

RECORD OF A DISCUSSION AT NO. 10 DOWNING STREET AT 1615 HOURS
ON MONDAY, 7 MARCH. 1983

Present: The Prime Minister
Foreign and Commonwealth Secretary
Secretary of State for Defence
Lord Belstead
Governor of Hong Kong
HM Ambassador, Peking
Mr. Donald
Sir A. Parsons
Mr. Coles

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The Prime Minister said that she had read with interest the account of the Governor's discussion with EXCO about the present situation. She felt that EXCO's views were to some extent dictated by their subconscious wish that things in Hong Kong would never change fundamentally.

Sir Edward Youde said that he thought that assessment was largely valid. The present situation in Hong Kong was not unsatisfactory. The economic situation had somewhat improved. The people had become accustomed to Chinese statements and believed that these represented a negotiating position. He had given EXCO no guidance on the possible policy options. They were not altogether united in their views. S.Y. Chung was the toughest in outlook. Others thought it might be worth trying to establish, through informal contacts, what arrangements the Chinese would agree to if we conceded sovereignty. F. Lee, and to some extent Lydia Dunn, took this view. EXCO tended to argue that it would not be in the Chinese interest to announce their plan in June because this would reduce the economic value of Hong Kong to them. The Prime Minister commented that the latest figures showed that Hong Kong's economic value to China was already declining.

/ Sir Edward Youde

Sir Edward Youde said that EXCO went on to argue that the announcement of the Chinese plan would amount to nothing new. Hong Kong was already aware of it and knew that no substantial negotiations were in progress. One or two members of EXCO were not convinced that this judgement was right. Nor was he - there was a difference between an absence of talks now and an absence of talks in June.

All members of EXCO were still wedded to the objective of continuing British administration. All believed that China would not modify its position on sovereignty. All were hopeful that there would be some flexibility in the Chinese position on future administration.

The Prime Minister commented that these views might be right. But the worst feature of the present situation was the absence of negotiations. She doubted whether we could have any confidence that the Chinese leadership would honour future treaties. If they were prepared to abrogate existing ones, they would not respect new ones.

Sir Percy Cradock said that the Chinese were very committed to their position on sovereignty. Their latest formal note amounted to insistence on sovereignty as a pre-condition for talks. It was just possible that something less than outright acceptance by us of Chinese sovereignty would trigger negotiations but he did not rate this possibility very highly. He continued to believe that we should try to find ways of finessing the sovereignty issue. We should avoid confrontation. It was true that the Chinese might not keep agreements into which they entered but we had no choice but to work on the assumption that they would. Our aim must be to get the talks going.

The Prime Minister said that it was her impression that the Chinese believed that they had made a success of running Shanghai and that they could therefore run Hong Kong in the future. But

events in Shanghai, accompanied by much cruelty and oppression, suggested quite the opposite. She wondered whether we had any threats at our disposal which could cause the Chinese to re-think their position. Could we, for example, make it plain that if China simply took over sovereignty, there would be a large exodus of people from Hong Kong?

It was hard to envisage any other step at present than the sending of a message to Deng or Zhao. But the message would have to make it plain that sovereignty was not hers to concede. Sir Percy Cradock said that he had stressed this point strongly in his conversations with the Chinese, most recently at a dinner on 22 February attended by a member of the Chinese MFA, who was shortly to be posted to the Chinese Embassy in London. The latter had said that the Chinese understood the constitutional position. He had added that the offer of a perhaps slightly improved package deal might help.

The Prime Minister had said when in Peking that if arrangements could be devised which were satisfactory to Hong Kong and the United Kingdom, she would consider putting recommendations about sovereignty to Parliament. It was possible that if that message was put slightly more firmly now, progress could be made.

The Prime Minister asked whether we could not move Hong Kong fairly rapidly down the path towards independence, though stopping short of that final point. We should consider launching a process of putting Hong Kong Chinese in positions where they could run the affairs of Hong Kong and we should aim to complete that process in five years. This process might be an alternative to negotiations or concurrent with them. The exercise of responsibility usually strengthened people - and the Hong Kong Chinese ought to have these responsibilities in any case. Perhaps we should tell the Chinese of our intentions and seek their reactions. Another possible approach was to avoid the grand design of an agreement on sovereignty and administration and simply work towards a joint leasing of the new territories.

/ Sir Edward Youde

Sir Edward Youde said that he would first like to comment on the Prime Minister's reference to Shanghai. The Chinese distinguished between Shanghai and Hong Kong. They had always said that the former would have to be a Socialist city whereas they had frequently stated that Hong Kong would be allowed to retain a Capitalist system. Moreover, Peking had told the Hong Kong Chinese that they would be allowed to run their own affairs in future.

He agreed with the Prime Minister that Hong Kong should move along the path of self-determination. But it should be appreciated that a good deal of progress had already been made. The Governor had not acted contrary to the advice of EXCO for twenty years. A number of senior officials were Chinese. There would have to be more progress in this direction, whatever happened in 1997. But if full democratic elections were introduced, then there would be political parties. If some of these were anti-Communist, the Chinese might decide to disrupt the system.

The Prime Minister commented that such action would illustrate the hollowness of the Chinese pledge to let Hong Kong run its own affairs. Sir Edward Youde said that he believed that another route was available in Hong Kong, that of a collegiate approach. The elected members of the district boards and of the urban councils would elect their representatives to EXCO. This would avoid a polarisation into political parties. But five years was too short. Hong Kong could not withstand the strain of such a fundamental change in so short a time.

Mr. Donald asked whether the Prime Minister had it in mind that Hong Kong should become independent. The Prime Minister said that this was not her intention. She envisaged a status more like that possessed by Bermuda. She was concerned that people should have the experience and responsibility of governing themselves. They would still need a fundamental link with the United Kingdom. But the Chinese could be told that we were setting in train the process that they themselves advocated - the running of Hong Kong by the people of Hong Kong.

/ Sir Edward Youde

Sir Edward Youde said that he had been considering how Hong Kong could move forward towards becoming a strongly based local administration whenever Britain left the Colony. The two conditions were that the new system should not be confrontational in Chinese eyes and that it was suitable for the conditions of Hong Kong and introduced at a pace acceptable to its people.

The Foreign and Commonwealth Secretary said that the major problem was the absence of talks and the major obstacle was the Chinese position on sovereignty. The Prime Minister said that we should perhaps now remind the Chinese that in the Joint Communique agreed in Peking in September we had agreed to differ on certain things. We should say that sovereignty was not ours to concede and that we therefore proposed that we should now discuss practical arrangements and put our cards on the table.

The Secretary of State for Defence said that it was for consideration whether we could turn to our advantage the Chinese intention to make a statement in June. Could we not suggest to the Chinese that, in the interests of avoiding confrontation, they should show us their statement before publication? We could then use it as a basis for discussion and in that way get negotiations going.

/ Sir Percy Cradock

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Sir Percy Cradock commented that the information about a possible Chinese statement in June was contained in a report from secret sources. He saw no possibility that the Chinese would agree to show us in advance the text of the statement explaining what they proposed to do in "their" territory.

The Secretary of State for Defence said that while he agreed that we should not concede sovereignty now, the fact was that we were likely to have to do so in the end. We should therefore be careful not to lay too much public stress on the sovereignty issue, since this could lead to greater humiliation in the end.

Reverting to the idea of a message, Sir Percy Cradock recalled that the Prime Minister had told Deng that, if satisfactory arrangements could be made for the future of Hong Kong, she would consider making recommendations to Parliament about sovereignty. If she were able to say now in a message that if satisfactory arrangements could be made, she would make recommendations to Parliament on sovereignty, that might induce the Chinese to enter into negotiations. The Prime Minister commented that this would be an important move which would require the endorsement of her Ministerial colleagues. She had wondered whether an alternative approach to the present impasse might not be to seek a UN Referendum in Hong Kong. Sir Anthony Parsons pointed out that the Chinese would be unlikely to agree to this. The Prime Minister said that it would be quite a big step for them to withhold their agreement. A number of alternatives could be put to the Hong Kong people in a referendum - they could be offered a choice between Chinese sovereignty plus Chinese administration, Chinese sovereignty plus British administration or other formulae. If they voted for Chinese sovereignty and British administration, this could be a useful card to play with the Chinese. Sir Edward Youde said that the Hong Kong people wanted to maintain the possibility of British administration after 1997. They were prepared to distinguish between sovereignty and administration. But he did not believe it was possible to see the ultimate solution now. We first had to establish what form of administration the Chinese were prepared to contemplate. For that, we needed to get talks started. He endorsed the formula suggested by Sir Percy Cradock though thought that we should add the extra condition that any arrangements for the future must be satisfactory to the people of Hong Kong.

The Prime Minister said that we could surely point out to the Chinese that they claimed that they already had sovereignty while we had administration. Why should not this continue for the future, while Hong Kong Chinese were moving increasingly into positions of responsibility?

Sir Anthony Parsons asked what was likely to happen in Hong Kong in June if the Chinese made their statement. Sir Edward Youde replied that people would realise that the 1997 barrier could not be shifted and so investors would start looking elsewhere. The Prime Minister said that what was envisaged was the first public official statement by the Chinese - she feared that the consequences could be severe. Sir Anthony Parsons suggested that it followed that we should make a move in order to get talks going. Sir Percy Cradock said that this brought us back to the idea of a message. For practical reasons this should be addressed to Zhao but we could so word it so as to ensure that it was seen by Deng. It might suggest a date for the commencement of talks and perhaps an agenda though when we had discussed these things earlier with the Chinese they said that all would fall into place if the big issues were first settled.

The Prime Minister recalled that she had asked the Secretary of State for Defence to make certain contingency plans. Mr. Donald pointed out that the Chinese had the capacity to create chaos in Hong Kong without launching a frontal attack. They could engineer riots by using their agents in the Colony. 98% of the population was in some awe of Peking.

Sir Edward Youde pointed out that there were options between giving the Chinese what they wanted and simply sticking on our present position. These options were not before EXCO during his recent discussion with them. The Prime Minister said that it would be essential in the end to have a Treaty embodying any arrangements which were agreed by the Chinese and that Treaty must be freely entered into by both sides. Sir Percy Cradock said that we had to recognise that the ultimate solution would be either what the Chinese wanted or what we could persuade them to accept. We must avoid confrontation because Hong Kong would be the victim of it. We should not maintain an absolutely rigid position for this

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would simply encourage the Chinese to go over our heads to the people of Hong Kong.

It was decided that a draft message should be submitted for the Prime Minister's consideration. It was further decided that a contingency plan should be prepared setting out the action we should take if the Chinese did make a public statement in June on the future of Hong Kong.

The discussion ended at 1745 hours.

A. J. C.

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JR/m
✓ Sir A. Parsons
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From the Private Secretary

7 March 1983

Dear John,

THE FUTURE OF HONG KONG

The Prime Minister held a meeting here today to discuss the above subject. I enclose a record of the discussion.

The principal decisions were:

- (a) that a message from the Prime Minister to the Chinese Premier should be drafted in an attempt to get negotiations started (I should be grateful if a draft could reach me for the Prime Minister's box tomorrow night);
- (b) that a contingency paper should be prepared covering the action which we should take if in June the Chinese announce their "plan" for the future of Hong Kong.

I am copying this letter, and enclosure, to Richard Mottram (Ministry of Defence). I should be grateful if, as with all papers on this subject, the record of the discussion could be very closely guarded and its contents made available only to those who have a strict operational need to know of them.

Your ever
John Colas.

John Holmes, Esq.,
Foreign and Commonwealth Office.

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