE TALKS, WILL AT LEAST BUILD UP THEIR CASE IN THE PUBLIC FORUM.

9. HOWEVER, IT WOULD BE WRONG TO DRAW TOO DARK CONCLUSIONS FROM THE CHINESE STATEMENTS AT THIS STAGE. HARD THOUGH THEY ARE, THEY ARE OPENING STATEMENTS WHICH WE WOULD EXPECT TO BE MAXIMALIST. ALTHOUGH THEY ARE IMMOVABLE ON SOVEREIGNTY THEY MAYBE READY TO MAKE CONCESSIONS ON ADMINISTRATION, WHICH IT WILL BE OUR OBJECT TO EXPLORE AND ENLARGE. THEY NOW HAVE THE PRIME MINISTER'S STATEMENT BEFORE THEM, WHICH WAS ALSO TOUGH AND IN A SENSE THE MIRROR IMAGE OF THEIR OWN STATEMENT. FOR THE FIRST TIME IN SOME THREE YEARS OF SPORADIC CONTACTS, BRITISH THINKING ON THE FUTURE HAS BEEN CLEARLY STATED. THEY WILL BE STUDYING THE STATEMENT CAREFULLY. THEY DO NOT WANT A ROW OVER HONG KONG, PARTICULARLY WITH ITS EFFECT ON TAIWAN IN MIND, AND THEY NEED HONG KONG'S MONEY, THOUGH HOW FAR THEY WILL BE PREPARED TO GO TO AVOID THE FIRST AND SECURE THE SECOND REMAINS TO BE SEEN. WE SHOULD ALSO RECALL THAT AFTER VERY TOUGH STATEMENTS ON US ARMS SALES TO TAIWAN A MUTUALLY SATISFACTORY AGREEMENT WAS EVENTUALLY REACHED WITH THE AMERICANS, THOUGH OF COURSE THE US HAD MORE CLOUT THAN WE HAVE AND WERE NOT UNDER THE SAME SORT OF PRESSURE.

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10. WE FOR OUR PART HAVE SECURED OUR MINIMUM OBJECTIVE FOR THE VISIT, IE AN AGREEMENT TO HOLD TALKS, AND IF WE CAN GET THEM GOING ON TOLERABLE TERMS OUR OBJECT MUST BE TO INVOLVE THE CHINESE IN DETAIL ON THE INGREDIENTS OF HONG KONG'S SUCCESS WITH THE OBJECT OF EDUCATING THEM IN ECONOMIC REALITIES. WE HAVE CARDS, THOUGH WE SHALL HAVE TO HUSBAND THEM, AND THERE IS STILL EVERYTHING TO PLAY FOR.

CRADOCK

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

COPIES TO:-
MR COLES - NO10 DOWNING ST.

SECRET

GR 970
SECRET
DEDIP

DESKBY 300900ZCV

FM PEKING 300855Z SEP 82

TO IMMEDIATE ECO

TELNO 611 OF 3Q SEPTEMBER

INFO IMMEDIATE DESKBY HONG KONG 300900Z PERSONAL FOR GOVERNOR.

PERSONAL FOR DONALD, AUS

MIPT: FUTURE OF HONG KONG

1. AGAINST THIS BACKGROUND WE NEED TO GET TALKS GOING AS SOON
AS POSS

IBLE. THE FIRST STEP I SUGGEST IS FOR ME TO APPROACH VICE
FOREIGN MINISTER ZHANG WENJIN IN ORDER TO ARRANGE THEIR OPENING.
DISCUSSION WITH ZHANG IS LIKELY TO COVER TWO MAIN ASPECTS -

- (A) MODALITIES.,
- (B) GUIDELINES.

IF ALL GOES WELL ON THIS, IT MIGHT BE POSSIBLE TO MOVE ON TO
CONSIDERING WITH HIM THE AGENDA AND EVEN THE DATE FOR THE FIRST
MEETING.

2. ON REFLECTION, I SHOULD LIKE TO BEGIN WITH MODALITIES BY
REFERRING ZHANG TO THE JOINT STATEMENT, SAYING THAT FOLLOWING
AGREEMENT BETWEEN DENG AND MRS THATCHER ON THIS STATEMENT I HAD
BEEN ASKED TO APPROACH HIM TO DISCUSS MODALITIES. WE WISHED THE
TALKS TO BE CONDUCTED IN THE FIRST INSTANCE AT LEAST BETWEEN A
SMALL BRITISH TEAM LED BY HMA PEKING AND A CORRESPONDING TEAM
ON THE CHINESE SIDE. THIS DID NOT EXCLUDE THE POSSIBILITY
OF COMMUNICATION OR DISCUSSION AT A DIFFERENT AND HIGHER LEVEL
FROM TIME TO TIME IF NEED AROSE. WE WISHED TO BE FLEXIBLE. THE
TALKS SHOULD BE HELD IN PEKING. THE FACT THAT THEY WERE BEING HELD
WOULD BE KNOWN TO THE WORLD SEMIOLON IN FACT THERE WOULD BE
ADVANTAGE FROM THE POINT OF VIEW OF CONFIDENCE IN HONG KONG IN
LETTING IT BE KNOWN THAT THEY HAD BEGUN. BUT THEIR SPECIFIC
VENUE AND TIMING AND, OF COURSE, THEIR CONTENT MUST BE KEPT SECRET.
BOTH SIDES SHOULD AVOID STATEMENTS LIKELY TO PREJUDICE THEIR
SUCCESS. FROM TIME TO TIME BOTH SIDES MIGHT AGREE A SHORT STATE-
MENT ON PROGRESS.

3. THE TEAMS SHOULD BE SMALL BUT IT WOULD BE NECESSARY TO HAVE THE
BRITISH TEAM CONTAIN OFFICIALS FROM HONG KONG. THESE LAST MIGHT
VARY ACCORDING TO THE PRECISE SUBJECT UNDER DISCUSSION. WE HOPED
THE CHINESE WOULD ASSIST IN ENSURING THAT THEIR MOVEMENTS TO AND
FROM PEKING ATTRACTED AS LITTLE PUBLIC ATTENTION AS POSSIBLE.

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4. I SHOULD PREFER TO MAKE THE QUESTION OF GUIDE-LINES ONLY MY SECOND POINT AND RAISE IT ONLY WITH THE OBJECT OF SMOKING THE CHINESE OUT AND TRYING TO AVOID A STERILE WRANGLE AT THE FIRST SUBSTANTIVE MEETING. PERHAPS THE BEST WAY OF TACKLING THIS WOULD BE TO SAY WE OF COURSE TOOK AS GUIDELINES THE STATEMENT AGREED BY OUR LEADERS. ZHANG CAN BE EXPECTED TO RESTATE DENG'S "PREMISE" THAT THE TALKS ~~BE~~ ON THE BASIS THAT IN 1997 CHINA WOULD RECOVER SOVEREIGNTY. I PROPOSE TO REPLY THAT THE CHINESE POSITION IS CLAR, BUT SO IS MRS THATCHER'S, IE THAT SHE COULD NOT CONTEMPLATE MAKING RECOMMENDATIONS ON SOVEREIGNTY TO PARLIAMENT UNLESS SHE WAS FULLY SATISFIED ABOUT ARRANGEMENTS FOR ADMINISTRATING HONG KONG AFTER 1997. WE MAY GET AWAY WITH A SIMPLE RESTATEMENT OF RESPECTIVE POSITIONS ON THESE LINES.

5. IT IS POSSIBLE HOWEVC^{OF DENG}P THAT ZHANG WILL TRY TO INSIST ON EXPLICIT ACCEPTANCE BY US ^{OF DENG}073,0'S PREMISE. IN THIS CASE I WOULD INSIST THAT THE TALKS MUST TAKE PLACE ON THE BASIS OF THE JOINT STATEMENT BY THE THE TWO LEADERS, IE THAT HAVING EXPRESSED THEIR RESPECTIVE POSITIONS, THE LEADERS AGREED THAT TALKS SHOULD TAKE PLACE WITH THE COMMON AIM OF ENSURING STABILITY AND PROSPERITY. THE FACT THAT THE STATEMENT REFERRED TO RESPECTIVE POSITIONS REFLECTED THE FACT THAT THERE WERE DIFFERENCES OF VIEW ON BASIC POINTS. FOR THE CHINESE NOW TO INSIST ON OUR ACCEPTANCE OF CONDITIONS NOT EXPRESSED IN THE JOINT STATEMENT WOULD BE INCONSISTENT WITH THE AIM AGREED BY OUR LEADERS AND FRUSTRATE THEIR INTENTIONS.

6. IF ZHANG PROVED OBDURATE I SHOULD HAVE TO REFER BACK FOR INSTRUCTIONS. I THINK THAT OUR BEST LINE IN SUCH A CASE WOULD BE TO SEEK TO CONVINCING THE CHINESE THAT THEY WERE ASKING FOR SOMETHING BEYOND MRS THATCHER'S POWER TO GIVE, EVEN IF SHE WISHED TO. I DOUBT WHETHER THE CHINESE WISH THE TALKS

TO BREAK DOWN AT THIS EARLY STAGE. IF WE COULD GET THIS POINT ACROSS THERE SHOULD BE A GOOD CHANCE THAT THEY WOULD RETREAT.

8. IF ZHANG ACCEPTED THE ARGUMENT WE MIGHT BE ABLE TO MOVE ON TO THE QUESTION OF THE AGENDA FOR THE FIRST MEETING. I COULD REPEAT OUR SINCERELY HELD VIEW THAT PROSPERITY IN HONG KONG DEPENDS ON CONTINUED BRITISH ADMINISTRATION. I COULD THEN SAY THAT WE HAD LISTENED WITH INTEREST TO THE CHINESE PROPOSALS FOR MAINTAINING THE CAPITALIST SYSTEM IN HONG KONG AND ENSURING ITS PROSPERITY: WE WOULD BE GRATEFUL FOR A CHANCE TO LISTEN TO A MORE DETAILED EXPOSITION FROM THEM AT THE FIRST MEETING SO THAT WE WOULD BE ABLE TO OFFER OUR COMMENTS. AS REGARDS A DATE, I WOULD SUGGEST ABOUT A WEEK FROM THE DATE OF MY MEETING WITH ZHANG. THIS MAY WELL BE TOO FAST FOR THE CHINESE BUT IT MAY BE USEFUL TO PUT A LITTLE PRESSURE ON THEM.

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9. THE ABOVE REFLECTS THE DISCUSSIONS WITH THE PRIME MINISTER AND THE GOVERNOR ON THIS SUBJECT IN HONG KONG, THOUGH SINCE IT IS CONCERNED ONLY WITH MY FIRST MEETING WITH ZHANG AND WHAT I MAY SAY TO HIM IT NATURALLY DOES NOT LOOK AS FAR FORWARD OR COVER ALL THE TOPICS IN OUR DISCUSSION IN HONGKONG. IF YOU AND THE GOVERNOR AGREE, I SHOULD BE GRATEFUL FOR INSTRUCTIONS.

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SECRET

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DESKBY 010830Z FCO

DESKBY 011000Z PEKING

FM HONG KONG 010755Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1105 OF 1 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

PERSONAL FOR DONALD FROM GOVERNOR

PEKING TELNOS 610 AND 611: FUTURE OF HONG KONG: PRIME MINISTER'S TALKS

1. AS A CONSEQUENCE OF THE AGREED STATEMENT ISSUED IN PEKING AND OF THE PRIME MINISTER'S MEETINGS AND STATEMENTS HERE THERE IS AN UNDERLYING ACCEPTANCE THAT THE AGREEMENT TO HOLD TALKS AND THE ENDORSEMENT BY BOTH SIDES OF A COMMON OBJECTIVE FOR THEM WERE A SUBSTANTIAL STEP FORWARD. THIS VIEW WAS CLEARLY EXPRESSED IN THE PRIME MINISTER'S MEETING WITH UMELCO AND AGAIN AT EXECUTIVE COUNCIL YESTERDAY, AND IS PROBABLY HELD BY MOST THINKING PEOPLE HERE.

2. THERE IS NEVERTHELESS A VERY CONSIDERABLE STATE OF NERVOUSNESS WHICH HAS BEEN EXACERBATED BY THE COUNTER STATEMENT PUT OUT YESTERDAY BY NCHA ABOUT THE PRIME MINISTER'S COMMENTS ON THE VALIDITY OF THE TREATIES. THIS HAS COINCIDED WITH THE PUBLICATION OF THE FINANCIAL SECRETARY'S HALF-YEARLY REVIEW OF THE STATE OF THE ECONOMY. AS A CONSEQUENCE OF THE CONTINUATION OF THE WORLD RECESSION THE FORECAST FOR GROWTH OF GNP IS DOWN TO 4 PER CENT FROM THE 8 PER CENT IN THE BUDGET SPEECH IN FEBRUARY. OVER THE PAST WEEK THE NOMINAL VALUE OF THE HONG KONG DOLLAR IN U.S. DOLLAR TERMS HAS FALLEN BY 4 PER CENT AND THE EFFECTIVE INDEX BY NEARLY 3 PER CENT. THE HANG SENG INDEX HAS FALLEN BY OVER 22 PER CENT IN THE SAME PERIOD. BOTH THE FOREIGN EXCHANGE AND EQUITY MARKETS LOOK LIKE STAYING IN A HIGHLY NERVOUS AND VOLATILE STATE FOR THE TIME BEING AS DOWNSIDE RISKS ARE EVALUATED.

3. A THIRD ELEMENT IS THE STRONGLY EXPRESSED WISH HERE THAT HONG KONG SHOULD NOT ONLY BE INVOLVED IN THE TALKS IN PEKING ON THE FUTURE BUT SHOULD BE SEEN TO BE INVOLVED THROUGH THE GOVERNOR PERSONALLY. THE SENIOR UNOFFICIAL MEMBER MADE THIS POINT AT THE UMELCO MEETING AND READ THE STATEMENT WHICH HE MADE THEN INTO THE MINUTES OF EXECUTIVE COUNCIL YESTERDAY.

4. IN THE LIGHT OF THE ABOVE, I THINK THE HONG KONG DIMENSION WILL HAVE TO BE GIVEN GREATER WEIGHT IN THE SCENARIO FOR THE TALKS (PEKING TELNO 611). TO BEGIN WITH, WE MUST BE ABLE TO SAY SOON THAT THE TALKS HAVE BEGUN. THERE IS A DANGER THAT IF WE START TALKING ABOUT MODALITIES ONLY WE MAY NEVER GET TO A POINT WHERE WE CAN SAY THAT SUBSTANTIVE TALKS HAVE COMMENCED. I THEREFORE SUGGEST THAT IN THE AMBASSADOR'S APPROACH TO ZHANG WENJIN, THE DISTINCTION BETWEEN MODALITIES AND GUIDELINES SHOULD BE BLURRED. THIS WOULD ENABLE THE FIRST CONTACT TO BE PRESENTED AS THE COMMENCEMENT OF THE TALKS PROPER. →

5. MY SECOND POINT CONCERNS PARAGRAPH 3 OF PEKING TELNO 611. I DO NOT THINK WE SHOULD LEAD THE CHINESE TO BELIEVE THAT THE TALKS CAN BE CONDUCTED QUIETLY AND DISCREETLY WITH ONLY THE PARTICIPATION OF ''OFFICIALS'' FROM HONG KONG IN THE TEAM. IF CONFIDENCE IS TO BE MAINTAINED HERE THERE WILL NEED TO BE ''EVENTS'' FROM TIME TO TIME OF A KIND WHICH WILL DEMONSTRATE PUBLICLY THAT SOMETHING IS HAPPENING AND THAT HONG KONG IS CLOSELY INVOLVED. DEPENDING ON HOW THINGS GO, THE FIRST SUCH EVENT MIGHT HAVE TO TAKE THE FORM OF A VISIT BY ME TO PEKING AT AN APPROPRIATE POINT IN THE NOT TOO DISTANT FUTURE. FOR THIS REASON I CONSIDER THAT IT WOULD BE BEST IF THE CHINESE WERE SIMPLY TOLD THAT THE COMPOSITION OF THE BRITISH TEAM WOULD VARY IN ACCORDANCE WITH THE REQUIREMENTS OF THE NEGOTIATIONS.

6. IN PARALLEL WITH THE START OF TALKS IN PEKING WE CAN BEGIN IN HONG KONG THE OVERT (BUT NOT PUBLIC) PROCESS OF GETTING OTHERS TO CORROBORATE TO THE CHINESE THE ARGUMENTS WHICH THE PRIME MINISTER PUT TO THEM ABOUT THE NEED FOR CONTINUING BRITISH ADMINISTRATION (AND, ABOVE ALL, THE BRITISH CONSTITUTIONAL LINK AS SUCH) IF CONFIDENCE HERE IS TO BE PRESERVED. IN ADDITION TO CONTACTS WITH CHINESE OFFICIALS, INCLUDING THE BANK OF CHINA, WE WILL ENCOURAGE LOCAL BUSINESSMEN AND COMMUNITY LEADERS TO MAKE THIS POINT IN THEIR CONTACTS WITH CHINESE OFFICIALS STATIONED HERE, AND IN ANY FURTHER VISITS THEY MAY MAKE TO PEKING. THERE ARE ALSO A NUMBER OF CHANNELS THROUGH WHICH PROMINENT AMERICAN AND PERHAPS OTHER FOREIGN VISITORS TO CHINA MIGHT BE BROUGHT TO MAKE THE SAME POINT IN THEIR CONTACTS WITH CHINESE LEADERS. SHULTZ'S OFFER TO HELP (UKMIS TELNO 1485) SHOULD CERTAINLY BE BORNE IN MIND IN THIS CONTEXT.

7. IN THE MEANTIME WE SHALL BE CONSIDERING FURTHER THE OTHER ISSUES RAISED WHILE THE PRIME MINISTER WAS HERE, AND I SHALL BE IN TOUCH SEPARATELY IN DUE COURSE.

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FM UKMIS NEW YORK 282212Z SEP 82
TO PRIORITY FCO
TELEGRAM NUMBER 1485 OF 28 SEPTEMBER
INFO WASHINGTON, HONG KONG, PEKING

HKK 04011

*pa on
future file*

4/29/83

FOLLOWING FROM PRIVATE SECRETARY

*→ P60 2/19
TOP COPY*

UNGA: MEETING WITH US SECRETARY OF STATE: HONG KONG

1. SHULTZ ASKED ABOUT THE PRIME MINISTERS' VISIT AND COMMENTED THAT THE CHINESE HAND WAS STRONG IN ONE RESPECT AND WEAK IN ANOTHER. DID THE CHINESE UNDERSTAND THE WAY THAT PRIVATE INVESTMENT DECISIONS WERE MADE AND ACCEPT THAT THE PROSPERITY OF HONG KONG COULD NOT BE MAINTAINED WITHOUT THE BRITISH? MR PYM REPLIED THAT THE PRIME MINISTER HAD DONE MUCH TO EXPLAIN THE FACTS OF LIFE DURING HER VISIT. BUT, EVEN IF THE CHINESE UNDERSTOOD WHAT WAS NEEDED TO ENSURE PROSPERITY, THEY MIGHT REGARD SOVEREIGNTY AS MORE IMPORTANT. SOME OF THEIR LANGUAGE SUGGESTED THAT THIS WAS INDEED HOW THEY SAW THE MATTER. ON THE OTHER HAND, THE CONTINUING PROSPERITY OF HONG KONG FITTED IN WELL WITH WHAT THE CHINESE WERE TRYING TO DO IN THEIR INTERNAL ECONOMIC POLICIES. THE PROBLEM WAS A DIFFICULT ONE. SHULTZ SAID THAT HE WAS A STRONG SUPPORTER OF HONG KONG AND INDICATED THAT IF HE WERE TO VISIT CHINA HE WOULD BE GLAD TO CONSIDER WHAT HE MIGHT DO TO HELP.

THOMSON

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MR DONALD

THIS TELEGRAM
WAS NOT
ADVANCED

Mr. Morris

Pl. note as what

we have said to Americans

CONFIDENTIAL

on the visit

4/29/83

GR 300
SECRET

SECRET

FM PEKING 300313Z SEP 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 607 OF 30 SEPTEMBER
INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

TOP COPY

PERSONAL FOR DONALD

YOUR TELNO 483 FROM HONG KONG: FUTURE OF HONG KONG: LEE KUAN YEW

1. THE IDEA HAS SOME ATTRACTIONS BOTH BECAUSE DENG REFERRED TO SINGAPORE IN HIS MEETING WITH THE PRIME MINISTER AND ALSO BECAUSE WE NEED ANY HELP WE CAN GET IN PUTTING THE FACTS OF LIFE ACROSS TO THE CHINESE.
2. BUT THERE ARE DIFFICULTIES ABOUT USING LEE. FIRST HIS PERSONAL RELATIONS WITH CHINESE LEADERS, ESPECIALLY ZHAO ZIYANG, ARE NOT PARTICULARLY GOOD. HE FELL OUT WITH ZHAO DURING THE LATTER'S VISIT TO SINGAPORE LAST YEAR OVER CHINA'S SUPPORT FOR SOUTH EAST ASIAN COMMUNIST PARTIES. SECOND, AS LEE WAS HERE TWO YEARS AGO, HE IS UNLIKELY TO VISIT CHINA AGAIN IN THE NEAR FUTURE. NOR DO WE FORESEE A SUFFICIENTLY HIGH RANKING CHINESE VISITOR TO SINGAPORE FOR SOME TIME. SO LEE IS UNLIKELY TO HAVE AN OPPORTUNITY TO RAISE THE MATTER PERSONALLY WITH THE CHINESE AT A LEVEL LIKELY TO BE EFFECTIVE IN THE NEAR FUTURE. HE COULD DO SO BY LETTER, BUT THIS WOULD DEEPEN CHINESE SUSPICIONS THAT HE HAD BEEN PUT UP TO IT.
3. I SHOULD PERHAPS ADD THE THOUGHT THAT SINGAPORE COULD BENEFIT IN MANY WAYS FROM AN ECLIPSE OF HONG KONG. LOUIS CHA, THE EDITOR OF THE HONG KONG MING BAO, FOR ONE HAS SECURED RIGHT OF ABODE THERE ACCORDING TO A SINGAPORE TRADE OFFICE CONTACT HERE. (PLEASE PROTECT.)
4. IN SPITE OF THE ABOVE, I WOULD NOT WISH ENTIRELY TO RULE OUT THE OPTION OF USING LEE FOR THE REASONS IN MY PARA 1. BUT I SHOULD PREFER TO WAIT AND SEE JUST HOW BADLY WE NEED HIM BEFORE PLAYING THIS CARD. WE SHOULD MEANWHILE BE ON THE WATCH FOR ANY LIKELIHOOD OF LEE MEETING SENIOR CHINESE LEADERS.
5. WE SHOULD AT THE SAME TIME BE THINKING OF OTHER WORLD LEADERS WHOM WE COULD TRUST AND WHO MIGHT BE IN CONTACT WITH TOP CHINESE IN COMING MONTHS. WE SHOULD INCLUDE IN THIS LIST FIGURES IN INTERNATIONAL MONETARY ORGANISATIONS.

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HD/FED

HD/SEAD

PS

PS/LORD AGLSTEAD

PS/PUS

COPIES TO:-

MR COLES NO 10 DOWNING ST.

MR GIFFARD

MR DONALD

SECRET

CONFIDENTIAL

DESKBY FCO 010830Z

DESKBY PEKING 010530Z

FM HONG KONG 010258Z OCT 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1102 OF 1 OCTOBER

INFO IMMEDIATE PEKING

GOVERNOR'S SPEECH TO THE LEGISLATIVE COUNCIL

IMMEDIATE
 ADVANCE COPY
 Mr Giffard
 Mr Donald
 Wd/HKG-
 Wd/FED.
 RC

(+4)

1. I HAVE TO MAKE THE GOVERNOR'S ANNUAL ADDRESS TO THE LEGISLATIVE COUNCIL ON WEDNESDAY OCTOBER 6. IT WILL ATTRACT MORE ATTENTION THAN USUAL BOTH BECAUSE IT FOLLOWS THE PRIME MINISTER'S VISIT HERE AND BECAUSE IT WILL BE MY FIRST ADDRESS OF ITS KIND.

2. THE LARGEST PART OF THE ADDRESS COVERS THE WORK OF THE GOVERNMENT HERE AND OTHER DOMESTIC ISSUES. BUT IT WILL BE MADE AGAINST THE BACKGROUND OF THE TALKS WITH THE CHINESE ON THE FUTURE AND I SHALL HAVE TO CONCLUDE WITH A SUBSTANTIAL SECTION ON THIS. MY IMMEDIATELY FOLLOWING TELEGRAM SETS OUT WHAT I WOULD PROPOSE TO SAY. MOST OF IT FOLLOWS THE LINE TAKEN BY THE PRIME MINISTER IN HER PRESS CONFERENCES IN PEKING AND HONG KONG. IN DRAFTING IT I HAVE ALSO SOUGHT TO POINT UP THE NOTE OF PROGRESS ('THE SEARCH FOR A SATISFACTORY SOLUTION HAS BEEN GIVEN NEW IMPETUS') AND TO MAINTAIN A NOTE OF CONFIDENCE IN THE FUTURE (THE LAST SECTION OF THE PASSAGE). TO DO LESS OR TO ALLOW ANY IMPRESSION TO BE GIVEN THAT GROUNDS FOR CONFIDENCE HAD BEEN LESSEned SINCE THE TIME OF MY SWEARING-IN WOULD BE QUICKLY DETECTED WITH DAMAGING CONSEQUENCES HERE.

3. YOU WILL NOTE THAT THERE IS NO MENTION OF THE TREATIES IN THE DRAFT. THERE ARE TWO REASONS FOR THIS:-

(A) THE TREATIES ARE TECHNICALLY A MATTER BETWEEN HMG AND THE CHINESE GOVERNMENT,

(B) THE PRIME MINISTER HAS STATED THE POSITION FIRMLY AND UNEQUIVOCABLY. ANYTHING I MIGHT SAY WOULD NOT ADD TO IT BUT COULD LEAD TO FURTHER COUNTER STATEMENTS FROM THE CHINESE.

4. I SHOULD BE GRATEFUL FOR CONFIRMATION THAT THIS TEXT IS ACCEPTABLE TO YOU, BY 10.00 A.M. LONDON TIME ON MONDAY 4 OCTOBER. (WHICH IS MONDAY EVENING HONG KONG TIME).

YOUDE

CONFIDENTIAL

DESKBY FCO 010030Z

DESKBY PEKING 010530Z

FM HONG KONG 010305Z OCTOBER 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1103 OF 01 OCTOBER

INFO IMMEDIATE PEKING

M I P T

GOVERNOR'S SPEECH TO THE LEGISLATIVE COUNCIL

FOLLOWING IS THE DRAFT:

1. THE PRIME MINISTER'S VISITS TO CHINA AND TO HONG KONG THE FIRST BY A BRITISH PRIME MINISTER IN OFFICE ARE STILL VIVID IN OUR MINDS. I SHOULD LIKE AT THE OUTSET TO RECORD THE APPRECIATION OF THE GOVERNMENT AND PEOPLE OF HONG KONG FOR HER CONCERN AND UNDERSTANDING, AND FOR HER REAFFIRMATION OF HER MAJESTY'S GOVERNMENT'S RESPONSIBILITY AND COMMITMENT TO THE PEOPLE OF THIS TERRITORY.
2. IN PEKING MRS THATCHER HELD FAR-REACHING DISCUSSIONS ON THE FUTURE OF HONG KONG WITH CHAIRMAN DENG XIAOPING AND PREMIER ZHAO ZIYANG. IN THE WORDS OF THE JOINT STATEMENT ISSUED AFTER THE PRIME MINISTER'S MEETING WITH CHAIRMAN DENG "BOTH SIDES MADE CLEAR THEIR RESPECTIVE POSITIONS ON THIS SUBJECT. THEY AGREED TO ENTER TALKS THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG". THE AGREEMENT TO START TALKS, AND THE ENDORSEMENT OF THE COMMON OBJECTIVE AT THE HIGHEST LEVEL WERE A SIGNIFICANT ACHIEVEMENT. THE SEARCH FOR A SATISFACTORY SOLUTION HAS BEEN GIVEN NEW IMPETUS.
3. THE PRIME MINISTER GAVE A CLEAR ASSURANCE THAT IN CONDUCTING THE TALKS SHE WOULD SPEAK NOT ONLY FOR BRITAIN BUT FOR BRITAIN'S MORAL RESPONSIBILITY AND DUTY TO THE PEOPLE OF HONG KONG. THAT RESPONSIBILITY AND COMMITMENT HAVE NEVER BEEN IN DOUBT, BUT THE PRIME MINISTER'S FORTHRIGHT REAFFIRMATION OF THEM COULD NOT HAVE BEEN MORE TIMELY. NOR IS THERE ANY DOUBT THAT IN THE SEARCH FOR A SOLUTION H M G WILL TAKE THE VIEWS AND WISHES OF THE PEOPLE OF HONG KONG FULLY INTO ACCOUNT. THE PROCESS OF CONSULTATION HAS ALREADY BEGUN. AN IMPORTANT STAGE IN IT WAS THE VISIT TO LONDON BY THE GROUP OF MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS WHO ACCOMPANIED ME THERE AT THE BEGINNING OF SEPTEMBER.

ADVANCE COPY

IMMEDIATE

Mr Giffard

Mr Donald

Hd/HKGM -

Hd/FET

RC

(14)

BY THE GROUP OF MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS WHO ACCOMPANIED ME THERE AT THE BEGINNING OF SEPTEMBER. THE PROCESS WILL BE A CONTINUOUS ONE AND CAREFUL CONSIDERATION WILL NOW BE GIVEN TO HOW THIS CONSULTATIVE PROCESS CAN BEST BE PURSUED.

4. THE TALKS THROUGH DIPLOMATIC CHANNELS WILL BEGIN SOON. THEIR CONTENT MUST NECESSARILY REMAIN CONFIDENTIAL. THE PURPOSE WILL BE TO COMPLETE THEM AS SOON AS POSSIBLE. I CANNOT MAKE ANY USEFUL FORECAST AS TO WHEN THAT WILL BE: THERE ARE COMPLEX ISSUES TO BE DISCUSSED, AND THERE ARE DIFFERENCES BETWEEN THE TWO SIDES WHICH MUST BE RECONCILED. SO STEADY NERVES WILL BE NEEDED IN THE MONTHS AHEAD. BUT THE PRIME MINISTER HAS MADE PLAIN HER BELIEF THAT, GIVEN THE COMMON OBJECTIVE, THE DIFFERENCES CAN BE RECONCILED AND AN AGREEMENT CAN BE REACHED WHICH WILL BE ACCEPTABLE TO CHINA AND BRITAIN AND WHICH WILL BE WELCOMED BY THE PEOPLE OF HONG KONG. I SHARE THAT BELIEF.

5. HONOURABLE MEMBERS WE HAVE A STATEMENT OF COMMON OBJECTIVE FROM THE BRITISH AND CHINESE GOVERNMENTS. WE HAVE THE COMMITMENT TO THIS TERRITORY OF THE GOVERNMENT OF THE U K. IN THE LIGHT OF THAT COMMON OBJECTIVE, AND THAT COMMITMENT WE SHALL GO FORWARD WITH CONFIDENCE TO PURSUE OUR PROGRAMMES TO THEIR CONCLUSION AND TO PROJECT THEM INTO THE FUTURE.

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