



PM/83/102

PRIME MINISTER

Future of Hong Kong

- You will see that I do not think that conditions will be as unimpaired as was agreed that the Governor should hand over papers B and C attached to EXCO?*
- 67B*
- DMB 23/12*
1. At its meeting on 13 December OD(K) agreed that the Unofficial members of the Hong Kong Executive Council should be invited to London for a further round of consultations with Ministers on the future of Hong Kong. The Sub Committee also invited me to circulate a number of papers for consideration before the Unofficials' visit.
  2. As I promised when we met on Thursday, I now attach two of these papers which have been agreed with the Governor of Hong Kong and the Ambassador in Peking. They are:
    - (i) a paper for the Sub-Committee, reviewing the current position and the way ahead in the negotiations with the Chinese Government:
    - (ii) a paper addressing the same issues to be shown to the Unofficials and used as a basis for discussion with them.
  3. The first paper describes briefly the development of negotiations and the factors affecting the British and Chinese positions. It analyses the position of the EXCO Unofficials and the approach to be adopted during their visit; discusses in detail the tactics for the months ahead; and addresses the issues of 'acceptability' and local government in Hong Kong.
  4. The text prepared as a discussion paper for EXCO reviews the course of the negotiations since September 1982 and considers what alternative objective might be set if it is accepted that continuing British administration after 1997 is no longer attainable. Annexed to it is an assessment of the Chinese position on the future of Hong Kong, analysing the modifications to that position during the course of the negotiations, the degree of Chinese flexibility and likely Chinese action in the



event of confrontation.

5. The Governor will arrive in London on 13 January from New York, where he will have been leading a trade delegation. Some of the Unofficials will be with him while others will come directly from Hong Kong. The Governor considers strongly that EXCO should see the discussion paper before his departure from Hong Kong and have an opportunity fully to discuss and digest its implications. This would mean putting the paper to them in the week beginning 2 January.

6. I am sure that the Governor is right to want the Unofficials to see the paper in good time so that they can reflect carefully on the issues it raises. I should be grateful to know whether you are content that the Governor may hand over the paper for EXCO.

7. I am copying this minute to the other members of OD(K) and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

23 December, 1983

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FUTURE OF HONG KONG: POLICY REVIEW

Development of Negotiations

1. The Chinese position has not altered in essentials since the Prime Minister's visit to Peking in September 1982. They stated then that they intended to recover sovereignty and control by 1997 and to establish Hong Kong as a Special Administrative Region of the PRC within the Chinese constitution. Even at that stage it seemed probable that they would not agree to any authoritative role for Britain continuing after 1997. But this was by no means clear and given Hong Kong's concern to maintain the status quo, (strongly endorsed by the Executive Council) our negotiating objective over the next few months was to establish whether a sovereignty/administration deal could be struck. The Chinese insistence on explicit acceptance of their premise on sovereignty delayed this process and substantive talks only began on the basis of a conditional assurance from the Prime Minister to the Chinese Premier that, if an arrangement acceptable to the two governments and to the people of Hong Kong could be agreed, she would be prepared to recommend a transfer of sovereignty to Parliament.

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2. The first few rounds of substantive discussion in the summer showed that the Chinese would not agree to continuing British administration. They maintained that the essential purpose of the negotiation was to agree on smooth arrangements for a transition to Chinese sovereignty including the right of administration with protection for undefined British "interests". In October 1983 Ministers agreed with EXCO against this background that we should examine whether a satisfactory arrangement could be built on the basis of the Chinese proposals, still with the condition that if the final package was not acceptable HMG would not be prepared to recommend it to Parliament.

3. This move produced progress towards detailed discussion but only after we had refined our position to spell out that, still under the same conditions, we did not intend for the purpose of the negotiations to make any proposals involving an authoritative link between Hong Kong and the UK after 1997.

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4. On that basis, genuinely detailed discussion began at the seventh round in December and the Chinese offered comments on three of the working papers which we had already submitted. This more forthcoming attitude was reflected in their propaganda which, during the autumn, changed from a strongly hostile tone to a theme of reassurance for the people of Hong Kong that the establishment of a Special Administrative Region would not threaten the essentials of their way of life and that there would be continuity in the territory's economic, legal and social systems. There are however still criticisms of HMG and warnings that we have no right to be consulted on internal arrangements in Hong Kong after 1997.

Factors affecting the British and Chinese Positions

5. This evolution has reflected the consistent balance of strength in the negotiation. The Chinese are ultimately able to impose their will on Hong Kong. They reject our view of the validity of the 19th Century Treaties. These are thus a bargaining card only in the sense that we can insist that Parliament must judge an overall package before sovereignty could be given up. The current Chinese administration under Deng Xiaoping though pragmatic to the extent of being ready to see a capitalist regime continue in Hong Kong, strongly shares the nationalist feeling of all Chinese administrations since 1911 in seeing the recovery of Hong Kong as a step in the "sacred task" of reunifying China. China values the economic benefits which it obtains from Hong Kong but does not value them above national pride. The Chinese do not accept the argument that the people of Hong Kong have an overriding right to decide their future. In the Chinese view they are Chinese first and Hong Kong people second: their wishes must be subordinated to those of the people of China as a whole. - not linked - hence the S.A.R.

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6. We have one positive card in the negotiations: the fact that the Chinese would like our cooperation, and it will be necessary if stability and prosperity are to be preserved. They would much prefer not to be obliged to impose a solution on Hong Kong, which would destroy confidence, remove most of the economic benefits and leave them with a major problem in administering a recalcitrant population. This explains their contradictory themes of insisting that Britain gives up its "colonial" power in 1997 and of

threatening intervention if there are major disturbances in Hong Kong (by implication caused directly or indirectly by HMG). They will aim to get our cooperation on their terms but may be prepared to adjust their position to some extent. They will not, however, give ground on principle in order to obtain it. In the last resort they would seek to settle the question without it.

#### Position of Hong Kong Executive Council

7. EXCO, in particular the Chinese Unofficial members, clearly agreed to our move in October with mixed feelings. They were prepared to recognise that it was important to keep the talks going and so far as possible to avoid confrontation with China in order to maintain confidence in Hong Kong. But a number of them remained extremely sceptical about the chances of negotiating an agreement on the basis of the Chinese proposals which would maintain confidence. Some of them saw the move not as likely to lead to an acceptable agreement but as a good way of demonstrating that the Chinese would not provide any satisfactory guarantees and of placing HMG and the Hong Kong Government in a more publicly presentable position in which to reject the Chinese ideas.

8. The progress in the talks since October has not lessened EXCO's concern. They made clear then their strong preference for continuing British administration. They still believe that only that would provide really satisfactory assurances for continuity in Hong Kong. Although they received our assessment in November that the Chinese would not agree to British administration, they make a distinction between a tactical shift which took account of this and a decision by HMG to abandon British administration as an objective. They are concerned that the clarifications which we have subsequently made of our move in October, although still on a conditional basis, have made it more difficult to withdraw and to take up a position under which we would reject the Chinese proposals as insufficient to command confidence.

9. EXCO have requested a clear statement of HMG's current objectives, if we have in fact abandoned the continuation of British administration as an aim. They have asked:

(a) If we are working simply for the highest degree of autonomy on

the basis of the Chinese proposals, what precise assurances would HMG try to build into an arrangement in order to maximise the incentive to the Chinese to observe that autonomy and minimise the opportunities for interference? Are there particular points which we would regard as essential for that autonomy? Would we make them sticking points in a negotiation and refuse to associate ourselves with any Chinese plan which did not contain them?

- (b) How would HMG see an agreement with China on Hong Kong being monitored and enforced after 1997? What action would HMG take if China broke it?

#### Paper for EXCO

10. The separate paper for EXCO and annexed assessment examine the position frankly. It concludes that there is no realistic point in continuing to seek British administration. Given that, it poses the alternatives of breaking off the talks and continuing on our present course. It discusses a redefinition of our objective: to agree with the Chinese Government that after 1997 there should be full internal autonomy for Hong Kong, consistent with the assumption by China of sovereignty and the right of administration. This would require changes from the present systems to be confined to those which would be consistent with the resumption of Chinese sovereignty and of the right of administration. We should aim to ensure that such an agreed arrangement would be as specific and detailed and as binding as possible on the Chinese Government.

11. The paper for EXCO examines the chances of obtaining an acceptable arrangement by continuing on our present course of building on the Chinese proposals. It notes that we are still at an early stage in establishing how much can be built into an arrangement. It discusses a number of key elements for inclusion in any agreement. It notes that it might be impossible to negotiate a satisfactory package with the Chinese and that new decisions would be required in that event. Finally the annexed assessment considers the implications of confrontation, resulting either from suspension of talks now or a later refusal to accept Chinese proposals.

Discussion with EXCO

12. The Governor's assessment is that, if they believe that HMG would be prepared to reject an unsatisfactory package, EXCO would probably agree to continue to support negotiation on the present basis. When they visit London in mid-January, however, they are likely to need very strong persuasion and to be brought face to face with the reality of China's dominant position and the need to negotiate a settlement which will provide the best possible deal for the great majority of the population who have nowhere else to go. It will of course be necessary to acknowledge the sincerity of EXCO's concern to get an arrangement which will inspire confidence. But Ministers may have to impress upon them that it would be irresponsible to decide now that we cannot usefully pursue talks on the present lines, before we know better what can be built on the Chinese proposals; and that a balanced long-term view may well point to settling for the best we can get from Peking rather than standing out, however honourably, for more. The latter course might win short term approval in Hong Kong but would almost certainly be worse for the territory in the end because it would involve first confrontation with Peking and then an imposed solution. It has to be faced in either event that many people would leave Hong Kong, the economy would decline and immigration problems for the UK would ensue. While HMG would continue to press strongly for the best possible arrangement and there could be circumstances in which HMG would have to dissociate itself from a Chinese plan, EXCO should be under no illusion that we could expect to get all our requirements built into it. At the same time we must also keep in mind that what may be negotiable with the Chinese may fail to command confidence in Hong Kong and thus, even if endorsed by HMG, would not avoid the collapse of the economy and the departure from Hong Kong of those who are able to leave. The concern of EXCO is not to make difficulties for HMG but to ensure that HMG are fully aware of the risks involved and that they will not be accused later in the day of having failed to bring them to HMG's attention.

Tactics

13. If it is agreed that we should continue to probe and attempt to build on the Chinese proposals our tactics over the next nine months

will need very careful planning and monitoring. We need to take account of the following factors:

- (a) Our need for an arrangement which will command the maximum confidence in Hong Kong and will meet our publicly declared objective of acceptability to the people of Hong Kong.
- (b) The need for Parliamentary endorsement of any arrangement.
- (c) The Chinese "deadline" of September 1984, when they intend to announce their "plan";
- (d) The Chinese are now prepared to comment on our working papers. Although at the last round they appeared to relax the clear distinction which they had earlier drawn between matters falling within their right of administration and "British interests" they may well revert to this.
- (e) The Chinese intention to keep the drafting of a basic law (or "mini-constitution") for Hong Kong to themselves, with undefined "discussion" with the people of Hong Kong. (This would take place after September 1984). The Chinese now say that they would include in the basic law points on which they had reached agreement with us; but the risk of our appearing to be squeezed out remains.

14. When we began to probe the Chinese proposals, our initial aim was to build up section by section a framework of agreed points, starting with less contentious areas and concluding with the most difficult-central constitutional issues including the position of the Governor. Sir Percy Cradock and the Governor agree that, although we have been able to note some common ground, we are unlikely to make much progress unless we speed up the process of discussion and put in all our working papers, including the more contentious ones, quickly. If we do not make clear our own ideas on the constitutional issues soon, our chances of influencing the Chinese on this and other key areas will diminish. It was apparent from the Ambassador's farewell calls on Chinese leaders that the Chinese are currently receptive to our ideas and are keen to learn the extent of them. It is therefore in our interests to push ahead as quickly as we can with feeding in our thoughts on areas of major concern. To this end we should aim to submit at least one major working paper in advance of the next round. We must make the most of the Chinese statement in the December round of talks that "current practices" might continue after 1997 until the SAR decided



to replace them. The Chinese have asked for the rest of our working papers before the next round of 25/26 January. That is impracticable but we could reasonably aim to get them in after that session. They should include the following subjects: Future Constitutional Development; Defence and Internal Security; the Future of the Civil Service; and Citizenship and Nationality after 1997. It will be necessary in preparing the working papers and the statements to be made by the British delegation in the early round of the next phase to take full account of the assurances which HMG will wish to seek as a guarantee of the final settlement - hence the need to decide now on what those assurances will be. (The points to be discussed with EXCO under this head are set out in paras 5 to 7 of the discussion paper). The next series of papers will in consequence raise more difficult issues and the course of the talks is likely to become more bumpy as a result: on the other hand they will provide us with a chance to make clear points which will be necessary in order to maintain confidence in Hong Kong. An important example would be the question of stationing of troops in Hong Kong.

#### Chinese Deadline of September 1984

15. It is clear that the Chinese intend to make a public statement on Hong Kong in September 1984. They have stated that they would prefer to make a joint statement with us, but if, for whatever reason, that is impossible, they will make a unilateral statement anyway. In either situation their present intention is probably that the statement should be along the lines of their 12 point plan, perhaps with some additions, but without going into much detail. This will have a major bearing on our tactics in the talks. We shall have to monitor progress very carefully and to time our moves in order to avoid being left at a disadvantage by the Chinese deadline. There are a number of possibilities:

- (a) To reach agreement with the Chinese before September 1984. This would be the best outcome, provided that the resulting arrangement was comprehensive and satisfactory to us. It would enable us to issue a definitive joint statement describing the arrangement. The pace of the negotiations however may not permit this. Because the issues discussed will become more complex, both sides will need to take high

level decisions. We face in addition the need for Parliament to endorse an arrangement. Therefore if the negotiations are still proceeding satisfactorily but are not complete by September we may have to settle for:

- (b) An interim bilateral statement, or
- (c) Separate but complementary Chinese and British interim statements. In either case we should aim to say that we had reached full agreement on certain points and that it was intended that discussion should continue on the remaining points. But to avoid the risks posed by the Chinese deadline, we shall need to keep our options open and be ready to take the initiative in putting forward proposals either for a comprehensive joint declaration describing a package deal or for interim joint or complementary statements.

16. In any event we must avoid finding ourselves in the late summer bogged down in discussion and possible dispute on key issues to the extent that the Chinese decide to go ahead with a statement on their own. They might include in such a statement those of our suggestions which suited them. The resulting package would be fuller than the proposals they have made public so far and to that extent an improvement. But this would not be enough for confidence. Any arrangement for Hong Kong must have two elements: the maximum specific assurance that current systems will continue and existing freedoms be maintained: and enshrinement in a bilateral understanding which would be seen placing a commitment on the Chinese.

#### Eventual Agreement or Arrangement

17. Both the content and form of the eventual agreement will be important. There are a number of possibilities:

- (a) One, and in our view the best, would be a formal legally binding treaty registrable at the UN. This would describe in detail the principles determining the future arrangements for the administration of Hong Kong after 1997. The Constitutional and other implications of such an agreement are still under study. It is however very unlikely that the Chinese will agree to that. They regard the preparation of the "mini-constitution" for Hong Kong as

their affair and will resist our involvement in it. They will try to whittle any agreement down to an acknowledgement of their sovereignty on our part, an undertaking on theirs to look after our "interests" and a joint undertaking to cooperate in a smooth transition. But we must make it clear that any agreed arrangement should include assurances of Hong Kong's effective autonomy and Chinese non-interference for 50 years after 1997. One way of doing this would be:

(b) a joint declaration referring to a more detailed statement, possibly a unilateral Chinese one, as its Annex which would describe the essential continuity of systems, freedoms and laws etc in some detail. This would have the advantage that, unlike a formal agreement, it would not require immediate Parliamentary legislation on a transfer of sovereignty although general endorsement by Parliament of the package would be necessary.

18. While we must try to make any arrangement as binding as possible, we shall also need to get international support for Hong Kong's autonomy and to encourage other governments to impress this on China. This will need a sustained diplomatic effort. The most practical context will be the negotiation of agreements for continuation of Hong Kong's special status in international economic relations, eg the special regimes enjoyed under GATT and the multi-fibre arrangement. Under the GATT and under GSP agreements such arrangements could continue only so long as Hong Kong's autonomous status persisted. This point should be brought firmly home to China.

#### Public Position of HMG and the Hong Kong Government

19. So far we have stuck to the principle of confidentiality in the talks and have not responded to Chinese declarations of their aims. This has been necessary to avoid pushing the Chinese into unnecessarily hard attitudes, and to take account of adjustments in our own negotiating position. It is however likely to become increasingly untenable, and positively dangerous as a public announcement of an arrangement approaches. Expectations in Hong Kong, which started high, have now slumped. There is concern about the lack of any clear statement of HMG's aims in the negotiations. While few people believe that the Chinese plan will work, there is a

growing feeling that there is little which HMG can do to prevent it being imposed. We shall need to explain our own adjusted objectives, not merely to EXCO and to LEGCO, but in outline to the Hong Kong people as a whole and convince them that there is still a future for Hong Kong. This will apply also to the line we take in Parliament. In other words, if we assess that Hong Kong's long term interests will in practice best be met by an arrangement based on the Chinese plans we shall need to prepare Hong Kong and UK opinion for it. While discussions continue in Peking, great care will be required not to present any public statement in a confrontational fashion. To do so would generate a public argument with the Chinese, sour the atmosphere of the talks and thus reduce their chances of success.

#### Acceptability

20. People in Hong Kong are likely to demand an opportunity to voice opinions on any agreement reached with the Chinese Government. Public opinion in the UK will be less concerned (at least initially) but there could be considerable pressure in Parliament for a convincing demonstration that HMG's undertaking on acceptability had been honoured. The degree of pressure will depend partly on whether EXCO Unofficials, and to a lesser extent those of LEGCO, are prepared to endorse an arrangement. Carrying EXCO with us therefore must remain a priority in our tactics on acceptability. But other means of testing opinion need to be reviewed, although it will not be possible to decide finally on the form of such a test until the form which that agreement will take is clear, and the time at which the test will be required is known.

21. One of our objectives must be to counter Chinese attempts to conduct their own survey of opinion (and thus improve their claim to involvement in Hong Kong before 1997). That would almost certainly rule out any type of assessment of acceptability conducted jointly with the Chinese. Our own arrangements must be convincing, while taking realistic account of likely Chinese sensibilities.

22. A referendum is unlikely to be practicable. Even if questions intelligible to the population at large could be devised, given the complexity of the agreement it would be very difficult to make a

simple vote a valid test of opinion and there would be great difficulty in deducing from it the true views of a society as disparate as that of Hong Kong. Moreover the Chinese, who challenge HMG's right to represent the people of Hong Kong (and that of the Hong Kong people to override the views of the people of China as a whole), would be likely to seek to frustrate or manipulate the referendum process, to the extent that it would cease to be a convincing demonstration of opinion.

23. On the other hand if the Chinese were prepared to acquiesce it would be possible to conduct a consultative process over a period of a few months involving a wide range of associations, councils and district boards. This might be carried out after the initialling of an agreement but before signature. It could involve the issue of a "green paper" describing the proposed arrangement in general. The mechanics of such an exercise would need careful handling. In order to make the results of the consultation acceptable in Parliament it might well be that a Parliamentary Committee would wish to take part in the consultative process in Hong Kong although we should not want to encourage this. But we should avoid anything on the lines of a Rhodesian "Pearce Commission" which would smack of colonial manipulation.

24. The bodies consulted in this way are partly elected. On present plans the elected component will be increased in 1985 and 1986 (see the separate paper on constitutional and governmental development). If the test could wait until 1985 it could take advantage of the proposed increase in the elected membership of the District Boards.

#### Government Structures and Development of Autonomy in Hong Kong up to 1997

25. Hong Kong has already developed considerable effective autonomy. This has led to important modifications to the normal colonial pattern. Looking to the future, we need to consider how local and central government should evolve further to respond to popular demand and to strengthen confidence in Hong Kong that a

B 12 of 12

SECRET

local administration will be established before 1997 which can remain genuinely autonomous and resist Chinese interference after that date. A separate paper on this subject is in preparation.

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## FUTURE OF HONG KONG: POLICY REVIEW: DISCUSSION PAPER FOR EXCO

## INTRODUCTION

1. The purpose of this paper is to help members prepare for their discussions with Ministers in January. It reviews the course of the negotiations since September 1982 and provides an up-to-date assessment of the Chinese position. It considers what alternative objective might be set if it is accepted that continuing British Administration after 1997 is no longer attainable and suggests that this should be full internal autonomy for Hong Kong consistent with the assumption by China of sovereignty and the right of administration. It identifies the essential elements of autonomy, and sets out the assurances which might realistically be sought. The paper then sets out two alternative policy options for consideration. In conclusion it seeks to identify the major questions of public presentation which will need to be covered in the review.

## ASSESSMENT OF THE TALKS

2. A detailed assessment of the Chinese position in the negotiations and the degree of flexibility in it was contained in memorandum XCX (83) 79 of 23 November 1983. A revised and up-dated account which includes a summary account of the negotiations so far is annexed. It is clear from this assessment of the position taken by the Chinese in the talks, from Chinese discussions with other countries on the Hong Kong issue, from Chinese public statements and propaganda that they are adamant in their insistence that sovereignty and administration over the whole of Hong Kong must revert to China in 1997 and that no link of authority or accountability between Hong Kong and HMG will be acceptable to them after that date.

## BRITISH ADMINISTRATION

3. In her message of 14 October the Prime Minister recorded the sincere view of the British side that a continuation of British Administration is the best and surest basis for the continued stability and prosperity of Hong Kong and stated that this view had not changed. However the experience of the past 15 months, and in particular of the seven rounds of formal talks since July, leads to

AxC 299

SECRET

the inescapable conclusion that the Chinese will not accept the continuation of British Administration after 1997 in any form. It is also clear that there is no prospect of changing that position through argument. Nor is it realistic to believe that the Chinese position could be changed by confrontation. They have made it abundantly clear that recovery of sovereignty is an overriding national objective, rooted in a deep historical sense of humiliation over the events which led to a part of Chinese territory being administered by a foreign power. They do not accept that achievement of this objective is inconsistent with continued stability and prosperity in Hong Kong. However genuine their attachment to the latter aim, in the event of a choice national reunification must take priority. The recovery of sovereignty over Hong Kong is thus more important to the Chinese leadership, whether under Deng Xiaoping or any conceivable successor, than the maintenance of the territory's stability and prosperity, and the economic benefits they gain from it.

**ALTERNATIVE OBJECTIVE**

4. If continuing British Administration is no longer obtainable, the best possible alternative must clearly be sought. It is suggested that the objective should be full internal autonomy for Hong Kong, consistent with the assumption by China of sovereignty and the right of administration. This would include freedom for the territory to conduct its own external affairs in the economic, trade and cultural fields, backed by assurances against interference sufficient to maintain domestic and international confidence.

5. The key elements in arrangements for autonomy should include:

(a) The administration of the future SAR would have freedom to determine its own domestic policies.

(b) There should be evolution of the system of Government gradually over the years up to 1997 in a manner which would strengthen its ability to resist interference. This would be maintained after 1997 with only such changes as were essential to take account of the formal transfer of sovereignty and the right of administration to China.

(c) The present systems would be maintained. In particular the legal systems including the independent judiciary and the corpus of

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Hong Kong's laws would be unchanged, except that the final court of appeal would be in Hong Kong, that the legal instruments giving expression to the colonial link would be abolished, and that quote colonial unquote phraseology would be removed from the laws.

(d) The freedoms which all Hong Kong residents now enjoy would continue to be guaranteed by law.

(e) There would be continuity in the Civil Service. Hong Kong civil servants serving on permanent and pensionable terms in 1997 would, if they wished, continue to serve in Hong Kong after 1997 until they reached the normal age of retirement. Overseas officers would continue to be employed: they would owe their loyalty to the Government of the SAR.

(f) While external defence would be the responsibility of the Chinese Government, no Chinese troops would be stationed permanently in Hong Kong: their absence would symbolize the Chinese intention to allow full autonomy. The Hong Kong Administration would be fully responsible for the internal security of the territory.

(g) Hong Kong would continue to have the right to determine its own external trade policies and maintain and develop economic relations with foreign countries and territories. The Hong Kong SAR would be free to join or continue membership of international organisations and to take part in multilateral and bilateral agreements in relevant fields in its own right. It would be free to maintain its own offices abroad for these purposes.

6. None of these elements is inconsistent with the recovery by China of sovereignty, including the right of administration. But the key to the maintenance of confidence will lie less in the statement of the proposed arrangements than in the additional elements which can be obtained to bolster confidence that the agreed assurances will in fact be maintained and that the Chinese will not interfere. If any link of authority must be ruled out, then the people of Hong Kong will look to:-

(a) The extent to which an arrangement with China commits the Chinese to respect the autonomy of the territory:

(b) The possible status of the UK in the matter of future observance of the terms of an arrangement:

(c) The degree of international backing which can be obtained for the new autonomous status of Hong Kong:

(d) The internal strength of the Government structure which it is

proposed should exist in Hong Kong after 1997.

7. In the light of the Chinese position as described in the annexed assessment it can be said that:-

(I) on (a) in para 6, while the Chinese will not concede that the details of post-1997 arrangements are a matter for agreement between the two Governments it will be our aim to include in the bilateral arrangement as specific and substantive a declaration as possible by the Chinese side of their proposed arrangements for autonomy, and of the intended duration for 50 years. Where the form of arrangement is concerned, our preference would be for a formal, legally binding treaty, registerable at the United Nations as an international agreement. The constitutional and other implications of this are still under study.

(II) on (b), the UK could base its representations to the Chinese Government, and its appeal to the international community, on the undertakings contained in the bilateral arrangement, if those undertakings were not observed. In addition, since the Chinese maintain that British interests in Hong Kong will be protected, they may be ready to agree that there would be an official British representative in Hong Kong with the right to look after these interests. We shall need to examine carefully whether, and if so how far, the British representatives responsibilities might be extended beyond consular, economic and trade matters.

(III) We would put pressure on Hong Kong's major trading partners to make clear to the Chinese Government that they would maintain their bilateral trade agreements with the SAR, and give their backing to private trade and investment there only so long as Hong Kong's autonomy was respected by the People's Republic of China: and that the same would apply to Hong Kong's continued participation in international economic agreements such as the GATT and the MFA (assuming this is eventually agreed by all concerned). Failure to respect Hong Kong's autonomy would in consequence lead to a substantial reduction in foreign exchange income, (and in associated benefit for China).

(IV) on (d), the governmental structure would, if it were developed along the lines envisaged, be a source of internal strength. Though they could not be eliminated entirely, the opportunities for interference would be minimised. The presence of a substantial

numbers of overseas civil servants, including in the judiciary, would be an additional barrier against interference.

(V) In addition, it might be possible to secure agreement to the establishment of independent advisory commissions (for example in the legal and economic fields), and to obtain British representation on those commissions.

8. The fact that the Chinese still hope to reach an agreement with Taiwan at a later date might provide some additional degree of assurance, since if they violated an agreement with Hong Kong it would almost certainly rule out the possibility of a subsequent agreement with Taiwan for a long time thereafter.

#### OPTIONS

9. Against this background, two options are now available.

10. OPTION A. To decide now that the best package likely to be obtainable, including such assurances as can be negotiated on the lines of paras 6 and 7 above, would be insufficient to command confidence, and that there is therefore no point in continuing with the talks on the present basis. To tell the Chinese, in consequence, that their principles are unacceptable and that no package can be constructed on the basis of them that will ensure the future stability and prosperity of Hong Kong. On these grounds to insist either

(I) On full British Administration

or

(II) On a continuation of the British link of authority.

#### COMMENT

11. Either (I) or (II) would lead to immediate confrontation. In our judgement the Chinese would break off the talks. The intensive propaganda campaign would restart and there is a strong possibility that the Chinese would announce their plan immediately. If the resulting situation in Hong Kong became unstable, there is a chance that the Chinese would carry out their threat to take over control of the colony at an earlier date than 1997. This option would not

win us international support. It would prevent HMG from doing anything to ameliorate the lot of Hong Kong inhabitants after 1997. It would make Hong Kong very difficult to govern in the transitional period. It would be likely to provoke a considerable outflow of Hong Kong inhabitants. To take such a course at this stage, moreover, having proposed full discussion of the Chinese plan and being only at an early stage of substantive discussion, would lead to Chinese accusations of bad faith, to which there would be no answer.

12. OPTION B. To continue the present process of exploration and quote construction unquote on the basis of the Chinese proposals in pursuit of the objective in para 4 above and subject always to the reservations in the Prime Minister's letter of March 10 and her message of October 14, and to do our utmost to obtain a satisfactory package, including assurances on the lines of paras 5 to 7 above. This would entail putting in the remaining working papers as quickly as possible in order to influence Chinese thinking in detailed areas while it is still in the formative stage. It would be necessary to submit soon a number of papers dealing with key issues, in particular constitutional arrangements, defence, internal security and the public service.

#### COMMENT

13. This course would enable the Council and Ministers to take an overall view of the outcome of the negotiations before assessing whether that outcome was acceptable. Conditionality would be retained: the ultimate right to reject the final package as unacceptable would remain. The decision would have to be taken by Ministers in the light of the circumstances at the time. Given the Chinese intention to make a formal announcement of their position in September 1984 a decision would be needed by the later Summer of 1984 so that HMG could determine whether they could agree to join with the Chinese in a joint announcement or not.

#### THE SEPTEMBER 1984 DEADLINE

14. As the annex makes clear, the Chinese are publicly committed to

C 7 of 9

SECRET

some form of announcement in September 1984. Its precise terms will no doubt depend on how much progress can be made by then. But at present the Chinese clearly envisage announcing their 12 point plan in September, perhaps with some elaboration, but without going into much detail. Should HMG then be unable to secure a definitive joint announcement on acceptable lines at that stage every effort should be made to persuade the Chinese not to couch any unilateral announcement in terms which could give the impression that they intended to impose a settlement irrespective of the views of HMG. In such circumstances we should seek to defuse the Chinese statement so as to make it as harmless as possible.

15. Ji Pengfei has now told us that talks would continue beyond an initial agreement. It is conceivable that the Chinese might be brought to agree, assuming that progress was being made, that a definitive joint declaration should come at a later stage than the September 1984 announcement. HMG would of course decide on the acceptability of the final package at the conclusion of the talks before subscribing to a final arrangement.

16. If nonetheless the Chinese insisted on a formal unilateral announcement in September 1984 of arrangements which were unacceptable to HMG it might be necessary to make it clear to the Chinese that while the talks had been valuable they had not so far produced results which HMG could endorse: that the British side were ready to continue talking but could not co-operate with the Chinese plan: and that in the meantime HMG would conscientiously carry out their responsibilities for the administration of the territory. This would in effect allow the Chinese to continue the process of deciding the future arrangements for Hong Kong alone. It would be necessary for HMG to give a public account of its position. There would be a grave risk of confrontation, even if it was not of our seeking.

17. The implications of confrontation, either as a result of a scenario outlined above or as a consequence of option A (paras 10-11), are examined in more detail in the annex to this paper. It also draws attention to the immediate risks involved in endorsing an agreement which did not contain sufficient assurances to command

SECRET

confidence in Hong Kong

#### PUBLIC PRESENTATION

18. The forthcoming review will need to cover the question of HMG's and HKG's public posture. The persistence of the Chinese in making known their own plans and seeking public support for them with no indication of HMG's objective is creating an increasing credibility gap in Hong Kong. The issues which will need to be covered therefore include:

(a) The advantages and disadvantages of maintaining the present low profile. The former include the maintenance of the present non-confrontational atmosphere: The latter include the danger that the talks will be increasingly perceived as irrelevant and that Hong Kong opinion will come to accept that the Chinese will decide unilaterally what will happen after 1997.

(b) The possibility of making known more at least in general terms what HMG's aims in the negotiations now are, on the lines of paras 4 and 7 above. The means available range from ministerial speeches or statements to unattributable briefings for reliable journalists. It would be necessary to weigh the advantages against the risk of acrimonious public debate with the Chinese. The more authoritative the statement the greater the impact in Hong Kong, but also the more likely that there would be an adverse reaction from the Chinese.

(c) In this context, whether the LEGCO members of UMELCO should be encouraged in future to speak their minds regarding future arrangements for Hong Kong, in particular the need for the people of Hong Kong to be given the best possible assurances that the present systems will be maintained and the present freedoms of Hong Kong people will be preserved. It would be important to respect their wish that their efforts should be co-ordinated, and with those of HMG and the HKG.

19. Subject to the decisions taken on the general strategy now to be pursued, it should be possible, and will probably be desirable to make known by these means the general objectives which HMG are pursuing. While discussions continue in Peking great care will be required not to present any public statement in a confrontational fashion. To do so would generate a public argument with the

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Chinese, sour the atmosphere of the Peking talks and thus reduce their chances of success.

HONG KONG DEPARTMENT

22 DECEMBER 1983

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