

IMMEDIATE

S E C R E T

*Please return to  
Robin Butler*

*53*

SECRET

DESKBY 291200Z

FM FCO 291130Z SEP 83

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1614 OF 29 SEPTEMBER

FOLLOWING TELEGRAM NOW REPEATED TO YOU AT REQUEST OF DEPT WAS RECEIVED FROM HONG KONG TELEGRAM NUMBER 1433 OF 29 SEPTEMBER.

AND TO IMMEDIATE UKMIS NEW YORK (PERSONAL FOR PRIVATE SECRETARY)  
INFO IMMEDIATE PEKING (PERSONAL FOR CHARGE)

MIPT: FUTURE OF HONG KONG: DISCUSSION WITH EXCO.

1. FOLLOWING IS TEXT OF DRAFT PAPER.

BEGINS.

INTRODUCTION.

1. MEMORANDUM DESCRIBED THE MAIN ELEMENTS OF THE CHINESE POSITION AS REVEALED IN THE FIRST THREE ROUNDS OF THE TALKS IN JULY AND AUGUST. IT ALSO DISCUSSED THE SITUATION WHICH WE WOULD FACE SHOULD THE CHINESE PROVE IMMOVEABLE ON THE INDIVISIBILITY OF SOVEREIGNTY AND ADMINISTRATION. THIS PAPER SEEKS TO IDENTIFY THE OPTIONS NOW AVAILABLE TO HMG IN THE LIGHT OF THE LATEST ROUND OF THE TALKS ON 22/23 SEPTEMBER. MEMBERS WILL WISH TO REFLECT ON THESE OPTIONS AND THEIR IMPLICATIONS BEFORE DISCUSSING THE SITUATION WITH MINISTERS IN LONDON ON 7 OCTOBER. NO CONCLUSIONS ARE DRAWN AND NO RECOMMENDATIONS ARE MADE.

CHINESE POSITION.

2. IT IS CLEAR FROM CHINESE STATEMENTS AT THE FOURTH PLENARY SESSION OF THE TALKS ON 22/23 SEPTEMBER THAT THERE HAS BEEN NO CHANGE IN THE CHINESE POSITION AS SET OUT IN MEMORANDUM XCX(83)54. IF ANYTHING THEIR LINE HAS HARDENED. IN PARTICULAR:  
(A) THE CHINESE ARE ADAMANT THAT BOTH SOVEREIGNTY AND ADMINISTRATION WILL BE RECOVERED IN 1997 AND HAVE CHARACTERISED OUR INSISTENCE ON BRITISH ADMINISTRATION AS AN INSUPERABLE OBSTACLE TO PROGRESS. THEY HAVE HINTED STRONGLY THAT THEY WILL BREAK OFF THE TALKS IF THERE IS NO CHANGE IN THE BRITISH POSITION.

/(B)

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MR BUTLER

SIR R ARMSTRONG

SECRETARY OF STATE

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I.L. 2810 /PDG S E C R E T



(B) THEY HAVE REJECTED OUR PROPOSAL FOR A JOINT EXAMINATION OF THE FACTS ABOUT THE SYSTEMS IN HONG KONG AND HAVE DISMISSED THE FOUR PAPERS SUBMITTED BY THE BRITISH NEGOTIATORS AT THE 2/3 AUGUST SESSION OUT OF HAND. THEY TAKE THE LINE THAT THE FACTS IN THESE PAPERS WERE TWISTED TO SUIT THE BRITISH THESIS (WHICH THEY DO NOT ACCEPT) THAT CONTINUING BRITISH ADMINISTRATION IS NECESSARY TO MAINTAIN CONFIDENCE.

(C) THEY CONCEDE THAT THERE IS A PROBLEM OF CONFIDENCE IN HONG KONG BUT ATTRIBUTE THIS ENTIRELY TO BRITISH "RIGIDITY", ACCUSING US OF ATTEMPTING TO PLAY PUBLIC OPINION AND ECONOMIC "CARDS" IN AN ATTEMPT TO PUT PRESSURE ON THEM. THEY HAVE SAID THAT THEY WILL NOT BE SCARED BY SUCH TACTICS AND HAVE DECLINED TO DO ANYTHING TO HELP BOLSTER CONFIDENCE IN THE HONG KONG DOLLAR.

(D) THEY HAVE REITERATED THAT IF THERE SHOULD BE MAJOR DISTURBANCES IN HONG KONG THEY WOULD BE OBLIGED TO RECONSIDER THE TIMING AND FORMULA FOR THE RECOVERY OF SOVEREIGNTY.

3. IN THE LIGHT OF WHAT THE CHINESE HAVE SAID THE FOLLOWING GRAVE RISKS MUST BE TAKEN INTO ACCOUNT:

(I) THAT WITHOUT A SHIFT IN THE BRITISH POSITION THE CHINESE WILL NOT AGREE TO A FURTHER SESSION OF THE TALKS AFTER THE ONE SCHEDULED FOR 19 AND 20 OCTOBER.

(II) THAT A BREAKDOWN IN THE TALKS WOULD MEAN A CONFRONTATION BETWEEN BRITAIN AND CHINA OVER HONG KONG WITH RESULTANT GRAVE DAMAGE TO THE HONG KONG ECONOMY. THERE IS NO CHANCE THAT THE CHINESE WOULD AGREE TO A FRIENDLY PAUSE FOR FURTHER REFLECTION ON BOTH SIDES.

(III) THAT THE CHINESE WILL BE READY IF NECESSARY TO SACRIFICE THE ECONOMIC BENEFITS THEY OBTAIN FROM HONG KONG IN ORDER TO ACHIEVE THEIR POLITICAL OBJECTIVES. IT WOULD BE DANGEROUSLY WRONG TO ASSUME THAT THEY WOULD BACK DOWN IN A CONFRONTATION ONCE THEY SAW THE DAMAGE BEING DONE TO THE HONG KONG ECONOMY.

(IV) THAT A BREAKDOWN WOULD LEAD THE CHINESE TO TAKE INCREASINGLY HARD PUBLIC POSITIONS FROM WHICH THEY WOULD NOT BE ABLE TO WITHDRAW WITHOUT DAMAGING LOSS OF FACE. EVEN IF THE CHINESE DID NOT ANNOUNCE THEIR OWN PLAN UNILATERALLY AND WERE PREPARED TO RESUME NEGOTIATIONS THE TERMS WHICH THEY WOULD THEN BE WILLING TO OFFER MIGHT WELL BE SIGNIFICANTLY WORSE THAN THOSE WHICH COULD BE NEGOTIATED NOW.

/FUTURE



FUTURE STRATEGY.

4. DURING THE LAST ROUND OF THE TALKS THE CHINESE MADE IT PLAIN INFORMALLY THAT THEY WOULD NOT BE PREPARED TO EMBARK ON DETAILED DISCUSSION OF THEIR PLAN WITHOUT PRIOR BRITISH ACCEPTANCE OF THEIR PREMISE THAT BOTH SOVEREIGNTY AND ADMINISTRATION WILL PASS TO CHINA IN 1997. THE CHINESE FOREIGN MINISTER TOLD THE SECRETARY OF STATE ON 27 SEPTEMBER THAT THE CHINESE HAD IDEAS WHICH THEY WISHED TO DISCUSS BUT ONLY IF THE QUESTION OF SOVEREIGNTY WAS PROPERLY SETTLED FIRST. THE TACTIC DEPLOYED ON 22/23 SEPTEMBER WILL NOT (NOT) THEREFORE ACHIEVE ITS INTENDED PURPOSE OF PROVIDING FURTHER OPPORTUNITIES TO CONVINCING THE CHINESE THAT THEIR PLAN WOULD NOT WORK AND THAT CONTINUED BRITISH ADMINISTRATION IS ESSENTIAL.

5. THE CHINESE HAVE ALSO MADE IT CLEAR INFORMALLY THAT THE CONTINUATION OF THE BRITISH LINK THROUGH A GOVERNOR APPOINTED BY AND RESPONSIBLE TO LONDON WOULD BE TOTALLY UNACCEPTABLE TO THEM. IT IS THEREFORE IMPROBABLE THAT THEY WOULD REGARD THE KIND OF MODIFICATIONS TO THE PRESENT SYSTEM OF BRITISH ADMINISTRATION SET OUT IN PARA 10 OF MEMORANDUM AS AN ACCEPTABLE BASIS FOR DISCUSSION.

OPTIONS.

6. AGAINST THIS BACKGROUND THE FOLLOWING OPTIONS APPEAR TO BE AVAILABLE:

(A) TO CONTINUE TO PRESS THE CASE FOR THE CONTINUATION OF BRITISH ADMINISTRATION ON PRESENT LINES.

(B) TO ACCEPT BOTH THE CHINESE PREMISE THAT SOVEREIGNTY AND ADMINISTRATION MUST PASS TO CHINA IN 1997 AND THE PLAN WHICH THEY HAVE OUTLINED, AND TO NEGOTIATE THE BEST DEAL POSSIBLE FOR HONG KONG ON THAT BASIS.

(C) TO MAINTAIN OUR PRESENT VIEW THAT CONTINUED BRITISH ADMINISTRATION IS ESSENTIAL, BUT TO SEEK A FORMULA ON WHICH WE COULD EXPLORE WHAT FLEXIBILITY THERE MIGHT BE IN THE CHINESE CONCEPT OF ADMINISTRATION, AND WHAT GUARANTEES IN THE FORM OF CONTINUING BRITISH LINKS THE CHINESE WOULD BE PREPARED TO BUILD INTO THEIR PLAN.

DISCUSSION OF OPTIONS.

7. THE FOLLOWING POINTS SHOULD BE BORNE IN MIND IN CONSIDERING THE OPTIONS OUTLINED ABOVE:-

/OPTION



## OPTION A.

8. THIS COURSE WOULD SHOW OUR RESOLVE. BUT THERE WOULD BE A VERY STRONG RISK OF A BREAKDOWN AT THE NEXT SESSION OF THE TALKS AND OF SUBSEQUENT PUBLIC CONFRONTATION WITH THE CHINESE, <sup>AND</sup> THE SEVERE CONSEQUENCES FOR CONFIDENCE AND THE HONG KONG DOLLAR WOULD THEN HAVE TO BE ACCEPTED. IT MIGHT NOT BE POSSIBLE TO RESUME NEGOTIATIONS SINCE A BREAKDOWN COULD WELL BE FOLLOWED BY A UNILATERAL CHINESE DECLARATION. BUT IF THEY WERE RESUMED WE SHOULD HAVE TO FACE THE PROSPECT OF A HARDENING OF CHINESE ATTITUDES.

## OPTION B.

9. WHILE THIS COURSE WOULD OPEN THE WAY TO DETAILED DISCUSSION OF THE CHINESE PLAN, AND HOW THE TRANSITION SHOULD BE ARRANGED IT WOULD AMOUNT TO CAPITULATION TO CHINESE DEMANDS. IF THE CHINESE WERE TO LEAK THIS THERE WOULD BE NO EFFECTIVE ANSWER AND THE IMPACT ON CONFIDENCE WOULD AT THE LEAST, BE SEVERE.

## OPTION C.

10. THE CHINESE ARE INSISTING THAT THEIR PREMISE MUST BE CONCEDED BEFORE THEY WILL ENTER INTO ANY DETAILED DISCUSSION OF THEIR PLAN. THIS IS SIMILAR TO THE POSITION WHICH THEY TOOK ON SOVEREIGNTY IN THE MONTHS AFTER MRS THATCHER'S VISIT TO PEKING. IF HMG WERE PREPARED TO MAKE A BOW IN THE DIRECTION OF THE CHINESE PREMISE IT SEEMS LIKELY THAT THE CHINESE COULD BE LED INTO A DETAILED DISCUSSION OF THEIR PROPOSED ADMINISTRATIVE ARRANGEMENTS FOR HONG KONG AFTER 1997. SUCH A MOVE WOULD INVOLVE ADDING TO THE CONDITIONAL ASSURANCE ON SOVEREIGNTY ALREADY GIVEN IN MRS THATCHER'S LETTER TO PREMIER ZHAO OF 10 MARCH, 1983 A SIMILAR CONDITIONAL ASSURANCE ON THE RIGHT OF ADMINISTRATION. IN EFFECT THE AMBASSADOR WOULD BE INSTRUCTED TO TELL THE CHINESE THAT IF, ON THE PREMISE THAT BOTH SOVEREIGNTY AND THE RIGHT OF ADMINISTRATION WOULD PASS TO CHINA IN 1997, ADMINISTRATIVE ARRANGEMENTS COULD BE DEvised WHICH WOULD IN HMG'S JUDGEMENT GUARANTEE THE STABILITY AND PROSPERITY OF HONG KONG, MINISTERS WOULD BE PREPARED TO RECOMMEND THOSE ARRANGEMENTS TO PARLIAMENT. TO BE PRODUCTIVE A MOVE OF THIS KIND WOULD NEED TO BE ACCOMPANIED BY A READINESS TO DISCUSS THE CHINESE PLAN IN A POSITIVE SPIRIT I.E. A WILLINGNESS TO PROPOSE AMENDMENTS AND ADDITIONS TO IT.

11. SUCH A MOVE COULD BE MADE WHILE STILL MAINTAINING THE BRITISH VIEW THAT THE CHINESE PLAN IS NOT SUFFICIENT TO MAINTAIN CONFIDENCE AND THAT CONTINUING BRITISH ADMINISTRATION IS THE ONLY SAFE PREREQUISITE.

IF HMG,  
WITHOUT  
CONCEDING  
THE CHINESE  
PREMISE, WOULD  
TO MAKE CLEAR  
THAT THEY  
WERE AT LEAST  
WILLING TO

Not consistent  
with 6(c)



12. THE OUTCOME OF NEGOTIATIONS ON THIS BASIS CANNOT OF COURSE BE PREDICTED. MOREOVER, THE PURSUIT OF OPTION (C) CARRIES THE RISK THAT THE CHINESE WOULD MISREPRESENT THE ASSURANCE AS AN UNQUALIFIED ONE. BUT IT SHOULD ENABLE THE NEGOTIATING TEAM TO DISCOVER, THROUGH DETAILED DISCUSSION OF PRACTICAL ARRANGEMENTS, THE MOST FAVOURABLE TERMS OBTAINABLE FROM THE CHINESE BEFORE THE PEOPLE OF HONG KONG ARE PRESENTED WITH A FINAL CHOICE BETWEEN COURSES OF ACTION.

PUBLIC PRESENTATION.

13. WE WOULD NEED TO HAVE READY, AT LEAST FOR BACKGROUND BRIEFING PURPOSES, A CAREFUL STATEMENT OF THE REASONS FOR ADOPTING EITHER OPTION (A) OR OPTION (C). IN THE CASE OF OPTION (A), IT WOULD ALMOST CERTAINLY BE NECESSARY TO EXPLAIN PUBLICLY WHY A BREAKDOWN HAD OCCURRED. IF OPTION (C) WERE ADOPTED, WE SHOULD NEED TO BE READY TO CORRECT ANY PUBLIC MISREPRESENTATION OF OUR POSITION ON THE PART OF THE CHINESE, E.G. THAT WE HAD ACCEPTED THE CHINESE PLAN UNCONDITIONALLY. IT WOULD BE NECESSARY TO EMPHASISE THREE POINTS IN PARTICULAR:

(I) THAT HMG WERE RESERVING THE RIGHT TO REJECT ANY OUTCOME OF THE NEGOTIATIONS WHICH WOULD NOT IN THEIR JUDGEMENT GUARANTEE THE FUTURE PROSPERITY AND STABILITY OF HONG KONG.

(II) IN THE MEANTIME HMG WERE MAINTAINING THEIR VIEW THAT CONTINUATION OF BRITISH ADMINISTRATION IS THE ONLY SAFE WAY OF GUARANTEEING CONTINUED PROSPERITY AND STABILITY.

(III) WHAT HMG WERE DOING WAS WHAT ANY SENSIBLE NEGOTIATOR WOULD DO, NAMELY EXPLORING THE CHINESE POSITION FULLY IN ORDER TO FIND OUT WHETHER THEY WERE PREPARED TO COME TO A MUTUALLY SATISFACTORY AGREEMENT.

ENDS.

HOWE



SECRET

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Butler 52*

IMMEDIATE

SECRET

DESKBY 291200Z

FM FCO 291130Z SEP 83

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1616 OF 29 SEPTEMBER

FOLLOWING TELEGRAM NOW REPEATED TO YOU AT REQUEST OF DEPT  
WAS RECEIVED FROM HONG KONG TELEGRAM NUMBER 1432 OF 29 SEPTEMBER

QUOTE

SECRET

DESKBY FCO 290600Z

FM HONG KONG 290505Z SEP 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1432 OF 29 SEPTEMBER

AND TO IMMEDIATE UKMIS NEW YORK (PERSONAL FOR PRIVATE SECRETARY)

INFO IMMEDIATE PEKING (PERSONAL FOR CHARGE)

MY TELNO 1407: FUTURE OF HONG KONG: DISCUSSION WITH EXCO.

1. IN PARA 4 OF TEL UNDER REF I SOUGHT AUTHORITY TO PUT A PAPER  
TO EXCO SETTING OUT THE OPTIONS AS WE NOW SEE THEM BEFORE THE  
UNOFFICIALS VISIT LONDON NEXT MONTH.

2. AT THIS RATHER CRITICAL JUNCTURE I THINK IT ESSENTIAL TO  
FOCUS EXCO'S THINKING BY GIVING THEM A PAPER. IT IS THE PRACTICE  
TO DO THIS ON ALL IMPORTANT SUBJECTS AND IT WILL BE VERY  
DIFFICULT TO HAVE A PROPERLY STRUCTURED DISCUSSION UNLESS  
MEMBERS HAVE BEEN GIVEN SOMETHING IN WRITING BEFOREHAND. MOREOVER,  
RECENT DISCUSSION WITH MR LUCE SHOWED THAT SOME OF THEM SEE THE  
SITUATION IN BLACK AND WHITE TERMS: IF THEY ARE TO BE BROUGHT TO  
SEE THAT THERE IS A MIDDLE COURSE BETWEEN CONFRONTATION AND  
CAPITULATION IT WILL NEED TO BE EXPLAINED TO THEM VERY CAREFULLY.

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1 COPY FOR S OF S.

IL 2807 PDG

/3. MIFT.....



3. MIFT CONTAINS A DRAFT WHICH I HAVE DISCUSSED WITH SIR P. CRADOCK. IN PUTTING IT TO THE COUNCIL I WOULD REMIND THEM OF THEIR STRONG WISH TO BE INVOLVED IN POLICY AT THE FORMATIVE STAGE AND BEFORE DECISIONS ARE TAKEN. I WOULD EXPLAIN THAT THE PURPOSE OF THE PAPER WAS SIMPLY TO HELP THEM PREPARE FOR THEIR DISCUSSIONS WITH MINISTERS BY ANALYSING THE PRESENT POSITION, SETTING OUT THE COURSES OF ACTION NOW AVAILABLE AND DISCUSSING THEIR IMPLICATIONS. I WOULD EMPHASISE THAT IT CONTAINED NO CONCLUSIONS OR RECOMMENDATIONS AND THAT NO MINISTERIAL VIEWS HAD BEEN EXPRESSED ON IT. THEY WILL BE FAMILIAR WITH OPTIONS (A) AND (B). ON OPTION (C), I WOULD RECALL THAT AT THE COUNCIL MEETING ON 27 SEPTEMBER 4 OR 5 MEMBERS TOOK THE VIEW THAT WE SHOULD STILL LOOK FOR WAYS OF EXPLORING THE CHINESE POSITION FURTHER IN ORDER TO FIND OUT WHAT FLEXIBILITY THERE MIGHT BE IN THEIR CONCEPT OF ADMINISTRATION AND WHAT LINKS WITH THE U.K. THEY WOULD ACCEPT (PARA 4 OF MY TELNO 1420). I WOULD SAY THAT OPTION (C) HAD BEEN INCLUDED IN RESPONSE TO THIS SUGGESTION FROM MEMBERS, AND THAT IT WAS INTENDED TO PROVIDE A MEANS OF GETTING DETAILED PRACTICAL DISCUSSION STARTED WHILE FULLY RESERVING HMG'S POSITION.

4. SINCE THE PRIME MINISTER HAS NOW AGREED TO SEE THE UNOFFICIALS ON 7 OCTOBER AND I WILL MYSELF NEED TO LEAVE FOR LONDON ON THE EVENING OF 5 OCTOBER I SHOULD LIKE TO PUT THE PAPER TO EXCO ON TUESDAY, 4 OCTOBER. IF THEY ARE TO HAVE AN OPPORTUNITY TO READ IT BEFOREHAND THE PAPER WILL NEED TO BE CIRCULATED ON THE AFTERNOON OF MONDAY, 3 OCTOBER. I SHOULD ACCORDINGLY BE GRATEFUL FOR AUTHORITY TO DO THIS TO REACH ME DESKBY 030100Z.

YOUDE  
UNQUOTE

HOWE