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NOTE OF A MEETING HELD AT 1600 HOURS ON MONDAY 5 SEPTEMBER 1983
AT No. 10 DOWNING STREET

PRESENT

Prime Minister
Foreign and Commonwealth Secretary
Secretary of State for Defence
Mr. Luce
Chief of Defence Staff
Sir Antony Acland
Sir Percy Cradock
Sir Edward Youde
Sir Ian Sinclair
Mr. Donald
Sir A. Parsons
Mr. John Coles

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The Prime Minister asked Sir Percy Cradock to give his assessment of the latest Chinese position.

Sir Percy Cradock said that the three rounds of talks held so far had gone much as had been expected. We had achieved at least part of our aim in that we had begun a process of educating the Chinese in the complexities of Hong Kong. The Chinese had been affable, had listened carefully to our statements and had seemed glad to have the papers which we had provided. They might now more readily appreciate the complexities of Hong Kong but there was no sign that their basic attitude had changed. They insisted that administration should pass to China, together with sovereignty, in 1997. Unless we made some move towards accepting their position on this point there was a danger of deadlock in the talks. He did not believe that the Chinese would themselves make a move. It was therefore necessary to decide whether we should hold to our present position or consider various types of concession. One particular problem was that the timing of each session of talks was now publicly known and it had become the practice at the end of one session to announce

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the date of the next. Thus, if the Chinese decided to hold up progress this would become known publicly and have a bad effect on confidence in Hong Kong.

The options before us were set out in the FCO paper on "The Future of Hong Kong: Talks with the Chinese: A Re-appraisal One Year On". He himself believed that there was a stark choice between options A and C. It might be necessary to approach option C via option B but he doubted whether it would be possible to keep B in play for long.

Sir Edward Youde said that confidence in Hong Kong remained volatile. It had been holding up fairly well recently but the Hong Kong dollar was slowly drifting down and over the past year had done so quite substantially despite the Colony's good export performance. The bulk of the Hong Kong population had adopted a "wait and see" attitude towards the talks but the investors and the professionals were becoming nervous. The latter groups were facing a new Chinese propaganda campaign which argued that the Chinese plan for Hong Kong would work and that British administration was not necessary. There was still a widespread wish that British administration should continue after 1997 but many people in Hong Kong were doubtful whether this could be achieved.

It should be recognised that for EXCO to abandon the aim of continued British administration would be a traumatic matter for them. They believed that HMG had undertaken to pursue the objective of British administration. They were now waiting to see what would happen in September. As to the future, some members of EXCO would advocate brinkmanship. Others would be more disposed to look for ways forward. But he could not predict how EXCO would divide when the options were put to them.

The Prime Minister asked whether we could not adopt the following approach: we would tell the Chinese that we had described the factors which we believed to be necessary for stability and prosperity to continue; the Chinese for their part claimed to have an alternative system that would maintain confidence and be acceptable to the people of Hong Kong; we proposed that they should describe this system in detail in the

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next phase of the talks.

It was important to keep the talks going. For if they were broken off there was a risk that the Chinese would foment disturbances in Hong Kong and create a situation where the Armed Forces and the Police were actively involved in maintaining order.

The Foreign and Commonwealth Secretary said that he believed that the effort to produce a solution to this problem was one of the most difficult diplomatic tasks ever attempted. Ninety-two per cent of the land and 50 per cent of the population of Hong Kong would pass to the Chinese in 1997 without them doing anything. Given the cards we held, agreement on satisfactory arrangements for the future would be an outstanding achievement. It might be that the prize was unattainable. He saw some attractions in the Prime Minister's suggestion that we should persuade the Chinese to present their own proposal in detail, leaving aside the verbal arguments about sovereignty and administration. But there was a risk that the Chinese would refuse to proceed until we had accepted their position on these matters. We had to ask ourselves whether a rupture of the talks would, as the FCO paper stated, do irreversible damage.

Sir Percy Cradock said that it would be possible to adopt the approach suggested by the Prime Minister but it should be recognised that the Chinese would take this as a sign that we were changing our fundamental position. Thus, a statement of our willingness to listen to an exposition of their formula for the future would be a prelude towards the adoption of option C. The Foreign and Commonwealth Secretary added that we should also take into account the risk that it would become known in Hong Kong that we were changing our position and that this would have an adverse effect on confidence in the Colony.

Sir Percy Cradock said that the Chinese would be likely to say, in response to our request that they should expound their own plan, that they had already done so. Before he had left Peking for leave, the Chinese had impressed upon him that they were hoping he would return to the talks in September with good news about a change in the British position.

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The Foreign and Commonwealth Secretary said that if we remained absolutely firm in our approach and this led to a rupture of the talks and the collapse of confidence, there was the political risk that critics would say that British rigidity had brought this situation about. The Prime Minister commented that it could be argued in return that her letter to the Chinese Premier had shown considerable flexibility. She was concerned that if, following that concession, we made a further concession it would simply be pocketed by the Chinese and we should appear to be weak.

Sir Percy Cradock said that he was in no doubt that we should maintain our present position at the next round of talks on 22/23 September. But the Chinese believed that the acquisition by them in 1997 of sovereignty and administration was a basic pre-requisite for agreement. It remained to be seen how in practice they would define the two terms. If we moved towards acceptance of their position, we could not be sure what attitude they would then adopt. They might simply say that it only remained to discuss the transitional period. The Prime Minister said that we could not get ourselves into a position where we had, in effect, handed Hong Kong to the Chinese subject merely to a discussion of transitional arrangements.

Sir Edward Youde said that he would find it valuable to have the judgement of EXCO on the various options. Its members were all intimately involved in the Hong Kong economy and their views would be important to eventual decisions.

Mr. Luce asked whether it was really the case that the Chinese were likely to provoke a breakdown in the talks at this stage. There could be no doubt that we had to carry EXCO with us. It might be worth running the risk of playing tough at the next stage of the talks and thereby demonstrate to EXCO the limits to Chinese willingness to move.

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The Foreign and Commonwealth Secretary said that he would like to see the talks take a more practical turn. We needed to get away from verbal arguments about sovereignty and administration. In the end, it was the British Governorship which was crucial. It was very difficult to see the Chinese accepting a regime where Britain continued to appoint the Governor. But if that were so, then the alternative was to adopt the outlines of the Chinese plan and try to inject a content that was more acceptable. The Prime Minister commented that if we went along this route we should have to aim for something close to total autonomy for Hong Kong. The Foreign and Commonwealth Secretary pointed out that this might be reconcilable with the Chinese concept of a Special Administrative Zone.

Sir Percy Cradock said that words mattered greatly in these negotiations. If we could concede words which helped the Chinese on their concepts of sovereignty and administration we might be able to devise a practical system for the future which met our essential points. Sir Edward Youde commented that at present it was the symbolic link provided by the Governor which was all important. If we abandoned that, what would we put in its place?

The Prime Minister asked what the Chinese would do if the talks broke down. Sir Percy Cradock replied that if the breakdown led to disturbances in Hong Kong the Chinese might carry out their threat to intervene. Sir Edward Youde said that his worry was that Hong Kong might be faced with the novel situation of a steadily declining economy. In response to a question from Sir Anthony Parsons, he said that he believed such a downward trend could begin if it became known in Hong Kong that we were trying to negotiate a system of autonomy for the Colony. He believed that EXCO, faced with options B and C, would select the former because it maintained the lifeline of the Governorship. But option C was an entirely different proposition.

The Prime Minister said that the question arose of whether it was better that confidence should collapse because we had made concessions or because we had maintained a position of principle. Sir Percy Cradock said that we needed to ask what Hong Kong's choice would be. Sir Edward Youde commented that that was why a /discussion with

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discussion with EXCO was necessary. Sir Percy Cradock said that he doubted whether option B would keep the talks going for more than two or three meetings. There was a danger that we might prejudice option C by making concessions under option B to which the Chinese would later attempt to hold us. In effect, either now or in October, we should have to face the choice between options A and C.

The Foreign and Commonwealth Secretary said that it would be important to keep influential MPs closely informed. Mr. Luce said that in his view Parliamentary opinion was chiefly concerned with the prospects for obtaining a settlement which guaranteed stability - there was much less interest in the precise nature of the settlement or how we obtained it. The Prime Minister commented that there was also interest in the extent to which a settlement was genuinely acceptable to the people of Hong Kong. The Government might face criticism in the future for failing to do enough to mobilise Hong Kong opinion behind our policy. Sir Percy Cradock observed that the mobilisation of opinion, e.g. through a referendum might provoke a Chinese response which would not be in the interests of Hong Kong.

Sir Antony Acland asked whether, if EXCO reluctantly decided to endorse option C, they would be able to persuade the people of Hong Kong of its merits. The Prime Minister said that for EXCO the adoption of option C would be to disappoint their main ambition of continued British administration and would risk a total collapse of confidence. The Foreign and Commonwealth Secretary said that a breakdown in the talks might have the same effect.

Sir Percy Cradock reiterated his view that we should aim to give the Chinese the outer form of what they wanted but to fill that form with the substance of our own requirements. This was a very risky course but was the best approach.

Following further discussion of future tactics, the Prime Minister stated that at the next round of talks on 22/23 September the Ambassador should maintain our present position. It would be necessary to consult EXCO shortly about the latest situation. We should give EXCO an honest account of /our fears

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our fears but should in no sense imply that a policy decision had been taken in favour of any of the options in the FCO paper or even that option C was being seriously considered. A draft telegram of instructions should be prepared, covering the line that the Governor would take with EXCO on his return to Hong Kong, and should be submitted to her for approval.

The discussion ended at 1810.

5 September 1983

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