



Foreign and Commonwealth Office

London SW1A 2AH

15 April 1983

Dear John,

Future of Hong Kong: Briefing for EXCO on Sino-British Exchanges

As I mentioned to you on the telephone, the Governor now wishes to put to EXCO a paper detailing HMG's talks with the Chinese on Hong Kong, including the Prime Minister's talks. I enclose the draft as it stood in March (it is being updated to take account of the latest exchanges). The Prime Minister's letter of 2 December to the Governor gave him full authority to brief the Unofficials on our talks with the Chinese. The Governor has of course briefed the Unofficials orally on several occasions, but now believes that it is important that there be no gaps in their knowledge, mainly because of the probability that the Chinese will tell them or their contacts anyway. He believes that the surest way to ensure that there are no gaps and that the Unofficials cannot come back to the Governor complaining that he has not briefed them fully is to put the details in writing. The Governor believes that the Unofficials' earlier resentment about not having been fully briefed immediately after the Prime Minister's visit still rankles, and he is anxious to try to lay any suspicions to rest before Sir S Y Chung and the other Unofficials come to London again. On the other hand he has said that he cannot exclude further rumblings if the Unofficials detect in the written summary aspects of the talks which they believe are new to them.

The Governor is aware of the Prime Minister's reluctance about giving the Unofficials written texts and would therefore like to be sure that the Prime Minister is content, despite the authority he was given. He would like to hand over the summary record on 20 April if possible. I should add that officials here see no objection to this.

Yours ever
John Holmes

A J Coles Esq
10 Downing Street

(J E Holmes)
Private Secretary

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PRIME MINISTER

Future of Hong Kong

You will see from the attached letter that Sir Edward Youde wants to give EXCO a written account of the exchanges which we have so far had with the Chinese about the future of Hong Kong. The FCO see no objection.

The Governor wants to do this in order to get rid of any lingering doubts in the minds of EXCO that we have not told them everything.

I see two possible disadvantages. There might be a leak - but we have always been told that EXCO can be trusted and I doubt if the risk is very high. Secondly, if we give them a written document now, it will be difficult to avoid giving them further written accounts in the future. There could come a point where we do not wish to divulge everything - or at least do not wish to run the risk of putting things on paper.

Another point you may wish to bear in mind is that the unofficials already know a great deal more than the British Parliament.

My instinct would normally be to let Sir Edward Youde do what he thinks best. But for the reasons above I am rather more hesitant on this occasion.

Do you wish him to hand over the paper?

A.S.C.

I should be very reluctant to distribute these documents. Is it not possible for the to read it in Govt. House - or whenever they meet and then leave the paper there? not

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10 DOWNING STREET

From the Private Secretary

19 April 1983

FUTURE OF HONG KONG: BRIEFING FOR EXCO
ON SINO-BRITISH EXCHANGES

Thank you for your letter of 15 April in which you state that Sir Edward Youde wishes to put to EXCO a paper setting out details of HMG's talks with the Chinese on Hong Kong.

The Prime Minister has commented that she would be very reluctant to distribute documents of this kind. She wonders whether it would be possible for EXCO to be given the paper to read at one of their meetings, after which it would be retained in Government House.

AJK

John Holmes, Esq.,
Foreign and Commonwealth Office.

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Summary Record of Sino-British Exchanges on the
Future of Hong Kong since March 1979

Visit to Peking by Sir M (now Lord) MacLehose,
March 1979

1. The question of the future came up in Sir M MacLehose's meetings with DENG Xiaoping, with the then Foreign Minister HUANG Hua and with LIAO Chengzhi. The only substantive discussion was with DENG, who Sir M MacLehose saw first. LIAO and SONG Zhiguang (a former Chinese Ambassador in London, now Ambassador in Tokyo and then Assistant Minister of Foreign Affairs) were present.

2. DENG raised the subject at the outset of his meeting with Sir M MacLehose on 25 March, making the following points:-
 - (a) 1997 was still 18 years away, and discussions might be held before then according to the circumstances prevailing.

 - (b) China had a consistent position that sovereignty over Hong Kong lay with China. Any solution would have as its prerequisite that Hong Kong was part of China.

 - (c) The special status of Hong Kong would

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be respected. Even when there was a political solution, it would never affect investments. This was because China needed Hong Kong and the policy was beneficial to socialist construction.

- (d) China's policy towards Taiwan applied to Hong Kong and Macau also. China would respect Taiwan's special status and would not change its social system or affect its living standards. The island would enjoy local autonomy and have its own armed forces.

3. At a later stage DENG said that in this century and even at the beginning of the next century Hong Kong would still be continuing with its capitalist system while China was getting ahead with its socialist system. There were two possible solutions in 1997, to take over Hong Kong or to recognise present realities. Neither solution would affect investment. DENG asked Sir M MacLehose to tell investors to "put their hearts at ease".

4. Sir M MacLehose said that the long term future was a matter between the CPG and HMG. There was however the immediate problem of individual land leases in the New Territories,

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which would not wait. As the length of these leases shortened investment of the right type would be deterred. If this question could be solved then investment could be attracted which would keep Hong Kong competitive in world markets. His proposal was to replace the system of leases valid until June 1997 by leases which were valid as long as Britain administered the New Territories. This would remove the question of the date. Such a solution would be of benefit to the UK and China.

5. DENG's immediate reaction was that any wording should avoid mention of British administration, in view of the Chinese position. Sir M MacLehose explained that his proposal would not affect the Chinese position. Subsequent conversation was inconclusive.

6. Sir M MacLehose outlined the proposal again when he saw HUANG Hua, stressing that it did not affect the Chinese Government's position and that there would be no requirement for the Chinese Government to do or say anything. HUANG Hua said that the problem would have to be considered but that DENG had already explained China's "principled stand".

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Proposal for an Amendment to the 1898 Order in Council

7. Following Sir M MacLehose's visit to Peking, it was decided to explain to the Chinese in some detail the proposal which he had outlined to DENG. Sir P Cradock called on Assistant Minister SONG Zhiguang on 5 July 1979 for this purpose. He explained that what HMG had in mind was to amend the 1898 Order in Council so as to enable individual land leases to be granted extending beyond 1997. In doing so, he emphasised that what was proposed required no action on the part of the Chinese, and was without prejudice to China's position. A parallel approach was made to NCNA in Hong Kong.

8. The Chinese reply was given by SONG Zhiguang to Sir P Cradock in Peking on 24 September. The measures proposed were described as "unnecessary and inappropriate" and the Chinese made it clear that they did not wish them to be taken any further.

Visit to the United Kingdom by then Premier HUA Guofeng (October/November 1979)

9. When HUA Guofeng met the Prime Minister and the then Foreign and Commonwealth Secretary Lord Carrington, Lord Carrington reminded him that the problem of confidence caused by the 1997 deadline remained. The British Government would not pursue its earlier proposals since any action had to be acceptable to both sides, but it was not

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in the interests of China or of Hong Kong that uncertainties should jeopardise Hong Kong's future. Lord Carrington asked that the Chinese Government give thought to the matter. HUA Guofeng replied that the Chinese Government had given thought to the matter and had already given their reply. He said that the two sides should keep in touch on the problem.

10. During the same visit, the subject was discussed at a separate meeting between Lord Carrington and the then Chinese Foreign Minister, HUANG Hua. Lord Carrington explained that anxieties about Hong Kong's future remained. It was agreed that the two Governments should keep in touch.

Transit Stop in Hong Kong by HUANG Hua, March 1980

11. Sir M MacLehose met HUANG Hua briefly during a transit stop by the latter on 21 March 1980. He reminded HUANG that the 1979 proposals were not for an extension of the lease on the New Territories but were designed to deal with an interim problem so as to hold confidence until long term arrangements could be agreed. Sir M MacLehose hoped that there had been no misunderstanding on this point. HUANG Hua confirmed that the Chinese had not misunderstood the proposal but made no other comment.

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Visit to Peking by the then Financial Secretary,
Sir Philip Haddon-Cave (May 1980)

at time a Vice Premier

12. The future was discussed during Sir P. Haddon-Cave's meeting with GU Mu, / Most of the conversation was devoted to economic relations between Hong Kong and China. Sir P. Haddon-Cave emphasized the need for confidence in Hong Kong's long-term future to be maintained, so that the planning and execution of major projects could continue.

13. GU Mu repeated the assurances given by DENG Xiaoping to Sir M. MacLehose in 1979, emphasizing that Hong Kong would continue as a capitalist society and that whatever measures the Chinese Government adopted would take account of the need to guarantee continuing prosperity. DENG's remarks to Sir M. MacLehose should be sufficient to maintain confidence.

Visit to Britain by the then Chinese Foreign
Minister, HUANG Hua, October 1980

14. Lord Carrington reviewed the previous exchanges on the subject, and repeated that the effect of shorter and shorter land leases in the New Territories would be to undermine investors' confidence in the future. HUANG reminded Lord Carrington that DENG had told Sir M MacLehose that China would not do anything which would adversely affect investors. That had been an authoritative statement of the Chinese Government's position, and

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it should have been sufficient to maintain confidence. Lord Carrington said that the problem could not be dealt with by general assurances. Sir E Youde later went over the ground again with HUANG Hua, explaining the importance of the land lease issue and the risks involved in delay in dealing with it.

Visit to Peking by the then Foreign and Commonwealth Secretary, Lord Carrington, (April 1981

15. When Lord Carrington met DENG Xiaoping, he again rehearsed the problems caused by the 1997 deadline. [He suggested that there could be a discussion of the problem during which the British side might come up with ideas for its solution, although they had none to put forward at that time. DENG said very little by way of direct reply beyond repeating his earlier assurances and inviting the British Government to tell investors in Hong Kong to set their minds at ease. DENG referred to Chinese policy towards Tibet, where he said that reform had only been introduced because the Dalai Lama had run away in 1959. He also invited Lord Carrington to study China's policy towards Taiwan, which was to leave Taiwan people's way of life and political system unchanged as well as to preserve their living standards. The claim to statehood and the flag would have to be given up.

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16. Lord Carrington also had two meetings with HUANG Hua, who had little new to say except to ask whether the British had any concrete proposals. Lord Carrington said that he did not but repeated that there was a problem which required action to solve. He wished to convey the anxiety felt by the people of Hong Kong, and suggested that the way forward might be for both sides to reflect on possible solutions and then discuss the matter further.

17. During Lord Carrington's provincial tour, there was an informal discussion between Sir P Cradock and the Chinese Ambassador in London, KE Hua. Sir P Cradock asked for elucidation of HUANG's request for proposals when DENG had requested none, as well as of DENG's references to Tibet and Taiwan. KE said that DENG had been talking about general principles, on which the Chinese position had been consistent. But there would be merit in more detailed, informal discussion. The references to Tibet and Taiwan were, in KE's view, adduced as examples of Chinese willingness to live with different systems. In further conversation KE asked for proposals for a solution. Sir P Cradock said that since the Chinese had rejected the earlier proposals, we had not gone too far into the problem. But given cooperation and goodwill a solution acceptable to both sides could be agreed. KE made no comment, but undertook to report the conversation to the

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Foreign Minister.

Visit to Peking by the then Lord Privy Seal,
Humphrey Atkins (February 1982)

18. Mr Atkins discussed the future with Vice Premier JI Pengfei and Premier ZHAO Ziyang. Mr Atkins rehearsed the problem in similar terms to those used with the Chinese at previous high level meetings. JI said that a decision on Hong Kong could not wait for 15 more years. China would preserve the interests of the business community in Hong Kong, and methods of achieving this aim would soon be put under study. The two sides could conduct talks on the matter and exchange views. ZHAO Ziyang said that China's general stand was:

- (a) China would safeguard her sovereignty.
- (b) The prosperity of Hong Kong would be maintained.

Hong Kong's prosperity depended on its role as a free port and a commercial centre, and this would not be changed. China would undertake very careful studies as to the forms a settlement of the issue might take, and would discuss the matter with "the various circles" in Hong Kong and all the parties concerned. China would take heed of

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their views. The nine point proposal on Taiwan was a guide to the Chinese Government's thinking. ZHAO reiterated that the problem would not be put on the shelf until 1997. He said that until a concrete formula had been worked out, neither side should do anything which could harm the prosperity of Hong Kong.

Visit to China by the Financial Secretary
(March 1982)

19. During his meeting with Vice Premier GU Mu, Mr Bremridge underlined the problems for business confidence caused by the shadow of 1997. GU Mu referred to the explanations of China's position given by DENG Xiaoping and ZHAO Ziyang to previous visitors, adding that the current problem was that the authorities in Hong Kong, as well as businessmen there were anxious to know when "concrete measures" would be taken to stabilize the situation. The basic principles of a solution to the problem of Hong Kong and Macau already existed. Concrete measures remained for both sides to explore. GU Mu repeated remarks made to Mr Atkins about seeking and taking into account the views of people in Hong Kong, and about the need for both sides to avoid actions and words which might damage Hong Kong's prosperity.

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Meeting between Mr. Edward Heath and DENG Xiaoping
(April 1982)

20. DENG used this meeting to spell out Chinese thinking on the future in greater detail than hitherto. DENG referred to China's nine-point proposal for Taiwan and said that, as applied to Hong Kong, this would mean that sovereignty over the whole of Hong Kong would belong to China; Hong Kong would be managed by its inhabitants, including such foreigners as were resident there. The new State Constitution would make provision for the creation of Special Administrative regions. The "various systems" would remain unchanged. Hong Kong could use the name "Hong Kong China" and could manage its own non-governmental trade and commercial arrangements with other countries. DENG stressed the importance of recovering sovereignty over the whole of Hong Kong, which would involve abrogating the unequal treaties. Mr. Heath said that he hoped the Chinese would show flexibility in the negotiations.

Farewell Call on Sir M MacLehose by Mr. WANG Kuang,
(1st Director, NCNA Hong Kong) April 1982

21. WANG Kuang spoke along similar lines to those used by DENG with Mr. Heath. Sir M MacLehose sought to correct the mistaken impression that Hong Kong paid taxes to the UK (DENG had referred to this with Mr. Heath). In order to preserve Hong Kong's prosperity, it would be important to have a proper understanding of what contributed to it. Sir M MacLehose outlined the main elements in Hong Kong's success, and the factors making for prosperity.

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VISIT TO PEKING BY THE PRIME MINISTER, THE RIGHT
HONOURABLE MARGARET THATCHER (SEPTEMBER 1982)

22. The Prime Minister discussed the future of Hong Kong at the second of her two sessions of talks with ZHAO Ziyang and during her meeting with DENG Xiaoping. The Prime Minister recalled what ZHAO had told Mr Atkins in January 1982 and DENG's remarks to Mr Heath in April. She described the fundamental elements on which confidence in Hong Kong depended and said that these had been provided by British administration. The following are the main points which she made in further discussion:

- (a) The changes envisaged by DENG would, if implemented or even announced as a decision of the Chinese Government, have a disastrous effect upon confidence in Hong Kong. The ^{common} main objective of the two sides to maintain the prosperity of Hong Kong could only be achieved if people believed that the present arrangements for administering Hong Kong would continue for a long time beyond 1997.
- (b) Early action was needed: the problem was not what would happen in 1997 but what people believed now would happen.

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(c) The Prime Minister could only make recommendations to her Government on sovereignty if there was agreement between the two sides on concrete arrangements for the administration and control of Hong Kong which she was satisfied would command the confidence of the people of Hong Kong.

(d) Official talks should be held to seek agreement on arrangements which would meet the wishes of China, Britain and of the people of Hong Kong; these talks should begin at an early date; and there should be a public announcement to this effect before she left Peking.

23. After recalling the Chinese Government's ^{basic} position, ZHAO made the following points in reply:

(a) China had no alternative but to recover sovereignty over the whole of Hong Kong no later than 1997. Any Chinese Government which failed to recover sovereignty would not be able to account to its people.

(b) After recovery of sovereignty Hong Kong would become a special administrative zone administered by local people, and would maintain its existing economic and social

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systems and lifestyle. Hong Kong would remain capitalist, a free port and an international financial centre. The Hong Kong dollar would continue to be used and ^{would} remain convertible. British Government officials could remain at their posts.

- (c) China could explore ways of maintaining and developing the prosperity of Hong Kong, but not at the expense of the recovery of sovereignty.
- (d) Both sides should continue to discuss the recovery of sovereignty over Hong Kong, and on this premise, how to maintain the stability and prosperity of Hong Kong.

24. At the meeting with DENG Xiaoping the Prime Minister repeated, and in some cases expanded the points which she had made to ZHAO Ziyang, adding that there was not enough time during her visit to reconcile the differences between the two sides but ^{she} believed the differences could be reconciled through talks.

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25. DENG said that ZHAO had already explained the Chinese basic position. In addition to reiterate^{ing} a number of points already made by ZHAO he stated that:

- (a) The Chinese Government would formally announce its decision to recover Hong Kong in no more than one or two years' time.
- (b) He did not agree that Hong Kong's prosperity could only be maintained under British administration: its maintenance would depend on the policy pursued by China towards Hong Kong after it had recovered sovereignty.
- (c) If there were serious disturbances China might be compelled to reconsider the timetable for recovery of sovereignty.
- (d) The two Governments should not do anything to harm prosperity and should prevent businessmen from doing so.
- (e) Chinese resumption of sovereignty over Hong Kong would benefit Britain by bringing to an end the period of colonialism.

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(f) Discussions should start through the diplomatic channel on the pre-condition that China would recover sovereignty in 1997.

26. After further discussion, during which the Prime Minister rebutted some of DENG's contentions, and reiterated that she was not free to abrogate treaties without reference to her Cabinet and Parliament, the joint statement was agreed.

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Meetings between Sir Percy Cradock and Vice
Foreign Minister ZHANG Wenjin

Meeting on 5 October

27. Sir P Cradock suggested that talks should be conducted in the first instance by a small team led by Sir P Cradock himself with a corresponding team on the Chinese side. The British team would be supplemented as necessary by officials from Hong Kong, including from time to time the Governor.

28. ZHANG said that the first requirement was to agree that the premise for the talks should be recovery of sovereignty by China. If this was tackled it would be easy to discuss stability and prosperity. Administration and sovereignty could not be separated; there could be no question of continuing British administration after China had recovered sovereignty. Sir P Cradock/asked whether it was an absolute precondition for the talks that there should be agreement on sovereignty. ZHANG replied that although there were differences talks could begin, but that the premise problem would have to be solved.

Sir P Cradock said that for the Chinese side to insist on a precondition not mentioned in the joint statement would be inconsistent with the aim agreed by the two sides's leaders and frustrate their intentions.

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Meeting on 19 October

29. Sir P Cradock made the following points:
- (a) the joint statement agreed by the Prime Minister and DENG should be the basis of the talks;
 - (b) DENG had said that the talks should among other matters cover arrangements post 1997. The British side proposed that the next stage should be an exchange of views on the practical arrangements for administration. They wished to hear more about Chinese ideas in order to see whether they met the requirements of stability and prosperity.

Substantive talks should begin very soon in spite of differences on certain basic points. It was not the intention of the British Government to put aside the question of sovereignty. They were well aware of the Chinese position.

30. In undertaking to report the proposals, ZHANG said that the Chinese position had been made very clear. The Chinese side attached great importance to the talks and would adopt a forthcoming and constructive attitude. He hoped that the talks would be successful in resolving the differences between the two sides.

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31. Sir P Cradock took the opportunity to complain about statements by Chinese officials to the press reflecting substantive points made to the Prime Minister during her visit to Peking. These were harmful to confidence in Hong Kong. ZHANG claimed that such statements had no direct bearing on the talks and that the Prime Minister's Hong Kong press conference and remarks on the treaties had given the Chinese "many headaches". China would certainly treat the talks as highly confidential.

Meeting over Lunch on 4 December

32. Sir P Cradock urged ZHANG Wenjin to agree to talks beginning very soon and made further representations about the damaging effect of the Chinese propaganda campaign. ZHANG said that personnel changes in the MFA and the National People's Congress had contributed to the delay in responding to the proposals put by Sir P Cradock on 19 October. He stressed that the key to the matter was British acceptance that sovereignty would revert to China. He reiterated that there could be talks in any case but the talks could not make progress until the "premise" was solved. Sir P Cradock made it clear that an agreed package would be needed before the matter could be put to Parliament with any hope of passage.

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33. ZHANG raised the question of the treaties. Sir P Cradock replied that the treaties were a historical and legal fact. The British Government did not wish to revive or re-write history now. They wished to look to the future and to agree with the Chinese Government arrangements for the administration of Hong Kong acceptable to both Governments and to the people of Hong Kong. This implied agreement on replacing the treaties by something more in keeping with the times. ZHANG took careful note. On the question of the Chinese propaganda campaign, his response was again unsatisfactory.

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