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PRIME MINISTER

Hong Kong

1. In preparation for your meeting on 5 October, I attach a list of the policy options open to us on the future of Hong Kong, together with comment. The effective choice, as I see it, lies between Options A and B on the one hand, and Option D on the other. Options A and B both insist on maintaining the British administrative link. Option D is a means of exploring without final commitment what guarantees the Chinese would be prepared to build into their own plan. I have excluded C which is simply swallowing the Chinese plan whole. Option E also seems to me impracticable since it is clear we would not be able to achieve an amicable suspension of talks; the result would be the same as A. Option F is combinable with other options but, most obviously, with D.

2. Given the Chinese insistence that we must accept that sovereignty and administration pass to them in 1997, Options A and B would almost certainly lead to a breakdown in the talks in the very near future, quite possibly after the next round on 19/20 October. This would lead to a collapse in confidence and very severe damage to the Hong Kong economy. It would be a dangerous misjudgement to expect that the Chinese would soften their position in face of this damage: they are ready to sacrifice the prosperity of Hong Kong if need be in order to attain their overriding political objective.

3. Option D might be approached by using the same kind of formula as was successfully used over sovereignty in your

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your letter of 10 March to Premier Zhao Ziyang. We could say in effect that if arrangements could be devised to ensure the prosperity and stability of Hong Kong while giving the Chinese the right of administration we would be prepared to recommend such arrangements to Parliament. We would, of course, retain the right to reject the package if, after exploration, it proved unacceptable to us. The advantages of this course are that it would give us the best (and perhaps only) chance of exploring whether we could build up effective assurances against Chinese interference and preserve a large part of Hong Kong's freedoms and business vitality after 1997. My conversation with the Chinese Foreign Minister in New York on 27 September indicates that if we were ready to move towards the Chinese in this way we could expect a positive response. In particular, his official repetition of Deng Xiaoping's suggestion that Hong Kong's autonomous status should last for fifty years was a clear signal.

4. The choice between these two broad courses is clearly crucial. EXCO have expressed preliminary views in favour of the confrontation course. But I believe that they are seriously underestimating Chinese determination and national pride and may not have sufficiently pondered the damage to the population of Hong Kong as a whole inherent in the course they advocate. Clearly we need to decide how to handle EXCO but we need first to be clear about our own views.

5. There can be no assurance that if we go for course D we shall be able to work out effective and acceptable arrangements for Hong Kong's future. But it is the only means available of getting out of the present deadlock, exploring the possibilities open to us in negotiation and thereby enabling us to make a

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final decision in full possession of the facts, rather than as now in ignorance of how much can be built on the Chinese premise. This should be defensible publicly either now, if the Chinese chose to leak what was going on or at a later time of our choosing: we would be seen to aim at assurances for a genuinely autonomous Hong Kong, rather than for the continuation of a British regime for its own sake; we would be doing what any prudent negotiator should do, i.e. exploring the other side's position fully; and we would reserve the right to reject the package if it proved in the end to be unacceptable to us. Rejection would of course result in confrontation but we would be better placed in this confrontation, at least publicly, because we should demonstrably have explored every avenue.

6. I have not gone into detail about how we would publicly present these various course, though clearly this will require careful thought once a decision has been made.

7. I am copying this minute to the Secretary of State for Defence, the Chancellor of the Exchequer and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office  
4 October 1983



## FUTURE OF HONG KONG - OPTIONS

- (A) To continue to press the case for the continuation of British administration on present lines.

Comment

Continued British administration is, in our view, the best way of safeguarding the future stability and prosperity of Hong Kong, but it now looks unattainable. To continue to insist on it could carry a strong risk of a breakdown at the next session of the talks and of subsequent public confrontation with the Chinese. This would have severe consequences for confidence and the Hong Kong dollar. It might be impossible to restart negotiations.

- (B) To seek to maintain the British administrative link through a Governor responsible to HMG, but with major administrative changes designed to make this more palatable to the Chinese.

Comment

The Chinese would probably see no significant difference between this and (A). They have said that the continuation of the British link through a Governor responsible to London would be unacceptable. If, even so, they did show themselves interested in exploring in this context the concessions we might be willing to make, we would have to be very careful not to get into a position which it would subsequently be difficult to claw back if the Chinese stuck to their guns on the link through the Governor.

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- (C) To accept the Chinese premise that sovereignty and administration must pass to China in 1997, and to negotiate the best deal possible for Hong Kong on that basis.

Comment

This would open the way to detailed discussion of Chinese ideas and might create some goodwill on the Chinese side. But acceptance of the Chinese position on these points would, if leaked, have a severe effect on confidence. Moreover, we should be giving away everything at once without examining the alternatives.

- (D) To maintain our present view that continued British administration is the best way to maintain confidence, but to seek a further formula through which we could explore what flexibility there might be in the Chinese concept of administration, and what guarantees, including continuing British links, the Chinese would be prepared to build into their plan. One way of doing this would be to seek to extend the conditional formula deployed over sovereignty in the Prime Minister's letter to Premier Zhao Ziyang of 10 March to the right of administration. We could tell the Chinese that if arrangements could be agreed which would ensure the maintenance of stability and prosperity in Hong Kong, the British Government would be prepared to recommend to Parliament a bilateral agreement which would include, among others, the provision that sovereignty and the right of administration should pass to China in 1997.

→ to the residents in Hong Kong.

Comment

This should improve the atmosphere of the talks, persuade the Chinese to explain their ideas in more detail and thus put us in a good position to explore practical ways of maintaining

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Hong Kong's way of life. It would also allow us to find out whether Chinese terms could be made acceptable, before we made irreversible decisions. The Chinese might demur, saying that we were not offering unqualified acceptance of their conditions, but we should have an answer to that in our constitutional position. They might also misrepresent our position as unqualified acceptance but we should be able to rebut that by explaining that we were merely exploring the possibilities as any good negotiator must do.

We have been examining two further Options:-

- (E) To maintain the view that British administration is essential, but to avoid confrontation by proposing an amicable suspension of talks. We might suggest to the Chinese that more time was needed for consideration and for the evolution of Hong Kong society and institutions, already underway, to continue. We could explain our own policy of localisation and impress on the Chinese that in the long run the results - effective autonomy for Hong Kong - would not be very different from their own objectives. We could publicise our case on these lines.

Comment

This would be a reasoned position, and, initially at any rate, might be defensible in Hong Kong and Parliament. But there is no likelihood that the Chinese would accept it or agree to wait. They would argue that their essential political conditions must be met. They would step up their propaganda and, in all probability, bring forward their unilateral announcement of their plans. Confidence in Hong Kong would not stand this. The result could be a rapid collapse.

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(F) To try to explore the flexibility of the Chinese position, e.g. as in (D), but not to put any formula forward in the negotiations until we had tested the water through a special emissary or through informal diplomatic contacts.

Comment

The advantage of a special emissary is that he need not commit HMG in an exploratory talk. He could explain informally our difficulties and our need to have much more detail about the Chinese plans. To have any credibility with the Chinese, and to gain the necessary access, the Chinese would have to know that he was our emissary. At the same time, his mission would have to be secret to avoid arousing unfulfillable expectations. This would be difficult in practice. More fundamentally, there is no reason to believe that the Chinese would give him an answer different from that given to us in various fora already i.e. that once we concede the premise, the rest is negotiable and details will be forthcoming. If we want to contact the Chinese before the next round of talks, informal diplomatic contacts, e.g. the Ambassador to Zhao Nan, have the advantage of being secret, and could also be handled without committing us.



-4 OCT 1960

