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RECORD OF A DISCUSSION AT A MEETING WITH THE UNOFFICIAL MEMBERS
OF EXCO AT 0900 ON FRIDAY, 6 APRIL, 1984 AT NO. 10 DOWNING STREET

Present:

Prime Minister	The Governor of Hong Kong
Foreign and Commonwealth Secretary	Sir S. Y. Chung
Attorney General	Mr. O. V. Cheung
Mr. Luce	Mr. R. H. Lobo
Sir Antony Acland	Mr. F. W. Li
Sir Percy Cradock	Mr. M. G. R. Sandberg
Mr. Wilson	Mr. T. S. Lo
Mr. Coles	Miss Lydia Dunn
	Mr. Q. W. Lee
	Mr. S. L. Chen
	Miss Maria Tam
	Mr. Thomas

The Prime Minister welcomed the delegation and asked them to express their feelings about the present situation with regard to the negotiations with China about the future of Hong Kong.

Sir S. Y. Chung recalled that at the outset of the negotiations we had tried to persuade China to agree to continued British administration after 1997 in exchange for sovereignty. The Chinese had not been receptive. By September, 1983 the negotiations were at the point of breakdown. HMG could then have stood firm and exposed the Chinese bottom line. But HMG persuaded the Unofficials to adopt a different approach, i.e. to give up British administration but build as many links with Britain as possible into the Chinese 12-point plan. This approach was strictly conditional on satisfactory agreement being reached. After three months of further talks, the Chinese

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had pressed HMG to quicken the pace and had threatened to make a unilateral announcement in September, 1984.

When the Unofficials had met the Prime Minister in January, they had been persuaded to agree to a new negotiating brief. The first and immediate aim would be to reach an interim agreement which would be announced in September. But conditionality would be preserved. There would be no agreement without a draft Basic Law. Conditionality would not be lifted without the agreement of Parliament. The final agreement would give Hong Kong a high degree of autonomy and would change the existing system to the minimum extent possible. There would be no change for fifty years after 1997 in the agreement reached. And the agreement would contain as much detail as possible.

The Unofficials were very surprised and disappointed to learn at the end of February that HMG had changed its position again in that they were thinking of meeting the Chinese request for a final, not an interim, agreement by September. Mr. Luce would have reported the strong feelings of EXCO which had been expressed to him on 27 February.

HMG then presented to the Unofficials a draft timetable and strategy. They found the strategy acceptable but had seen great difficulty in the timetable. They firmly believed that the strategy should be pursued step by step and that arbitrary deadlines should not be accepted.

The strategy had envisaged:

- (i) A Ministerial statement after EXCO had been consulted about its contents.

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- (ii) A second statement, again after consulting EXCO, revealing the progress of negotiations and describing the outline of a possible agreement.
- (iii) The publication of a draft agreement for comment by the people of Hong Kong.
- (iv) Presentation of the agreement to Parliament.
- (v) Signature.
- (vi) Adoption of legislation to return sovereignty to China and Parliamentary ratification of the agreement after the passing of the Basic Law.

Of the above items (iii) and (vi) were the most important.

In agreeing to this strategy the Unofficials had stressed two points. First, HMG must be ready to go back to the negotiating table if there were major objections from Hong Kong to any article of the agreement. And the Chinese should be made aware of this possibility from the outset. Second, if HMG found EXCO's advice on any point unacceptable, the disagreement should be made public.

At a later stage, the Unofficials were given a draft agreement for comment. If this text was published in Hong Kong, there would be great disappointment if there was no provision for monitoring the agreement and for redress of violations. Unlike other international agreements, this one involved a third party which was the only party likely to suffer from violations.

Given the difference in culture between the Chinese and the West, he believed that the terms of the agreement as

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presently drafted did not confer sufficient advantage on our side to allow scope for bargaining. When they received an account from the Governor of the eleventh round of talks, the Unofficials had been very alarmed. It had appeared that the Chinese were unwilling to commit themselves to a detailed agreement. They had shown bad faith in going back on many of their previous statements.

The Unofficials were increasingly worried by HMG's tendency to retreat swiftly in negotiation and by the wrong assessments which had been made of the Chinese position. Peking had dropped a bombshell at the last round in refusing to recognise after 1997 the rights of three million British subjects in Hong Kong. This was a most crucial development. If HMG allowed such injustice, Hong Kong would become ungovernable long before 1997. It was because of these adverse developments that the present meeting had been requested.

At their meeting yesterday with Mr. Luce, the Unofficials had been very concerned at yet another possible shift in strategy. Instead of envisaging ratification after the Basic Law had been published, HMG were now suggesting that ratification should take place without waiting for the Basic Law. The Unofficials did not favour this approach.

The agreed strategy should be our bottom line. HMG should not yield further to Peking. If HMG retreated from the bottom line, he hoped it would be understood that the Unofficials would wish to dissociate themselves from such a retreat.

When the Unofficials had met the Foreign and Commonwealth Secretary yesterday they had discussed the chances of persuading China to accept our draft agreement. They had advised him to be prepared for Chinese refusal. Nevertheless, the Unofficials fully supported Sir Geoffrey Howe's imminent visit to China and wished him every success.

/ Mr. Sandberg

Mr. Sandberg said that there had been some basic differences between the advice offered by EXCO and that offered by the Prime Minister's own advisers. At the outset we had worked for an exchange of British administration for sovereignty. This had been a united aim but it had not proved possible to accomplish. Thereafter there had been widening divergences. The basic difference was that the Unofficials wanted to agree a bottom line and stick to it. Instead there had been the continual acceptance of Chinese demands. These had been justified by reference to possible Chinese concessions which had not in the event materialised. The idea of retaining a real link with Britain had practically disappeared.

The Unofficials were told that if the Chinese announced their 12-point plan this would set everything in concrete. But the truth was that that plan had been well advertised for many months past.

It was difficult to understand the unwillingness of British advisers to advocate a line recommended by EXCO. This gap was best illustrated by the understanding reached last January that a bad agreement was worse than no agreement. This concept had been rapidly abandoned by the British advisers. A bad agreement would mean not only that the situation after 1997 would be unsatisfactory but also that Hong Kong would lose its vital lifeline before 1997.

It was important to continue the negotiations but it was desirable now to set a bottom line from which there would be no retreat. We should not fear a unilateral declaration by China of its 12-point plan.

The Foreign and Commonwealth Secretary said that we were all united in trying to get the best possible agreement for Hong Kong. But similarly we had to face the realities together.

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We had done our best to persuade the Chinese to accept certain propositions. For example, throughout last summer we had tried to persuade them to accept continuing British administration after 1997 but had then had to conclude jointly that this was not obtainable. We were still trying to get an agreement and still believed that a bad agreement was worse than none. Not only would a bad agreement not work but we could not recommend it to Parliament. It was not clear what alternative approach the Unofficials were advocating. Did they wish to abandon the negotiations? Mr. Sandberg replied that this was not their wish.

The Foreign and Commonwealth Secretary said that it was unrealistic to assume that we could secure major advances on the draft agreement. But for tactical purposes, he might include further proposals in his discussions with the Chinese. To introduce now an article providing for monitoring of the agreement would be regarded by the Chinese as seeking to introduce British administration by the back door.

The Prime Minister asked what Mr. Sandberg had meant when he had said that the Unofficials did not fear a unilateral Chinese announcement. Such a declaration would mean that no agreement had been reached and significant consequences would follow. Of course, it might not be possible to reach an agreement. But we should remember that we had obtained an important Chinese concession with regard to the continuation of any agreement for 50 years. We had to try to convince the Chinese of the necessity of a detailed agreement and also that if they violated it they would suffer in world opinion.

recalled that at the first meeting with the Prime Minister in 1982 Mrs. Thatcher had said that the Chinese were Marxist/Leninist and could not be trusted. This was right and had become apparent in the talks.

For example, the Chinese had earlier indicated that British nationals in the Hong Kong Civil Service who held Hong Kong identity

cards would be entitled to rise normally in the Civil Service of the SAR. Later, the Chinese had gone back on this.

Secondly, the Chinese had earlier taken the line that it was the title of British Dependent Territories Citizens to which they objected but not the rights of those citizens. They had also indicated that dual nationality was a possibility. While this appeared to remain the informal position of the Chinese, their formal position suggested that they would not in the end agree on this matter.

The Hong Kong people were not prepared to trust Chinese intentions. We should not compromise on the concept of a detailed agreement. If the present draft were to be tabled there must be a clear understanding as to the points on which we could not yield. HMG must be committed to a bottom line. Without this, the Unofficials would have serious reservations as to the present course. They feared an inadequate agreement more than a unilateral Chinese announcement. They had agreed to give up the demand for British administration only on the understanding that there would be adequate safeguards. It was the Chinese who threatened the stability and prosperity of Hong Kong and it was the British/^{who} created these. It would be a tragic irony if the outcome of the negotiations was the dishonouring of Britain.

The Prime Minister said that the alternatives to the present approach had still not been spelt out by the Unofficials. If there were no agreement, the present situation would not last until 1997 and in that year the leased territories would become part of China. For her, one of the most important features was the continuation of British law. Hong Kong would be unlikely to obtain that from a unilateral Chinese statement. The Foreign and Commonwealth Secretary said that if China could not be trusted to implement any agreement, the logical step would be to abandon negotiations now. Miss Dunn said that her argument was that because the Chinese were untrustworthy the agreement must be detailed. A unilateral announcement would certainly have an adverse effect on confidence but the impact

on confidence of a bad agreement would be final. The Prime Minister said that we would not put a bad agreement before the British Parliament. Miss Dunn agreed that we should continue to work for a good agreement but there should be an understanding on the bottom line.

The Prime Minister said that if we could not obtain an agreement which could be recommended to Parliament - or if Hong Kong could not accept the text - then we might have to resign ourselves to a unilateral Chinese statement. But we had not reached that point yet. We should go on trying and not throw away the concession of 50 years. She suspected that China would not wish to lose face in the world by violating any agreement.

Mr. Lo said that the people of Hong Kong realised how hard we had tried. The Prime Minister said that we were still trying. We were approaching a crucial point. The negotiations with the Chinese were one of the most difficult problems which confronted her. Mr. Lo said that the juxtaposition of certain events had damaged the credibility of HMG in Hong Kong. When the Nationality Bill had been published no-one had thought that in the end it would lead to a severing of the British connection with Hong Kong. If China now declined to recognise BDTC's the latter were bound to look to Britain to protect them and begin demanding that protection straightaway. So the erosion of their status in any agreement could not be allowed. This would make Hong Kong ungovernable. If we claimed that we had done our best for BDTC's in any agreement, the latter would say that this was not true since it was within the power of HMG to give these people the right of abode in the United Kingdom. And if at the same time Britain was seen to be doing good trade with China accusations of a sell-out were bound to follow. We should now be considering what steps to take if China refused to sign an unacceptable agreement. The unanimous advice of the

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Unofficials was that this was the most likely outcome. At the very least we should consider how to protect British nationals from the Communists.

The Prime Minister said that the aim was still to secure the maximum continuation of present Hong Kong systems for 50 years. Miss Dunn said that experience of the Chinese in commercial negotiations suggested that they always took one to the brink to test resolve. The Prime Minister pointed out that the Chinese could, if they chose, simply do nothing and wait until the end of the lease. But they continued to negotiate because they wanted stability and prosperity in Hong Kong, were concerned about their standing in world opinion and wished to set the right precedent for Taiwan. Sir Percy Cradock stressed that the importance to the Chinese of the commercial factor should not be over-estimated. In the end it was sovereignty that was most wanted. The Prime Minister said that her worry was that, if we failed to obtain an agreement, China would seek to cause trouble in Hong Kong before 1997. When we had obtained as much as possible from the Chinese we should have to consider whether or not the agreement was acceptable. It was clear that we should soon have to make a statement on the progress in the negotiations and the Chinese would be firmly told that we intended to do so.

Mr. Lo said that his main concern was that we should commission an analysis of "Downside Strategies".

The Prime Minister said that she was concerned about the Chinese desire for speed. But we should try to turn that to our advantage and obtain the provisions which we wanted. There could be contingency planning against failure but it would clearly have to be confidential.

Sir Percy Cradock said that the Foreign and Commonwealth Secretary would have many issues to raise in Peking - the draft

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agreement, the timetable, the "unveiling" statement, the question of troops, the public service, constitutional arrangements and nationality.

The Foreign and Commonwealth Secretary said that it would be made clear to the Chinese that there must be an "unveiling" statement.

In response to a question from the Prime Minister, the Unofficials confirmed that they still wished us to press hard for a successful conclusion.

Sir S.Y. Chung questioned the value of an agreement unless there was some provision for monitoring and redress against violations. The Foreign and Commonwealth Secretary recalled the British dispute with Iceland over fishing. Even though we had an international court ruling in our favour it was of no help to us. An outside agency would make no difference to the agreement. And the idea of external monitoring would be offensive to the Chinese. The key was to commit them to an agreement. It would be implicit in any agreement that we, as a party to it, would be entitled to raise with the Chinese any violation. The Attorney General said that that point might need to be spelt out to help confidence in Hong Kong. The Foreign and Commonwealth Secretary observed that any agreement would have to be defended by the Unofficials to the people of Hong Kong and by the British Government to the British people. But the attitude of the people of Hong Kong would have enormous impact on our own attitude. If Hong Kong repudiated an agreement it was of no use to us. That was why we were working together. We could not expect to obtain everything we wanted. In Peking he would concentrate on the most important issues. Miss Dunn underlined that there were some points which could not be conceded. The Foreign and Commonwealth Secretary said that we should look at the totality of any agreement.

In response to a question from the Prime Minister, Sir Percy Cradock said that the significance of the September deadline was that Deng Xiaoping had told the Prime Minister in September 1982 that he needed an agreement within two years. This was now set in concrete. Sir Edward Youde said that 1 October was the 35th anniversary of the foundation of the Chinese Peoples' Republic.

The Foreign and Commonwealth Secretary said that there might well have to be a debate in Parliament in May related to his statement in Hong Kong. The Prime Minister observed that it would be useful if the debate stressed the need to create confidence in the people of Hong Kong that any agreement would endure. Mr. Sandberg said that he believed that we should not be put off by the threat of a Chinese statement in September. The Foreign and Commonwealth Secretary and Sir Percy Cradock emphasised the significance which this deadline had acquired in Chinese eyes. It would be a major error to assume that, if they made a unilateral statement, this would not be final. We should then find ourselves shut out from large areas of the negotiations.

The Unofficials expressed some disagreement with this view.

The Prime Minister pointed out that the tactical situation could change. Once our "unveiling" statement had been made it might be more difficult for the Chinese to proceed with a unilateral statement. Miss Dunn said that it was important that conditionality should be retained in any statement. Sir Percy Cradock predicted that the Chinese reaction to the "unveiling" statement would not be a welcoming one but they would probably accept that it must be made.

Sir S.Y. Chung said that, with regard to Agenda item 2 of the talks with the Chinese, it might be premature to put in a working paper now when so much work remained to be done on the post-1997 situation. We should try to defer this part of the discussion. But if we had to embark on this item we should talk only of such things as were advantageous to us, such as land leases.

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And we should resist any standing joint machinery for the pre-1997 period. The Foreign and Commonwealth Secretary said that at all events it must be clear that Britain retained sovereignty and administration until 1997. But it was worth keeping in mind the fact that contacts with the Chinese in the pre-1997 period might provide us with a means of influencing the basic law. Mr. Lo pointed out that there was existing machinery for discussions with the Chinese. The important point was that any arrangements should be ad hoc. Sir Edward Youde said that the Unofficials felt that if the special machinery now used for the negotiations was perpetuated, this might tend to give China some locus in Hong Kong before 1997. The Prime Minister pointed out that there were some steps relating to the pre-1997 period which we must discuss with the Chinese. If we told them that they had no right to discuss the pre-1997 period they would say that we had no right to discuss the basic law. The Foreign and Commonwealth Secretary said that it was best to start by considering what we wanted to achieve in relation to the pre-1997 period and avoid giving the Chinese any kind of institutional surveillance.

Sir S.Y. Chung again raised the nationality question which was crucial for Hong Kong. The Prime Minister said we would continue to press our concerns hard in the negotiations.

In reply to a further question from Sir S.Y. Chung, the Foreign and Commonwealth Secretary said that, in order to get the most out of his visit to Peking, he proposed to send to the Chinese next week the draft agreement and the annexes covering points agreed so far in the negotiations. Sir Edward Youde said that the Unofficials had not yet seen the annexes in their latest form and they would not have time to consider these before the Peking visit. So he hoped they would be free to raise further points with HMG if necessary. The Prime Minister

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said that the Unofficials were never debarred from raising points.

Sir S.Y. Chung said that the Unofficials were not advocating confrontation for the sake of confrontation. Their view was that we should never be able to see the bottom line of the Chinese position unless we stood firm at some point. They wanted an agreement but not at any price.

In conclusion the press statement annexed to this record was agreed.

The discussion ended at 1050 hrs.

A.J.C.

6 April, 1984

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FUTURE OF HONG KONG: VISIT BY GOVERNOR AND UNOFFICIALS TO LONDON
PRESS STATEMENT

1. The Prime Minister met the Governor of Hong Kong and the Unofficial members of the Executive Council on 6 April. The Foreign and Commonwealth Secretary and Mr Luce were also present. On 5 April, the Governor and the Unofficials had held separate meetings with Sir Geoffrey Howe and Mr Luce, and Sir Geoffrey Howe gave a luncheon in their honour.
2. This was the fourth visit by the Governor and the Unofficials since July 1983. There was a comprehensive review of developments in the talks on the future of Hong Kong. Ministers reaffirmed HMG's continuing commitment to Hong Kong and to the search for a settlement acceptable to Parliament, to China and to the people of Hong Kong. The Governor and the Unofficials briefed Ministers on ^{feeling and} opinion in Hong Kong prior to the visits which the Foreign and Commonwealth Secretary will pay to Peking and Hong Kong on 15-20 April. As on previous similar occasions there was a close identity of views on all matters involved.
3. The Prime Minister and the Foreign and Commonwealth Secretary reiterated the importance which they continue to attach to keeping the Executive Council fully informed and to receiving their advice. The Governor and the Unofficials expressed their appreciation for this further opportunity to meet the Prime Minister and her colleagues. They looked forward to Sir Geoffrey Howe's visit to Hong Kong.

Hong Kong Department
6 April 1984



OD(K): LPO DTI RM
 FCO AG
 HO
 HMT Mr. Luce,
 MOD FCO
 LPS

CC MASTER

10 DOWNING STREET

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From the Private Secretary

6 April, 1984

Dear Sirs,

Hong Kong

I enclose a record of the discussion which took place here this morning when the Prime Minister received a delegation of unofficial members of EXCO.

I am copying this letter and enclosure to the Private Secretaries of the other members of OD(K) and to Richard Hatfield (Cabinet Office).

Yours ever
 J. L. Cole.

P. F. Ricketts, Esq.,
 Foreign and Commonwealth Office

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