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10 DOWNING STREET

From the Private Secretary

7 December 1983

The Prime Minister has asked me to convey to Lord Cockfield her thanks for the interesting report on China and Hong Kong contained in his minute of 1 December.

A. J. COLES

Alex Galloway, Esq.,
Chancellor of the Duchy of Lancaster's Office.

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Chancellor of the Duchy of Lancaster

Prime Minister.

PRIME MINISTER

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A.T.C. 2/12

CHINA - HONG KONG

1. I shall be sending you a full report in the ordinary way. But meantime I felt you might wish to know my views on Hong Kong.
2. The visit itself went off very well. There is an immense fund of goodwill towards this country in China: the opportunities are very great: we are just beginning to take advantage of them: but there is very much more to come.
3. The question of Hong Kong was not raised - or even mentioned - by anyone on the Chinese side; nor did I refer to it in talking to them.
4. China is a totalitarian state. But so in greater or less degree are most countries in the world. The present tranquillity of the country and the progress visible on all sides is very recent. It is understandable that the people of Hong Kong should be apprehensive on both counts. But in relation to these fundamental problems there is little we ourselves can do. On a more mundane level, China is a poor country compared with Hong Kong but there is little sign of the devastating poverty which afflicts the Indian subcontinent and much of Africa. In Peking, Canton and I am told Shanghai there is the tempo of development which characterised Hong Kong when I first visited it in the 1960's. The new Economic Zone of Shenzhen just over the border from Hong Kong is one vast building construction site. But however rapid and successful the development, there is little chance that even in these favoured locations China will catch up with Hong Kong. The absorption of Hong Kong by China will inevitably lead to a reduction in living standards by the very process of sharing the prosperity that exists over a wider population. This very real



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material worry re-inforces concern on the broader social/political front.

5. The scope for effective action by the UK Government is limited. This does not mean that we must not try very hard. But there is no point in deluding ourselves. It is better to achieve what is practicable than to fail in striving for the impossible.
6. Where a country loses territory either by war or under duress, its abiding concern is to regain its territory. It will not weigh in the balance economic advantage or disadvantage. Frequently it pays scant regard to the wishes of the inhabitants. The history of the great disputed territories of the world amply demonstrates that this is so. There is no reason why China's attitude to Hong Kong should be different. Nor is it.
7. This does not mean that we are without influence or bargaining counters. Other things being equal a successor state will wish to preserve the prosperity of the territory it regains if it can do so: but not at the expense of sovereignty or its national pride. Moreover Hong Kong Island and Kowloon were ceded; not leased. If we were to refuse to quit, the Chinese would be faced with the disagreeable need to use force or other means of duress if it wished to regain these territories. I suspect that the Chinese would not be too happy to find themselves in a position where this was the only alternative open to them. So that while Hong Kong Island and Kowloon are not viable on their own, they nevertheless represent something for the surrender of which something tangible could be extracted. Thirdly Hong Kong depends for its position in export markets largely on its status as a UK dependency. This is an advantage the Chinese would not want - or could not afford - to sacrifice.



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8. The present process of slow and painful negotiation is the only course open to us. We must avoid crystallization of our own position and equally we must ensure that we do not allow the Chinese to draw the conclusion that we are trying to drive them into a corner. If progress can be shown, Deng's deadline of September 1984 may not prove to be inflexible.
9. The people of Hong Kong want some "insulation" inserted between themselves and the Chinese Government. I do not think anything so transparent as that is negotiable. Rather I would think the right course would be to follow the precedent set in the negotiations with the Americans over the Siberian pipeline - namely to have the negotiations on the two aspects of the problem - namely the assumption of sovereignty by the Chinese and the safeguards for Hong Kong - ostensibly separate from one another but moving in parallel: dependent de facto on one another but not de jure. This might well enable the Chinese to make more movement in the direction of clarifying and entrenching the future position of Hong Kong than they would otherwise be disposed to do.
10. If we are to approach the problem in this way, it would be valuable to strengthen our bargaining hand. I have indicated the great opportunities open to us for collaboration with the Chinese in the economic field. There will be opportunities also in the cultural field. Probably too in the political field. If we could reach some more wide ranging accommodation with the Chinese, it might enable agreement on Hong Kong to be slotted into this wider framework. This could make it more acceptable to the Chinese. But at the same time there would be the sanction - real but not too naked - that failure to observe the concord on Hong Kong would carry with it the loss of the wider agreement.



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11. There is already a high and growing degree of economic integration between Hong Kong and mainland China. Hong Kong already can scarcely live on its own: and its effective dependence on China will grow not diminish. It is important to go with the tide not against it.
12. We must do our best for the people of Hong Kong. But what we can do by way of binding assurance is limited. A breakdown in the negotiations - even if in the form of a publicly admitted failure to agree - would not help the people of Hong Kong. It is no good saying now that at least they would have another 14 years of British rule. The demoralization would be such that the economy of Hong Kong would be seriously damaged and the problem of government immensely increased. But it does not follow that firm agreement is needed by September 1984. Sufficient progress to discourage the Chinese from unilateral action is what is needed. If we can achieve that the time left to us before the lease expires should both enable the detail progressively to be filled in and the people and the economy of Hong Kong to adapt itself to the inevitable. It would I think be important that nothing should actually be surrendered before 1997. By then it would be nearly thirty years since the height of the Cultural Revolution. If tranquillity persisted over such a period of time it would itself provide an important reassurance.
13. There is nothing which I have said above which runs counter to the trend of the negotiations on our side - which have been conducted with great skill. But the point I would make is that when dealing with an adversary of single minded determination, patience and persistence are required: and that to this end we need if we can to find means of strengthening our bargaining hand.
14. I have not copied this to anyone else.

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1 December 1983