

SUBJECT

File 2



10 DOWNING STREET

From the Private Secretary

21 October 1982

Dear John,

FUTURE OF HONG KONG

The Prime Minister discussed this question today with the Foreign and Commonwealth Secretary. Sir Antony Acland and Mr. Donald were present. Your letter of 20 October was before the meeting.

Progress of Discussions in Peking

The Prime Minister said that she was not entirely happy with the notion that, in the first round of talks, we should start by asking the Chinese to give their views on the future administration of Hong Kong. This approach could suggest that we were contemplating handing over the administration. After discussion, it was agreed that we should instead envisage the Governor of Hong Kong attending the first round and using it to explain how Hong Kong functioned at present. We might also seek agreement that future sessions would be devoted to specific sectors such as the financial and banking system, the legal system, the customs administration, etc. It would be appropriate for Sir Philip Haddon-Cave to attend the discussions on the financial and banking system.

Education of the Chinese Leadership

The Prime Minister said that she still did not feel that we had a clear enough plan for carrying out this educative process. It was probably necessary to try to influence the small number of Chinese who actually influenced policy. Was there any prospect of securing invitations for them to visit, for example, the United States where they could be exposed to American thinking about the future of Hong Kong?

Briefing of the Americans

It was agreed that H.M. Ambassador in Washington should discuss with Vice-President Bush the possibility of inviting prominent Chinese to America. Mr. Shultz should of course be brought into the picture as well. It would be necessary to brief both on our approach to the problem - a draft telegram to Washington should be submitted to the Prime Minister for her approval. It would be helpful if one or two of the American officials who had been involved in the negotiations with the Chinese over Taiwan could visit London for a discussion of

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Chinese negotiating techniques. This point should be put to Mr. Shultz. The Prime Minister also said that she was looking forward to seeing Dr. Kissinger when he visited London around 13 November.

Briefing of the Hong Kong Executive Council

The Prime Minister would like the instructions to Sir Edward Youde regarding the line which he should take with Sir Y. S. Chung on 22 October to follow to some extent paragraph 5 of Hong Kong telegram 1203, but to contain a clear statement of the commitments to the people of Hong Kong which she had made in her discussions in Peking. It should be emphasised that she had spoken firmly about her moral obligation to the people of Hong Kong and the necessity of British administration continuing.

Bilateral Relations with China

There was no time to discuss the issues of the Luda destroyer project, the Guangdong nuclear power project or the possible technical assistance programme. I shall consult the Prime Minister separately about these.

*John  
for holes.*

John Holmes, Esq.,  
Foreign and Commonwealth Office.





Foreign and Commonwealth Office

London SW1A 2AH

20 October 1982

Dear Idan,

Future of Hong Kong: Prime Minister's  
Meeting at 4.15 pm on 21 October 1982

The Department have suggested that at the meeting tomorrow the Prime Minister may wish to cover the following points. This 'annotated agenda' is being submitted to Mr Pym in parallel, but I thought you would wish to have it tonight.

i) Progress of discussions in Peking

CA  
Sir Percy Cradock has reported in Peking telegram number 672 on his meeting with Vice Foreign Minister Zhang Wenjin on 19 October. The Chinese have still to reply to the points made by the Ambassador but there is a fair prospect that they will agree to the start of substantive talks, although they are likely to reiterate their position on sovereignty strongly. If they do agree to talks it would probably be best to involve the Governor of Hong Kong in the next round. We should try to make this an opportunity to educate the Chinese on the real basis of confidence in Hong Kong and to provide some detail on the way in which the present administrative system supports this. We could concentrate on getting across the following points:

- a. The extent of long-term investment in the Territory, including proportions of domestic and overseas capital.
- b. The basis of the Hong Kong dollar and its relationship with other currencies.
- c. The extent of Hong Kong's overseas commercial links including the importance of the UK Treaty relationships, eg GATT.
- d. Relations between government and the private sector in financial and economic affairs.

ii) Education of the Chinese leadership

B  
Your letter of 13 October passed on the Prime Minister's request for a detailed plan. A draft is enclosed which takes ANNEX. into account suggestions by the Governor and the Ambassador in Peking. The essential points are:

/a.





- a. The message. We need to convince the Chinese leaders that people in Hong Kong and investors regard British administration as an insurance against Chinese interference. We are not arguing about the respective administrative talents of the British and Chinese, but about Hong Kong lack of faith in Chinese assurances that they will allow the Hong Kong way of life to continue unchanged.
- b. Selectivity. We are trying to reach the highest level of the leadership. We need to choose messengers who are reliable and have good access.
- c. Possible messengers. The most effective are likely to be the Americans, heads of international financial bodies and senior Hong Kong figures if they can be persuaded to put the message over. We have not provided a detailed programme of contacts with the Chinese since this will obviously depend on when particular individuals will be in China. But we do believe that we should bring the Americans into play as soon as we can.

### iii) Briefing of the Americans

We need to consider urgently how to make use of the Americans in any contacts which they have with the Chinese. The Prime Minister has asked that, if possible, arrangement should be made for her to see Dr Kissinger for a private talk. Dr Kissinger is not yet back in Washington after his visit to China but Mr Walden saw his staff officer last week and passed on the message. (We understand that Dr Kissinger will be in London around 13 November). Meanwhile the Governor of Hong Kong has reported (Hong Kong telegram number 1179) that Sir Y K Pao has been told by Dr Kissinger that Deng Xiaoping gave him an account of Chinese thinking about the future of Hong Kong.

We also have the offer of help by Secretary of State Shultz. No action has been taken on this but we know from the Embassy in Washington that there is much interest at a high level on the American side about Mrs Thatcher's visit to China and Hong Kong. Mr Walden understands that Dr Kissinger is likely to tell Mr Shultz what Deng told him. There is therefore a strong argument for taking the Americans into our confidence and discussing with them how they might help in putting over the message about confidence in Hong Kong. We suggest that Sir Oliver Wright be asked to take this up either directly with Mr Shultz or with the Under Secretary for Far Eastern Affairs in the State Department. It would be right

/to give





to give the Americans a fairly full briefing and also to mention the Prime Minister's intention to speak to Dr Kissinger.

iv) Other Work Commissioned by the Prime Minister

B

Your letter of 13 October mentioned:

- a. Treaty of Friendship and Cooperation with China. Work is urgently in hand.
- b. Gestures to Hong Kong. We are working on precise proposals. The most reassuring moves would be to meet Hong Kong's requests on nomenclature in their passports and on overseas students' fees. The Prime Minister will be discussing the former with the Foreign and Home Secretaries later on 21 October.

v) Briefing of the Hong Kong Executive Council (EXCO)

D As the Prime Minister will know, Sir S Y Chung, the Senior Unofficial Member of the Hong Kong Executive Council, visited London last week. The Governor has now reported (Hong Kong telegram numbers 1202-3) on Sir S Y Chung's disappointment that he did not receive firmer assurances on a number of points which he had raised. His main concern focussed on:

- a. His wish for an assurance that there would be no departure from the position proposed by Unofficials to the Prime Minister in September (that sovereignty would only be conceded if it was the only way to achieve continuing British administration) without further prior consultation with the Unofficials.
- b. That he was unable to obtain any more precise commentary on the recent Chinese statements about the future which would enable him to convince his colleagues that in the discussions with the Prime Minister the Chinese had not gone a good way in proposing details of the sort of administration which they would like to see in Hong Kong.

In fact, Sir S Y Chung was assured that the Prime Minister's discussions had been concerned only with issues of principle and had not been in any way a negotiation. Sir E Youde has already made these points to the EXCO on 19 October. However, in his view, this is not enough to reassure the Unofficials and there is a danger of their becoming more suspicious and disaffected if we do not take them somewhat further into our confidence. He therefore proposes a line which he could give to Sir Y S Chung to pass to his colleagues on 22 October. This would involve giving some general idea of the line taken by the Chinese with the Prime





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Minister, would make clear that we were working on the basis that continuing British administration was essential and would give an undertaking about further discussion with them before our position was changed.

In our view, the dangers to which the Governor points are real ones. The Hong Kong Unofficials are analagous to local ministers in other types of dependent territory and are strongly conscious that they may be criticised if they are not seen to maintain contact with and be in the full confidence of HMG. We could face a difficult problem with the Unofficials and their concern would be likely to spread more widely in Hong Kong .

On the other hand, we must avoid letting the Unofficials believe that they can expect a 'blow by blow' account of all that passes between the Chinese and British Governments during negotiations, and a right of veto on detailed points. The line proposed by the Governor seems to us to meet these requirements except that it would be better not to refer to 'consultation', as he recommends, but to say that we would of course hold full discussions with the Unofficials before we took any decision on major changes in our negotiating position.

vi) Bilateral Relations with China

E I wrote to you on 15 October about how we should now handle the bilateral issues outstanding from the Prime Minister's visit in the light of our concern about Hong Kong. The issues are the Luda destroyer project, the Guangdong nuclear power project and technical assistance.

*Yours ever*  
*J E Holmes*  
(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

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FUTURE OF HONG KONG : EDUCATION OF CHINESE LEADERSHIP

Objective

1. To convince the Chinese that continuity of administration of Hong Kong, with control from London, not Peking, is necessary for the maintenance of confidence, stability and prosperity in the Territory. The message would vary in detail, depending upon the messenger, but would contain the following elements:
  - a. Hong Kong has developed through a combination of the British connection, local talent and cooperation by China;
  - b. There is no argument about the ability of Chinese people in Hong Kong to run their own administration;
  - c. The value of the British link lies not in the presence of British administrators but in the insurance which it provides against interference from Peking. It is a fact that the majority of the population of Hong Kong came there to avoid living in Communist system. Assurances by the Chinese Government that the present economic and social system would remain would not provide sufficient insurance either for investors or residents.

/d.

- d. The announcement of the severing of the link with London would thus damage commercial confidence, impel people to leave Hong Kong and seriously affect its economy. Confidence could pick up later, when Peking had demonstrated for some time that it would allow Hong Kong to continue its present economic and social system. But by then it would be too late. Other East Asian countries, eg Singapore, would have taken over Hong Kong's functions and Hong Kong would not recover.

#### Background

2. The Chinese have undertaken a major press campaign to sell the thesis that recovery and exercise of Chinese sovereignty is a foregone conclusion. A denial that continued British administration would be allowed is one element of this. However, there is no point in trying to counter with a public campaign of our own. Assertion of our view would only goad the Chinese to further and stronger public statements from which it would be difficult for them to retreat. Our target is not opinion in Hong Kong or the world. We need to convince key figures in the Chinese leadership. There is no guarantee that we shall succeed. However the attempt is worth making.

#### Direct HMG/Chinese official contacts

3. Any moves by British representatives will be seen by the

/Chinese



Chinese as, to an extent, special pleading. They are therefore in a different category from the use of third parties. But they have the advantage that we can be sure we are putting the exact message across. We should use the talks themselves for this purpose. We could provide further explanation of the attitudes of investors to Hong Kong and the importance of the present commercial treaty arrangements benefitting Hong Kong through the UK. Briefings could be given by senior Hong Kong officials such as the Chief or Financial Secretary.

4. Contacts with Chinese Embassy in London. We should build on the Embassy's interest in promoting Sino-British relations to take a frank line on the reasons why British administration is valued and to emphasise that our stand remains firm. The Ambassador should be seen personally on his return, either by the Secretary of State or the Prime Minister.

Other channels

5. We should select those channels which are likely to be sympathetic to us and effective with the Chinese. Too much dissemination of effort will not help, particularly since with every potential intermediary we should need, to obtain his help, to give some account of the content of the Prime Minister's discussions in Peking. The risks of leaks and damage to confidence in Hong Kong should be minimised.

/Selection



Selection

6. The most effective channels are likely to be:

- i. Foreign Governments and senior personalities;
- ii. Senior British and overseas commercial figures;
- iii. Hong Kong personalities.

7. For (i), (ii) and (iii) a process of continuous selection is necessary as follows:

- a. Identification of categories;
- b. Selection of individuals likely to visit China and to meet major figures there in the near future. This can be done by HM Ambassador Peking and in London, Hong Kong, Washington and in some cases Tokyo (through which many visitors travel). The US Consulate-General in Hong Kong could help.

Foreign Governments and personalities and international organisations

8. a. The Americans.

- i. The Prime Minister is already planning to see Dr Kissinger. He should be asked on his next visit to China to put the line frankly;
- ii. Mr Shultz. We should also take up the offer by the US Secretary of State.

/b.



- b. The Australians. Less influential with the Chinese than the Americans but keen to help and likely to put the message across reliably. If they are used it would be important to select a senior figure such as Mr Fraser or one of his nominees. We should particularly impress the need for security on them to avoid leaks. The Australian press is notoriously aggressive in worming out secrets.
- c. World Bank, IMF. Could be very influential. We should consult [redacted] Washington about the effectiveness and reliability of the President of the World Bank and the Managing Director of the IMF. (The latter, who is French, might well tell the French Government).

British and overseas firms

9. a. GEC. Lord Carrington's appointment as Executive Chairman provides an excellent opportunity for contact with the Chinese leaders. Lord Carrington, however, might more effectively be used as a special emissary at some stage in the negotiations. He should therefore be kept in reserve.

Other firms may not be so effective. Much would depend upon their access and the political acumen of their chiefs.

Possibilities are:

- b. Banks. Barclays and the Midland Bank gave a presence in China, and the Chairmen of Lloyds Bank,

/Sir Jeremy Morse,



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Sir Jeremy Morse, and the National Westminster, Mr Leigh-Pemberton, have frequent contact with the Chinese;

- c. BP have increasingly close contacts with the Chinese, over oil exploration off South China;
- d. Inchcape. A major Far East trading firm with an office in Peking. Lord Inchcape visits China regularly, but he is shortly to be replaced by Sir David Orr (ex Unilever).
- e. US Bankers. A number have offered to help. Possibilities are Chase Manhattan Bank, the First National Bank of Chicago and other American organisations. We might also consider Robert McNamara, former President of the World Bank.

Intermediaries from Hong Kong

10. Those who have already been seen by the Chinese have not had the courage to put the message over. The use of Hong Kong people will only be effective if they are willing to speak frankly to the Chinese. Lord Kadoorie, who although not Chinese has good contacts with the Chinese leaders, seems the best available person. Others include Mr F W Li (Executive Council) and Mr Francis Tien (Legislative Council). Another possibility might be Sir Y K Kan. But we shall have to rely on the Governor to choose messengers according to their reliability and access to the Chinese.

/Briefing

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Briefing

11. This should be tailored to the individual messenger although the basic points should be the same. Briefing can be carried out in London, Hong Kong, Washington (in the case of the Americans) or even Peking (by the Ambassador).

Suggested Action

12. a. Telegram to Washington instructing them to discuss with State Department and asking for advice on bringing in IMF and World Bank.
- b. Discussions with Dr Kissinger (about 13 November).
- c. Meeting of Prime Minister or Secretary of State with Chinese Ambassador.
- d. Discussions with Australians. Lord Belstead could raise during his visit to Australia from 31 October.
- e. Early discussion with Lord Carrington.
- f. Instructions to Peking, Tokyo, Washington, Hong Kong to identify and report likely senior visitors to China.
- g. Early identification in London of senior commercial personalities likely to visit China.

Hong Kong and General Department

20 October 1982