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10 DOWNING STREET

From the Private Secretary

14 December 1983

Future of Hong Kong:
Sir Percy Cradock's calls on Chinese Leaders

Thank you for your letter of 13 December.

The Prime Minister has considered the proposed instructions for Sir Percy Cradock. She attaches great importance to two phrases in the instructions namely:

- a) In paragraph a. "Provided we can reach agreement on an acceptable solution".
- b) In paragraph d. "On the basis agreed at present".

I should therefore be grateful if, in a covering telegram to Sir Percy Cradock you could make plain the importance attached by the Prime Minister to these two phrases and instruct him to ensure that the points covered by the phrases are made with unmistakable emphasis.

The Prime Minister would also wish two changes to be made to the text of the instructions. In the middle of paragraph b. the sentence "they threaten no principle" should be deleted. That part of the instructions might therefore read "but there remain important questions still unsettled which will be critical for the success or otherwise of the enterprise".

Finally, in paragraph e., could you please delete the words "required by the return of sovereignty and the power of administration to China".

A. J. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office

SECRET

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Prime Minister



CABINET OFFICE

With the compliments of
The Private Secretary to the
Secretary of the Cabinet

70 Whitehall, London SW1A 2AS

Telephone 01-233 8319

MOST CONFIDENTIAL RECORD
TO
OD(K) (83) 3rd Meeting Minutes

Tuesday 13 December 1983

THE FUTURE OF HONG KONG

Previous Reference: OD(K) (83) 2nd Meeting

The Sub-Committee reviewed progress in the negotiations with the Chinese Government over the future of Hong Kong. They had before them a minute from the Foreign and Commonwealth Secretary to the Prime Minister dated 12 December 1983 reporting on the seventh round of negotiations in Peking on 7 and 8 December, reviewing the way ahead and commenting on the suggestion by the senior Unofficial member of the Hong Kong Executive Council (EXCO), Sir S Y Chung, that Unofficial members of EXCO should visit London in January 1984 to review the position reached in the talks with the Government. The Sub-Committee also had before them a note by the Secretaries (OD(K) (83) 4) covering texts of informal working papers handed to the Chinese on the Hong Kong monetary system, the Hong Kong economic system, culture and education, and the rights of individuals in Hong Kong; and a note by the Secretaries (OD(K) (83) 5) to which was attached an assessment by the Governor of the current state of confidence in Hong Kong.

THE FOREIGN AND COMMONWEALTH SECRETARY said that, although the seventh round of negotiations with the Chinese, which had taken place in Peking on 7 and 8 December, had been conducted in an improved atmosphere, it was necessary to recognise the weakness of the United Kingdom's negotiating position. It was now clear that the Chinese Government were not prepared to accept what had been the original British objective of a continuing British presence in Hong Kong after the expiry of the lease of the New Territories in 1997. Nor would they accept any link of authority. The aim must now be to negotiate on the basis of the Chinese proposals in order to make them more acceptable and workable, even if at the end of the process the proposals might well not be such as the Government could positively commend to Parliament or to the people of Hong Kong. The Chinese comments on the informal working papers handed to them by the British Ambassador had revealed a measure of common ground between their positions and the implications which, for the purpose of negotiation, the United Kingdom side had sought to draw from them. On the legal system of a Hong Kong Special Administrative Region (SAR), the Chinese had confirmed that the existing system of courts would in principle be retained and judges would be appointed by a Judicial Commission, as now, but subject to approval by Peking. The Chinese had agreed that the Hong Kong SAR should make its own laws in the financial field and that, in conducting its own external economic relations, it could conclude agreements and join international organisations. The other Chinese comments were less welcome. They had suggested that the Chief Executive of the SAR and senior Government officials would be formally

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appointed by Peking, and they had maintained their intention to publicise their proposals in September 1984, while stating that the drafting of the basic law detailing arrangements for Hong Kong would not begin until the statement was issued. They also appeared to imply that they would station a People's Liberation Army garrison in Hong Kong.

While British comments could be expected to have some impact on the Chinese proposals, there was no certainty that the outcome would be subject to agreement with the United Kingdom. It was therefore necessary to consider whether the present strategy should be continued or the talks broken off.

The Governor had sent an assessment of the state of confidence in Hong Kong. Before the latest round of negotiation, the senior Unofficial member of EXCO had suggested to the Governor that Unofficial members of EXCO should visit London in January to review the position reached in the talks. A number of them were concerned at the way in which the talks had developed since their visit in October. They believed that there was no sign that the current strategy would produce a satisfactory substitute for British administration. He recommended that, since it was important to keep EXCO on board, and to give them a realistic assessment of prospects, they should be invited to visit London in mid-January.

In discussion the point was made that there was no prospect of reaching an agreement with the Chinese which could be commended to Parliament. Certain outside observers had drawn a parallel between the assurances which the Chinese were now offering on Hong Kong and those which they had offered many years earlier in negotiating the future of the Western concessions in Shanghai. There were still some 13 years before the lease of the New Territories expired, and it was far from clear whether anything could be gained from continuing the present negotiations. In the meantime steps could be taken to give Hong Kong a greater measure of internal self-government. The Chinese Government would thus be faced with the need to negotiate with a locally elected Government in Hong Kong which would in principle be able to continue to administer the SAR after 1997. While the arguments for not breaking off the talks now were strong, it was necessary to face the possibility that they would lead to no agreement. The Chinese would then make a unilateral announcement and perhaps withdraw concessions which they had made during the negotiations. The Government would be placed in a difficult situation. More information was needed about how the Chinese might respond to a failure or breakdown in the negotiations. It was by no means clear that they would be prepared simply to wait until the lease expired. Chairman Deng Xiaoping, who was 79, was anxious to settle the Hong Kong question while he remained in power: if he could not reach an agreement with the British Government which was satisfactory to him, he might decide upon an early takeover of Hong Kong.

On the other hand, the point was made that to precipitate a breakdown of the talks would be even more damaging. The Government had shown their willingness to enter into a dialogue with the Chinese. Time had to be allowed for educating opinion in Hong

Kong. It was already clear that many Hong Kong people were coming to terms with the fact of the British departure. The United Kingdom could not in fact prevent the Chinese from taking over Hong Kong whenever they wished, but it was essential for the Government to show that they had done everything in their power to reach a satisfactory agreement. If the United Kingdom were to break off the talks, the impression would be given that this was done in the belief that it would somehow secure better arrangements for Hong Kong; whereas the reality was the opposite. A breakdown, possibly leading to a sudden Chinese takeover, would in addition be extremely damaging to Britain's commercial interests and could lead to large numbers of Hong Kong Chinese wishing to enter the United Kingdom.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee would need to consider carefully the line to be taken when the Unofficial members of EXCO visited London in January. They agreed that the present strategy should continue and that a breakdown in the talks should be avoided. But it was necessary to begin to consider what should be done if the negotiations ended in failure to reach agreement and the Chinese carried out their threat of expressing their intentions unilaterally. Urgent consideration should also be given to the possibilities for giving the people of Hong Kong a greater measure of internal self-government, and to how best to put the British case to the people of Hong Kong.

The Sub-Committee -

1. Agreed that Unofficial members of the Hong Kong Executive Committee should be invited to London for consultations during January.
2. Invited the Foreign and Commonwealth Secretary to circulate to the Sub-Committee for consideration before the Unofficials' visit:
 - i. a paper reviewing the current position and the way ahead in the negotiations with the Chinese Government;
 - ii. a paper addressing the same issues which could be shown to the Unofficials and used as a basis for the discussion with them; and
 - iii. a paper on the possibilities for increasing the scope of internal self-government in Hong Kong and ways of putting over the Government's case to the people of Hong Kong.

Cabinet Office

19 December 1983

~~Mr. Colby~~

No 10.



With the compliments of

THE PRIVATE SECRETARY

As discussed. To put with
my letter of this morning
Foreign Sec. will have a copy
with him at (D)(K)


FOREIGN AND COMMONWEALTH OFFICE

SW1A 2AH

E. C. C. S.

OUT TELEGRAM

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	↓	Classification and Caveats SECRET	Precedence/Deskby IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	SECRET
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO 131300Z
PRE/ADD	7	TO IMMEDIATE PEKING
TEL NO	8	TELEGRAM NUMBER
x	9	^{INFO} AND TO IMMEDIATE HONG KONG
β	10	YOUR TELNO 1325: FUTURE OF HONG KONG: CALLS ON LEADERS
	11	1. In your calls on Chinese leaders you should speak as your
x	12	propose in TUR, subject to the comments set out below. These take
	13	into account the Governor's suggestions in Hong Kong telno 1928.
	14	You may convey the Prime Minister's good wishes to Zhao and
	15	through him to Deng. You may indicate in all your calls that you
	16	are speaking with the Prime Minister's approval.
	17	2. Our comments follow the order of points in para two of TUR:
	18	(a) Agreed. A reference to progress would be appropriate as a
	19	reflection of the communique issued after the last round of
	20	talks.
	21	(b) You should speak as proposed, but omitting the word open
///	22	quotes economic close quotes in the fifth sentence. The
//	23	Governor's point (ii) might follow as a separate point.
/	24	(c) I would prefer the first sentence to imply more clearly that
	25	acceptance of the Chinese premise is still subject to the

NNNN ends telegram	BLANK		Catchword conditionality
File number	Dept HKD	Distribution FUTURE OF HONG KONG	
Drafted by (Block capitals) C O HUM			
Telephone number 233 4381			
Authorised for despatch			
Comcen reference	Time of despatch		

OUT TELEGRAM (CONT)

Classification and Caveats

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conditionality defined in the Prime Minister's message to Zhao. It is also important that the reference to no change in Hong Kong's present systems should be clarified so as to permit any natural evolution in those systems which might be considered desirable before 1997, for example, in moving towards an expansion of the democratic process or increased autonomy. The first two sentences should therefore be amended to read as follows:

x

The most fundamental point to us in pursuing discussions on the basis agreed at present would seem to be to consider only the changes that would be essential to meet the fundamental premise that sovereignty and the power of administration should revert to China. In all other respects the present systems in Hong Kong should continue as unchanged as possible, except where evolution was natural and desirable close quotes.

(d) Agreed, subject to the Governor's points (iii) and (iv).

(e) Ditto.

c

(f) Agreed. The supplementary point in your telno 1330 will be examined here as quickly as possible. But there can be no question of telling the Chinese at this stage that we are considering the possibility of a withdrawal of British troops before 1997. There will first need to be full consultation with all concerned.

(g) Agreed.

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NNNN ends telegram

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Catchword