

SECRET

PRIME MINISTER

Future of Hong Kong

Yes - the paper contains everything that's not very much. I agree very much with the practical approach you have outlined.

I attach a paper which the FCO have prepared at my request. I think it is a useful beginning but we need to develop a detailed and precise plan of campaign - and quickly. If you agree, I would make the following points in reply:

- a) You are grateful for the paper. We need to develop our ideas quickly.
- b) As regards gestures to the Chinese, the goal of "improving the atmosphere of the talks" is too vague to be worth spending money on. Unless we can find a gesture that will positively promote a solution on Hong Kong, we should not go down this path.
- c) The idea of a Treaty of Friendship and Co-operation is worth developing on a contingency basis - it might help the Chinese to accept a solution which would otherwise be unpalatable.
- d) The plan for educating the Chinese about Hong Kong is still too general. We need to know very soon roughly which Hong Kong people are likely to speak to the Chinese and when. Now is the time to begin the process. You would like to see more specific ideas soon when the Governor has been consulted.
- e) Can we really not make more use of the Peking talks to carry the education process forward? For example, could not Philip Haddon-Cave, in the context of the talks, put forward a good deal of information about the way Hong Kong's banking and financial mechanisms operate?

SECRET

/ f)

SECRET
- 2 -

- f) As regards gestures to Hong Kong, you will be meeting soon with the Foreign and Home Secretaries to discuss the passport question. You would like to consider other proposals, particularly any which might help to maintain confidence in Hong Kong by demonstrating our faith in its future.

Agree that I may reply in these terms?

A & C.

12 October 1982

SECRET

SECRET

2 pps

10A



Foreign and Commonwealth Office

London SW1A 2AH

11 October 1982

New John.

Future of Hong Kong

You asked in your letter of 4 October for advice on three points:

- i) Possible gestures to the Chinese in the field of Anglo/Chinese relations;
- ii) How to educate further the Chinese in the realities of Hong Kong;
- iii) Possible gestures to the people of Hong Kong.

/ I enclose a note on these points prepared by the Department.

Mr Pym saw the enclosure before his departure for the Middle East and commented that the ideas were worth considering and developing further. One general comment, however, which he had on the first of these points was that we should not assume that the Chinese position would be susceptible to change through financial inducement. Any gesture involving financial expenditure would therefore need to be carefully justified on something very close to our normal criteria for aid and/or commercial relations with major countries.

It would also be important that the use of any sweeteners for the Chinese, whether financial or otherwise, should be made only if some substantive progress were achieved in the talks on the future, and with very careful regard for our strategy in the negotiations.

Your ever,
Roger Bone
(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET



FUTURE OF HONG KONG

1. Mr Coles' letter of 4 October asked for advice on three points:
 - a) possible gestures to the Chinese in the field of Anglo/Chinese relations;
 - b) how to educate further the Chinese in the realities of Hong Kong;
 - c) possible gestures to the people of Hong Kong.

This note contains the Department's initial views and gives some idea of the range of possibilities. These do not include the views of Hong Kong and Peking, who are currently being consulted. We shall be making detailed recommendations on a number of points which call for early action. All these proposals will be subject to variation as the scene changes. We shall be keeping them under close review.

a) GESTURES TO THE CHINESE

2. The Chinese Government's approach to Hong Kong's future is nationalistic. The pragmatism of the current leadership has definite limits. They cannot easily retreat from their public position on the resumption of sovereignty. They have told us that this is more important than economic considerations. Their track-record forces us to take this statement seriously. Their national pride and fear of exposing flank to internal critics would prevent their accepting any 'sweeteners' which could too obviously appear as bribes. We could not risk offering to make any gesture conditional on the satisfactory outcome of the talks. This could back-fire.

3. But gestures could be useful in two respects:

/i)



- i) The Chinese have made clear that they would welcome easier terms for British goods and projects. Premier Zhao specifically referred to this during a farewell discussion with the Prime Minister on 25 September. While we should be under no illusions that we would get a direct political return we might improve the atmosphere of the talks by economic means. Examples are:
- A. Using Aid/Trade Provision funds to soften the terms of British bids for project business in China.
 - B. Softening the financial or other contractual terms for British defence sales to China.
 - C. Strengthening our scientific and technological links and further expanding our contribution to English language teaching.
 - D. Adopting a more liberal approach towards quotas (negotiated by the European Commission) for China's industrial exports to Britain.
- ii) If during the talks the Chinese appear to be moving towards compromise and accepting continued British administration of Hong Kong, we might be able to oil the wheels or make such a compromise more palatable by improving the economic benefits to China of a continuing triangular relationship Britain/Hong Kong/China. Possibilities include:
- A. Guangdong Nuclear Project.
 - B. South West Energy Project (development of mines, railways, and port facilities to exploit coal deposits in Guizhou (Kweichow) province).

*We must be
wary of these
at present.*



Both these projects require massive investments for which China will not wish to borrow money at international market rates. (We would in effect be offering a partly tied soft loan somewhat akin to the idea floated earlier by Sir Y K Pao). It might be possible to help from:

- Hong Kong Government resources;
- Private Hong Kong resources;
- A special allocation from the UK Aid vote over and above any ATP funds set aside for either project.

If such money could be made available we might also contemplate:

C. A special 'Anglo-Chinese Friendship Project' perhaps in Canton, eg a major hospital like the Sino-Japanese Friendship Hospital in Peking, a university science faculty or English Language Teaching centre.

But any of these radical ideas would need very careful consideration and some could be expensive. In particular substantial aid funds for China could not be found from the current Aid Vote, which is already under the severest pressure, without serious damage to our relations with the countries whose current allocations would have to be further reduced. Neither ODA nor other Whitehall Departments have been consulted. We could expect them to be very reluctant to see China as a special case, particularly when there is no guarantee that the Chinese would be influenced as we hope.

SECRET



4. UK/China Treaty of Friendship and Cooperation

If an initiative on the lines of 3(ii) seemed feasible, it might be best presented as part of a package. We might be able to negotiate a new Treaty with China including three elements:

- Supersession of 19th century Treaties and formal establishment of new era of Anglo-Chinese relations on basis of friendship, equality, etc;
- Economic cooperation (as above);
- Continuing British administration of Hong Kong.

/b)

SECRET



b) EDUCATION OF CHINESE GOVERNMENT IN REALITIES OF HONG KONG

5. The objective of such education must be to convince the Chinese that continuity of British administration and ultimate control from London is essential to the maintenance of confidence. The key point is not that the British have expertise in administration which the Chinese lack - there is much common ground between us and Peking that the bulk of administration could be left to Hong Kong people to run. The reason why the British connection is valued is as an insurance against interference from Peking on major domestic and external issues. Without this there would be only very limited trust in Chinese assurances that the present economic system and style of life would continue.

6. This is a very difficult message to get across both frankly and without causing offence. It has become even more complicated since the Chinese line on sovereignty has hardened. There are nevertheless two main ways which are worth trying:

(i) by local Hong Kong people. If people of influence in business and the professions could be persuaded to make this point to the Chinese their views would probably be the most effective. So far people in this category who have been consulted have not had the courage to speak out. In consultation with the Governor we should nevertheless try to get the message across in this way for delivery both to Peking Communist representatives in Hong Kong and when Hong Kong people visit China. The Governor is in the best position to choose individuals but generally they should be senior people not obviously under the British thumb.

(ii) Friendly Foreign Governments and organisations. Since it is important for the Chinese to receive advice which appears to be as objective as possible, there is a case for asking governments which have a strong economic interest in Hong Kong or good relations

/with the



with the Chinese to put over to Peking their view of the basis of confidence in Hong Kong and how this should be preserved. This needs to be handled extremely carefully because of the vital importance of avoiding leaks to Hong Kong about the way in which talks between ourselves and the Chinese have been going - we could hardly ask other governments to help without giving them a fair amount of background briefing. The timing therefore needs to be very carefully chosen. For the time being the most realistic option is to make use of:

A. The Americans Secretary of State Shultz has offered to help. It is clear that the Chinese wish to develop their relations with the Americans, despite the limitations of the Taiwan issue, and they might listen to Washington if the Americans spoke with sufficient authority. It will in any case be very difficult to resist giving the Americans a fuller rundown on the talks than they already had and we should take the opportunity to discuss with them how an approach to the Chinese might be made. So far as possible we would hope that they could make use of their normal contacts, but at the same time this should be done at a high level.

Other possibilities are:

B. The Old Commonwealth. It would be worth briefing the Australians, Canadians and New Zealanders on the lines that when they have contacts with the Chinese they should underline the difficulty of preserving confidence in Hong Kong without a clear undertaking of continuity of administration in the Territory.

/C. The



C. The European Community. We should consider briefing our European allies on similar lines to B above.

D. International Economic Organisations, eg IBRD and IMF. Again at a later stage we could consider involving senior figures in such organisations as it seemed helpful. Indeed former members of such bodies, eg Mr Macnamara, might also help.

If the net were widened further, others might be:

E. Singapore. Sir P Cradock has advised (Peking Telegram No. 607) that it would not be helpful to use the Singaporeans at this stage. But they should be kept in mind.

F. The New Commonwealth, Pakistan etc. At some stage, but not yet, it might be worth selecting particular friends of China including individuals to put over the point about confidence.

G. The Japanese. Mr Suzuki told the Prime Minister on 20 September that Japan was deeply interested in the question. Sir P Cradock has reported (Peking Telegram No. 625) that on his visit to China immediately after the Prime Minister's, Mr Suzuki raised the subject with Deng. He was told firmly that China intended to recover sovereignty over Hong Kong by 1997 and that he should assure Japanese investors that after recovery, Japan's financial and other interests would not suffer. We do not know whether Mr Suzuki commented on this. At present we see no value in asking the Japanese to take up our case. They are influential with China in terms of their economic relations but they are primarily concerned with their own interests. They may well consider that their long-term economic interests in China outweigh their existing stake in Hong Kong.

/There are



There are other possible channels which could be considered.
They are:

- iii) The Embassy in Peking. There will be some opportunity for the Ambassador to make these points during the talks on Hong Kong and in the margins. But the effect of this is likely to be limited since the Chinese will regard it as special pleading.
- iv) FCO and Chinese Embassy in London. The same considerations apply as in (iii) except that the Chinese Embassy here has a brief^f to smooth Anglo/Chinese relations and both the Ambassador and his senior Counsellor are likely to react rationally to the sort of points which we would want to put over. But it could be helpful to feed the Chinese Embassy here with some convincing figures about the economic relationship between Hong Kong and China.
- v) Senior British figures. While the Governor of Hong Kong will from time to time be involved in the negotiations, there may be scope for him to get across points to Chinese contacts both when they are visiting Hong Kong and when he goes to China. This however needs to be very carefully judged and is more a part of the strategy for the negotiations than of the general education process. It would be open to consideration to take advantage of visits to China by other important British personalities who would have access to Chinese leaders. But again the objection to special pleading applies.
- vi) British and International Companies. There are a number of major British trading houses and other firms which have frequent contact with the Chinese Government. Some of them may be able to help although they are less



likely to be believed by the Chinese than foreign-based companies. We are urgently considering ways of approaching selected firms from both groups, particularly from the Community.

- vii) The Media. While we need to be careful to avoid 'conducting negotiations through the media' and thus provoking a Chinese response which would hit confidence once more, there is a good deal which can be done by briefing reliable press people to put over in articles the basic economic and political points about confidence in Hong Kong. We are producing a detailed plan for this.

7. There are a number of ways in which the effectiveness of such approaches could be monitored. They include:

- i) reports by the intermediaries themselves on their impressions of the Chinese reaction;
- ii) analysis of comment in the Chinese mainland and Chinese Communist press in Hong Kong which may show shifts in attitude;
- iii) possible shifts in the Chinese attitude during the talks in Peking;
- iv) *Passage deleted and retained under Section 3(4).*

CH Wayland

9 October 2012



c) GESTURES TO HONG KONG

8. There are a number of areas in which we could demonstrate our commitment to Hong Kong in practical ways and help confidence:

- (i) Overseas Students' Fees. Hong Kong students have been hard hit by the rise in fees for overseas students at British universities and many have voted with their feet by moving elsewhere, particularly to the US and Canada. Following the recent report of the Overseas Students Trust recommending co-operation between HMG and Dependent Territory Governments to help students, the Hong Kong Government have suggested joint financing to bring the fee charged to the individual student back to the Home Student level, subject to means testing. It would help greatly if HMG could soon announce that they will meet a specified proportion of these costs, preferably 50%. It would of course be necessary to take account of the demands of other groups, for example those from Malaysia and Cyprus. Hong Kong is not alone in having complained bitterly about our fees policy.
- (ii) Nationality Questions. The Prime Minister, while in Hong Kong, herself mentioned encouragingly Hong Kong's interest in getting a description in their new British Dependent Territories passports which would allow them to be called British Nationals. This would not change their non-eligibility for entry to or abode in the UK. They would see it primarily as a symbol of the continuing link between the UK and Hong Kong. The proposal does nevertheless have important implications for HMG's policy as a whole, and is the subject of separate correspondence with No. 10. Related to this is the proposal by Lord Bruce of Donnington that Falkland Islanders should be granted British Citizenship under the new Nationality Act. While it is clear that his

/amendment



amendment cannot and should not be opposed, it will certainly arouse considerable criticism in Hong Kong whose residents will see themselves as another form of special case. The more that HMG, in its comments on Lord Bruce's amendment, can show understanding for the position of Hong Kong, the better.

- (iii) British investment in Hong Kong. This remains relatively low. Active encouragement of investment by British Ministers and others would be seen as a symbol of confidence in the future.
- (iv) Vietnamese Refugees. Hong Kong is increasingly concerned at the new net rise in the number of refugees in the Territory caused by the reduction of resettlement opportunities in the West. Any moves by HMG to help Hong Kong would be taken as a sign of support and would also encourage other governments to step up their efforts.
- (v) The Multi-Fibre Arrangement. This is an area of irritation where help for Hong Kong would only be possible by a complete reversal of our agreed line with our EC partners. Negotiations between Hong Kong and the Community on future levels of textile imports to Europe have been temporarily suspended. British Ministers have already expressed understanding of Hong Kong's reliance on its textile industry and a general wish for treatment in the negotiations which recognises the importance of Hong Kong's free trade policies and open market access. But the agreed mandate to the Community negotiations which we have supported does not allow for any concession other than ensuring that Hong Kong is no worse treated than other dominant suppliers.

Hong Kong

Future of

12 OCT 1982

12 23
9 8 7 6 5 4

