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10 DOWNING STREET

From the Private Secretary

9 September 1983

Future of Hong Kong

Thank you for your letter of 8 September enclosing draft telegrams of instructions for the Governor's discussion with ExCo next week. As I told you on the telephone earlier today the Prime Minister agrees that the telegrams may be despatched.

I am copying this letter to Richard Mottram (Ministry of Defence).

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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Prime Minister

Foreign and Commonwealth Office

Sir A. Parsons agrees with this. London SW1A 2AH

Agree that the instructions
should be issued?

Yes not.

8 September 1983

A.S.C. 8/9

Dear John,

Future of Hong Kong

As requested in your letter of 5 September; I enclose draft telegrams of instructions for the Governor's discussion with ExCo next week. The first covers the general line which Sir E Youde should take with ExCo. The second contains the text of a paper to form the basis of the discussion, which he would circulate to members shortly before the meeting. The Governor has emphasised the importance of ExCo having an actual document to consider. Without this, experience has shown that their discussion would be likely to be diffuse and would not provide useful advice. As the Prime Minister knows, their record in maintaining the security of information of this sort is extremely good. They would of course only be shown the paper under secure conditions and would not be permitted to take it away.

I am copying this letter to Richard Mottram (MOD).

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street



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-8 SEP 1983

Classification and Caveats

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Precedence/Deskby

IMMEDIATE

ZCZC
GRS
CLASS
CAVEATS
DESKBY
FM FCO
PRE/ADD
TEL NO

1 ZCZC
2 GRS
3 SECRET
4
5
6 FM FCO
7 TO IMMEDIATE HONG KONG
8 TELEGRAM NUMBER

9 INFO IMMEDIATE PEKING (PERSONAL FOR CHARGE)
10 FUTURE OF HONG KONG: DISCUSSION WITH EXCO

11 1. Ministers have agreed that you should initiate a full
12 discussion with ExCo on the current position in our talks with
13 the Chinese. MIFT contains the text of a paper which may be
14 circulated to ExCo members under the usual secure conditions
15 shortly before the meeting.

16 2. In introducing the subject, you should say that you and the
17 Ambassador had a full discussion of the problem with the Prime
18 Minister and myself. The paper is based on that discussion. It
19 provides an assessment on the basis of which Ministers hope that
20 ExCo can discuss the present position, give their views on it
21 and in particular offer advice on the following points:

/// 22 (a) the extent to which confidence would be damaged by a
// 23 stalemate or breakdown in the talks with the Chinese. How far
/ 24 would this lead to an increased outflow of money or skilled
25 personnel from Hong Kong? What would be the damage to the

NNNN ends telegram	BLANK	Catchword economy
File number	Dept Private Office	Distribution FUTURE OF HONG KONG
Drafted by (Block capitals) J E Holmes		
Telephone number		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

	Classification and Caveats SECRET	Page 2
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 2 economy and to public morale? How quickly would any damage occur?
 3 To what extent could it be reversed?
 4 (b) ExCo's views on the action we should take if the Chinese
 5 were to stick to the indivisibility of sovereignty and
 6 administration in the talks on 22/23 September.
 7 (c) If ExCo consider that it would be right to move to the
 8 course set out in paragraph 10 of the paper, what changes in the
 9 present administrative arrangements in Hong Kong could we
 10 contemplate short of the severance of the administrative link
 11 between London and Hong Kong?
 12 3. You should say that, at the 22/23 September meeting, our
 13 negotiators will adhere to our present line. They will maintain
 14 the need for continuing British administration, recall the
 15 arguments already put forward for that and urge the Chinese to
 16 study further the material which we have provided. At the same
 17 time ExCo will understand that it will be very desirable to
 18 get agreement at the end of the 22/23 September session on a date
 19 for the next meeting. Failure to announce that the talks will
 20 continue at a stated time could hit confidence in Hong Kong very
 21 badly. The Ambassador's instructions will need to contain
 22 sufficient latitude to achieve this without departing from our
 23 essential position.
 24 4. You should explain to ExCo that their advice will of course
 25 be carefully considered before Ministers reach any decision.
 26 ExCo will moreover have the opportunity of a further discussion
 27 after the 22/23 September meeting. That ExCo discussion will be
 28 attended by Mr Luce and the Ambassador, who will be visiting
 29 Hong Kong.

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31 HOWE

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DRAFT
001 TELEGRAM

Classification and Caveats
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IMMEDIATE

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GRS
CLASS
CAVEATS
DESKBY
FM FCO
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TEL NO

1 ZCZC
2 GRS
3 SECRET
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6 FM FCO 071700Z SEPT 83
7 TO IMMEDIATE HONG KONG
8 TELEGRAM NUMBER

9 AND TO INFO IMMEDIATE PEKING
10 MIPT: FUTURE OF HONG KONG
11 Following is text of paper for EXCO:
12 1. "Introduction. Ministers discussed the position in September
13 with the Ambassador and me.
14 2. Chinese Position. During the first three sessions of the
15 talks in July and August, the Chinese took a very hard line
16 against the continuation of British administration in Hong Kong
17 after 1997 ie:
18 (a) sovereignty and administration are indivisible and both are
19 non-negotiable:
20 (b) China would never accept an arrangement whereby China had
21 symbolic sovereignty and Britain retained administration:
22 (c) Hong Kong people should run Hong Kong:
23 (d) sovereignty and administration should revert to China in
24 1997:
25 (e) they intended to announce their plans for the future of

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File number	Dept HKD	Distribution Future of Hong Kong
Drafted by (Block capitals) R D CLIFT		
Telephone number 233 8732		
Authorised for despatch		
Comcon reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats
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2 Hong Kong in one or two years' time whether or not a bilateral
3 agreement has been reached.

4 3. The latest and most authoritative summary of the Chinese
5 proposals for the administration of Hong Kong after 1997 was
6 given by Vice Foreign Minister Yao Guang in the talks on 25 July.
7 This included the following points:

8 (a) Hong Kong would become a Special Administrative Region of
9 China;

10 (b) the Government would be drawn from the local people of Hong
11 Kong;

12 (c) the economy, way of life and basic freedoms would be
13 "protected" and the laws would be "basically unchanged". There
14 would continue to be an independent convertible currency and
15 "external relations in the economy and cultural fields" would be
16 maintained.

17 4. The Chinese have not gone into detail about their proposals,
18 which they claim will not damage confidence. However, it is
19 more than probable that they will continue strongly to oppose
20 continuation of British administration, not merely in its present
21 form, but with any authoritative link through a Governor by
22 whatever name responsible to London.

23 5. There are strong grounds for believing that this is more than
24 a negotiating position. The Chinese have made clear that their
25 national pride is engaged and that while they are prepared to
26 tolerate the continuation of the present arrangements up to 1997,
27 any continuation of the British colonial link thereafter would be
28 unacceptable. They value the economic benefits which they obtain
29 from Hong Kong but have consistently stated that if pushed to
30 choose, they would sacrifice those benefits for political reasons.
31 Most important, the Chinese have made public their position on
32 both sovereignty and administration. To retreat from this would
33 involve serious loss of face.

34 6. British aim and current objectives. HMG's publicly stated

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1 aim is to seek a solution on the future of hong Kong which will
 2 prese^{nt} Hong Kong's prosperity and stability and be acceptable to
 3 the British Parliament, to the Chinese Government and to the
 4 people of Hong Kong. The British negotiating objective agreed
 5 with ExCo and UMELCO, but not publicly stated, is the
 6 continuation of British administration for as long as possible
 7 after 1997.

8 7. Future strategy. Ministers have agreed that when the talks
 9 with the Chinese resume on 22/23 September, the British team
 10 should seek Chinese reactions to the papers presented at the end
 11 of the last round, and continue to argue that the agreed common
 12 objective of maintaining the stability and prosperity of Hong
 13 Kong can only be achieved if arrangements are made for the
 14 continuation of British administration after 1997.

15 8. If the Chinese are willing to continue to listen to British
 16 views while elaborating their own, there will be no difficulty
 17 about maintaining the present course, at any rate for a few more
 18 meetings. But they may well not do so. In that case we shall
 19 soon be faced with two possibilities.

20 9. The first would be to maintain our present course aimed at the
 21 continuation of British administration. To do so would run the
 22 risk that the talks would soon reach stalemate or be broken off
 23 by the Chinese. This would in turn entail a risk of public
 24 confrontation with serious consequences for confidence.

25 10. Secondly, we could seek to maintain the British link through
 26 a Governor appointed by and responsible to HMG, but offer
 27 administrative changes designed to make the retention of the
 28 British link more palatable to the Chinese. Such changes might
 29 include:

30 (I) the Governor to be a Hong Kong Chinese.

31 (II) British troops to be withdrawn from Hong Kong (there would
 32 have to be a compensating increase in the strength of the local
 33 security forces).

34 (III) Appeals to the Privy Council to be ended, leaving the rest

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Classification and Caveats

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 2 of the legal system unchanged.
 3 (IV) A number of changes in nomenclature and style.
 4 11. Chinese longer term attitude. The Chinese are likely to
 5 continue to insist that discussion should be on the basis of their
 6 proposals. They have indicated that if HMG were to agree to this
 7 they would be ready to be flexible. They have said that
 8 provided that HMG conceded their conditions on sovereignty and
 9 "the power of administration", "discussion on the many other
 10 subjects would be relatively easy".
 11 12. Longer term risks. There are considerable risks in sticking
 12 to our present position, which need careful consideration. As
 13 an alternative we have the option of offering modifications
 14 to the present system of British administration as in para 10.
 15 However, given the Chinese position on the indivisibility of
 16 sovereignty and administration, this may also be rejected soon.
 17 There would again be a high risk that the talks would reach
 18 stalemate or break down. This would become public, with a severe
 19 impact on confidence in Hong Kong.*
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The National Archives

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S E C R E T



41 File Lb 4

10 DOWNING STREET

From the Private Secretary

5 September 1983

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FUTURE OF HONG KONG

The Prime Minister held a meeting this afternoon to discuss the above subject. I enclose a note of the main points made during the discussion.

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It was agreed that a draft telegram of instructions covering the line which the Governor should take with EXCO on his return to Hong Kong should be prepared and submitted to the Prime Minister for her approval.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence).

A.J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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Subject cc Master

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NOTE OF A MEETING HELD AT 1600 HOURS ON MONDAY 5 SEPTEMBER 1983
AT No. 10 DOWNING STREET

PRESENT

- Prime Minister
- Foreign and Commonwealth Secretary
- Secretary of State for Defence
- Mr. Luce
- Chief of Defence Staff
- Sir Antony Acland
- Sir Percy Cradock
- Sir Edward Youde
- Sir Ian Sinclair
- Mr. Donald
- Sir A. Parsons
- Mr. John Coles

* * * * *

The Prime Minister asked Sir Percy Cradock to give his assessment of the latest Chinese position.

Sir Percy Cradock said that the three rounds of talks held so far had gone much as had been expected. We had achieved at least part of our aim in that we had begun a process of educating the Chinese in the complexities of Hong Kong. The Chinese had been affable, had listened carefully to our statements and had seemed glad to have the papers which we had provided. They might now more readily appreciate the complexities of Hong Kong but there was no sign that their basic attitude had changed. They insisted that administration should pass to China, together with sovereignty, in 1997. Unless we made some move towards accepting their position on this point there was a danger of deadlock in the talks. He did not believe that the Chinese would themselves make a move. It was therefore necessary to decide whether we should hold to our present position or consider various types of concession. One particular problem was that the timing of each session of talks was now publicly known and it had become the practice at the end of one session to announce

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the date of the next. Thus, if the Chinese decided to hold up progress this would become known publicly and have a bad effect on confidence in Hong Kong.

The options before us were set out in the FCO paper on "The Future of Hong Kong: Talks with the Chinese: A Re-appraisal One Year On". He himself believed that there was a stark choice between options A and C. It might be necessary to approach option C via option B but he doubted whether it would be possible to keep B in play for long.

Sir Edward Youde said that confidence in Hong Kong remained volatile. It had been holding up fairly well recently but the Hong Kong dollar was slowly drifting down and over the past year had done so quite substantially despite the Colony's good export performance. The bulk of the Hong Kong population had adopted a "wait and see" attitude towards the talks but the investors and the professionals were becoming nervous. The latter groups were facing a new Chinese propaganda campaign which argued that the Chinese plan for Hong Kong would work and that British administration was not necessary. There was still a widespread wish that British administration should continue after 1997 but many people in Hong Kong were doubtful whether this could be achieved.

It should be recognised that for EXCO to abandon the aim of continued British administration would be a traumatic matter for them. They believed that HMG had undertaken to pursue the objective of British administration. They were now waiting to see what would happen in September. As to the future, some members of ECXO would advocate brinkmanship. Others would be more disposed to look for ways forward. But he could not predict how EXCO would divide when the options were put to them.

The Prime Minister asked whether we could not adopt the following approach: we would tell the Chinese that we had described the factors which we believed to be necessary for stability and prosperity to continue; the Chinese for their part claimed to have an alternative system that would maintain confidence and be acceptable to the people of Hong Kong; we proposed that they should describe this system in detail in the

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/next phase

next phase of the talks.

It was important to keep the talks going. For if they were broken off there was a risk that the Chinese would foment disturbances in Hong Kong and create a situation where the Armed Forces and the Police were actively involved in maintaining order.

The Foreign and Commonwealth Secretary said that he believed that the effort to produce a solution to this problem was one of the most difficult diplomatic tasks ever attempted. Ninety-two per cent of the land and 50 per cent of the population of Hong Kong would pass to the Chinese in 1997 without them doing anything. Given the cards we held, agreement on satisfactory arrangements for the future would be an outstanding achievement. It might be that the prize was unattainable. He saw some attractions in the Prime Minister's suggestion that we should persuade the Chinese to present their own proposal in detail, leaving aside the verbal arguments about sovereignty and administration. But there was a risk that the Chinese would refuse to proceed until we had accepted their position on these matters. We had to ask ourselves whether a rupture of the talks would, as the FCO paper stated, do irreversible damage.

Sir Percy Cradock said that it would be possible to adopt the approach suggested by the Prime Minister but it should be recognised that the Chinese would take this as a sign that we were changing our fundamental position. Thus, a statement of our willingness to listen to an exposition of their formula for the future would be a prelude towards the adoption of option C. The Foreign and Commonwealth Secretary added that we should also take into account the risk that it would become known in Hong Kong that we were changing our position and that this would have an adverse effect on confidence in the Colony.

Sir Percy Cradock said that the Chinese would be likely to say, in response to our request that they should expound their own plan, that they had already done so. Before he had left Peking for leave, the Chinese had impressed upon him that they were hoping he would return to the talks in September with good news about a change in the British position.

The Foreign and Commonwealth Secretary said that if we remained absolutely firm in our approach and this led to a rupture of the talks and the collapse of confidence, there was the political risk that critics would say that British rigidity had brought this situation about. The Prime Minister commented that it could be argued in return that her letter to the Chinese Premier had shown considerable flexibility. She was concerned that if, following that concession, we made a further concession it would simply be pocketed by the Chinese and we should appear to be weak.

Sir Percy Cradock said that he was in no doubt that we should maintain our present position at the next round of talks on 22/23 September. But the Chinese believed that the acquisition by them in 1997 of sovereignty and administration was a basic pre-requisite for agreement. It remained to be seen how in practice they would define the two terms. If we moved towards acceptance of their position, we could not be sure what attitude they would then adopt. They might simply say that it only remained to discuss the transitional period. The Prime Minister said that we could not get ourselves into a position where we had, in effect, handed Hong Kong to the Chinese subject merely to a discussion of transitional arrangements.

Sir Edward Youde said that he would find it valuable to have the judgement of EXCO on the various options. Its members were all intimately involved in the Hong Kong economy and their views would be important to eventual decisions.

Mr. Luce asked whether it was really the case that the Chinese were likely to provoke a breakdown in the talks at this stage. There could be no doubt that we had to carry EXCO with us. It might be worth running the risk of playing tough at the next stage of the talks and thereby demonstrate to EXCO the limits to Chinese willingness to move.

The Foreign and Commonwealth

The Foreign and Commonwealth Secretary said that he would like to see the talks take a more practical turn. We needed to get away from verbal arguments about sovereignty and administration. In the end, it was the British Governorship which was crucial. It was very difficult to see the Chinese accepting a regime where Britain continued to appoint the Governor. But if that were so, then the alternative was to adopt the outlines of the Chinese plan and try to inject a content that was more acceptable. The Prime Minister commented that if we went along this route we should have to aim for something close to total autonomy for Hong Kong. The Foreign and Commonwealth Secretary pointed out that this might be reconcilable with the Chinese concept of a Special Administrative Zone.

Sir Percy Cradock said that words mattered greatly in these negotiations. If we could concede words which helped the Chinese on their concepts of sovereignty and administration we might be able to devise a practical system for the future which met our essential points. Sir Edward Youde commented that at present it was the symbolic link provided by the Governor which was all important. If we abandoned that, what would we put in its place?

The Prime Minister asked what the Chinese would do if the talks broke down. Sir Percy Cradock replied that if the breakdown led to disturbances in Hong Kong the Chinese might carry out their threat to intervene. Sir Edward Youde said that his worry was that Hong Kong might be faced with the novel situation of a steadily declining economy. In response to a question from Sir Anthony Parsons, he said that he believed such a downward trend could begin if it became known in Hong Kong that we were trying to negotiate a system of autonomy for the Colony. He believed that EXCO, faced with options B and C, would select the former because it maintained the lifeline of the Governorship. But option C was an entirely different proposition.

The Prime Minister said that the question arose of whether it was better that confidence should collapse because we had made concessions or because we had maintained a position of principle. Sir Percy Cradock said that we needed to ask what Hong Kong's choice would be. Sir Edward Youde commented that that was why a /discussion with

discussion with EXCO was necessary. Sir Percy Cradock said that he doubted whether option B would keep the talks going for more than two or three meetings. There was a danger that we might prejudice option C by making concessions under option B to which the Chinese would later attempt to hold us. In effect, either now or in October, we should have to face the choice between options A and C.

The Foreign and Commonwealth Secretary said that it would be important to keep influential MPs closely informed. Mr. Luce said that in his view Parliamentary opinion was chiefly concerned with the prospects for obtaining a settlement which guaranteed stability - there was much less interest in the precise nature of the settlement or how we obtained it. The Prime Minister commented that there was also interest in the extent to which a settlement was genuinely acceptable to the people of Hong Kong. The Government might face criticism in the future for failing to do enough to mobilise Hong Kong opinion behind our policy. Sir Percy Cradock observed that the mobilisation of opinion, e.g. through a referendum might provoke a Chinese response which would not be in the interests of Hong Kong.

Sir Antony Acland asked whether, if EXCO reluctantly decided to endorse option C, they would be able to persuade the people of Hong Kong of its merits. The Prime Minister said that for EXCO the adoption of option C would be to disappoint their main ambition of continued British administration and would risk a total collapse of confidence. The Foreign and Commonwealth Secretary said that a breakdown in the talks might have the same effect.

Sir Percy Cradock reiterated his view that we should aim to give the Chinese the outer form of what they wanted but to fill that form with the substance of our own requirements. This was a very risky course but was the best approach.

Following further discussion of future tactics, the Prime Minister stated that at the next round of talks on 22/23 September the Ambassador should maintain our present position. It would be necessary to consult EXCO shortly about the latest situation. We should give EXCO an honest account of
/our fears

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our fears but should in no sense imply that a policy decision had been taken in favour of any of the options in the FCO paper or even that option C was being seriously considered. A draft telegram of instructions should be prepared, covering the line that the Governor would take with EXCO on his return to Hong Kong, and should be submitted to her for approval.

The discussion ended at 1810.

5 September 1983

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