

Master

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FILE

MJ

Subject



10 DOWNING STREET

From the Private Secretary

7 October 1983

Dear John,

Meeting with the Unofficial Members of  
EXCO

I enclose:-

- a) A record of the discussion between the Prime Minister and the Unofficial Members of EXCO which took place at 10 Downing Street this morning.
- b) The revised telegram of instructions to HM Ambassador in Peking which was approved by the Prime Minister after the meeting.
- c) A press statement which was issued from here at the end of the talks.

I am copying this letter and enclosures to John Kerr (HM Treasury), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

I should be grateful if you and they would ensure that these documents (the press statement apart) are seen only by those who have an essential need, for operational purposes, to see them.

Yours ever  
John Kerr

John Holmes Esq  
Foreign and Commonwealth Office.

CONFIDENTIAL

54

CONFIDENTIAL

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE  
GOVERNOR OF HONG KONG AND THE UNOFFICIAL MEMBERS OF EXCO  
AT 0935 HOURS ON FRIDAY, 7 OCTOBER 1983 AT 10 DOWNING STREET

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Present:

Prime Minister	Governor of Hong Kong
Foreign and Commonwealth Secretary	Sir Sze-Yuen Chung
Mr Luce	Mr O V Cheung
Sir Antony Acland	Mr R H Lobo
Sir Percy Cradock	Mr Li Fook Wo
Mr Donald	Mr M G R Sandberg
Mr Butler	Mr L Tak Shing
Mr Coles	Mr D Kennedy
	Miss L Dunn
	Mr Lee Quo-Wei
	Mr Chen Shou-Lam
	Miss M Tam Wai-Chu

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The Prime Minister welcomed the Governor and the Unofficials. The object of the meeting was to consider our approach to the next round of talks with China about the future of Hong Kong. It was very important to get this right. She was deeply conscious of the possible consequences for the ordinary people of Hong Kong if we acted in such a way as to bring about confrontation with China. The aim of any negotiator must be to avoid situations from which it was impossible to recover. The people of Hong Kong were used to living with freedom and justice. We wanted them to be able to continue to do so. The next round of talks would be critical, especially in view of the Chinese attitude at the last round. The object must be to keep the talks going and to arrive at the point where we could probe Chinese proposals, as EXCO had wanted earlier.

CONFIDENTIAL

/The Foreign and

CONFIDENTIAL

-2-

The Foreign and Commonwealth Secretary then summarised the outcome of his own meeting with the Unofficials on 6 October. The anxieties felt on both sides had been fully considered. The Unofficials had been briefed on the latest position of China, following his talk with the Chinese Foreign Minister in New York. The main current Chinese objection was that we were trying to retain British administration. If there was no adjustment to the British position there was a prospect of breakdown at the next round. We all recognised that the Chinese position was unreasonable. But the consequences of breakdown, whenever these occurred, could be very serious. Some of the Unofficials had felt that if confrontation was inevitable at some time, it should be faced now rather than later. This group had also argued that if we made a concession to the Chinese now they would simply try to extract more concessions. Others had felt, however, that it would be very difficult to justify confrontation when we had not yet fully explored all the possibilities for a negotiated settlement. They had argued that it would be better to face the possibility of confrontation at a time of our own choosing.

We had been working on a formula which would make some move towards the Chinese but without any prejudice to our ultimate right to take decisions. The final settlement could not in any case be prejudiced because the British Parliament was sovereign and it alone could decide whether to accept or reject it.

The Unofficials had shown willing to examine the formula with a view to establishing what progress could be made while retaining the substance of those arrangements which were at the roots of Hong Kong's present stability and prosperity.

/The Prime Minister

CONFIDENTIAL

The Prime Minister recalled that the Chinese had offered to guarantee any arrangement for a period of 50 years. If we proceeded to confrontation now, and it then emerged that the Chinese were willing to offer a reasonably satisfactory arrangement for 50 years, how would the ordinary people of Hong Kong react to the fact that we had not even explored this offer? What would they think if we had not explored the possibility of an agreement of this length which preserved not only Hong Kong's present economic arrangements but also freedom and justice?

Sir S-Y Chung said that the Unofficials were very grateful for the opportunity of a further meeting with the Prime Minister. He wished to make a brief statement which he thought represented the consensus of their views,

It was a year since the Prime Minister had visited Peking and it was now time to take stock. There had been no substantial progress in that period. HMG had tried various ways of promoting a meaningful dialogue, including the device of the Prime Minister's letter of 10 March to the Chinese Premier. But China had accepted every concession without giving anything away. Their attitude on the indivisibility of sovereignty and administration had hardened. They had stepped up their propaganda and fuelled the fears of the people of Hong Kong. Most people in Hong Kong believed that the Chinese plan would not work.

Hong Kong had experienced another panic during the week of 19 September. The value of the Hong Kong dollar vis-a-vis the US dollar went down from 7,9 on 16 September to 9,5 on 24 September, a drop of 20 per cent in a week. The Hang Seng index had fallen by over 150 points to the 1983 low of 780. The exchange rate of the Hong Kong dollar was now hovering between 8 and 9. The Hang Seng index had continued its downward

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CONFIDENTIAL

-4-

trend and had broken the 700 barrier last Tuesday.

All this had happened despite the improvement in Hong Kong's export led economy. The export of locally manufactured products had grown by 9 per cent in money terms for the first four months of 1983, 14 per cent in the first half of the year and 18½ per cent in the first eight months.

Most people in Hong Kong understood that Britain had no intention to keep Hong Kong as a colony. As the Prime Minister had rightly said in a recent interview, but for its special status Hong Kong would have been independent years ago and would have been another Singapore. Hong Kong had had a phased plan for 1949 for an elected legislative council with the ultimate aim of independence. But the plan was shelved due to the changed political scene in China,

China was able to seek the support of the Hong Kong people for its position on sovereignty and administration. But the British Government and the Unofficials had not thought it advisable to advocate in public the need for continuing British administration. They had to reflect rather passively the views and wishes of the Hong Kong people.

The Unofficials believed that the exchange rate of the Hong Kong dollar, the state of the securities market and the reactions of the Hong Kong people to the Chinese plan would eventually influence the Chinese position on the future of Hong Kong. For this reason, both HMG and the Hong Kong Government had been letting the state of confidence in Hong Kong find its own level. It had been their hope that this would shake the Chinese leaders and make them change their stand. But it now appeared that the Chinese were using this situation to test our own nerves.

CONFIDENTIAL

/Basically

CONFIDENTIAL

-5-

Basically there were three options open to the British Government:-

- a) To maintain the object of continuing British administration for as long as possible (there could be variations in the details to make this option more acceptable to the Chinese - one possibility would be to limit the period of British administration after 1997).
- b) To capitulate i.e. to agree to return to the Chinese in 1997 both sovereignty and administration over the whole of Hong Kong and try to get the best deal possible.
- c) A compromise between the first and second option.

China was well known for its hard bargaining. It was going all out to canvas support and influence public opinion. Those who did not know the Chinese mind found it difficult to resist such propaganda. Most of the people of Hong Kong wished to maintain the current state of freedom and rule of law and had no faith in Chinese Communist Government. They did not believe that the capitalist system and freedom could exist for long within Communist China unless there was some kind of effective guarantee or insulation.

It was the unanimous recommendation of the Unofficials that HMG should adopt the first option and seek to continue British administration after 1997 for as long as possible. But, if necessary, the Hong Kong people would accept a limited period during which China could develop a track record.

/The Unofficials

CONFIDENTIAL

CONFIDENTIAL

-6-

The Unofficials were also unanimous that acceptance of capitulation would lead to a further deterioration in confidence in Hong Kong. Now was not the time for HMG to compromise on principle. This was particularly so since many Unofficials believed that there were signs of concern on the part of Chinese Communists in Hong Kong about the falling dollar and there was a distinct possibility that the Chinese might wish to have a short term conciliation.

As regards the next session of talks, the Unofficials had noted the view of Sir Percy Cradock that if HMG did not make a concession at the next round there was more than a 50:50 chance of breakdown. They believed that we should be firm on the principal objective and at the same time try to avoid a stalemate. The Unofficials were pleased to hear at their meeting yesterday that Sir Percy had found a formula which, without prejudice to the British position, might induce the Chinese to let us have details of their plan for examination. This would hopefully avoid a breakdown of the talks in October. But if a stalemate was inevitable, a large number of the Unofficials, after carefully weighing the pros and cons, believed that the risk must be accepted. If there were a breakdown in October or later, the Hong Kong people were aware of the possible consequences and were prepared for them. In an optimistic scenario the Hong Kong dollar and the property market would fall but the fall would not be very great and any panic would be short lived. More pessimistically there could be a sharp fall in the exchange rate coupled with a rather rapid rise in prices. This could spark runs on banks and supermarkets with a possible consequence of civil disturbance in some areas of Hong Kong. Under such circumstances, the

/Hong Kong

CONFIDENTIAL

CONFIDENTIAL

-7-

Hong Kong Government might have to impose a curfew as it had done in the mid-60s. With the exception of one of their number the Unofficials were confident that Hong Kong would be able to survive this turbulence.

We should not forget that the Chinese were also assessing the risks of stalemate or breakdown. Disruption of Hong Kong would not serve China's interest.

As regards the Chinese propaganda campaign, the Unofficials did not think that a public confrontation with the Chinese would serve any useful purpose at this stage. But the people of Hong Kong needed some assurance from HMG. Mr. Luce's recent visit had been helpful in reaffirming Britain's commitment to finding a solution which was acceptable to the majority of the people of Hong Kong.

If at the end of the October talks, we did not obtain Chinese co-operation in issuing a reasonable statement, we could act to minimise the fall in confidence. One way would be to convey to the people of Hong Kong the British stance and determination in the negotiations. But the method of doing this, without causing confrontation, needed careful consideration.

In conclusion, it was the unanimous view of the Unofficials that HMG should maintain its basic objective of continuing British administration after 1997. We should listen to any counter proposals that the Chinese might make but the chance of their doing so was remote.

The Chinese slogan was that sovereignty and administration were inseparable and everything else was negotiable. Our own slogan should be that the British link between HMG and the Governor was unseverable and anything else could be discussed.

CONFIDENTIAL /The Unofficials



CONFIDENTIAL

-8-

The Unofficials did not under-estimate the grave consequences of stalemate or breakdown but believed they could survive such turbulence. Many of the Unofficials also believed that the Chinese were concerned about the deteriorating value of the Hong Kong dollar. It would be unfortunate if we changed course at this crucial moment. We should continue with resolution and determination and not let down the people of Hong Kong.

/The Prime Minister

CONFIDENTIAL

CONFIDENTIAL

- 9 -

The Prime Minister said that the objectives of HMG and the Unofficials were the same. We were walking on a tightrope and had to make the right decision.

Mr. Cheung said that he entirely agreed with the Prime Minister's opening statement. He had been glad to hear Sir Percy Cradock say yesterday that his formula might keep the talks going. He himself saw no purpose in confrontation now and he would do all he could to avoid it for the reasons given by the Prime Minister and expanded on by Sir S.Y. Chung.

Last Friday the first Director of the New China News Agency in Hong Kong had sought out Sir S.Y. Chung and Mr. Lee. Although he had followed the usual Chinese line he had made some points which were perhaps significant. He had said that it was a pity that Britain and China were at loggerheads. This could only benefit third parties. He had further stated that it had been a mistake to start talks so early (though of course we had taken the initiative because we were worried about the termination of leases in 1997). The most practical suggestion he had made was that the two sides should devise a method for leasing land in the New Territories after 1997; this might stop the present erosion of confidence and restore the Hong Kong dollar.

This could be a significant departure in the Chinese attitude because Lord Maclehoze had been told in 1979 that any such suggestion was inappropriate. The impression derived from this conversation was that the Chinese wished to come back from the brink.

Sir E. Youde asked whether Mr. Cheung was aware that this incident had been checked in Peking and it had emerged that the person in question had not been authorised to speak as he did. Mr. Cheung said that this was surprising. But if a way could be found to organise such leases, this would be a good step forward. If it were possible to proceed on the basis of identifying areas of common interest, and thereby avoid breakdown, he would favour this course.

CONFIDENTIAL

/ Sir Percy Cradock

Sir Percy Cradock said that the Chinese had made it plain that unless we made a bow in their direction they were not prepared to enter into detailed discussion. So the immediate problem we faced was that unless we were able to modify our position we would face a breakdown.

The Prime Minister said that we could only envisage a conditional modification of our position. Any move would have to be on the condition that a satisfactory agreement was reached in the end. Our problem was that the Chinese had stated that they intended to announce their plan. We had had to work hard to stop this last June. Now the Chinese were threatening to announce their plan towards the end of 1984. If the talks broke down later this month the Chinese would be likely to announce their plan then and we would have no possibility of influencing the details. It was necessary to face up to the real meaning of a collapse of currency. It meant a collapse of society as well. We in Europe had seen this in the Weimar Republic. Sir S.Y. Chung said that this had also been seen in China at the end of 1940. Mr. Cheung said that he was fully in support of seeking a suitable formula.

The Prime Minister said that we could proceed to confrontation if we had better long-term cards. But the fact was that by the terms of the Treaties, the Chinese would obtain sovereignty and administration over the bulk of the area in 1997 by just sitting and waiting. There would then be a totally Communist regime. It was true that we could seek to retain sovereignty over Hong Kong Island and Kowloon. But that might only last for a few months. Meanwhile the currency and the existing systems would collapse.

As to why talks had been started last year, we were being bombarded with questions as to the future and had had no option. It was clear that there could be no stability and prosperity without freedom and justice. But we had to think of ways of saving China's face. The question was how we could walk the tightrope. It was a matter of tactics. We did not intend to give anything away.

Mr. T.S. Lo said that he understood the reasons for adopting a more moderate line and understood the dangers if we did not do so. But the people of Hong Kong, despite Chinese propaganda, were firm on retaining the British link. This should not be underestimated. Those people in Hong Kong who had voted with their feet knew that we were dealing with guerillas who understood one tactic only. Advance and make the other side retreat. He did not believe that we could gain with a more moderate line.

The Prime Minister said that she thought it would be well to look at a written formula. The text which we had drawn up for the instructions to the Ambassador in Peking did not go beyond the fundamental statement of our position in her letter of 10 March. It was to be noted that that letter had deliberately avoided referring to British administration because of the likely Chinese reaction.

Mr. Lo reiterated that if the Chinese thought we were retreating they would go on pushing. The Prime Minister replied that in 1997 China could anyway acquire 92% of the territory under the terms of the Treaties. There was a period through which we could try to seek arrangements to preserve freedom and justice and the continuation of a link with Britain. We should not throw this opportunity away. Mr. Lo said that the Chinese would not begin to negotiate until they saw our bottom line - and our willingness to go to confrontation would be a test of that. The Prime Minister reminded the Unofficials that the Chinese had once said that they would rather have sovereignty over a poverty-stricken Hong Kong than a prosperous Hong Kong over which they had no sovereignty. Miss Dunn said that it was a question of tactics. She accepted all that the Prime Minister had said. But she did not believe that there was no flexibility in the Chinese position. We would never see what leverage there was if we kept on retreating. She was not advocating confrontation. But the only way to extract some flexibility was to show at some point that we too had a bottom line. The Prime Minister commented that her letter of 10 March was our bottom line.

CONFIDENTIAL

But if the talks broke down we would never be able to explore such flexibility as there might be in the Chinese position.

The Foreign and Commonwealth Secretary said that he had been struck by the very careful words used by the Chinese Foreign Minister at the end of their recent meeting. He had emphasised that Britain could play a great role and that if the current British position was modified, detailed discussion on all practical aspects could begin immediately.

The Prime Minister then suggested that there should be a break in the meeting while the Unofficials considered the draft instructions to H.M. Ambassador in Peking. This had been drafted with a view to publication if necessary - because it was not possible to continue to allow the Chinese to monopolise public statements on the talks.

After an interval of some 30 minutes, the Governor and the Unofficials returned to the meeting. Sir S.Y. Chung said that it was the unanimous view of the Unofficials that the text represented an excellent position in its attempt to get the Chinese to present their view without conceding elements of our own position. The Unofficials were glad <sup>that we</sup> were prepared to publish the document in the event of a Chinese leak.

The Prime Minister said that she was most grateful. She wished to draw attention to the following points. The opening words of paragraph 5 reiterated the fundamental principles of her letter of 10 March. That paragraph made plain that we had presented substantial material in support of our view that British administration was the best basis for continued stability and prosperity and that our view had not changed. The text emphasised that the future of Hong Kong could be assured only on the basis of a negotiated settlement. Paragraph 6 was based on a summary of the Chinese proposals and stressed our interest in a continuing important role for Britain and the 50-year guarantee. Paragraph 7 was explicitly stated to be in pursuance of the Prime Minister's letter of 10 March and without

CONFIDENTIAL

/ prejudice

CONFIDENTIAL

- 13 -

prejudice to any final agreement. If we could not obtain what we wanted, we would retain the option of confrontation. The rest of the document was designed to persuade the Chinese to conduct talks on this basis. The proposals in paragraph 7 referred back to paragraph 6.

Mr. Lo commented that the document was very good.

The Prime Minister said that she hoped it would unlock the door to reasonable talks at the next round. We would let the Chinese Government know that the Ambassador wished to call on his interlocutor before the formal talks. Sir Percy Cradock said that the object of this was so that the Chinese negotiators could obtain instructions in good time. He would stress the great importance of the message and the vital need for secrecy, adding that if the talks misrepresented the British position we should be bound to explain ourselves publicly. The Prime Minister said that the hope was that the text of the instructions could remain confidential. Agreeing, Mr. Sandberg said that the Chinese might try to suggest that we could climb down. Sir S.Y. Chung said that in the past Peking had leaked their version of the talks. If they did so again, we must counter-attack. Mr. Newbigging said that the document was excellent and he was glad that we were willing to publish it if necessary. In that event it would be worth considering whether it would also be useful to publish the Prime Minister's letter of 10 March. The Foreign and Commonwealth Secretary said that we should not think in terms of publishing unless this was absolutely necessary. The Prime Minister agreed. Publication was a fall-back.

The meeting then agreed a press statement to be issued at the end of the talks.

Sir S.Y. Chung stated that the Unofficials much welcomed the appointment of Sir Percy Cradock to the post of adviser to the Prime Minister on Foreign Affairs and to a post in the Foreign and Commonwealth Office supervising the conduct of negotiations with Hong Kong. The Unofficials

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CONFIDENTIAL

CONFIDENTIAL

- 14 -

had every confidence in him and in the Government.

The Unofficials were greatly encouraged by the Prime Minister's resolution and determination. The Prime Minister said that we in our turn were encouraged by the loyalty and understanding of the Unofficials.

The meeting ended at 1125.

A-10.

7 October 1983

CONFIDENTIAL

## FUTURE OF HONG KONG

1. Following consultation with the Unofficial Members of EXCO, Ministers have now considered the future course of the talks, in particular the risk, as a result of Chinese intransigence, of an early breakdown with consequent severe damage to the Hong Kong economy and to the well-being of its people.
2. The British Government's aim throughout has been to preserve the essential freedoms and commercial and financial vitality of Hong Kong. They continue to see the best interests of Hong Kong people being served by a negotiated settlement, to the successful implementation of which both Britain and China would be committed. They recognise that confrontation would bring severe and possibly irretrievable damage in its train, and have therefore considered other ways of making progress consistent with the Prime Minister's letter of 10 March.
3. Against this background you should seek an early meeting with Vice Foreign Minister Yao Guang at which you should convey the following message, saying you are speaking on the instructions of the Prime Minister.

Begins.

4. The Prime Minister recalls her visit to Peking in September 1982 and the important discussions she then held with Chairman Deng Xiaoping and Premier Zhao Ziyang. At the conclusion of those talks both sides agreed to hold diplomatic discussions on Hong Kong with the object of maintaining its future stability and prosperity. The British Government remain of the view that with statesmanship on both sides an agreement can be achieved that would be in the interest of both Britain and China and, most important of all, would continue to assure the well-being of the people of Hong Kong.



5. In her letter of 10 March to Premier Zhao Ziyang Mrs Thatcher said that, provided agreement could be reached between the British and Chinese Governments on administrative arrangements which would guarantee the future prosperity and stability of Hong Kong and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, she would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China. In the negotiations so far the British side have made plain their sincere view that a continuation of British administration is the best and surest basis for the continued stability and prosperity of Hong Kong and they have presented substantial material in support of this view. Their view has not changed. However the Chinese Government have taken a different view. The British Government assume the Chinese Government agree that a confrontation would not serve the common aim of maintaining stability and prosperity in Hong Kong and would be in the interests of neither side. The future of Hong Kong can be assured only on the basis of a negotiated settlement.

6. The Chinese Government have in the negotiations so far, in various public statements and in the talks between Foreign Minister Wu and Sir Geoffrey Howe in New York, made certain proposals about the arrangements which they envisage for Hong Kong after 1997. The British Government is particularly interested in those elements which, with adequate safeguards, might ensure autonomy for the Hong Kong people; the preservation of their existing freedoms, lifestyle and the legal system; the maintenance of the economic system including the free convertibility of the Hong Kong dollar; a continuing important role for Britain; and a guarantee that these special arrangements for Hong Kong would last for at least 50 years.

7. In the circumstances, the Prime Minister proposes, in pursuance of her letter of 10 March, and without prejudice to any final agreement, that the negotiators on the two sides should discuss what other effective methods might be devised to maintain the stability and prosperity of Hong Kong and should explore further the Chinese ideas. Their purpose would be to see whether Britain and China could together construct, on the basis of <sup>the</sup> proposals put forward by China, arrangements of lasting value to the people of Hong Kong.

If, on this basis, arrangements could be agreed that would ensure the maintenance of stability and prosperity in Hong Kong, the British Government would be prepared to recommend to Parliament a bilateral agreement enshrining them and to do its utmost to help with the introduction and implementation of such arrangements.  
Ends.

## VISIT OF EXCO TO LONDON

1. The Prime Minister met the Governor of Hong Kong and Unofficial Members of the Executive Council on 7 October. This followed a meeting on 6 October with the Foreign and Commonwealth Secretary and the Minister responsible for Hong Kong in the Foreign and Commonwealth Office, Mr. Richard Luce.

2. These meetings, which were also attended by Her Majesty's Ambassador to Peking, Sir Percy Cradock, are part of the continuing process of consultation on the future of Hong Kong. Ministers reaffirmed HMG's aim of seeking a solution acceptable to Parliament, to China and to the people of Hong Kong.

3. There was a thorough review of developments since the Unofficials last visited London on 4 and 5 July. This took place in a warm and positive atmosphere; it produced a valuable exchange of views and complete understanding on the issues involved. The Governor and the Unofficials expressed their appreciation of this further opportunity to meet the Prime Minister and other Ministers and for the continuing commitment of Her Majesty's Government to Hong Kong.

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DRAFT TELEGRAM

TO IMMEDIATE PEKING

RFI IMMEDIATE HONG KONG

FUTURE OF HONG KONG

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Ends.



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17 BS

10 DOWNING STREET

*From the Private Secretary*

MR HATFIELD

FUTURE OF HONG KONG

Thank you for your minute of 7 October.

I am afraid that the amendments suggested by Sir Robert Armstrong to the telegram of instructions to Sir Percy Cradock reached me after the Prime Minister had approved the text. You will see the revised version together with my record of this morning's talks with the unofficial members of EXCO.

A. J. COLES

7 October, 1983

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A handwritten signature or set of initials, possibly 'R', located in the bottom right corner of the page.





Ref. A083/2816

MR COLES

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Future of Hong Kong

Sir Robert Armstrong has asked me to suggest two amendments to the redrafted telegram of instructions to Sir Percy Cradock covered by John Holmes letter to you of 6 October. *with 195c*

2. Paragraph 1

Sir Robert suggests that this should end after the word "talks" in the second line and the remainder of the text be deleted.

3. Paragraph 2

Sir Robert suggests this might be redrafted to read as follows:

"..... Britain and China would be committed. A breakdown in the talks before all possible options had been explored would bring about severe damage to the Hong Kong economy and to the well-being of its people. Ministers have therefore considered alternative ways of making progress consistent with the Prime Minister's letter of 10 March."

R P HATFIELD

7 October 1983

THE POLITICAL FUTURE OF HONG KONG

Prime Minister,

① My Unofficial Colleagues and I would like to thank you, Prime Minister, most sincerely for taking time out in your very busy schedule to meet with us <sup>yet again</sup> on the political future of Hong Kong. We are very grateful indeed for the interest and attention which you have personally taken in this matter.

② It has been a year since the Prime Minister's historic visit to China in September 1982 and I think it is timely to take stock of the progress made to date.

Review of Progress

~~As we all recall, the Prime Minister and the Chinese leaders met and agreed in September 1982 that diplomatic talks should begin on the political future of Hong Kong with the common aim of maintaining Hong Kong's stability and prosperity. However, the Chinese attempted right at the beginning of the preliminary talks to impose a pre-condition that HMG would recognise Chinese sovereignty over the whole of Hong Kong. Because of this Chinese attempt there was no progress until May 1983 after you, Prime Minister, wrote in March to your counterpart in China saying that you would be prepared to recommend to Parliament for the return to China of the sovereignty over whole Hong Kong if you were satisfied with the arrangement for maintaining Hong Kong's stability and prosperity after 1997.~~

~~After much bargain the Chinese eventually agreed to the order of the agenda with arrangement after 1997 as the first of the three items on the agenda. At that time, we thought that there were signs that the Chinese might take a more flexible and cooperative attitude during the negotiation. We also thought that by giving the Chinese a hint of returning the sovereignty over the whole Hong Kong after reaching satisfactory conclusion, the Chinese would probably accept the separation of administration from sovereignty.~~

~~Nonetheless, our hopes turned out to be wishful thinking. During the four sessions of talks spread over three months from July to September 1983, the Chinese not only did not show any flexibility nor provide any cooperative gesture but in fact have hammered us harder both inside and outside the negotiation. The Chinese spoke very strongly about the indivisibility of sovereignty and administration and resorted to a number of threats. One major threat is that if there is no agreement by September 1984, the Chinese will unilaterally announce their plan for Hong Kong. Another threatening statement by the Chinese is that if the British could not run Hong~~

~~Kong properly the Chinese might recover sovereignty and administration over Hong Kong earlier than 1997.~~

④ At the same time, the Chinese have stepped up their united front propaganda and fuelled the fear of the Hong Kong people by regularly issuing unhelpful statements about their arrangements for the future of Hong Kong which, as most of the Hong Kong people believe, would not work.

⑤ Consequently, Hong Kong had experienced another panic during the week of 19 September. The value of Hong Kong dollar vis-a-vis the US dollar went down from 7.9 on 16 September to 9.5 on 24 September - a drop of 20% in a week. The stock market also took a severe beating by plunging over 150 points on the Hang Seng Index to the 1983 year low of 780 level. Whilst the exchange rate of the Hong Kong dollar is now hovering between 8 and 9, the stock market continues with its downward trend and broke the 700 barrier on Tuesday last.

⑥ Such a slump in both the value of the Hong Kong dollar and the stock market must be seen from the background that the Hong Kong's export-led economy has been much improved over the year. The export of locally manufactured products grew by 9% in money terms for the first four months of 1983, 14% for the first half of the year and 18% for the first eight months. It is therefore obvious that <sup>about the future is</sup> the uncertainty ~~1997 jitters~~ are the only reason for the dramatic fall of the local currency and stock market.

~~The British Ambassador to Peking has given us a comprehensive analysis of the diplomatic talks whilst he was in Hong Kong on 27 September. Generally speaking, it was indeed a bleak picture. At the negotiation table, the atmosphere was becoming less friendly and the language used by the Chinese negotiators were stronger and at times even insulting. Greater pressure was put to the British side to accept the premise of indivisibility between sovereignty and administration. There was no attention given by the Chinese side to the facts presented by the British side. The Chinese also showed no apparent concern on Hong Kong's falling economy and blamed HMG and in particular the HKG for not taking any action to stabilize the local dollar. The Chinese were accusing the British using what they called the "economic card" and "public opinion card" to pressurize them to yield.~~

③ For over a year, there has been no real progress in the talks. <sup>see back of this page</sup> In fact, the Chinese attitude towards the indivisibility of sovereignty and administration has hardened. ~~The only consolation, as far as the people of Hong Kong is concerned, is the announcements by the~~

⊕ HMG have tried various means to get the Chinese to start a meaningful dialogue including a letter from you, Prime Minister. When you agreed to propose to Parliament the concession of sovereignty for the whole territory if the arrangement after 1997 are satisfactory. But the Chinese have taken every concession without giving anything in return. In fact,

~~Chinese that they would recover sovereignty and administration over Hong Kong in 1997 which implies not earlier.~~

The British and the Chinese Positions

~~I think it would be useful if I recapitulate at this stage the~~ respective British and Chinese positions <sup>as</sup> we know todate. The British position is that in order to maintain the stability and prosperity of Hong Kong beyond 1997, it is necessary to retain British administration in Hong Kong. The British administration will provide an effective buffer or insulator between the capitalist system in Hong Kong and the communist system in China and will also serve as an assurance for the Chinese to honour their agreement. It has been explained to the Chinese that the essence of British administration is that the Governor of Hong Kong would be appointed by and accountable to HMG in London. Basically, the British position is built on the premise that administration is separated from sovereignty.

The Chinese position, on the other hand, is that sovereignty and administration are inseparable and that they will regain both sovereignty and administration over the whole Hong Kong in 1997. The Chinese refused to provide the British side with details of their plan for Hong Kong except to say that the current life styles as well as legal, economic and social systems in Hong Kong would remain unchanged. The Chinese also related to the British negotiators that the Chinese plan for Hong Kong was built on the premise that ~~sovereignty and administration are inseparable.~~

The British and the Chinese Strategies

⑦ Despite the Chinese propoganda, many people in Hong Kong <sup>understand</sup> ~~know~~ that in today's world Britain have no intention to keep Hong Kong as a colony. As <sup>you</sup> the Prime Minister, <sup>has</sup> rightly said during a recent news conference for American correspondents in London that but for its special status Hong Kong would have been independent years ago and would have been another Singapore. In fact, Hong Kong did have a phased plan in 1949 for an elected Legislative Council with an ultimate aim for independence. The plan was however shelved later due to the changed political scene in China in the turn of the mid-century.

⑧ Whilst the Chinese Government can make use of its united front tactics to canvas the support of Hong Kong people for its stand on Chinese sovereignty and administration, it is understood and accepted that the British Government and even the Unofficials

<sup>advised</sup> would not be advisable to go public in seeking support for continuing British administration. On our side, we have to act rather passively to reflect the views and wishes of the Hong Kong people.

⑨ It is our belief that it is the exchange rate of the Hong Kong dollar, the state of the securities market as well as the voices of and actions taken by the Hong Kong people in response to the publicized Chinese plan that will eventually influence the Chinese decision on the future of Hong Kong. For this reason and belief, both HMG and the HKG have been remaining practically neutral in letting the state of confidence in Hong Kong ~~to~~ find its own level.

⑩ It ~~is~~ <sup>was</sup> our hope that the gradual down turn of Hong Kong's confidence will shake the Chinese leaders and make them change their stand. However, it now appears that the Chinese are also using the very strategy of ours, that is, the gradual downturn and crisis of Hong Kong's confidence, against us and to test our nerves.

Options Open to the British Government

⑪ There are ~~generally speaking~~ three basic options, ~~for the British Government~~. The first is to maintain ~~its~~ <sup>the</sup> objective of seeking continuing British administration for the whole Hong Kong after 1997 for as long as possible. However, there might be some variations on the details of this option, if these variations could make the Chinese ~~more susceptible to this option~~. <sup>this option more acceptable to the Chinese</sup> One example of <sup>possibility</sup> such variations is to define a definite period of British administration after 1997. Another example is to maintain the major British link between HMG and the Governor and to agree to discuss other changes.

⑫ The second option is capitulation. This means that we agree to return to the Chinese in 1997 both the sovereignty and administration over the whole Hong Kong. <sup>and</sup> ~~On this premise HMG would try to get the best deal for the Hong Kong people and to protect the British interests in Hong Kong.~~ <sup>possible</sup>

⑬ The third option is a compromise ~~one and lies somewhere between the first and the second option~~. Although the British Government has lost its control over Hong Kong with regard to day to day operations, it retains some of its influence over the HKG. The exact outcome is difficult to predict at this juncture. Nonetheless,

~~as an example, HMG could play a monitoring role in the local administration and have a veto power in any change of Hong Kong's own constitution. In other words, the Chinese Government cannot go back on their words and unilaterally change Hong Kong's state of freedom and rule of law.~~

Recent Development

Immediately upon his return from Peking on 29 September, the First Director of New China News Agency initiated a meeting with two Unofficial Members of the Executive Council. The Unofficials believed that there are two messages from the Chinese. The first one is loud and clear and that is the Chinese are very firm on their stance of indivisibility between sovereignty and administration. Nonetheless, they seem to imply that anything other than this is negotiable. This Chinese position is nothing new.

However, the second message is not so clear. If the two Unofficials' interpretation is correct, the Chinese are concerned about the continual and fast downward trend of Hong Kong economy and the Hong Kong dollar in particular and there are signs that the Chinese are hinting for having a short-term conciliation to stabilize the Hong Kong economy and currency. The First Director believed that the basic problem confronting Hong Kong was the individual land leases in the New Territories which have a deadline date of 1997 and intimated that the Chinese have a solution to resolve the problem but, even at repeated requests, refused to elaborate further.

The Choice of Option

14 The Chinese are well-known for their hard bargaining strategy and "united front" tactics. It is no doubt that they have been and are still going all out both inside and outside Hong Kong to influence public opinion. For those people who have no knowledge and experience of the Chinese united front tactics, it is quite difficult to resist such effective propaganda. However, the majority of the Hong Kong people have either personal experience or intimate knowledge of the Chinese communist system and united front tactics. Most of the Hong Kong people wish to maintain their current state of freedom and rule of law and have no faith

in the Chinese communist government. They also do not believe that the Hong Kong capitalist system <sup>and state of freedom</sup> could exist for long within ~~the Chinese communist system~~ <sup>China</sup> unless there would be some kind of effective guarantee or insulation.

15 Knowing the views and wishes of the Hong Kong people as the Unofficials do, it is our unanimous recommendation that HMG should adopt the first option in seeking continuing British administration after 1997 for as long as possible. However, if it is necessary we believe that the Hong Kong people would accept a definite period, <sup>for China to develop a track record,</sup> say 25 to 50 years after 1997, instead of an indefinite period.

16 It is also the unanimous view of the Unofficials that acceptance of the second option of capitulation would lead to further deterioration and not restoration of confidence in Hong Kong. We are of the opinion that it is not the time for HMG to take any option of compromise on principle at this juncture. This is particularly so when <sup>many Unofficials believe that</sup> there are signs of Chinese concern <sup>by the Chinese communists in Hong Kong</sup> on the falling dollar and there is a ~~distinct~~ <sup>distant</sup> possibility that the Chinese might wish to have a short-term conciliation in order to stabilise the fall of Hong Kong dollar, ~~and to cool off the confrontation within the negotiating room and without.~~

The October Session

17 Sir Percy Cradock gave us on 27 September a comprehensive assessment <sup>of the state of talks.</sup> It is difficult for the Unofficials to advise our professional negotiators how to handle their Chinese counterparts at the negotiating table but we believe that we should be firm on the principal objective and at the same time try not to reach a stalemate in the negotiation. <sup>see back of this page</sup> ~~Nonetheless,~~ <sup>great majority of</sup> if a stalemate is inevitable, <sup>we</sup> the Unofficials after weighing both the pros and cons believe that <sup>a</sup> stalemate <sup>is</sup> would be a risk <sup>that has to be accepted.</sup> worthy of taking at this juncture.

18 I am sure, <sup>Ben</sup> the Prime Minister, would like to know what are the possible consequences in Hong Kong if the talks do breakdown at the October meeting. On the optimistic side, one could say that the Hong Kong people are already aware of the possibility <sup>of such a breakdown</sup> and prepared for it. There would be a further decline of the value of Hong Kong dollar and the stock and property markets. However, the drop would not be very great and <sup>only</sup> the panic would be short-lived.

△ Prime Minister, the Unofficials were very pleased to hear yesterday afternoon at a meeting with the Secretary of State that Sir Percy had found a formula which, without prejudice to the British position, would be able to induce the Chinese to give us details of their plan for an examination. This will hopefully avoid a breakdown of the talks in October. But, if ---

From the pessimistic point of view, there could be a sharp fall on the exchange rate coupled with a very rapid rise in prices. This could spark runs on banks and supermarkets with a possible consequence of civil disturbance in some areas of Hong Kong. Under such circumstances, HKG might have to impose curfew as in the days of the mid-1960's. *Except for one Unofficial, we are* Despite this pessimistic development, ~~I am~~ confident that we in Hong Kong will be able to survive ~~from~~ these turbulences.

19 We must not forget that the Chinese are also assessing their risks for any stalemate or breakdown of the talks. A disrupted Hong Kong with internal unrest and falling economy will also not serve China's interest. ~~The two Unofficials, who had a 4-hour talk with the First Director of NCNA in Hong Kong last week, might be wrong in their assessment. If on the other hand their interpretation is not very far off, the Chinese are indeed very much concerned about the deterioration of confidence in Hong Kong and may wish to seek a cooling off period. It would be disastrous if at the very critical moment HMG backs down from its stance.~~

~~Furthermore, in the light of the intimation given by the First Director of NCNA in Hong Kong, it appears worthwhile prior to the next session of talks for a suitable embassy staff in Peking exploring informally with the Chinese side regarding the content of the talks of Mr. Xu Jiatusun with the two Unofficials and in particular the point raised by Mr. Xu in connection with the grant of individual leases in the New Territories beyond the year 1997.~~

Counter-action of the Chinese United Front Tactics

20 *At this stage, we* We do not think a public confrontation with the Chinese would serve any useful purpose. In fact, it could be detrimental to our objective. Nonetheless, the people of Hong Kong are now in need of some assurance from HMG. The Minister of State's visit to Hong Kong in September was helpful in reassuring Britain's commitment in finding a solution for Hong Kong's political future which is acceptable by the majority of Hong Kong people.

21 At the end of the October session, if we do not get the cooperation of the Chinese in scheduling a date for the next meeting nor in

agreeing to issue a joint statement for a more friendly stalemate, we must be able <sup>act</sup> to do something in order to minimise any <sup>the</sup> rapid fall in confidence. One way is to effectively convey to the people of Hong Kong the British stance and determination <sup>in the negotiation</sup> ~~is necessary~~. How such a message can best be given to the Hong Kong people without causing rebuff and confrontation from the Chinese is a matter that needs careful consideration.

Conclusion

22 ~~All in all, It is the unanimous view of the Unofficials that HMG should continue with its basic objective of maintaining British administration in Hong Kong after 1997, but should be prepared to discuss variations in order to increase the chance of acceptance by the Chinese.~~ *this does not mean of course, that we should not listen to any counter proposals that Chinese may make, although we believe that the chance of this is remote.*

23 ~~In contrast to the Chinese slogan that sovereignty and administration are inseparable and everything else is negotiable, ours should be that the British link between HMG and the Governor of Hong Kong are <sup>is</sup> ~~inseparable~~ and anything else can be discussed.~~

24 We do not under-estimate the grave consequence of any stalemate or breakdown in the coming October session but we believe we could survive ~~from~~ such turbulence. *many of the Unofficials* We also believe the Chinese are also concerned about the deteriorating value of the Hong Kong dollar, ~~and there are signs of some change of their position.~~ It would be very unfortunate if we change our course at this crucial moment. We must continue with our resolution and determination and do not let down the great majority of the 5.3 million people in Hong Kong,

*Hong Kong  
future*

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*67*

The Rt. Hon. Margaret Thatcher, MP  
The Prime Minister  
10 Downing Street  
London SW1  
England

*Dear Prime Minister,*

My Unofficial Colleagues and I are most grateful to you for spending your valuable time with us on 7 October at your office to discuss Hong Kong's political future and in particular to develop HMG's strategy during the next round of Anglo-Chinese talks in Peking.

We are greatly encouraged by the interest and attention which you personally give to this matter.

With our best wishes,

Yours sincerely,

S Y Chung  
Senior Unofficial Member  
of the Executive Council