

SECRET

Sir A. Inman.  
5 October 1983

Prime Minister.

B

MR. COLES

HONG KONG

1. The negotiating crisis is on us. It has come roughly at the time we anticipated. Its outward manifestations - Chinese rigidity, a build up of Chinese propaganda, and a slippage of confidence in Hong Kong, were also anticipated at the outset of the negotiations.
  
2. I have discussed Hong Kong with a wide variety of people in the last six months or so. These include informed journalists, interested businessmen and knowledgeable outsiders both in and out of Parliament. The following is my reading of informed British public opinion:-

(i) There is no romanticism about British obligations to the people of Hong Kong. China is not Argentina and Hong Kong is not the Falklands. If our negotiating tactics led to a confrontation with China, including the shadow of a military clash with the Chinese and/or of a mass exodus of Hong Kong Chinese in the direction of the United Kingdom, we would not be praised for firmness. We would be blamed for adopting an unrealistically inflexible and dangerous posture.

(ii) All sensible people recognise that, in the circumstances, we have no choice but to reach an agreement in cooperation with China. They realise that such an agreement is bound to leave Hong Kong worse off than it would have been under perpetual British rule, and a great deal of (probably misplaced) faith would have to be invested in Chinese goodwill. But virtually anything would be better than a confrontation which would be dangerous and damaging to us and would make things even worse for the people of Hong Kong.

(iii) There are two areas of criticism here which would be developed if things started to go seriously wrong. First, there is still widespread belief in Britain that we gratuitously poked the Chinese sleeping dog in the ribs last year. 1997 still seems a long way away to many people. Secondly, many of my interlocutors find it hard to understand why we have failed to develop democratic  
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institutions in Hong Kong over the past century. If we can produce the full apparatus of democracy in microscopic Caribbean Islands, why could we not have done the same for a place like Hong Kong? Thus, we are in no position to test Hong Kong opinion on a wide basis, just at the time when we need to most.

3. It is this last point in para 2(iii) above - Hong Kong opinion - that I think must be borne most carefully in mind in the next two or three days. Although I lack expert knowledge, I am convinced by the argument that our present course will not "bring the Chinese to their senses" but will quickly lead to confrontation and disaster. I also have a feeling, which I think Percy Cradock shares, that, if we could get down to negotiating "maximum autonomy without a link" with the Chinese, they might very well bend over backwards to be accommodating. They could afford to be. They would have made their nationalistic point and could then concentrate on their own economic self interest - continuing Hong Kong prosperity - and the Taiwan analogy.
4. The problem is the attitude of the EXCO unofficials led by Sir S Y Chung, the nearest we can get to a Hong Kong view. If we decided, as an act of state, to make the all-important concession to the Chinese on the link, either overtly or through adopting an expedient such as Option D in para 5 of FCO telno 999 to Hong Kong, in the teeth of opposition from the EXCO unofficials, and if this came out into the open, we would come under serious criticism here. This would be true even if many people in this country thought that we were right and that EXCO were wrong. By the same token, we cannot afford to appear to have pulled wool over EXCO's eyes.
5. Hence, the outcome of the Prime Minister's meeting with the EXCO unofficials on Friday is crucial. My hope is that they can be persuaded to acquiesce in our proceeding as proposed in Option D.
- FLAG A. | Teddy Youde's telegram number 1469 (received since I drafted the above) reveals how difficult this is going to be. But, if we act as some of the unofficials wish us to, I cannot see how we would get the negotiations back on the rails except in a much worse situation. If the Chinese filled the confrontation period with rhetoric, they would find it increasingly difficult to show any flexibility and we would find it harder to resume negotiations except in humiliating circumstances. Meanwhile, the slide in Hong Kong would gather dangerous momentum, and criticism would mount here.

A.D. PARSONS

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DESKBY 020100Z  
FM FCO 010800Z OCT 83  
TO IMMEDIATE HONG KONG  
TELEGRAM NUMBER 999 OF 1 OCTOBER  
INFO IMMEDIATE PEKING

MIPT: FUTURE OF HONG HONG: DRAFT PAPER FOR EXCO  
BEGINS:

INTRODUCTION

1. MEMORANDUM XCX(83)54 DESCRIBED THE 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 BEFORE DISCUSSING THE SITUATION WITH MINISTERS IN LONDON ON 7 OCTOBER. NO CONCLUSIONS ARE DRAWN AND NO RECOMMENDATIONS ARE MADE.

(BEGIN UNDERLINING) CHINESE POSITION (CEASE UNDERLINING)

2. CHINESE STATEMENTS AT THE FOURTH PLENARY SESSION OF THE TALKS ON 22/23 SEPTEMBER REVEALED 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 BY 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) 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 RISKS ARE APPARENT.

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

(II) THAT, SINCE THE CHINESE ARE UNLIKELY TO AGREE TO A MORE OR LESS FRIENDLY PAUSE FOR REFLECTION, SUCH A BREAK IN THE TALKS WOULD RESULT IN A CONFRONTATION BETWEEN BRITAIN AND CHINA OVER HONG KONG WITH RESULTANT GRAVE DAMAGE TO THE HONG KONG ECONOMY.

(III) THAT THE CHINESE WOULD BE READY IF NECESSARY TO SACRIFICE THE ECONOMIC BENEFITS THEY OBTAIN FROM HONG KONG IN ORDER TO ACHIEVE THEIR POLITICAL OBJECTIVES.

(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 BE WORSE THAN THOSE WHICH COULD BE NEGOTIATED NOW. (BEGIN UNDERLINING) PRESENT SITUATION (CEASE UNDERLINING)

4. DURING THE LAST ROUND OF THE TALKS THE CHINESE SAID 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



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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 THEREFORE LOOKS UNLIKELY TO ACHIEVE ITS INTENDED PURPOSE OF PROVIDING FURTHER OPPORTUNITIES TO CONVINCE THE CHINESE THAT THEIR PLAN WOULD NOT WORK AND THAT CONTINUED BRITISH ADMINISTRATION IS ESSENTIAL.

(BEGIN UNDERLINING) OPTIONS (CEASE UNDERLINING)

5. 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.

(BEGIN UNDERLINING) COMMENT (CEASE UNDERLINING)

THIS COURSE WOULD SHOW OUR RESOLVE AND BEST REPRESENTS OUR CONTINUING VIEWS. BUT THERE WOULD BE 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.

(BEGIN UNDERLINING) COMMENT (CEASE UNDERLINING)

THE CHINESE WOULD PROBABLY REGARD THIS AS NOT SIGNIFICANTLY DIFFERENT FROM (A). THEIR LINE SO FAR HAS BEEN THAT THE CONTINUATION OF THE BRITISH LINK THROUGH A GOVERNOR RESPONSIBLE TO LONDON WOULD BE UNACCEPTABLE. IF 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.

(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.

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(BEGIN UNDERLINING) COMMENT (CEASE UNDERLINING)  
 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 MIGHT  
 LOSE LEVERAGE IN THE SUBSEQUENT NEGOTIATIONS.

(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 IN THE FORM OF 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  
 FORMULA DEPLOYED OVER SOVEREIGNTY IN THE PRIME MINISTER'S  
 LETTER TO PREMIER ZHAO ZIYANG OF 10 MARCH TO THE RIGHT (REPEAT  
 RIGHT) OF ADMINISTRATION.

(BEGIN UNDERLINING) COMMENT (CEASE UNDERLINING)  
 THIS MIGHT BE SUFFICIENT TO PERSUADE THE CHINESE TO EXPLAIN  
 THEIR IDEAS IN MORE DETAIL AND TO KEEP THE TALKS GOING. IT  
 MIGHT THUS ALLOW US TO FIND OUT WHETHER CHINESE TERMS COULD BE  
 MADE ACCEPTABLE. BUT IT MIGHT STILL NOT BE ACCEPTABLE TO THEM  
 SINCE WE SHOULD HAVE TO MAKE IT CLEAR THAT WE STILL BELIEVED  
 THAT CONTINUED BRITISH ADMINISTRATION WAS THE BEST WAY TO  
 MAINTAIN CONFIDENCE. ANOTHER PROBLEM WOULD BE THE RISK OF THE  
 CHINESE MISREPRESENTING OUR POSITION AS UNQUALIFIED ACCEPTANCE  
 OF THEIRS.

(BEGIN UNDERLINING) PUBLIC PRESENTATION (CEASE UNDERLINING)  
 6. WHATEVER OPTION WAS CHOSEN WE SHOULD NEED TO HAVE READY BOTH  
 FOR BACKGROUND BRIEFING AND, IF NECESSARY, FOR PUBLIC USE A  
 CAREFUL STATEMENT OF OUR REASONS FOR ADOPTING IT. THIS WOULD  
 NEED TO BALANCE A CLEAR RESERVATION OF OUR OWN POSITION AGAINST  
 THE RISK OF STALEMATE AND CONFRONTATION. ENDS

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FUTURE OF HONG KONG

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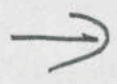
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DESKBY 041130Z  
FM HONG KONG 040945Z OCT 83  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1469 OF 4 OCTOBER  
INFO IMMEDIATE PEKING

YOUR TELNOS 998, 999 AND 1001: FUTURE OF HONG KONG: DISCUSSION WITH EXCO.

1. EXCO DISCUSSED THE POSITION THIS MORNING ON THE BASIS OF THE PAPER IN YOUR SECOND TEL UNDER REF. IT EXPLAINED THAT THE PAPER HAD BEEN PRODUCED TO HELP MEMBERS PREPARE FOR THE DISCUSSIONS WITH MINISTERS LATER THIS WEEK. IT DELIBERATELY CONTAINED NO CONCLUSIONS OR RECOMMENDATIONS AND MINISTERS HAD SO FAR EXPRESSED NO VIEWS ON THE OPTIONS DESCRIBED IN IT. AFTER TAKING MEMBERS THROUGH EACH IT ASKED THEM NOT TO REACH DEFINITE CONCLUSIONS OR OFFER FORMAL ADVICE UNTIL THEY HAD BEEN ABLE TO DISCUSS THE SITUATION WITH MINISTERS. IT THEN INVITED ANY PRELIMINARY COMMENTS THEY WISHED TO MAKE, AND SUGGESTIONS FOR ADDITIONAL OPTIONS.

2. WITHOUT SPECIFICALLY SUPPORTING OPTION D, MR O.V. CHEUNG AND MR D.K. NEWBROUGH THOUGHT THAT SOME WAY SHOULD BE FOUND TO GET A GENUINE DIALOGUE GOING IN ORDER TO EXPLORE THE CHINESE POSITION FURTHER. ALL THE OTHER UNOFFICIALS MADE CLEAR THAT THEIR CHOICE WILL BE OPTION A. THEY ACCEPTED THAT THERE WAS A MORE THAN EVEN RISK OF A BREAKDOWN AND OF PUBLIC CONFRONTATION, BUT TOOK THE VIEW THAT THERE WAS AT LEAST A CHANCE THAT THE CHINESE WOULD SHIFT THEIR POSITION AND RETURN TO THE NEGOTIATING TABLE WHEN THEY SAW THE ECONOMIC CONSEQUENCES FOR HONG KONG. REMINDERS OF THE RIGIDITY OF THE CHINESE POSITION, THE LIKELY HOSTILITY OF THE CHINESE REACTION, AND THE DIFFICULTIES WHICH HONG KONG MIGHT THEN FACE LEFT THEM UNMOVED. IN ANY CASE THEY BELIEVED THAT THE PURSUIT OF ANY OTHER COURSE WOULD LEAD TO A CRISIS OF CONFIDENCE SOONER OR LATER AND THAT THE RISKS INHERENT IN OPTION A WOULD THEREFORE HAVE TO BE ACCEPTED (MISS DUNN FOR EXAMPLE COMMENTED THAT ALL THE OPTIONS OTHER THAN OPTION A WERE DIRECTLY, OR BY IMPLICATION, FORMS OF CAPITULATION.) SOME OF THESE MEMBERS, INCLUDING SIR S.Y. CHUNG, SUGGESTED THAT IF THE CHINESE MADE PROPOSALS ON THE LINES OF OPTION B OR D THE BRITISH NEGOTIATORS SHOULD BE PREPARED TO LISTEN. THEY GAVE NO INDICATION HOW THEY THOUGHT THE CHINESE MIGHT BE INDUCED TO PUT FORWARD SUCH PROPOSALS: BUT WERE SURE THAT THE BRITISH SIDE SHOULD MAKE NO FURTHER CONCESSIONS.



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3. IN RESPONSE TO QUESTIONS HE DECLINED TO INDICATE MY OWN PREFERENCE AMONG THE OPTIONS. BUT HE ASKED EACH MEMBER TO CONSIDER VERY SERIOUSLY THE IMPLICATIONS OF HIS OR HER PREFERRED COURSE OF ACTION, ITS CONSEQUENCES AND WHAT HE WAS LIKELY TO ACHIEVE, BEFORE GIVING ADVICE TO MINISTERS.

4. WHILE THIS WAS STILL A PRELIMINARY DISCUSSION, THE VIEWS EXPRESSED BY THE UNOFFICIALS WERE CLEAR. UNLESS MINISTERS ARGUE POSITIVELY FOR SOME OTHER OPTION WHILE WE ARE IN LONDON, HE HAVE NO DOUBT THAT THE MAJORITY ADVICE WILL BE TO STICK TO OPTION A: AND UNDEED IN THE LIGHT OF THIS MORNING'S DISCUSSION THIS IS LIKELY TO BE THEIR ADVICE IN ANY CASE.

YOUDE

(REPEATED AS REQUESTED)

## FUTURE OF HONG KONG

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