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Foreign and Commonwealth Office

London SW1A 2AH

25 February, 1983

*Dear John,*

Future of Hong Kong

Thank you for your letter of 21 February, giving the Prime Minister's initial reaction to the paper submitted on 16 February as a basis for further discussion. The options listed in the paper cannot, of course, be exclusive, but several other options have been covered already in the Special Study on the Future of Hong Kong of August 1982 (notably in paragraph 20) and their defects discussed.

We have examined as requested the possibility of negotiating an agreement whereby the UK would retain sovereignty over Hong Kong and Kowloon beyond 1997 with a joint British/Chinese administration over the whole territory. I enclose a paper. Study of this idea produced discouraging results. The paper concludes that the option is not viable, because all the evidence and experience indicate that it would not be negotiable with the Chinese. We do not believe that they will change their position on this basic point.

Furthermore, even if the Chinese were prepared to swallow their national pride and agree to such a proposal, the chances of it producing a lasting or workable settlement are minimal. The problems of running a condominium with the Chinese Communists would be immense and they would be a thorn in the side of Sino-British relations for many years. Most important of all, we doubt if the people of Hong Kong would have any confidence that it would work. The Governor and Sir P Cradock have been consulted and strongly agree with this conclusion.

The next immediate step is for Sir E Youde to consult EXCO before his return to the UK on 6 March. I also enclose therefore a draft telegram authorising him to do this without any commitment to a particular course of action.

*Yours ever*  
*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

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OPTION : NEGOTIATING AN AGREEMENT WHEREBY THE UK WOULD RETAIN SOVEREIGNTY OVER HONG KONG AND KOWLOON BEYOND 1997, CHINA WOULD HAVE SOVEREIGNTY OVER THE NEW TERRITORIES AND THERE WOULD BE JOINT BRITISH/CHINA ADMINISTRATION OVER THE WHOLE

ADVANTAGES FOR HMG AND HONG KONG

1. If such an agreement could be negotiated and if a joint administration could be operated successfully over a number of years, there would be the following advantages:
  - (a) The UK presence in the ceded territories would be continued, upholding our present legal title to sovereignty;
  - (b) Binding agreement on joint administration would provide some insurance against Chinese interference in Hong Kong and thereby help to meet our obligation to the population;
  - (c) It would go some way towards protecting our commercial and strategic interests in the Far East;
  - (d) It would assist UK/China relations.

LIKELIHOOD OF CHINESE ACCEPTANCE

2. All the evidence suggests that Peking would not agree to consider a solution involving continued British sovereignty over any part of Hong Kong after 1997. The Nationalist and Communist Governments of China have consistently maintained that the whole territory is Chinese and that the three treaties are "unequal".

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3. Premier Zhao told the Prime Minister in September 1982 that the entire Hong Kong area was part of China's territory and that China must "recover" sovereignty in 1997. He said that Hong Kong Island and Kowloon were inseparable from the New Territories. Chairman Deng told Mrs Thatcher that it was certain that by 1997 China's sovereignty over the entire area would be recognised. On 9 February 1983, Vice Foreign Minister Yao Guang told HMA Peking that "Hong Kong is a part of Chinese territory which must revert to China ... China will recover sovereignty over the entire Hong Kong area in 1997; that is definite and beyond question."

4. Under international law the PRC are entitled to the return of the New Territories in 1997. HMG accepts this. Thus, since China believes that it already has sovereignty over the whole of Hong Kong our agreeing that China should have sovereignty over the New Territories would not be seen by the Chinese as a concession of any kind.

5. Joint administration with divided sovereignty is not something the Chinese have ever suggested or would be attracted to. Any hints which they have given in this area have been related only to a situation in which they had sovereignty over the whole territory, but in which they might agree to senior British civil servants continuing to work in Hong Kong under local Chinese leaders. But the Chinese would expect them to be answerable to Peking in the final analysis.

6. The Chinese Government would therefore react very badly to a proposal of this sort. Any suggestion that the negotiation should take as its starting point the divisions created by the 19th century Treaties touches them on a very raw nerve. If we put the idea forward as a firm negotiating position they might conclude that there was no point in further discussion with us and would be encouraged to go public with their own plan and seek to impose it with intensified subversion of the hearts and minds in Hong Kong.

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PROBLEMS OF OPERATING A JOINT ADMINISTRATION

7. If the Chinese were nonetheless to reverse their stand on the underlying political principle and agree to a joint administration, there would still be major problems in a number of fields eg:

- (a) The structure of a joint authority, the way in which it was appointed and above all whether the Chinese or British components in it would have the final say;
- (b) The practical operation of administration in both parts of the territory. It might be possible to agree broadly on policies covering eg, trade, housing, transport and even social welfare. However, there would be frequent disagreements resulting from differences of approach to such questions as freedom of speech, education, legal jurisdiction, policing and internal security;
- (c) Law and the courts, including final appeals;
- (d) External relations and defence;
- (e) Citizenship and nationality.

8. Previous experiments in joint administration, eg the New Hebrides Condominium, have proved very difficult to operate, even in conjunction with another Western country. The problems of making a success of such a venture in cooperation with the Communist Chinese would be far greater. The population would have no confidence that the system would work because we should have had to concede the joint administration in our sovereign territory. In practical terms this would mean a substantial outflow from the territory by those who could afford it and a damaging movement from the New Territories into Kowloon and Hong Kong by people seeking to insure against the breakdown of joint administration.

SEPARATE ADMINISTRATION BY THE UK OF THE CEDED TERRITORIES

9. If a joint administration could be agreed and operated amicably with the Chinese there would be no need for arrangements to reduce the dependence of Hong Kong and Kowloon on the New Territories. But if such a scheme broke down we should have to try to run the ceded territories on their own against Chinese opposition or at least with the minimum of cooperation. In that case the problems would extend far beyond the provision of food and water supplies. As the attached annex shows, the New Territories comprise more than half the population and 92% of the land area of the territory; they include the airport, the container port, all major reservoirs, new towns, most of industry and most of the generating capacity. Hong Kong Island and the Kowloon Peninsula could only survive on Chinese sufferance, and on the basis of continued free movement between the different parts of Hong Kong and free access to the commercial and economic resources of those parts. China could seize Hong Kong Island and the Kowloon Peninsula by force at any time or take crippling economic measure, eg by blockading the harbour, cutting off food or water supplies, or encouraging mass illegal immigration southwards.

10. In these circumstances even if we managed to hang on with a British administration, confidence and prosperity would collapse. At best we should be attempting to meet our obligations only to a proportion of the present population of Hong Kong with no prospect of an enduring future.

Foreign and Commonwealth Office  
24 February 1983

RELATIVE IMPORTANCE OF THE CEDED TERRITORY AND THE NEW TERRITORIES OF HONG KONG

	Hong Kong and Kowloon Peninsula	New Territories
Area (Total 400 sq.m)	8%	92%
Population (Total 5.1 million)	40%	60%
Economic activity (Number of people employed)		
Commercial )	88%	12%
Financial )		
Services )		
Wholesale	71%	29%
Retail		
Manufacturing	29%	71%
Water (18% supplied from China)	No reservoirs of any significance	All major reservoirs
Power Generation	Capacity not sufficient for area	Contains main power station
International Transport	Macau ferry terminal	Airport (on reclaimed land)
Shipping	Some docks and lighter loading	Container port
Education (tertiary education places)	67%	33%
Primary Production (considerable imports from China)	Virtually nil	Meets 45% demand for fresh vegetables 15% pigs 43% live birds
Potential for further development	Small	Still considerable
Labour and Social	Major movement. 524,000 workers (23% of labour force) move from one area to the other per day. Strong family ties between both areas	

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DRAFT TELEGRAM TO GOVERNOR OF HONG KONG

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The Prime Minister has now considered papers which outline the present position and a number of options before us, and looks forward to discussing the situation with you and Sir Percy Cradock during the week beginning 7 March.

The Prime Minister has not yet formed a view on the direction in which we should now move. She recognises the problem posed by the Chinese resistance so far to substantive talks on acceptable terms and by the likelihood that they will take early action to reveal more of their own plans publicly.

The Prime Minister confirms that you should consult EXCO before you come to London. She would like you to give EXCO an analysis of the present position and the problems facing HMG, giving due weight to the statement to Sir P. Cradock by Yao Guang on 9 February. You should follow this up by asking EXCO for their views on the way forward.

You should not repeat not put the paper outlining the options to EXCO nor should you put those options to them orally. It is also very important that you should not (not) give any impression that the Prime Minister has changed in any way her views on the issue of sovereignty or the handling of this with the Chinese. Your purpose should be to get EXCO to give their views on the best way forward. You will no doubt undertake to convey their views fully to Ministers in London who are anxious to have their counsel at this stage.

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10 DOWNING STREET

*From the Private Secretary*

28 February, 1983.

Thank you for your letter of 25 February to John Coles about the future of Hong Kong. The Prime Minister has noted the points made in your letter, and has agreed a somewhat amended version of the proposed draft telegram to the Governor of Hong Kong. The text of the approved telegram is now attached, and I should be grateful if you could arrange for its despatch to the Governor of Hong Kong.

Blk for copies of telegram sent

T. FLESHER

John Holmes, Esq.,  
Foreign and Commonwealth Office.

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