



cc Sir A Parsons
Mr Jackson

10 DOWNING STREET

From the Private Secretary

21 February 1983

FUTURE OF HONG KONG

The Prime Minister has seen the minute of 16 February by the Foreign and Commonwealth Secretary, together with the attached paper on the above subject.

The Prime Minister's first reaction is that the policy options described in the paper are tantamount to a major concession for which we should obtain nothing of value in return. Nor does she believe that the options listed in the paper are exclusive.

An alternative option, which Mrs. Thatcher would like to be examined, is that of negotiating an agreement whereby the United Kingdom would retain sovereignty over Hong Kong and Kowloon beyond 1997, China would acquire sovereignty over the New Territories and there would be joint British/Chinese administration over the whole. Such a policy would require steps to reduce the economic dependence of Hong Kong/Kowloon on the New Territories, e.g. by the construction of a de-salination plant.

I should be grateful if a paper could be prepared on this option. It would be most helpful if it could be made available by the end of this week.

On procedure, the Prime Minister agrees that it is desirable that Sir Percy Cradock and Sir Edward Youde should return for discussions in the week beginning 7 March.

Meanwhile, the Prime Minister would like to reflect further on the papers so far provided and the one requested above before taking a view on which matters the Governor should be authorised to discuss with EXCO before his return.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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PM/83/17

PRIME MINISTER

Future of Hong Kong

John
This paper is Pathetic
It is a mere force
sell-out
There are other possibilities
choice is clear
think over
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with
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discuss
with
Tom
Parsons
Mr

1. Following our discussion on 28 January, I attach a paper setting out the present position and the policy options as a basis for discussion. Sir E Youde and Sir P Cradock have been fully involved in its preparation.

2. The paper does not attempt to draw definitive conclusions but includes an interesting new line of approach strongly supported by the Governor and Ambassador. In drafting, my officials have taken account of the Governor's wish that he should discuss at any rate the main ideas with EXCO; the paper therefore does not dwell on possible divergences between UK and Hong Kong interests. There is, however, some emphasis in the paper on the likelihood that the Chinese will reveal elements of their plan officially in June.

3. We need to decide soon whether you should send a message to Zhao Ziyang as Sir P Cradock has recommended. It can be argued that we have not yet fully tested Chinese resolve to stick to their existing position and that a message from you, which reiterated our concern that the Chinese have introduced a new element since your talks with Deng, might get things moving. But there is an obvious danger in doing this before you have had time to consider our strategy as a whole. If you were to get a rebuff from

/Zhao,

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 OF THE PUBLIC RECORDS ACT**



Zhao, it might inhibit your freedom of action in making a quick change of policy thereafter: we should not be seen to be reacting to Chinese moves. A message might of course be useful once we have fixed our next course. It would be helpful in any case to get EXCO's views on this idea. I therefore suggest that we delay a decision on this for a week or two.

4. Whatever the decision on a message, I think we shall probably have to give the main recommendation in the paper a firm try. It is pretty clear that without a signal to the Chinese that we are prepared to consider a package which if agreed would include recognition of their sovereignty over the whole of Hong Kong, substantive talks will not get going. Any sounding of the Chinese would, of course, have to be on the basis that Parliament has the final say, and the way in which our ideas were put to the Chinese could be critical: I strongly favour an informal approach to back up Sir Percy's formal talks. We do not know how this would fare. There are indications that the Chinese are interested in probing our position further within their own precondition on sovereignty, and I do not think we should rule out the possibility of getting them to agree to an arrangement whereby 1997 was set aside and British control continued on terms acceptable to us.

5. However, the Chinese may not respond clearly, quickly or at all. They could well be suspicious of the sort of package we have in mind and believe that they have conditioned Hong Kong opinion to the inevitability of Chinese control, if not to its desirability. They may therefore believe that they can stick to a hard line without a major breakdown of confidence in Hong Kong,

/while



while continuing to keep up the pressure in preparation for official disclosure of their broad plans in June. We must face the possibility that if things go badly, we could find ourselves in a few months time in a very difficult situation indeed; condemned to sit tight without a positive policy or even the appearance of negotiations; and with confusion, resentment and dwindling confidence in Hong Kong.

6. Our obligation to the people of Hong Kong requires us to work for a deal which so far as possible guarantees them against Chinese interference in the future. If we could achieve it the most effective means would be an extension of British administration, always with the proviso that we avoided a situation in which we had responsibility without power. We must also think very carefully and realistically about the possibility that at some stage we may have no alternative but to accept Chinese recovery both of sovereignty and administrative control after 1997. If such a change from our present policy were to become inevitable, we would have to make it as smooth as possible. It follows, therefore, that in the meantime we should say nothing publicly which would rule out an eventual accommodation which made the best of the Chinese terms. Since, in the long run, the political and military realities would not permit us to impose a settlement against Chinese wishes, we must avoid a confrontation with Peking and work to keep the discussions going. Above all, we should need to be able to demonstrate in Hong Kong and elsewhere that we had only shifted our position after we had done our best to get a better deal.

/7. The question



7. The question of consultation with Hong Kong and autonomy within the Territory is a key point here. This was discussed at your meeting on 28 January. We must be clear what we mean by autonomy. There would be real dangers in developing new mechanisms to test Hong Kong opinion, whether by referenda or otherwise; this would almost certainly arouse suspicion in Peking. The Chinese Government have made clear that they will not allow themselves to be out-voted by their 'compatriots' in the colony. To attempt anything on these lines in the present delicate situation could precipitate some form of Chinese intervention, with all that that would mean for confidence there and immigration here. (It is incidentally for this reason that option B(i) in the paper has been drafted without a provision for consultation with the people of Hong Kong on the determination of when the 'time is ripe'. As a result, option B(i) and B(ii) are less easy to grade in order of preference than would otherwise have been the case.)

8. By extension, we must not allow our consideration for the 'wishes of the people' to develop into acceptance of the paramountcy of the will of the population. That would be unrealistic. But we can and should continue to consult existing bodies and, in particular, to ensure that the advice of EXCO is obtained as the discussions with the Chinese proceed. There is a great advantage in involving EXCO in a realistic assessment of the position which recognises that the options before us might at some stage include negotiation on Chinese terms. Such consultation may be very useful in demonstrating to Parliament that the wishes of the people of Hong Kong have been taken into account. At the same time we must give more responsibility to Hong Kong Chinese. But we can only develop greater self-government in Hong Kong in tacit co-operation with Peking, or as part of an amicable solution.



9. Another important consideration will be public and Parliamentary opinion here. We must strike a balance between the confidentiality of our talks and the need to ensure that people in the United Kingdom are educated about the problems and the facts. You have already authorised the briefing of Opposition leaders. I hope that we can undertake a similar exercise with our own backbenchers. There would be some criticism if we had to negotiate on what would be seen broadly as Chinese terms. But there would be recognition of the realities, coupled with a feeling that Britain has interests as well as obligations. There would be fear of a wave of immigration if the Hong Kong applecart were upset by Sino/British friction; and there would be widespread disinclination to face a major political conflict with China, and a possible internal security problem in Hong Kong.

On the facts

and legal rights

10. You have already agreed in principle that the Governor should discuss with EXCO the various options facing us. I should be grateful if, having seen the paper, you would confirm this. Thereafter we are planning a discussion with both Sir E Youde and Sir P Cradock in London. After that, as I have mentioned to you, I think that we should discuss the issue in a restricted session of OD. Important decisions have to be taken and the interests of a number of our colleagues could be directly involved.

(FRANCIS PYM)

Foreign and Commonwealth Office
16 February 1983

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FUTURE OF HONG KONG : THE NEXT STAGE

1. This paper summarises the position which has developed since the Prime Minister's visit to China in September 1982. It reviews the options open now to us, recommends action, and considers the timing and tactics involved.

SUMMARY OF THE PROBLEM

2. Unless other arrangements are made with the People's Republic of China (PRC) the UK will be obliged to relinquish the New Territories when the lease expires in 1997. This affects 92% of the land area of Hong Kong. For all practical purposes the ceded and leased areas are indivisible.

3. When the Prime Minister visited Peking in September 1982 the Chinese leaders said that they intended to recover Chinese sovereignty over the whole of Hong Kong by 1997 at the latest. They indicated their intention to announce their own plans for Hong Kong within one or two years. They agreed to the opening of talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong. However, in preliminary contacts the Chinese have maintained consistently that HMG should accept their premise that sovereignty should be vested in China by 1997 and that the talks should simply be concerned with the smooth transition towards this end. In practice the Chinese are insisting on their precondition before substantive talks can get under way.

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4. The Chinese leaders also told the Prime Minister that in their view sovereignty and administration of the territory were inseparable and that they could not agree to Britain or any other country running Hong Kong on their behalf.

5. The problem is not simply a bilateral one between Britain and China. HMG has a strong obligation to secure a solution acceptable to the people of Hong Kong. This must be set against the realities of the situation including the indefensibility of the territory against Chinese attack or sustained pressure.

Wishes
6. The problem of Hong Kong is to reconcile the interests of the inhabitants with the Chinese demand for sovereignty and an end to the British link. An urgent review of our position is needed particularly in the light of the Chinese attitude strongly reaffirmed by Vice-Minister Yao Guang to our Ambassador on 9 February, and of recent indications that they have it in mind to announce their ideas on Hong Kong by June 1983.

OUR OBJECTIVES AND INTERESTS

ie wishes
7. Our long term objective is to agree with the Chinese new arrangements for Hong Kong's future which are acceptable to Parliament and the people of Hong Kong. In addition to our interest in meeting our obligations to the people of Hong Kong, we will need to take into account:

- (a) the protection of our economic and commercial interests in Hong Kong, South-East Asia and the Far East;
- (b) the maintenance of our relations with China and the protection of the United Kingdom's commercial and economic interests there;

- (c) assistance to the interests of our allies in the area;

The promotion of all these interests requires a solution which will in fact maintain the stability and prosperity of Hong Kong beyond 1997. At the same time however we must take into account:

It is not a question of new responsibility. WE HAVE IT ALREADY BY VIRTUE OF THE TREATIES.

- (d) the avoidance of unhelpful or unrealistic commitments for the future, in particular the acceptance of responsibility with no power to fulfil it.

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8. As a way of assuring Hong Kong's future stability we should keep the aim of working for the continuation of British administration beyond 1997. However, the threat of a Chinese announcement in June 1983 calls for an additional and more immediate objective. Once the Chinese officially published their plan it would be very difficult if not impossible for them to back down. We need therefore either to deter them from that step or to try to persuade them to limit any statement they make so they are not committed to a specific practical arrangement which would exclude the possibility of continued British administration. As a contingency measure we may need to be ready to counter any announcement by them with a statement of our own aimed at international and local opinion but which does not imperil further talks.

STRENGTHS AND WEAKNESSES OF THE BRITISH POSITION

9. The main strengths of the present British position are that:

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- (a) the Chinese derive great economic benefit from Hong Kong in its present form, particularly as a source of foreign exchange. They wish this to continue and would prefer not to be faced with a choice between sovereignty or prosperity. However, since the Chinese would choose the former if it came to the crunch this advantage should not be overestimated;
- (b) Chinese imposition of a solution which did not accord with the wishes of the people of Hong Kong, preserve social order and safeguard Hong Kong's prosperity, would make the achievement of peaceful reunification with Taiwan much more difficult;
- (c) UK/China relations are good and it is in China's interest to maintain them;
- (d) most people in Hong Kong want the existing system of administration to continue indefinitely. They do not trust the Communists;
- (e) the British position is based on treaties valid in international law which the Chinese have in practice observed even though they do not accept them (but see 10(a) below).

It should be noted that (d) and (e) are strengths more in international terms than in our negotiating position vis-à-vis the Chinese, although (e) is unlikely to be a major card in our hand even with international opinion. On the other hand, on (d), the Chinese would probably prefer not to be seen to be imposing a solution which the Hong Kong people did not want.

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10. The main weaknesses are:

- (a) our own position on the treaties requires that the New Territories should be returned to China in 1997 unless alternative arrangements are agreed. Even if China would allow it, the ceded territories would not be viable on their own. The 1898 lease is thus a time bomb with a lighted and steadily shortening fuse. If no settlement is reached within the next one or two years confidence will inevitably falter and then slide quickly. Indeed, unless there is some visible sign of progress in the talks it may not be possible to hold the situation in Hong Kong for as long as that. The Chinese have increased the pressure by letting it be known that they intend to announce their plan within one to (at most) two years: indeed, recent suggestions - from secret sources - are that they may intend to make an announcement in June 1983;
- (b) Hong Kong is militarily indefensible. The PRC could seize Hong Kong by force or take measures which would destroy confidence in Hong Kong;
- (c) the Chinese are in a position to decline to negotiate except on their terms and to impose their plan (though no doubt at enormous cost to the economy of Hong Kong) if HMG will not accept it;
- (d) we cannot prove to the Chinese our assertion that confidence in Hong Kong depends upon the British link. It could only be conclusively demonstrated by the implementation, and failure, of the Chinese plan;

- (e) the maintenance of confidence in Hong Kong will be increasingly difficult so long as the Chinese campaign continues unchallenged and there is no sign of activity in the talks. HMG and the Hong Kong Government cannot counter openly what the Chinese are doing without risking confrontation.

THE PRESENT POSITION

China's Strategy

11. The Chinese have so far been unwilling to engage in substantive talks except on the basis that sovereignty over the whole of Hong Kong belongs to China. In the meantime they have mounted a propaganda campaign - through the press, through meetings with local visitors to Peking, and through a process of "consultation" with people in Hong Kong conducted by NCNA and other communist officials - to convince local people and international investors that:

- (a) the "recovery" of their sovereignty by 1997 at the latest is inevitable and non-negotiable;
- (b) sovereignty and ultimate administrative control are inseparable: there can be no role for HMG after 1997;
- (c) the administration will be headed by a Hong Kong Chinese and Hong Kong people will be allowed to run Hong Kong themselves: China will not interfere;
- (d) Hong Kong will become a Special Administrative Region within China, with a high degree of autonomy;

- (e) Hong Kong will stay capitalist and remain a free port, etc. The present currency, international trade relations, legal and other "systems" will be preserved with minimum change and Hong Kong people will keep their present lifestyle.

12. The Chinese campaign is proving successful to the extent that many people in Hong Kong are coming to believe in the inevitability of China reasserting control over Hong Kong, but few believe Chinese assurances of non-interference. The Chinese have made it clear to us that in the last resort sovereignty is more important to them than the maintenance of prosperity or indeed local opinion. ("The views of a billion Chinese are more important than those of 5 million Hong Kong people.")

HMG's Strategy

13. Since Chinese leaders agreed during the Prime Minister's visit to Peking in September 1982 that talks would be held "with the common aim of maintaining Hong Kong's stability and prosperity", HMG's goal has been to persuade the Chinese that "the common aim" can only be achieved if arrangements are made for British administration to continue for a long time after 1997. Underlying this approach is the hope that a distinction can be drawn between "titular" sovereignty and administration. We have told the Chinese that we would be prepared to discuss sovereignty, but only after satisfactory arrangements for administration have been agreed.

14. To convince the Chinese that British administration is indispensable we have attempted to educate them about the realities of Hong Kong through:

- (a) the diplomatic talks themselves;

- (b) briefing prominent local personalities who have been invited to China or are in contact with senior local communists;
- (c) briefing international businessmen and politicians with a stake in the continued prosperity of Hong Kong, who are likely to be received by senior Chinese leaders.
- (d) briefing selected journalists in the UK, Hong Kong and the US.

These tactics have not had much impact so far.

OPTIONS

15. These fall into three main categories as follows (They are considered in greater detail in paragraphs 16 to 26):

- A Continue broadly as now
 - (i) Continue with our present strategy and tactics;
 - (ii) As for (i) above but with public counter-propaganda campaign;

- B Continue to attempt to achieve continuing British administration beyond 1997, but by different means
 - (i) Put the treaties to one side and blur the 1997 date;

- (ii) Accept that sovereignty over all of Hong Kong will be vested in China and enter talks aimed at delaying the transfer of British administrative control for an agreed period;

C Negotiate on the basis of China's current proposals; accept the Chinese position that sovereignty and administrative control must be vested in China in 1997 and begin talks on matters of detail with a view to seeking the best possible deal for Hong Kong after 1997.

OPTION A: (i) Continue with present strategy

16. If the Chinese agreed to discuss the administration of Hong Kong after 1997 without a prior acceptance by HMG of Chinese sovereignty we could continue on the present course. A Ministerial visitor or special emissary could be employed to break the log-jam in the talks. But the Chinese have so far made it increasingly clear that if meaningful talks are to take place the question of sovereignty must be met first. It is very doubtful whether the Chinese can be shifted away from their present line by a process of education and persuasion alone. If the Chinese dragged out the talks and sought to undermine our position by continuing their public campaign about their plan, our position could become very exposed.

17. Moreover the fact that substantive talks had not begun could not be concealed for long without causing grave public disquiet, particularly in Hong Kong. Investors would hold back and Hong Kong's competitive edge would be lost. The risk of public confrontation with the Chinese, including the possibility of their early intervention in Hong Kong, would be heightened.

18. We do not know if the Chinese could be persuaded that the maintenance of the stability and prosperity of Hong Kong beyond 1997 requires the continuation of British administration but without indicating willingness to concede sovereignty we shall not even get their agreement to discuss such an arrangement. A formal extension of the lease, either for a fixed number of years or for an indefinite period, is out of the question: it is quite clear from what Deng and other Chinese leaders have said, and from the line taken publicly by the Chinese, that no Chinese leader could afford to give fresh life to a treaty which is to all Chinese an emotive reminder of a period of humiliation. Possible alternative solutions are discussed in paragraphs 19 to 26 below.

OPTION A (ii) Continue present strategy, but pursue a
What more active, official counter-propaganda
counter-propaganda campaign

19. This course has the merit of appearing more positive than the present strategy, at least as far as the public is concerned. HMG and the Hong Kong Government would be seen to be taking action to counter the Chinese campaign. But there would be a serious risk of a damaging public confrontation, leading to the belief in Hong Kong and internationally that no settlement would be reached. A confrontation of this kind could also result in a hardening of the Chinese position, possibly to the point where they would break off talks with HMG (assuming that substantive talks had started) and seek to "negotiate" directly with the people of Hong Kong. The effect on confidence would be very serious if not disastrous. Confrontation would moreover put at serious risk prospects for ultimate agreement with the Chinese.

OPTION B (i) Refine the present strategy of attempting to achieve British administration beyond 1997

20. Such a modification of present strategy would be designed to:

- (a) remove the Sword of Damocles which sets a termination date of 1997 to our tenure of the New Territories and, in practical terms, of the ceded territories as well;
- (b) satisfy the Chinese insistence on sovereignty;
- (c) seek to achieve the maintenance of the link with the UK in accordance with the wishes of the people of Hong Kong ;
- (d) reconcile these requirements in a way which would be politically acceptable to the Chinese.

21. These requirements could possibly be met by a package on the following lines. (For the reasons set out in paragraph 34 it would need to be put to the Chinese informally and without commitment in the first instance.)

22. For the purposes of the talks, without commitment on either side and on the understanding that the talks were without prejudice to the position of either side with regard to sovereignty:

- (a) HMG would not insist that our administration of Hong Kong was based on the treaties: we would rely on the de facto position;
- (b) In return, and given their position on the treaties, the Chinese would accept that 1997 was not a determinative date;

Then they could take over any time before then

with our consent

- (c) HMG would, with effect from the date of entry into force of the agreed settlement, recognise Chinese sovereignty over the whole of Hong Kong and accept that British administration should cease "when the time is ripe";
- (d) In return, the Chinese would accept that:
- (i) when British administration came to an end Hong Kong would be governed by Hong Kong Chinese, so far as possible under the "systems" (legal, economic, social etc) presently in force and under a form of administration to be negotiated: and no change in this state of autonomy would take place without the consent of the Hong Kong Chinese. This "charter" could take a number of forms. Ideally it would form part of the agreement to be signed by both Governments on the settlement as a whole and would thus be registrable at the United Nations. At worst it would be a unilateral declaration by the Chinese that specific policies and practices would be followed in Hong Kong and that these would not change;
 - (ii) a long period would be needed before Hong Kong would move to the "charter" status described in (i) above;
 - (iii) in the interim period (ie between the time when the agreement was signed and the introduction of "charter" status) the UK would continue to be responsible for the administration of Hong Kong;

- (e) When the Hong Kong people and the Governments of UK and China agreed to bring the interim period to an end HMG would cooperate to the full with the Chinese Government and the people of Hong Kong to ensure a smooth transition.

23. An approach of this kind would have a number of advantages:

- (a) it would remove the determinative date 1997, and might offer a face-saving way out for the Chinese;
- (b) it would provide for British administration to continue as long as the people of Hong Kong wished it;
- (c) in basing our position on the wishes of the people of Hong Kong, the UK's position would be more tenable internationally;

However, since the plan would involve an indefinite extension of British administration, even though theoretically change could occur before 1997, the Chinese might be inclined to see this simply as a ploy to extend the lease. Great care would be needed in presentation to avoid giving this impression.

OPTION B (ii) Transfer of administration with a set time limit

24. This proposal, discussion of which would again be without prejudice to the position of either side with regard to sovereignty, involves:

- (a) acceptance of Chinese sovereignty with effect from the date of entry into force of the agreed settlement and of the inapplicability of the treaties;
- (b) agreement to allow the British to continue to have overall control for an agreed number of years lasting beyond 1997;
- (c) during this time, starting well before 1997, significant administrative autonomy would take place (see paragraph 32);
- (d) agreement to and the gradual introduction during the same time of symbols of Chinese sovereignty; these might include upgraded status for a Chinese representative (eg Commissioner) who would be consulted on matters affecting China and Hong Kong and some concessions over flags (Some elements of this might take effect before 1997);
- (e) after agreed date Chinese resumption of control under Charter system described under Option B (i).

Although B (ii) would give Hong Kong less than B (i) and might be seen by the Chinese as an even more blatant attempt to extend the lease, it might be a possible alternative to offer the Chinese given the concession on the early introduction of symbols of Chinese sovereignty. However, it would be essential to avoid any form of condominium, joint control or blurring of responsibility in the run-up period, and the link with London would have to be maintained up to the transfer point. Provided that we made the question of ultimate control the essential criterion, it might be possible to negotiate changes which would

satisfy the Chinese without damaging confidence in Hong Kong. As with B (i) however this would be very difficult to negotiate. Moreover, given the disadvantage for us of the creation of a new deadline, B (ii) should only be considered if B (i) has failed and if the only alternative is Option C.

OPTION C Negotiate on the basis of China's current proposals

25. If this course was adopted we would aim to hold substantive negotiations on:

- (a) detailed administrative arrangements after 1997;
- (b) how to guarantee that these arrangements would in fact be maintained for a very long time thereafter;
- (c) transitional arrangements.

The objective would be to ensure that arrangements post 1997 differed as little as possible (allowing for the fundamental difference that Britain would no longer be the administering power) from what they are now, that the interests and views of the people of Hong Kong were seen to be taken into account and that the strongest possible guarantee would be provided that the agreed arrangements would not be changed.

26. The difference between Option C and Option B (i) above is that the change to "charter" status would be firmly linked to the 1997 date, with all the attendant consequences for confidence. Option C could only be considered when it became clear that no other alternative was negotiable.

CONCLUSIONS

27. The course now being pursued (Option A (i)) is unlikely to convince the Chinese that British administration must be allowed to continue beyond 1997. They are not even prepared to enter substantive talks unless HMG first accepts that sovereignty over the whole of Hong Kong be vested in China in 1997. The alternative within the present strategy, of countering the Chinese campaign (Option A (ii)), carries high risks in terms of confrontation with the Chinese and/or of a severely damaging slide in confidence in Hong Kong.

28. We do not know whether the Chinese can be brought to accept the continuation of British administration beyond 1997 but the only way of finding out would be to meet their point on sovereignty. The key lies in removing the 1997 date. It is this which forces us and therefore the Chinese to face the question of the long term future at a time when neither the two Governments nor the people of Hong Kong would otherwise wish to do so.

29. It may be very difficult to persuade the Chinese to consider, let alone accept, anything other than their own plan but Option B (i) suggests a way in which this might be attempted. It is very questionable whether the Chinese would agree to it as it might well not offer sufficient inducement to them; in any case it might not in the event secure a substantially longer period of British administration in Hong Kong than the present lease secures for us. But it would remove the present certainty, under the treaties, that British administration in the New Territories, and in practice Hong Kong as a whole will end in 1997. If the Chinese could be brought to accept such a provision it would also substitute the wishes of the people of Hong Kong for the treaties as the basis for British administration: and it would enable the negotiation of eventual successor arrangements to take place without the pressure of an artificial deadline.

30. Option B (ii), like B (i), would not be easy to negotiate but should be considered as a fall-back short of straight acceptance of the Chinese plan. The key element is the timing of the breaking of the UK link: the Chinese maintain that sovereignty and administration are inseparable while we would be seeking an extension of our control. But inducements to the Chinese would include early acknowledgement of their sovereignty, some symbols of it and the declared aim of a move to full SAR status at a specified time. However, whatever the details, we would also have to try to negotiate as many safeguards as possible against Chinese interference in Hong Kong after the end of the transition period, particularly with regard to the economic and commercial system, private property, freedom of speech and of the press, the legal and judicial system etc. If it were possible to negotiate such assurances these could be included in a "charter" forming part of a Sino-British agreement.

31. The alternative would be for a complete transfer of ultimate control over the whole of Hong Kong in 1997 with as many guarantees (on Charter lines) as possible (Option C). This would clearly be the least attractive to Hong Kong and should be our final fall-back. But if reasonable safeguards could be negotiated it should still be an honourable and defensible solution. With that in mind, while we must continue to make clear our obligations to the people of Hong Kong we should not make any public move which might rule out a shift to Option C if there was no alternative.

32. Whatever agreement we reach with the Chinese, or are forced to accept, progress in accelerating the participation of Hong Kong people in the management of the Territory's affairs will be an essential element. It will be necessary to achieve this to meet a growing demand for such participation: and the stronger the indigenous political base we can leave behind when the time eventually comes for British administration to withdraw the better the chance an autonomous Hong Kong regime would have

of survival. But to force the pace unduly could engender weakness in the administration during a time when there would be substantial uncertainties anyway. Moreover, we should have to avoid the impression that this was a device to cover a premature British departure. Nor should we allow it to be interpreted either as acceptance of the inevitability of the Chinese plan being put into effect, or as a device to rally support to our cause (so to speak) against the Chinese. The steps by which it should be achieved and the timetable will therefore need very careful planning.

TIMING AND TACTICS

33. Although we believe there is very little prospect that the present strategy will succeed, it would be wrong to change course until we are quite certain that it has failed to move the Chinese. A personal message from the Prime Minister to Zhao Ziyang reminding him of the agreement reached last September is a lever available and not yet deployed.

34. Some move will have to be made soon if confidence in Hong Kong is to be maintained. Given the continued lack of progress in the talks and the likelihood of public proposals by the Chinese in June 1983, a decision is probably needed by mid-March at the latest. Once a decision had been taken that the present strategy should be modified it would be essential before putting a new proposal forward formally, to carry out informal soundings through one, or at most two, private channels, to establish whether the Chinese would be interested. In the meantime, it would be essential to continue formal contacts, in parallel with any informal soundings, for public presentation reasons, even though these formal contacts might show little or no progress. To avoid a further possible impasse any proposal on the lines of Option B (i) or (ii) would first have to be "floated" as an idea which had no formal endorsement and which would be recommended

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for consideration by HMG only if the Chinese were interested in discussing it. Moreover, we would need to present our proposal in a way which did not lead the Chinese to harden their position. It would also have to be made clear that the idea would be acceptable to HMG only if it were also acceptable to the people of Hong Kong. Before going even this far we should discuss the idea with members of EXCO, giving them an assurance that if the Chinese did show interest the advice of EXCO would be sought before HMG put such a proposal forward formally in the official talks.

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