

CESSION AND RETREAT:
NEGOTIATING HONG KONG'S FUTURE, 1979-1984

By
Rebekah C. Cockram

Senior Honors Thesis
Department of History
University of North Carolina at Chapel Hill

24 April 2018

Approved:
Dr. Michael Morgan, Advisor
Dr. Michael Tsin, Reader

ACKNOWLEDGEMENTS

The guidance and support of numerous professors and friends made this project possible. Dr. Michael Morgan offered many hours of support during the conceptualization, development and execution of this project. He pushed me to distill my ideas, interpret my sources using different perspectives and provided constructive feedback on my arguments. I am also grateful for Dr. Michael Tsin for his openness to working with me on my project and for our many conversations about Hong Kong and Asia through the Phillips' Ambassador Program. His unique insight illuminated different possibilities for this project in the future and challenged me to think harder about the different assumptions the British actors in my essay were making. I am also indebted to Dr. Kathleen DuVal for advising the history thesis seminar and offering enlightening feedback on my chapters. She encouraged me to write my paper in a way that combined rigor of analysis with a smooth and compelling narrative. I am also grateful to my generous and attentive editor, Brian Shields, and to my wonderful family who supported me throughout the project.

Research for this article was funded by the Morehead-Cain Foundation and the Tom and Elizabeth Long Excellence Award administered by Honors Carolina. I am grateful for the assistance of Dr. Michael Morgan and Dr. Kathleen DuVal in securing these grants to fund my research in the British National Archives.

TABLE OF CONTENTS

INTRODUCTION	1
CHAPTER 1: THE PRELUDE TO NEGOTIATIONS, BRITAIN'S STRONG HAND	8
I. Economic Prosperity through British Administration	9
II. Responding to the Pressure of Economic Uncertainty	13
III. Testing an Indirect Negotiation Strategy with China	16
IV. China's Negotiating Demands	18
V. Thatcher Determines British Goals	21
CHAPTER 2: CEDING SOVEREIGNTY	23
I. British Goals for Hong Kong	25
II. Thatcher's 1982 State Visit to China	27
III. Hong Kong: Three parts, indivisible	28
IV. Preserving Economic Viability	33
V. China Running Hong Kong	36
VI. Britain Makes a Concession	39
CHAPTER 3: THE END OF THE NEGOTIATIONS	41
I. Chinese Propaganda versus British Confidentiality	43
II. The Indivisibility of Sovereignty and Administration	45
III. A Crisis of Confidence	47
IV. The Problems of Confidentiality	52
V. Geoffrey Howe's Visit and the End of Talks	54
CONCLUSION	58
BIBLIOGRAPHY	62

INTRODUCTION



Figure 1: Map of Hong Kong

In the early 1970s, Hong Kong gave every outward appearance of prosperity. The Hong Kong Stock Exchange's Hang Seng Index rose from 59 points in 1967 to 1,775 points in March 1973, in what Robert Cottrell calls "one of the greatest 'bull runs' in world stock-market history."¹ The Connaught Centre, Hong Kong's first skyscraper to rival Manhattan proportions, became the tallest building in Asia; and the Ten-Year Housing program, announced by the Hong Kong Government in 1972, promised to provide quality housing for 1.8 million people in 10 years.² Under British Crown rule, starting in 1841, Hong Kong had developed from a sparsely

¹ Cottrell, Robert. *The End of Hong Kong: The Secret Diplomacy of Imperial Retreat*. London: John Murray (Publishers) Ltd., 1993. 32

² *Ibid*, 32

populated set of islands to an industrialized hub of global commerce. Against such a backdrop, Hong Kong offered enormous economic advantages to both Britain and China and signals pointed to a prosperous neon-lit future.

However, these outward growth measures concealed public and economic uncertainty about Hong Kong's future as an agreement leasing the New Territories, or 92% of the geographic land of Hong Kong, to the British expired on July 1, 1997. In the early 1970s, neither Britain nor China had spoken openly about how the 1997 deadline would impact Hong Kong, which led international investors and the Hong Kong people to demand assurances about the preservation of Hong Kong's internationally accepted political and economic institutions under British administration. Pressure from international investors led Britain to open a negotiation with China lasting from 1979-1984 concerned with resolving the question of Hong Kong's future status after 1997. The following pages outline the details of this negotiation and explore why the British ultimately gave up their legal claims to Hong Kong and withdrew from the former colony.

Britain originally acquired Hong Kong from the Qing dynasty in three parts via three separate legal agreements. In 1842, the Treaty of Nanking ceded Hong Kong Island to Britain "in perpetuity" after Britain's defeat of China in the First Opium War (1839-42).³ In 1860, the Kowloon Peninsula was added on the same legal terms by the Convention of Peking following the Second Opium War (1856-60). On July 1, 1898, British Prime Minister, Sir Claude

Hong Kong Housing Authority. "Public Housing Development." Housing Department, The Government of the Hong Kong Special Administrative Region. London. Accessed 01/11/17.
<https://www.housingauthority.gov.hk/linear/en/about-us/public-housing-heritage/public-housing-development/index.html>.

³ Cradock, Percy. *Experiences of China*. London: John Murray, 1994. 162

MacDonald, and Chinese representative, Li Hongzhang, signed a subsequent treaty leasing the remainder of present day Hong Kong, the New Territories, to Britain for ninety-nine years. The New Territories constituted 92 per cent of the land of Hong Kong and bordered Mainland China.

Unlike the international agreements that ceded Hong Kong Island and the Kowloon Peninsula to the British indefinitely, Britain's possession of the New Territories had a fixed expiration date of July 1, 1997. In his memoir, *Experiences of China*, Sir Percy Cradock explains that this key difference arose after MacDonald ignored recommendations to negotiate a cession of territory instead of a lease of the territory. MacDonald chose to accept a lease to avoid, as the Chinese argued, other powers like Germany and Russia seeking a conversion of their leases into permanently ceded territories. Convinced by China's request, MacDonald accepted China's ninety-nine-year lease arrangement of the New Territories and signed the second Convention of Peking.⁴ However, when the lease of the New Territories expired in 1997, the Hong Kong Governor's right to administer the New territories would also cease—as agreed by an Order in Council of 1898—and China would recover sovereignty of the New Territories.⁵

In 1979, as the expiration date of the New Territories Lease approached, Britain opened discussions with China on Hong Kong's future. While Britain had no legal right to the New Territories after 1997, international law ceded Hong Kong Island and the Kowloon Peninsula to Britain indefinitely. Therefore, under international law the British had a permanent place in Hong Kong. However, in the Sino-British Joint Declaration signed in 1984, Britain ultimately relinquished their sovereign claims to Hong Kong.

⁴ Cradock, *Experiences of China*. 162

⁵ MacLehose to Thatcher, 23 July 1982, FCO 21/2214, The British National Archives (hereafter TNA).

This thesis explores the reasons why Britain changed their policy from maintaining sovereignty and administration of Hong Kong after 1997, to relinquishing sovereignty in 1984 and permanently leaving Hong Kong. Among the primary reasons for Britain's concession and withdrawal was the expiration of the New Territories lease, concerns about maintaining Hong Kong's economic vitality and the fact that China ultimately had the strongest negotiating position because they were committed to reclaiming Hong Kong at any cost. Under these constraints, Britain achieved the best deal they could and accusations in the existing literature of British cowardice or betrayal are neither born out nor justified.

The pages that follow draw inspiration from the rich debates in the existing literature, which broadly fall under two camps. Orthodox pro-Chinese narratives reject the legitimacy of British occupation in Hong Kong claiming it was based on to the imposition of illegal and unequal treaties. As identified by Joseph Cheng in his work, *Hong Kong in Search of a Future*, pro-Chinese narratives view the return of Hong Kong to China as a matter of justice following a century of colonial subjugation and exploitation.⁶ On the other hand, the British perspective begins the history of Hong Kong at the point of British arrival in 1841. It focuses chiefly on the

⁶ Cheng, Joseph. *Hong Kong in Search of a Future*. Hong Kong ; New York: Oxford University Press, 1984. 45-74.

For another account exploring the pro-Chinese narrative, see the article *The Discourse of Unequal Treaties in Modern China* by Dong Wang, which explores the Chinese narrative that the three treaties ceding and leasing Hong Kong to Britain were invalid and exploitative. Wang, Dong. "The Discourse of Unequal Treaties in Modern China." *Pacific Affairs* 76, no. 3 (2003): 399-425. <http://www.jstor.org/stable/40023820>. (404)

For more information about the legal context around the debate on Hong Kong self-determination versus reunification with China see Antonio Cassese's work *Self-determination of peoples: a legal reappraisal*. Cassese traces how the political idea of self-determination became a legal standard and explores in one paragraph the removal of Hong Kong from the list of non-self-governing territories in 1972. He also explores decisions made by the UN in normalizing self-determination as a legal standard and the precedents, debates and controversies such decisions led to. Cassese, Antonio. *Self-Determination of Peoples : A Legal Reappraisal*. New York, NY ; Cambridge: Cambridge University Press :, 1995.

contribution of British elites—colonial administrators, businessmen, and missionaries—in Hong Kong’s evolution from a “barren island”⁷ to a global city. Furthermore, there are several accounts of Hong Kong history written from the so-called Colonial School including: E.J. Eitel’s *Europe in China : The history of Hongkong from the beginning to the year 1882*, and Frank Welsh’s, *A History of Hong Kong*. Accounts in the Colonial School begin their histories of Hong Kong in the economically advantageous days of trade at Canton, moving to the opium wars and into the “founding” of Hong Kong.⁸ The idea of the “founding” of Hong Kong is particularly controversial in these texts because it assumes the legality of Hong Kong’s separation from the Mainland and the creation of Hong Kong as its own separate state under British administration, which China has consistently rejected.

While these works offer important contextual background on the competing historical interests at stake in the Sino-British negotiations, this thesis draws most of its inspiration from memoirs, auto-biographies and biographies of the British officials who participated in the negotiations, as well as journalistic accounts such as Robert Cottrell’s *The End of Hong Kong: The Secret Diplomacy of Imperial Retreat*, Mark Roberti’s *The Fall of Hong Kong: China’s*

⁷Cradock, *Experiences of China*, 162

⁸ Eitel, Ernest John. *Europe in China; the History of Hongkong from the Beginning to the Year 1882*. Ch’eng-wen Pub. Co., 1968.

Welsh, Frank. *A History of Hong Kong*. London: HarperCollins, 1997.

The British perspective also encompasses the more niche approach of critical discourse historiography pioneered by John Flowerdew in his two texts: *The Final Years of British Hong Kong: The Discourse of Colonial Withdrawal*, and *Critical discourse Analysis in Historiography: The Case of Hong Kong’s Evolving Political Identity*. Flowerdew critically reviews the role of British elites in Hong Kong, with special attention given to how Hong Kong Governors employed certain dialogues to present. Flowerdew, John. *Critical Discourse Analysis in Historiography : The Case of Hong Kong’s Evolving Political Identity*. Houndmills, Basingstoke, Hampshire ; New York: Palgrave Macmillan, 2012. And, Flowerdew, John. *The Final Years of British Hong Kong : The Discourse of Colonial Withdrawal*. New York: St. Martin’s Press, 1998.

Triumph and Britain's Betrayal that rely on personal experiences and newspapers written about the negotiations.⁹ Given that the negotiations between Britain and China were secret and confidential, accounts from British officials such as Sir Percy Cradock's *Experiences of China* offers a unique, though limited, insight into the dynamics at stake from the British side, while journalistic accounts lack evidence from British government records to substantiate their arguments about the British government's policy.

My thesis differs from the existing literature and makes an important contribution to the debate by drawing on records of the Foreign and Commonwealth Office (FCO) found at the British National Archives (TNA) and that were made available to the public in 2015. I explore the confidential documents of the FCO on the *Future of Hong Kong* and also draw on Margaret Thatcher's Prime Minister's Office and personal records from the Margaret Thatcher Foundation digital archive to explore issues of policy, sovereignty and power in national diplomacy. My thesis highlights some of the key debates that emerged as British officials developed a policy to recommend to Thatcher and responded to some of the unexpected constraints China placed on the negotiations. I use debates within the FCO to chart the strength of Britain's negotiating hand and make inferences about changes to British goals and bargaining claims over the course of the negotiations.

The following pages are organized thematically and chronologically. Chapter one focuses on the prelude to the formal negotiations between Britain and China and argues that pressure

⁹ Cottrell, *The End of Hong Kong: The Secret Diplomacy of Imperial Retreat*.

Roberti, Mark. *The Fall of Hong Kong: China's Triumph and Britain's Betrayal*. New York: John Wiley & Sons, 1996.

from British corporations, institutional investors, and other economic stakeholders in Hong Kong convinced British officials that the question of Hong Kong's future with China needed to be raised as early as 1979. It explores the reasons why British officials responded to investor fears and thought that they held strong legal and economic arguments to advocate for continued British administration of Hong Kong after 1997. Chapter two begins with Margaret Thatcher's state visit to China in 1982 to open formal negotiations with China. It underscores how Britain's miscalculations concerning the strength of their legal and economic arguments led Britain to change their policy on Hong Kong and eventually cede sovereignty of territory otherwise guaranteed to them under international law. Chapter three begins after Britain signaled that they would make a concession on Hong Kong sovereignty to China and continues through 1984 when the signing of the Sino-British Joint Declaration ended negotiations on Hong Kong's future. Here, I offer a rejoinder to the existing literature that argues that British policy throughout the negotiations did an injustice to the Hong Kong people by not representing their interests or perspective during the bilateral negotiation process with China. To the contrary, I argue that the People Republic of China's (PRC) insistence that the Hong Kong people were and always will be part of China undermined any British attempts to advocate on behalf of the Hong Kong people in a direct way.

CHAPTER I:
THE PRELUDE TO NEGOTIATIONS, BRITAIN'S STRONG HAND
Hong Kong, 1979-1981

Britain's three-part acquisition of Hong Kong in the mid-nineteenth century included the cession of Hong Kong Island and the Kowloon Peninsula as well as a ninety-nine-year lease of the New Territories set to expire on July 1, 1997. On this date, China would technically resume sovereignty of the New Territories. The eventual handover of one-third of Hong Kong presented the possibility of a change in administration that could disrupt the territory's existing legal frameworks, internationally accepted currency and capitalist free-market economy. Due to the unusual political and economic uncertainty the lease created, certain investors threatened to curtail investments in Hong Kong if Britain and China did not offer assurances about the territory's future. According to investors, economic uncertainty was only set to increase as the expiration of the New Territories lease approached.

In the early 1970s, it was still unclear to Britain what would happen to Hong Kong politically and economically after 1997 and who would administer the territory. The treaties that ceded Hong Kong Island and the Kowloon Peninsula to Britain bestowed indefinite legal rights of ownership upon them that were recognized in international law. Furthermore, British administration of Hong Kong had led the colony's economic development from a sparsely populated set of islands to an industrialized hub of global commerce.¹⁰ As China benefited from a prosperous Hong Kong, Britain determined that China stood more to lose economically if administration of the colony changed hands.¹¹ Based on these legal and economic assumptions,

¹⁰ Macintyre, Thomas. "Impact of the Sino-British Agreement on Hong Kong's Economic Future," *Journal of Comparative Business and Capital Market Law* 7, no. 2 (June 1985): 197-216

¹¹ Hong Kong and General Department to FCO, 7 May 1982, TNA, FCO21/2214.

British officials determined that kickstarting informal discussions with China, over eighteen years before the scheduled 1997 handover of the New Territories, offered the best solution to maintain British administration of the whole of Hong Kong after July 1, 1997.

This chapter thus argues that pressure from British corporations, institutional investors, and other economic stakeholders in Hong Kong convinced British officials that the question of Hong Kong's future with China needed to be raised as early as 1979. Moreover, British officials were sympathetic to petitions seeking assurances on Hong Kong's future because they determined that they held a strong bargaining position both legally and economically.

I Economic Prosperity through British Administration

British administration of Hong Kong provided a robust framework for Hong Kong's economic development. When Britain first acquired Hong Kong, Lord Palmerston described the colony as a "barren island with hardly a house upon it."¹² However, Britain's introduction of an internationally accepted currency, continuity and predictability in law and administration, and established trading arrangements promoted economic confidence and growth.¹³ For the British, Hong Kong's prosperity as a Financial Center depended on its ability to attract international deposits and on the existence of a convertible currency that was internationally acceptable. Both factors depended on the existence of well-established law, whose practices were internationally understood and accepted, as well as on domestic and international confidence in the predictability and consistency of administration and taxation.¹⁴ British administration guaranteed both conditions and helped Hong Kong develop into one of the world's leading financial hubs.

¹² Cradock, *Experiences of China*. 164

¹³ MacLehose to Youde and FCO, 8 April 1982, TNA, FCO 21/2212.

¹⁴ Davies to McDonald and Clift, 21 April 1982, TNA, FCO 21/2212.

From the British perspective, Hong Kong's future economic prosperity thus depended on continued British administration.

In addition, British diplomats believed China's economic interest in a prosperous Hong Kong provided a compelling reason for China to support continued British administration. Since coming to power in 1949, the People's Republic of China (PRC) realized Hong Kong's economic value and maintained a pragmatic relationship with the British colonial administration.¹⁵ Hong Kong refinanced several of China's loans following the failed policies of the Great Leap Forward and the Cultural Revolution and saved China from economic collapse. Furthermore, throughout the 1960s, the PRC earned almost half of its hard currency from selling food and water to Hong Kong.¹⁶ By 1981, one third of China's foreign exchange—amounting to \$6 billion dollars— came from Hong Kong, and the Chinese received an income of \$4 billion a year from the British territory.¹⁷ Britain, therefore, reasoned that continued British administration was in China's best economic interest and thought the Chinese would find this argument convincing.

Up until the early 1970s, China left the question of Hong Kong's future alone and gave Britain no reason to suspect a change in stance. For example, in 1971, the PRC issued a vague assurance to Hong Kong and Britain that “no moves would be made against Hong Kong or Taiwan for a long time to come.”¹⁸ Despite the obvious ambiguity behind the term “long time to come,” British diplomats concluded that China did not appear to be preparing any significant

¹⁵ Carroll, John M. *A Concise History of Hong Kong*. Lanham: Rowman & Littlefield, 2007. 174

¹⁶ *Ibid.*, 174

¹⁷ Visit by Hong Kong Factory Owners Association delegation to Peking, 24 November 1982, TNA, FCO 21/220.

Hong Kong and General Department to FCO, 7 May 1982, TNA, FCO21/2214.

¹⁸ The Periscope, Soft Words from Peking, December 13 1971, TNA, FCO21/871.

moves over the question of Hong Kong's future status after the expiration of New Territories lease.

In 1972, just one year after China's vague assurance, the PRC signaled a different line toward continued British administration of Hong Kong. In a letter written to the United Nations Special Committee on Decolonization by Huang Ha, the foreign minister of the PRC, China argued for the removal of Hong Kong and Macau from the list of countries on the United Nations' decolonization agenda.¹⁹ This move sought to deny Hong Kong and Macau of the possibility of becoming a self-determined state. China reasoned that Hong Kong and Macau were "Chinese territory occupied by the British and Portuguese authorities" and that "questions of Hong Kong and Macau belong to the category of questions resulting from a series of unequal treaties left over by history, treaties which the imperialists imposed on China."²⁰ The letter announced China's rejection of the three treaties that had ceded and leased Hong Kong to Britain and, therefore, challenged Britain's legal claim to Hong Kong. China's rejection of the treaties was founded on the notion that equal powers did not create the documents; rather, British imperialists exploited their power over a weakened Chinese state to seize territory for their colonial ends. The letter clearly outlined that, in China's view, Hong Kong and Macau remained part of China even after they were ceded, which meant that they were not subjects for self-determination but rather integral parts of Chinese territory that should be reinstated.

¹⁹ The formal name of the UN Special Committee on decolonization was The Special Committee on the Situation with regard to the Implementation of the Declaration on the Granting of Independence to Colonial Countries and Peoples. As a UN entity, this committee was established in 1961 by the General Assembly and existed exclusively to deal with the issue of decolonization. The Special Committee annually reviewed a list of colonial Territories and made recommendations about how to mobilize public opinion in support of the decolonization process. For more information, visit <https://www.un.org/en/decolonization/specialcommittee.shtml> (accessed 03/19/18).

²⁰ Hua to the United Nations, 8 March 1972, UN Online Archives, A/AC.109/396

Despite the letter's strong argument, Britain still believed that they had a more robust legal claim over Hong Kong. In response to China's letter to the UN, Britain restated their position that China's demands "in no way affect the legal status of Hong Kong."²¹ The British argued that the treaty of Nanking and Convention of Peking indefinitely ceded Hong Kong Island and Kowloon to Britain under international law. The British operated under the assumption upheld by the United Nations that treaties, conventions and international agreements comprised an important part of international law. The two treaties represented legally binding agreements between Britain and China that could not be broken without Britain's formal consent by way of an Act of Parliament. The legality of British sovereignty over Hong Kong Island and Kowloon was therefore not open for dispute. Thus, despite the message of China's letter, Britain's resolve to maintain administration over Hong Kong after 1997 did not weaken. Indeed, according to historian John Carroll, people in Hong Kong interpreted China's stance in the letter as primarily a rhetorical maneuver and — along with the British — expected the PRC to continue to leave Hong Kong's political status alone.²²

The one treaty that had no future legal guarantees, however, was the ninety-nine-year New Territories lease that was set to expire in 1997. As the New Territories counted for 92% of the total land of Hong Kong, protecting British administration of the New territories was especially important to Britain. As later chapters reveal, British officials concluded that it was unviable to run the ceded territories without the New Territories due to the infrastructural interdependence and economic integration of the three areas. By the end of the 1970s, external pressure from economic actors and a growing sentiment of unease from the Hong Kong people

²¹ Cottrell, *The End of Hong Kong*. 33

²² Carroll, *A Concise History of Hong Kong*. 174

meant that Britain could no longer ignore the growing political and economic uncertainty surrounding the question of Hong Kong's future. The coming expiration date of the New Territories lease thus dictated the nature and timing of the negotiations on Hong Kong's future.

II Responding to the Pressure of Economic Uncertainty

While British diplomats did not initially feel threatened by China's position on Hong Kong's future, foreign investors and companies were not prepared to leave the question of Hong Kong's future alone. The impending expiration date of the New Territories lease created an unusual climate for foreign investors and businesses. Specifically, the end of the lease created uncertainty around the status of foreign investments that only increased as the 1997 deadline approached. Investors and foreign businesses thus demanded that Britain obtain a greater set of assurances from China about Hong Kong's future status to give them more investment confidence.

As early as 1971, British-owned businesses in Hong Kong, such as Shell, sought reassurances on the colony's future from Her Majesty's Government (HMG). They indicated that Hong Kong's uncertain political future could deter them from further investment in the colony. After Malcom MacDonald and Zhou En Lai met to discuss investment in Hong Kong in 1971, the Regional Director of Shell wrote to the political adviser to the Hong Kong Government, Arthur Maddocks, requesting assurances to invest. The British reply encouraged Shell to invest in Hong Kong, despite Zhou communicating to MacDonald that the long-term implications for British investment post-1997 were set to change.²³ Britain's response reveals both their desire to

²³ Morgan to Maddocks, 3 December 1971, TNA, FCO 21/871.
Maddocks to Morgan, 28 December 1971, TNA, FCO21/871.

quell economic uncertainty and their continued confidence that they would prevail in negotiations.

Pressure from investors divided British officials who debated whether to raise the future status of Hong Kong with the Chinese or leave the impending expiration date alone. Some British policymakers questioned the likelihood of a sudden and significant loss of business confidence arising from uncertainty about the future of Hong Kong. The Planning Staff of the Foreign and Commonwealth Office argued that the buoyancy of Hong Kong's economy would prevent uncertainty amounting to an economic or financial crisis.²⁴ They suggested that while investors were concerned about Hong Kong's future, the territory had much to offer economically and still attracted investors despite political tension. While big British-run companies in Hong Kong declared concern about their economic futures, the Planning Staff argued that they were not behaving as though disinvestment was about to begin.²⁵ For example, the Planning Staff argued that if businesses thought that disinvestment was imminent, they would be trying to sell their companies in Hong Kong while "local Chinese entrepreneurs are aggressively extending their hold on the Hong Kong economy through takeover bids."²⁶ However, certain companies like Swire and Jardine Matthews actually expanded their overseas interests in Hong Kong during this period, indicating that they foresaw a prosperous future in Hong Kong. Further, Hong Kong typically offered a short payback on investments. Some officials therefore concluded that any investment undertaken in 1985 would create profit before the lease was up. These points, in combination, led many officials to the conclusion that

²⁴ Jay to Clift, 24 December 1981, TNA, FCO40 1291.

²⁵ *Ibid.*

²⁶ *Ibid.*

beginning conversations around Hong Kong's future in the late 1970s to ease investor worry was premature and unnecessary.

In the end, however, top British officials were sympathetic to the fears of investors, agreeing that economic uncertainty could lead to a meaningful loss of business confidence. The major turning point for this debate came in 1976 when Jimmy McGregor, director of the Hong Kong General Chamber of Commerce, warned that without assurances from the PRC government, investors would not make long-term investments in Hong Kong.²⁷ Businesspersons were particularly concerned about the effect of the expiration of the individual land leases in Hong Kong that were all set to expire three days before the New Territories lease ended. Without guarantees that the leases could be extended, investors worried that the expiration of the New Territories lease would invalidate their property contracts.

British officials were concerned that a falter in public confidence regarding Hong Kong's future could lead to financial collapse and immigration pressures. Britain wanted to avoid Hong Kong people fleeing out of Hong Kong after the 1997 lease expired. In the early 1980s, the population of Hong Kong was 5 million and in March 1982, Lord Carrington wrote to Mrs. Thatcher of the "danger of them trying to get into Britain if things went wrong" as he did not see the option of a unilateral withdraw to be on the table²⁸ British officials wanted an orderly transition after 1997 to avoid a panicked flight of Hong Kong residents moving away from Hong Kong. In response to this fear, Britain passed the The British Nationality Act of 1981 to abolish the 1948 definition of British citizenship and replace it with three categories: British citizenship,

²⁷ *Hong Kong Standard*, 29 April 1976, referred to in Chan, Ming K, and John D Young. *Precarious Balance : Hong Kong between China and Britain, 1842-1992*. Armonk, N.Y.: M.E. Sharpe, 1994.

²⁸ Carrington to Thatcher, 9 March 1982, TNA, PREM 19/789.

citizenship of British dependent territories, and British overseas citizenship.²⁹ Of these, only British citizenship provided the right to live in Britain, thus stripping Hong Kong people of the option to emigrate to Britain.

The British government deemed these financial and immigration concerns severe enough to necessitate immediate negotiations with the Chinese to discuss arrangements that would hopefully re-establish confidence. Without such an arrangement, HMG feared that Hong Kong might not remain governable for long.³⁰ British officials thus responded to pressure from economic actors to open negotiations with China with the aim to ease concern among investors and the Hong Kong people and avoid a possible immigration crisis.

III Testing an Indirect Negotiation Strategy with China

Against a background of economic uncertainty and pressure from investors and businesspeople, British officials considered the agenda for Murray MacLehose's visit to Beijing planned for late March 1979. MacLehose planned to discuss links between Hong Kong and Guangdong and the wider topic of Hong Kong's role in China's modernization. Yet, the primary concern for British officials was whether MacLehose should also raise the issue of Hong Kong's future during his visit.

Some British officials responded that Britain's best strategy was leaving the expiration of the New Territories lease completely alone. MacLehose argued that by leaving issues such as the expiration of the Crown Land Leases "on the backburner," weakening confidence in Hong Kong

²⁹ The National Archives, "Citizenship 1906-2003." National Archives. Accessed March 16, 2018. http://www.nationalarchives.gov.uk/pathways/citizenship/brave_new_world/citizenship4.htm.

³⁰ Carrington to Thatcher, 1981. TNA, FCO40 1291.

and a decline in economic performance would force the Chinese to talk.³¹ Similarly, a white paper issued by the Foreign and Commonwealth Office (FCO) entitled *Options for Action to Deal with a Slide of Confidence or a Chinese Initiative on the Future of Hong Kong* suggested that a collapse of the Hong Kong Dollar might shock the Chinese leadership enough to make them ready to discuss practical ways of bolstering confidence.³² As China stood to lose more than Britain economically, a solution of patient waiting offered Britain a way out of initiating the negotiation talks.³³

In the end, however, British officials decided that MacLehose should raise the question of Hong Kong's future with China. They argued that, as MacLehose would meet Chinese leader Deng Xiaoping in person, he had a unique opportunity to raise the question of Hong Kong's future with the Chinese at the highest level. The second argument centered on the need to obtain clarification on the legal uncertainties around both the ability to renew Crown land leases in the New Territories after 1997 as well as the inability of the Hong Kong Government to grant new leases after this period.³⁴ Because the normal duration of Hong Kong mortgages on Crown land was fifteen years, individuals hoping to purchase a lease after 1982 lacked security on their investments.³⁵ The prospect of Crown land leases being contested in Hong Kong courts after 1997 particularly concerned FCO officials, who believed that there would be a rapid loss of confidence without a solution to the leases expiring.³⁶

³¹ Jay to Clift, 24 December 1981, TNA, FCO 40/1291.

³² OD Paper on Options for Action to Deal with a Slide of Confidence or a Chinese Initiative on the Future of Hong Kong, 1981, TNA, FCO 40/1291.

³³ Jay to Clift, 24 December 1981, TNA, FCO 40/1291.

³⁴ *Ibid.*

³⁵ Cradock, *Experiences of China*, 164

³⁶ Jay to Clift, 24 December 1981, TNA, FCO 40/1291.

While there was a general sense that MacLehose's visit represented a strategic opportunity for Britain to achieve greater assurances from the Chinese over Hong Kong's future, Britain feared that a direct approach to the question could weaken Britain's negotiating hand. The possibility of China preemptively rejecting Britain's proposal to discuss Hong Kong especially concerned the Lord Privy Seal, Sir Humphrey Atkins. Atkins believed that giving the Chinese an extensive briefing of the legal problems connected with the expiration of the New Territories lease would lead the Chinese to turn down Britain's strategy "on the spot."³⁷ Atkins sought to avoid any tactic that China could interpret as Britain overstepping or trying to "bounce them into agreeing now to our staying on beyond 1997."³⁸ Atkins thus called for an indirect approach to the negotiations on Hong Kong's future to protect British interests later. British officials concluded that if they could convince the Chinese to agree to grant individual land leases beyond 1997, Britain could sustain confidence in Hong Kong and blur the 1997 deadline.³⁹ However, China argued that it would hold sovereignty over Hong Kong after-1997 and that 1997 did represent an important deadline on Hong Kong's future. They therefore rejected Britain's request to grant land leases beyond 1997 after MacLehose's visit and signaled that a more direct strategy from the British would be necessary for substantive talks.

IV China's Demands

MacLehose's visit indirectly opened discussions on Hong Kong's future between Britain and China and revealed the need for Britain to adopt a more direct negotiating strategy. Following MacLehose's visit, the FCO strategically used visits to Beijing by British officials to

³⁷ Atkins to Carrington, 11 December 1981, TNA, FCO 40/1291.

³⁸ *Ibid.*

³⁹ Cradock, *Experiences of China*, 165

remind the PRC of the question of Hong Kong.⁴⁰ Britain planned several official visits to China between British and Chinese officials from 1979-1982. The Chinese Premier Hua Guofeng visited London in 1979 and then invited Prime Minister Margaret Thatcher to reciprocate his visit to China in 1982. Thatcher's visit to China would officially mark the beginning of direct negotiations with the Chinese. In addition, several British officials travelled to China in advance of Thatcher's visit to prepare for the meeting. In January of 1982, Humphrey Atkins travelled to Beijing to meet with Premier Zhao Ziyang, and in April 1982, former Prime Minister, Edward Heath, travelled to China to meet with Deng Xiaoping and establish whether there had been any shifts in Chinese thinking since MacLehose's visit.

During his visit to Beijing in January 1982, Atkins learned that the PRC had an evolved policy for Hong Kong based on a commitment to Chinese sovereignty of the territory. China argued that while they had not changed their essential demand of recovering Hong Kong sovereignty, they did now recognize the problems posed by the expiration of the New Territories Lease as well as the need for it to be solved before 1997.⁴¹ Ziyang advised Atkins to consult Ye's nine-point statement for Taiwan that was delivered in September 1981 as an indication of Chinese policy in advance of Thatcher's September 1982 visit to China. The nine-point statement made Taiwan a Special Administrative Region (SAR) that would retain a high degree of autonomy, which involved allowing the continuance of Taiwan's social and economic systems. This declaration established the framework for "one country, two systems."⁴² In the context of Hong Kong, this would mean that the Hong Kong people would be able to carry out

⁴⁰ Carrington to Thatcher, 18 December 1981, TNA, FCO 40/1291.

⁴¹ Atkins to FCO on Taiwan nine-point statement, September 1982, TNA, FCO 40/1290.

⁴² Tsang, Steve. *Modern History of Hong Kong, A : 1841-1997* (1). London, GB: I.B.Tauris, 2007. Accessed September 13, 2017. ProQuest ebrary. 217

the administrative responsibilities of the territory with no help from the British and minimal oversight from the Chinese state. This remark signaled that China was thinking about Hong Kong vis-à-vis their strategy for Taiwan; therefore, going into Thatcher's 1982 meeting, China was open to Hong Kong being a special administrative territory, but the question of Chinese sovereignty was not open for negotiation.

However, China also said they wanted to see Hong Kong remain a free port and a commercial and financial center. China's statement of this desire encouraged the British that their assessment of their strong economic leverage in the negotiations was correct. British officials believed that the Chinese would be sympathetic to allowing continued British administration of Hong Kong as this would guarantee Hong Kong's economic prosperity and bolster the confidence of the general public and investors. In a report to Thatcher on the future of Hong Kong, Lord Carrington said that "I do not myself believe that [the Chinese] have yet fully grasped the ways in which confidence could be threatened or maintained."⁴³

Although China signaled that sovereignty of Hong Kong was non-negotiable and that they wanted Hong Kong to remain economically viable, Britain saw China's two goals as mutually exclusive. British officials determined that economic prosperity could only be achieved by preserving the current British administration.⁴⁴ Britain thought the only way these two seemingly irreconcilable goals could be achieved was through China assuming titular sovereignty wherein Britain would still maintain administrative control. British officials thus determined that they still had a strong economic argument to support maintaining the status quo after 1997.

⁴³ Carrington to Thatcher, 9 March 1982, TNA, FCO 21/2212.

⁴⁴ Thatcher, Pym, Youde, Chung, Dunn et al, "*No.10 record of conversation*", 8 September 1982, Margaret Thatcher Foundation Digital Archives (hereafter MTF), PREM19/790 f207.

In April 1982, Edward Heath preemptively tested this strategy with the Chinese during his meeting with Deng Xiaoping. Deng's remarks on sovereignty underlined that it would be an essential condition of progress for the Chinese.⁴⁵ However, Heath highlighted that Hong Kong's economic prosperity advantaged China and argued that Britain should be allowed to still make contributions to Hong Kong's prosperity after 1997.⁴⁶ Heath said that Britain received nothing from Hong Kong and suggested that "Britain managed Hong Kong for the benefit of China and of mankind."⁴⁷ Though, both Heath and Deng discussed that Hong Kong's position as a free port and a commercial and financial center were key to the territory's continued prosperity, FCO officials concluded that, during Heath's visit, the Chinese had shown a continued misunderstanding of the way the Hong Kong economy works and what investors will accept. Officials said, "We must try to explain to them how to avoid killing the goose that lays the golden eggs."⁴⁸ Despite China's demand that Hong Kong sovereignty must revert to them after 1997, British officials hoped that China would soften this demand after realizing how dependent Hong Kong's prosperity was on British administration.

V Thatcher Determines British Goals

Following two years spent meeting with Chinese officials and developing an understanding of China's demands, British officials still felt as though they held a strong bargaining hand. It was in this context that they discussed how Thatcher should approach the "difficult question" of Hong Kong's future in her 1982 visit to China. British officials recommended that Thatcher focus on easing public and economic uncertainty and recommended

⁴⁵ Telegram from Cradock to FCO, 7 April 1982, TNA, FCO21/2212.

⁴⁶ Telegram from Cradock to FCO, 6 April 1982, TNA, FCO 21/2212.

⁴⁷ *Ibid.*

⁴⁸ Telegram from Cradock to FCO, 7 April 1982, TNA, FCO 21/2212.

potential British goals to her.⁴⁹ However, it was ultimately Thatcher who determined Britain's negotiating strategy and goals during her meetings with the Chinese.

Before her visit, Thatcher authorized Sir Percy Cradock to tell the Chinese government that the essential aim of the trip would be for the two sides to "have serious talks at official level about the future of Hong Kong."⁵⁰ The primary goal of the negotiations was to obtain "well before 1997, an assurance that separate British-administered Hong Kong would continue after the date, thereby preventing a slide in confidence."⁵¹ For Britain, this represented the easiest solution as such an agreement only required an amendment to the Order in Council of 1898.⁵² Thatcher was not ignorant to China's demand on the necessity of ceding sovereignty of Hong Kong, but she believed in Britain's strong legal and economic arguments. She, therefore, concluded that Britain "can offer no concession on sovereignty without a clear understanding that it is conditional on continuation of full powers of British administration."⁵³ While the relinquishment of British sovereignty would require an Act of Parliament, there would be no further legal impediment (national or international) if an agreement with the Chinese was reached which recognized Chinese sovereignty but confirmed full British control of domestic and external affairs in Hong Kong and that respected the period of notice of 15 years for a change.⁵⁴ Britain thus kickstarted formal negotiations with the Chinese and held high expectations of a successful outcome that would assuage investor fears, restore public confidence and maintain British administration post-1997.

⁴⁹ Coles minute to Thatcher, July 2 1982, Thatcher MSS (Churchill Archive Centre): THCR 1/10/37 A Part 1 f148.

⁵⁰ Ingham minute to Thatcher, July 29 1982, Thatcher MMS, PREM19/0823 f322.

⁵¹ Carrington to Thatcher, 1981. The National Archives, TNA, FCO 40/1291.

⁵² Rushford Report to FCO, 7 December 1981, TNA, FCO 40/1291.

⁵³ Clift to Hong Kong General Department, 12 May 1982, TNA, FCO 21/2213.

⁵⁴ Cox and Elliott to Thomson, 20 September 1982, TNA, FCO 21/2214.

CHAPTER II

CEDING SOVEREIGNTY, 1982

In the lead up to Margaret Thatcher's September 1982 visit to China, FCO officials briefed her about the probable need to cede sovereignty of Hong Kong following China's messages to Humphrey Atkins and Edward Heath at the beginning of 1982. However, the question remained for Thatcher, why should Britain give up sovereignty of Hong Kong Island and the Kowloon Peninsula when international law ceded it to them indefinitely? Invigorated by her success in the Falklands War, Thatcher was not prepared to relinquish Britain's legal claim to Hong Kong straight away.⁵⁵ She aimed to maintain sovereignty over Hong Kong Island and Kowloon Peninsula and retain administration over the New Territories. Thatcher set about preparing a strong legal and economic argument that would defend Britain's future in Hong Kong and reassure investors in Hong Kong that the territory's current system would continue after 1997.

However, discussions between Britain and China during and after Thatcher's meeting with Chinese leader Deng Xiaoping and Chinese Premier Zhao Ziyang revealed two major flaws in Britain's calculation that they had legal and economic leverage over China. First, while in theory, international law protected the territories of Hong Kong Island and the Kowloon Peninsula to Britain indefinitely, in practice, Britain's administration of these parts required the leased area of the New Territories. This is because Hong Kong was only economically and politically viable as one entity due to infrastructural interdependency and near total economic integration of the three areas. Similarly, China refuted Britain's claim to sovereignty over the

⁵⁵ Thatcher, Pym, Youde, Chung, Dunn et al, "*No.10 record of conversation*", 8 September 1982, Margaret Thatcher Foundation Digital Archives (hereafter MTF), PREM19/790 f207.

ceded territories because, according to them, the treaties were signed by unequal powers in an era of western imperialism. As the leader of the Chinese Communist Party, Deng argued that Britain coerced a weakened Chinese state into exchanging territory. According to Deng, the PRC represented a different China to the imperial dynasty that signed the treaties as an act of cowardice; he refused to commit a similar action.

The second flaw was that Britain wrongly assumed China cared more about the negative economic consequences itself and Hong Kong would face if British administration ended than reunifying Hong Kong with the Mainland. British officials initially determined that, because China benefited from Hong Kong economically, a verbal cession of British sovereignty would suffice China's political interests while allowing Britain to maintain *de facto* sovereignty. However, for China, Hong Kong represented a source of national pride and political identity — as the Chinese said, they would take Hong Kong “as a barren rock.”⁵⁶ Britain, therefore, both overestimated the economic leverage they had over China in maintaining full British control of domestic and external affairs in Hong Kong and underestimated the symbolic and political importance China attributed to reclaiming total sovereignty of Hong Kong.⁵⁷

Britain's legal and economic miscalculations leading up to and after Thatcher's visit to China in 1982 resulted in Britain eventually making a concession on Hong Kong's sovereignty. . This chapter argues that Britain was forced to offer a concession as a result of underestimating the importance China placed on reunifying Hong Kong, which undermined the practicability of their legal claims

⁵⁶ Cradock, *Experiences of China*, 161

⁵⁷ Cox and Elliott to Thomson, 20 September 1982, TNA, FCO 21/2214.

I British Goals for Hong Kong

In the lead up to Thatcher's visit to China in 1982, several British officials warned her that China would demand sovereignty over Hong Kong after 1997. In January 1982, Percy Cradock reported to London that "a willingness to cede sovereignty... will be essential to an [sic] satisfactory settlement."⁵⁸

In Thatcher's view, it was better for Britain to lead the negotiations with an argument to keep Hong Kong under British sovereignty based on the legality of the treaties of the ceded territories. Thatcher's "instinct was to concede nothing until it was clear we could obtain precisely what we wanted."⁵⁹ For Thatcher, if Britain began discussions on these grounds, it would give Britain a stronger bargaining position and signal to the Chinese that Britain sought to protect their international claims to sovereignty of Hong Kong Island and the Kowloon Peninsula. Her position did not reflect an ignorance about China's stance on sovereignty, but rather, a strategic negotiation strategy aimed at giving Britain more leverage. Furthermore, in Thatcher's statement, the word "until" revealed that the British position was not unyielding. Instead, Thatcher indicated that she was willing to make concessions if the Chinese granted certain British demands.

Both British officials and Margaret Thatcher agreed that the most important British demand and most acceptable and realistic foreign policy outcome for Britain was that all three parts of Hong Kong remain under British administration after 1997. Ultimately, the British were prepared to formally recognize Chinese sovereignty over Hong Kong in exchange for an international agreement that was registered and published with the United Nations under which

⁵⁸ Cradock to FCO, 12 January 1982, TNA: PREM 19/789

⁵⁹ Thatcher, Pym, Youde, Chung, Dunn et al, "*No.10 record of conversation*", 8 September 1982, Margaret Thatcher Foundation Digital Archives (hereafter MTF), PREM19/790 f207.

Britain would administer Hong Kong. Thatcher made it plain, however, that sovereignty in this context meant only titular sovereignty.⁶⁰ For the British, administration of Hong Kong after 1997 meant full control of domestic and external affairs in Hong Kong. It also required assurances from China that they would give Britain a period of fifteen years notice if any changes to the agreement needed to be made.⁶¹ Britain's demand highlighted that the British entered the negotiations with their primary objective being to continue administering all three parts of Hong Kong after 1997; as such, Thatcher began the negotiations with arguments underscoring Britain's sovereign claims to the ceded territories in order to strengthen Britain's initial bargaining position.

Granting titular sovereignty of the entirety of Hong Kong to China in exchange for continued administration of Hong Kong represented the most acceptable solution to HMG because it would preserve the status quo and thus restore investor confidence in Hong Kong. As explored in chapter one, without the assurance of continued British administration, British corporations, institutional investors, and other economic stakeholders in Hong Kong were less likely to commit money to Hong Kong. In contrast, Britain, through its imposition of an internationally accepted legal system and currency, created the investment security foreign business interests required.

It was in this context that in September 1982, Margaret Thatcher visited China to formally open the first phase of negotiations on Hong Kong's future. Thatcher attended two meetings with Zhao Ziyang and a single meeting with Deng Xiaoping, who agreed that the purpose of talks was to "have serious talks at official level about the future of Hong Kong."⁶²

⁶⁰ Cox and Elliott to Thomson, 20 September 1982, TNA, FCO 21/2214.

⁶¹ Cox and Elliott to Thomson, 20 September 1982, TNA, FCO 21/2214.

⁶² Ingham minute to Thatcher, 29 July 1982, Thatcher MMS, PREM19/0823 f322.

Initial discussions between Britain and China centered on the question of Hong Kong sovereignty, the international validity of the treaties ceding Hong Kong Island and the Kowloon Peninsula to Britain, and the continuation of British administration after 1997.

II Thatcher's 1982 State Visit to China

Thatcher's discussions with Zhao and Deng highlighted that both powers held different assumptions and worldviews about the role of international law in treaty making. Thatcher insisted that the treaty of Nanking and Convention of Peking granted Britain indefinite sovereignty of Hong Kong Island and the Kowloon Peninsula and told China that the treaties could not be abrogated, only altered by an Act of Parliament. Her initial stated aim to China was to retain sovereignty of Hong Kong Island and the Kowloon Peninsula and administration of the New Territories.⁶³ Thatcher also aimed to secure more robust assurances about Hong Kong's future from China in order to respond to international businesses concerned about their investments after the New Territories Lease expired.⁶⁴

During both meetings, Zhao and Deng denied almost all British propositions and declared that the treaties were invalid products of imperial aggression. Deng said that Hong Kong belonged to China and both Chinese leaders argued that China would recover sovereignty of Hong Kong and that no other country would be allowed to administer Hong Kong in place of China. In line with its policy toward Taiwan, Deng proposed making Hong Kong a Special Administrative Region with a high degree of autonomy. He reasoned that this action, which would rule out British administration but maintain Hong Kong's autonomy, would be sufficient

⁶³ Thatcher, Pym, Youde, Chung, Dunn et al, "*No.10 record of conversation*", 8 September 1982, MSS, PREM19/790 f207.

⁶⁴Thatcher Shepherd, 25 August 1982, Thatcher MMS (Churchill Archive Centre), THCR 3/2/99 f44.

to preserve confidence. He also added a significant remark that, if it came to a clash, China would put sovereignty above Hong Kong's economic prosperity. Nonetheless, he hoped for British co-operation.

Thus, Britain and China disagreed about the validity of the three treaties ceding and leasing Hong Kong to Britain. In Britain's case, they assumed that international law protected their sovereignty over Hong Kong. As China was a sovereign state in the 19th century, Britain concluded that it could enter valid treaties. However, in China's case, Britain had coerced the Qing dynasty into signing the treaties as a result of imperial dominance. The fact that these treaties were signed after a war and impeded China's sovereign rights, in China's view, made the treaties invalid. Moreover, China's leaders realized that the unequal treaties were signed by the Qing dynasty, the last imperial dynasty of China, and not the PRC; as such, the treaties were not made with the PRC's consent, which thereby made them invalid.

III Hong Kong: Three parts, indivisible

While China and Britain disagreed on the validity of the three treaties, they agreed—though through different arguments and assumptions — that Hong Kong had to be considered as one entity. This agreement supported China's argument that they “would not agree to a separation of ceded and leased territories.”⁶⁵ However, while in principle it did not invalidate Britain's legal claims to Hong Kong Island and the Kowloon Peninsula, it did significantly weaken the importance of these claims in practice. This is because the three areas of Hong Kong were infrastructurally interdependent with near total economic integration. With the New Territories lease set to return to China in 1997 and with China's refusal to allow British

⁶⁵ Fall to Clift, 26 July 1982, TNA, FCO 21/2214.

administration to continue, Britain had no practical legal claims to continue their administration in the New Territories once the lease expired.

On one hand, China believed that, despite the treaties that past governments had signed ceding Hong Kong to Britain, Hong Kong had always remained a part of China. Britain, on the other hand, insisted that their legal claims to Hong Kong effected a definitive separation of Hong Kong from the Chinese mainland. Moreover, the stark socioeconomic and political differences that arose between Hong Kong and China during British sovereignty only underscored the apparent separation of Hong Kong from Mainland China.

Chinese statements regarded Hong Kong as a whole and showed that they would not agree to a separation of ceded and leased territories⁶⁶ Deng Xiaoping in particular defined the Chinese government's position and refused to make a concession on any part of Hong Kong's sovereignty.⁶⁷ For Deng, failing to reclaim Hong Kong's sovereignty would make him the same as Li Hongzhang—the diplomat who signed away the New Territories lease in 1898 to Britain. Deng categorized Li Hongzhang as a traitor and determined that, even if the PRC had to take Hong Kong back as a “barren rock”, it would be better than repeating the humiliation China faced toward the end of the Qing dynasty.⁶⁸ Furthermore, this humiliation at the hands of the West in the nineteenth century was used as tinder to spark the nationalist fire in the PRC. In this context, Deng's rejection of the embarrassing treaties signed by the Qing dynasty can be seen as a symbolic political maneuver used to garner Chinese nationalism.⁶⁹

⁶⁶ Fall to Clift, 26 July 1982, TNA, FCO 21/2214.

⁶⁷ Report on visit by Hong Kong Factory Owners Association delegation to Peking, November 1982, TNA, FCO21/220.

⁶⁸ Tsang, *A Modern History of Hong Kong*, 96

⁶⁹ *Ibid.*

Britain reached the conclusion that infrastructural interdependency and near total economic integration of all three areas meant that it was only economically and politically viable to manage Hong Kong as one entity. British official, Haddon-Clave, investigated the interdependency between the ceded and leased territories and concluded that the ceded and leased territories were complementary, with business services located in the ceded areas and manufacturing industry in the New Territories.⁷⁰ Therefore, despite Britain's legal claims to Hong Kong Island and the Kowloon Peninsula, without the New Territories after 1997, they could not continue to administer Hong Kong.

The ceded territories contained 40% of the population of 5.1 million but did not have the essential services necessary to support this population because of its focus on business services. Contained within the ceded territories was 86% of the total number of business establishments (and 88% in terms of employment) and 67% of all institutions of tertiary education. While these two features offered the potential for future technological advancement and the development of entrepreneurial skills in the ceded territories, they still could not meet the basic needs, such as food, water, and electricity, that its residents required.⁷¹

Additionally, the ceded territories counted for a meager 8% of the total surface area of Hong Kong, and most of the land capable of development had already been developed to its maximum potential. There were insufficient reservoirs to meet the water demand, and the two power stations in the ceded territories did not produce an adequate amount of power for the residents.⁷² By focusing on commercial, financial and allied services, the ceded territories had

⁷⁰ Haddon-Clave to Clift, 26 July 1982, TNA, FCO 21/2214.

⁷¹ Clift to Donald, 1 March 1982, TNA, FCO 21/2213

⁷² Haddon-Clave to Clift, 26 July 1982, TNA, FCO 21/2214.

grown dependent on the leased New Territories and could not meet all the demands of its residents.

In contrast, the leased territories housed most of Hong Kong's industry and generating capacity and provided most of the food for the ceded territories. Geographically, the New Territories counted for 92% of the land area and 60% of the population of Hong Kong. As a much vaster area with less development, the New Territories had much more potential for agricultural and industrial manufacturing activities. For example, the main economic activity was manufacturing, which accounted for 62% of the total number of business establishments (and 71% in terms of employment) located there. Most importantly, the leased territories housed all major reservoirs and container ports and provided virtually all primary production for Hong Kong – meeting 45% of the colony-wide demand for fresh vegetables, 15% of the demand for live pigs and 43% of the demand for live birds.⁷³ Hong Kong thus depended on the New Territories to meet its residents' basic needs.

In addition to the resource dependency between the ceded and leased territories, British officials concluded that a separation could also lead to security problems in Hong Kong. The Hong Kong International Airport spilled into the New Territories and blurred the boundary point between the ceded and leased territories. If the New Territories were administered by China but Hong Kong Island and the Kowloon Peninsula were administered by Britain, then the airport would straddle two separately administered territories.⁷⁴ British officials concluded that any situation separating the administration of Hong Kong would thus “present intolerable problems of security, law and order.”⁷⁵

⁷³ Haddon-Clave to Clift, 26 July 1982, TNA, FCO 21/2214.

⁷⁴ Davies to Clift, 15 February 1982, TNA, FCO 21/2213.

⁷⁵ Haddon-Clave to Clift, 26 July 1982, TNA, FCO 21/2214.

The structural and economic dependency between the three areas also impacted the movement of labor between the ceded and leased territories making any separation untenable. Cliff-Hadden reported that “each day 524,000 workers, or 23% of the employed labor force move from one to the other.”⁷⁶ Thus, in the event that the ceded territories were separated from the leased territories, the economy of the ceded territories was unlikely to survive as laborers would be restricted from moving between their homes and their places of work.

British officials also concluded that a split between the ceded and leased territories would probably lead to “a massive movement of the population southwards with considerable civil unrest.”⁷⁷ This was because family ties between people living north and south of the boundary—called boundary street-- were strong. 40% of the Hong Kong population were born in China and many others born in Hong Kong had parents who were immigrants from China. Hong Kong’s migrant population mostly viewed the prospect of a return to the conditions they left in China as unfavorable and preferred British run Hong Kong.⁷⁸

Based on Haddon-Clave’s arguments, Britain concluded that infrastructural interdependency and near total economic integration of all three areas of Hong Kong rendered it impossible for the UK to retain and run only the ceded territories. This conclusion, reached by British officials, had major implications for British leverage in the negotiations. Britain’s strongest legal argument did not protect their administration of the New Territories, and China refused to consider partitioning Hong Kong. The interdependency of the territories of Hong Kong and China’s claim to the New Territories after 1997 thus constrained Britain’s options for negotiations. Britain could stay in the ceded territories but knew that this would not be

⁷⁶ Haddon-Clave to Clift, 26 July 1982, TNA, FCO 21/2214.

⁷⁷ *Ibid.*

⁷⁸ Clift to Donald, 1 March 1982, TNA, FCO 21/2213.

sustainable in the long-term. They, therefore, concluded that preserving Hong Kong's economic and political viability as one entity trumped British interests and prestige in staying in just the ceded territories.

Fig 1. *Relative Importance of New Territories and Other Parts of Hong Kong, 1982* ⁷⁹

	Hong Kong and Kowloon Peninsula	New Territories (including New Kowloon)
<i>Area (Total 400 sq.m)</i>	8%	92%
<i>Population (Total 5.1 million)</i>	40%	60%
<i>Economic activity (number of people employed in commercial and financial services)</i>	88%	12%
<i>Wholesale retail</i>	71%	29%
<i>Manufacturing</i>	29%	71%
<i>Water (18% supplied from China)</i>	No reservoirs of any significance	All major reservoirs
<i>Power Generation</i>	Capacity not sufficient for area	Contains major reservoirs
<i>International Transport</i>	Macau ferry terminal	Airport (on reclaimed land)
<i>Shipping</i>	Some docks and lighter loading	Container port
<i>Education (tertiary education places)</i>	67%	33%
<i>Primary Production (considerable imports from China)</i>	Virtually nil	45% fresh vegetables; 15% pigs; 43% live birds
<i>Potential for further development</i>	Small	Still considerable

IV Preserving Economic Viability

The second major setback for Britain was their incorrect assumption that China would want British administration to continue to preserve Hong Kong's economic viability. Britain entered the negotiations with the assumption that they had a strong economic argument to justify the continuation of de facto British sovereignty. They also determined that China did not understand the essential factors on which Hong Kong's economic prosperity was based and so would desire the preservation of British administration. To achieve economic stability, Britain

⁷⁹ Haddon-Clave to Clift, 26 July 1982, TNA, FCO 21/2214.

insisted that it would need to be assured full authority on domestic matters and responsibility for Hong Kong in international political and economic affairs.⁸⁰

In the prelude to Thatcher's visit, China gave the FCO reason to doubt that they understood the essential economic factors responsible for Hong Kong's prosperity. On April 6th, 1982, Deng told former British Prime Minister and acting British official, Edward Heath, that "sovereignty over Hong Kong would belong to China, but that Hong Kong itself could remain a free port and an international financial center."⁸¹ During this discussion, British officials concluded that the Chinese did not understand the main factors necessary to maintain stability and confidence in Hong Kong. For example, China's plan to have Hong Kong transition to a semi-autonomous territory within the Chinese system offered investors "no faith in the future" because there would be no secure basis for an independent Hong Kong Dollar; a loss of the network of commercial and other agreements which the UK secured for Hong Kong through its adherence to international law; and a loss of the local legal system which was internationally recognized, and which provided backing for Hong Kong's separate economic status.⁸²

Furthermore, in conversations with British officials, Deng's comments demonstrated a misunderstanding of Hong Kong's fiscal policy, which concerned British officials who wanted to keep Hong Kong's markets attractive to investors. In 1982, Heath probed Deng on the question of economic prosperity and revealed that Deng was under the illusion that the UK treasury received taxation revenue from Hong Kong. In reality, Britain received no revenue from Hong Kong, and Hong Kong was self-supporting.⁸³ Britain worried that if Deng did not understand the

⁸⁰ Clift to Hong Kong General Department, 4 May 1982, TNA, FCO 21/2213.

⁸¹ Percy Cradock to FCO, 6 April 1982, TNA, FCO21 2212.

⁸² Clift to Hong Kong General Department, 4 May 1982, TNA, FCO 21/2213.
Hong Kong General Department to Clift, 6 May 1982, TNA, FCO 21/2213.

⁸³ Hong Kong General Department to Clift, 6 May 1982, TNA, FCO 21/2213.

existing tax policy, which involved keeping low tax rates to attract business investment, he may make changes that would cause adverse economic outcomes for Hong Kong. For example, under British administered Hong Kong, the corporate tax rate in 1980 was 16.5%.⁸⁴ This rate was significantly lower than the average corporate income tax rate of 47.5% in 1981 for countries in the Organization for Economic Cooperation and Development.⁸⁵ For Hong Kong to continue to attract high quality international investors, British officials concluded that the Chinese must understand Hong Kong's tax policy to maintain future investments, which were key to Hong Kong's prosperity.

Britain's conclusion that Deng did not understand the essential economic and fiscal policies of Hong Kong's economy convinced British Officials that China could not economically administer Hong Kong and maintain investor confidence. Sir Percy Cradock informed British officials that they "must correct Chinese misconceptions and try to explain to them how to avoid killing the Goose that lays the golden eggs."⁸⁶ FCO officials thus concentrated their efforts on trying to educate the Chinese about the complexity of Hong Kong's economy and the vital issue of maintaining investor confidence. For the British, an internationally accepted currency, continuity and predictability in law and administration, and established trading agreements underpinned Hong Kong's economic prosperity by making it an attractive destination for foreign investors.⁸⁷ If China did not understand Hong Kong's economic machinery, the British believed they would be unable to maintain Hong Kong's economic prosperity.

⁸⁴ Han, Anna. "Hong Kong's Economy Under Chinese Rule: Prosperity and Stability?" *Santa Clara Law Digital Commons*, January 1, 1997.

<https://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?article=1507&context=facpubs>.

⁸⁵ Tax Foundation . "OECD Corporate Income Tax Rates, 1981-2013." [taxfoundation.org](https://taxfoundation.org/oecd-corporate-income-tax-rates-1981-2013/), December 18, 2013. <https://taxfoundation.org/oecd-corporate-income-tax-rates-1981-2013/>.

⁸⁶ Cradock to FCO, 7 April 1982, TNA, FCO 21/2212.

⁸⁷ MacLehose to FCO, 8 April 1982, TNA, FCO 21/2212.

Another major contributing factor to Britain's assessment that a Chinese administered Hong Kong could not guarantee confidence was China's recent history. British officials judged that the past twenty years in China, particularly, the Cultural Revolution, led both the people in Hong Kong and outside investors to be unsure about an arrangement that transferred administration of Hong Kong's economy to China.⁸⁸ They argued that China's recent history has involved periods of "pragmatism [that] have alternated with bouts of extremism and chauvinism."⁸⁹ Thus, international investors were wary of complete Chinese sovereignty over Hong Kong given its erratic political and economic record.

Britain thus concluded that British administration was in both the best interest of Britain and China and assumed China would find these arguments persuasive. As evidenced by their trips to China to educate Chinese officials on the workings of the Hong Kong economy, British officials sought to prioritize Hong Kong's economic viability in all potential outcomes.

V China Running Hong Kong

Despite Britain's arguments that Hong Kong's economic prosperity necessitated British administration, China carried the strong conviction that they could manage Hong Kong just as well. In the 1970s, China modernization policy, including the formulation of the Four Modernizations Program in the fields of agriculture, industry, technology and defense, led to further modernization efforts from the Chinese. In 1978, Deng's Open Door Policy created several Special Economic Zones (SEZs) strategically located near Hong Kong, Taiwan and Macau, and signaled that China sought to boost its economy through foreign investment.⁹⁰

⁸⁸ Clift to Belstead, 9 September 1982, TNA, FCO 21/22215.

⁸⁹ Walden to Clift, 3 August 1982, TNA, FCO 21/2214.

⁹⁰ Lewis, D. K. *The Prospects for Hong Kong*. Vol. 142. London: Institute for the Study of Conflict, 1982. The British National Archives, TNA, FCO 40/1547.

China's plans for industrial modernization in Guangdong Province, notably the development of new industrial complexes like the Shum Chun Special Economic Zone just north of the Hong Kong border, heightened China's desire to administer Hong Kong. Incorporating Hong Kong's economy more closely with Guangdong through Deng's Open Door Policy therefore provided economic synergies for China and a financial and logistical base for China's modernization.

The PRC offered Shanghai's recent economic success as an example to prove that a Chinese run state could be prosperous, but this comparison was later undermined. China's comparison received backlash in an article by the *Asian Wall Street Journal* released on December 30th, 1982 called "Ten Main Ingredients of Hong Kong's Success" which challenged that running Shanghai well did not mean China could run Hong Kong because Hong Kong and Shanghai represented very different cases.⁹¹ For example, Shanghai was a great manufacturing center and port and was not a financial or commercial center in the international sense like Hong Kong. Ideas such as this fueled Britain's belief that the Chinese communists could not run a capitalist, free-trade economy.

Though China did believe it could sustain Hong Kong's economic success, their primary motivation for recovering total sovereignty of Hong Kong was symbolic and political in nature. Britain was mistaken to assume that China cared predominantly about the economic consequences itself and Hong Kong would face if British administration ended. Thatcher failed to assign the correct importance to Hong Kong's future political identity for the Chinese and did not consider that Deng saw Hong Kong as part of a larger Chinese reunification process that included Taiwan and Macau. When Thatcher met with Deng Xiaoping to rearticulate Britain's

⁹¹ Sharpe, Wallard D. "Ten Main Ingredients of Hong Kong's Success." *The Asian Wall Street Journal*. Accessed December 30, 1982. The British National Archives, File FCO40/1548.

position on sovereignty and its desire to continue to administer Hong Kong after the New Territories Lease expired, Deng declared that if sovereignty over Hong Kong were not recovered then “it would mean that the new China was like the China of the Qing dynasty.”⁹² China sought to reclaim sovereignty over Hong Kong to end the unequal treaties and reclaim honor and authority. After China’s Century of Humiliation— a period of intervention and imperialism by the Western powers and Japan between 1839 and 1949 — the continued existence of Hong Kong as a British territory could no longer be tolerated. Instead, as a vestige of the Qing dynasty’s weakness and the agonies it endured at the hands of Western powers, it had to end.⁹³

British officials initially determined that because China benefited from Hong Kong economically, a verbal cession of British sovereignty would suffice China’s political interests while allowing Britain to maintain de facto sovereignty. However, for China, Hong Kong represented a source of national pride and political identity — as the Chinese said, they would take Hong Kong “as a barren rock.”⁹⁴ Britain therefore miscalculated their economic leverage over maintaining full control of domestic and external affairs in Hong Kong.⁹⁵ Britain’s assumption directly conflicted with China’s earlier statement that Hong Kong would be treated like Taiwan under the “one country, two systems” program. Under this scenario, Britain would lose all administrative power in Hong Kong, and the Hong Kong people themselves would assume administrative control with oversight from China. This miscalculation slowed down negotiations with the Chinese who refused to participate in more substantive talks on Hong Kong’s future until Britain made a concession on sovereignty.

⁹² Record of meeting between Thatcher and Deng Xiaoping, 24 September 1982, TNA, PREM 19/962.

⁹³ Carroll, *A Concise History of Hong Kong*, 180

⁹⁴ Cradock, *Experiences of China*, 162

⁹⁵ Cox and Elliott to Thomson, 20 September 1982, TNA, FCO21/2214.

VI Britain Makes a Concession

In late February 1983, Cradock and Edward Youde responded to Britain's weakened position and sought to secure an agreement from Thatcher that would draw the Chinese back to the negotiating table. Cradock drafted a letter to the Chinese leadership that he passed on to Margaret Thatcher in hopes of persuading her to agree to a new tactic. On 10 March 1983, Thatcher sent the secret letter to Zhao Ziyang and outlined her consent to defer the question of sovereignty to Parliament and the people of Hong Kong. The central passage read:

Provided that agreements could be reached between the British and Chinese Governments on administrative arrangements for Hong Kong which would guarantee the future of prosperity and stability of Hong Kong and would be acceptable to the British Parliament and to the people of Hong Kong as well as to the Chinese Government, I would be prepared to recommend to Parliament that sovereignty over the whole of Hong Kong should revert to China.⁹⁶

Because relinquishing sovereignty of Hong Kong Island and the Kowloon Peninsula required an Act of Parliament, Thatcher's letter did not officially cede anything. However, the word "recommend" differentiated it from previous British positions that had said they would "consider" the question of sovereignty. The verb substitution, therefore, implicitly suggested that if the right conditions were met, Thatcher would endorse Britain ceding sovereignty to China to the British Parliament. According to Cradock, Zhao in his reply deliberately misinterpreted the letter to state that the recovery of sovereignty by China was "the premise and basis for further talks."⁹⁷ While Zhao's reply misrepresented the nuance of Britain's letter, he did confirm that the formal negotiation process could move forward. On 12 May 1983, Thatcher told the Cabinet that "we are still treading on eggshells, but it looks as if we can start talks."⁹⁸

⁹⁶ Thatcher's speaking note for Cabinet, 11 May 1983, TNA, PREM 19/1055.

⁹⁷ Cradock to FCO, telegram 417, 9 May 1983, TNA, PREM 19/1055.

⁹⁸ Cradock to FCO, telegram 416, 9 May 1983, TNA, PREM 19/1055.

Ultimately, pragmatism won out as Britain evaluated that they had much more at risk without an agreement than with a formal cession of Hong Kong sovereignty to China. Without making a concession on sovereignty, the only other option in Hong Kong was military intervention. However, the Chinese presented no military threat to Hong Kong and were participating in diplomatic discussions to resolve the problem of Hong Kong's future after 1997.⁹⁹ In addition, even if such a threat did arise, Britain could not defend Hong Kong against a determined Chinese attack.

The British concluded that even if international law protected British sovereignty of Hong Kong Island and the Kowloon Peninsula, British administration in just the ceded territories was untenable. In addition, Britain overestimated the relative economic importance of Hong Kong to China by failing to fully appreciate the political importance of Hong Kong for China's larger reunification project— including reunification with Macau and Taiwan. Chinese leaders viewed the unequal treaties as an embarrassment to the Chinese people and as a nationalist rallying-point. Whereas earlier Chinese leaders had been content to benefit from Hong Kong under British rule, Deng took a deep personal interest and leadership role in the recovery of Hong Kong and believed that the PRC could benefit economically from Hong Kong's return. This directly countered the analysis of the British Foreign and Commonwealth office who thought that China's economic dependence on Hong Kong gave them the upper hand in the negotiations. If in 1979, it was the British who were pressing the Chinese on Hong Kong's future, by 1983, the situation had shifted, and it was China who was pressing Britain into agreeing to cede sovereignty of Hong Kong Island and Kowloon Peninsula.

⁹⁹ Burrows to Clift, 23 June 1982, TNA, FCO21/2213.

CHAPTER 3

THE END OF THE NEGOTIATIONS, 1983-1984

On 1 July 1983, Peking, London and Hong Kong issued a public statement agreeing to a second phase of talks on the future of Hong Kong. After a year of slow progress in which Britain and China struggled to negotiate the question of ceding Hong Kong sovereignty, the next phase of negotiations centered on how to administer Hong Kong after 1997. The signing of the Sino-British Joint Declaration at the end of 1984 marked the close of the negotiations and laid out the main terms of the agreement regarding Hong Kong's future status. Under the Declaration, Hong Kong transitioned to a Special Administrative Region of China with a high degree of autonomy.

Britain and China heralded the Joint Declaration as a success, but contemporary works of history, memoir and journalism on the Joint Declaration have almost uniformly criticized the British for ignoring their moral responsibility to the people of Hong Kong throughout the negotiations. Authors such as Mark Roberti and Robert Cottrell argue that Britain failed to include Hong Kong residents in the negotiations and that the British therefore betrayed Hong Kong. As a journalist, Roberti argues that the Declaration was a mere short-term solution that allowed the British to look good by leaving the territory and guaranteeing the Hong Kong people to have a high degree of autonomy, at the expense of denying Hong Kong people a right to their own future in the long-term.¹⁰⁰

At the same time, these sources minimize China's bilateral negotiation demands and overlook how China's view that the Hong Kong people were members of the PRC precluded Britain from legitimately advocating on behalf of the Hong Kong population. The Chinese

¹⁰⁰ Roberti, *The Fall of Hong Kong: China's Triumph and Britain's Betrayal*.
Cottrell, *The Fall of Hong Kong*

argued that any such attempt by the British would be invalid and unrepresentative of the opinions of the Chinese people, which to them, included the residents of both mainland China *and* the Hong Kong territory.

This chapter makes an important contribution to the existing literature that claims that Britain did an injustice to the Hong Kong people by not representing their interests or perspective during the bilateral negotiation process with China, by complicating the story. It does not intend to justify Britain's actions toward the Hong Kong people, but rather examines their actions in the context of China's tough negotiating constraints, that have typically been ignored.

It will be argued that China's insistence that the Hong Kong people were and always will be part of the PRC undermined any British attempts to advocate on behalf of the Hong Kong people in a direct way. Nevertheless, Britain used the legal and economic arguments available to them to advocate for the same outcomes that most of the Hong Kong people supported. For example, throughout 1983, public opinion data in Hong Kong supported continued British administration. While at points during the negotiations, the Hong Kong people felt a sense of betrayal toward the British, these concerns derived from the overt differences in how Britain and China practiced diplomacy and conducted formal negotiations —not from Britain directly rejecting moral responsibility to the people of Hong Kong.

Britain did not achieve continued administration of Hong Kong and ceded sovereignty of Hong Kong Island and the Kowloon Peninsula to China despite international law guaranteeing them to Britain indefinitely. Given the constraints from China and the legal and economic claims that Britain had, they did reach an agreement with China whereby Hong Kong existed as one

entity with a high degree of autonomy and that was acceptable enough to the people of Hong Kong and international investors that they stayed in the territory.

I Chinese propaganda versus British confidentiality

Britain and China practiced different diplomacy strategies during the negotiations; Britain committed to confidentiality while China enacted a targeted propaganda campaign. Britain determined that confidentiality was an essential requirement of any formal negotiation between two powers and therefore concluded that China's propaganda mission violated these terms. However, China continued to promote their policies publicly while Britain's commitment to confidentiality made them remain silent on the negotiations in public. Differences in negotiation strategies ultimately gave China the power to influence public perception of British policy in their public media campaigns.

During the second phase of negotiations, press coverage in China concerning Hong Kong's future became more aggressive on the question of sovereignty and Britain's colonial past. After Thatcher's 1982 visit to China, the FCO dedicated an entire research team to monitoring press coverage on the negotiations and concluded that China's messaging advanced four central claims. First, the messaging declared that Britain's claim to sovereignty was unequal and invalid due to their colonial past; second, it claimed that Britain had already ceded sovereignty; third, it argued that the Hong Kong people supported the Chinese solution, and last, it declared that unless an agreement was reached by the "deadline" of September 1984 China would make a unilateral decision on Hong Kong's future.¹⁰¹

¹⁰¹ Clift to FCO, 16 September 1983. TNA, FCO 40/1555.

The language invoked in China's propaganda campaign sought to undermine the legitimacy of Britain's legal claims to Hong Kong by presenting it as an imperial power. On 29 January 1983, the FCO reported that the two principal communist newspapers, *Ta Kung Pao* and *Wen Wei Po*, gave front page coverage to a China News Service (CNS) dispatch called "contemporary historical research" published by the Chinese academy of social sciences. According to the CNS dispatch, the history of the three "unequal" treaties represented "the criminal record of Britain's barbarous invasion of China and a testimony to the oppression and the humiliation which the Chinese people had suffered."¹⁰² *Wen Wei Po* said that few "compatriots" in Hong Kong disputed China's sovereignty and that efforts to produce a deal favorable to Britain by "sly bargaining" over the value of Hong Kong to China in foreign exchange terms would be futile.¹⁰³ Through these phrases, China created a powerful narrative that rejected Britain's claim to sovereignty and suggested that Hong Kong's return to China was a matter of international justice. The explicit purpose of the campaign throughout 1983 was to call on Britain to set aside their legal arguments concerning the validity of the treaties.

In addition to press reports, China's public statements invoked anti-colonial sentiment on the question of Hong Kong's future. In June 1983, Deng Xiaoping met Hong Kong and Macau delegates at the National People's Congress and Chinese People's Political Consultative Conference to reiterate China's negotiation goals. Deng promised no changes to Hong Kong's social system and life-style and assured that people's living standard would not be lowered.¹⁰⁴ His promise served the political purpose of assuring the Hong Kong people of their continued prosperity and semi-autonomy at a time when uncertainty about the future began resurface.

¹⁰² Telegram number 163 to FCO, February 8, 1983, TNA, FCO 40/1548.

¹⁰³ Telegram number 163 to FCO, February 8, 1983, TNA, FCO 40/1548.

¹⁰⁴ Lee Peng-fei to FCO, 25 June 1983. TNA, FCO 40/1552.

However, Deng demanded that Hong Kong law should change because: “anything that smacks of colonialism of Great Britain must be removed.”¹⁰⁵ China thus aimed to win support from the Hong Kong people by reassuring them that Chinese administration would protect their way of life. In the process of doing this, it was also clear that one of their other goals was to invalidate the legitimacy of Britain’s legal claims and force Britain to acquiesce to its toughened position on ceding sovereignty and administration of Hong Kong.

II The Indivisibility of Sovereignty and Administration

However, China issued conflicting messages about the possibility of continued British administration, which raised the hopes of certain British officials in the negotiations. At the beginning of 1983, Chinese leaders told the Hong Kong people that the territory would transition to a Special Administrative Region (SAR) governed by individuals who supported China’s claim to sovereignty.¹⁰⁶ China’s vague qualification for who could govern Hong Kong did not explicitly exclude former colonial officials if they formally acknowledged Chinese sovereignty. On this basis, FCO officials concluded that continued British administration was a possibility despite China’s propaganda campaign. In addition, senior Chinese officials made great efforts to appear more conciliatory, emphasizing that they wished to maintain the territory’s capitalist system to continue stability.¹⁰⁷ Thus, the FCO concluded that Britain’s primary interest in 1983 should be to maintain British administration to preserve Hong Kong’s economic vitality.

¹⁰⁵ *Ibid.*

¹⁰⁶ Political Adviser’s Office to FCO, 24 November 1982, TNA, FCO 21/220.

¹⁰⁷ Cass, Alain, and Robert Cottrell. “Hong Kong wins voice in its future.” *Financial Times* (London), January 25, 1983. TNA, FCO 40/1547.

As the FCO monitored Chinese propaganda to track China's toughening position, British officials debated whether sovereignty and administration were inextricable. Britain assumed that if they could find historical examples of territories which had been administered by an actor other than the sovereign, then they could use these territories as evidence against the Chinese claim that sovereignty and administration were necessarily indivisible.

However, the FCO failed to develop a compelling argument in support of divisions between sovereign and administrative powers based on historical precedents. While FCO researchers found numerous examples of countries or territories with histories of divided sovereign and administrative powers, in most instances they were former mandated or trust territories or protectorates. For example, among the examples FCO researchers found were Macao, the Sudan, Panama, Congo and Egypt.¹⁰⁸ FCO officials analyzed the relevance of each case to Britain's legal consideration in Hong Kong and Richard Clift concluded that each precedent was "loaded with colonialist overtones"¹⁰⁹ and thus offered no marginal value to Britain's debate with China.¹¹⁰

China's hard line on the indivisibility of sovereignty and administration weakened Britain's strategy to recognize titular sovereignty in exchange for continued administration of Hong Kong. FCO officials realized that China was taking an increasingly tough line in the talks and that China was publicly insisting that they would take back control of Hong Kong in 1997. China also said that, unless they reached an agreement by 1984, they would make a unilateral decision on the future of Hong Kong.¹¹¹ Through an intense propaganda campaign aimed at convincing

¹⁰⁸ Clift to Bannerman, 7 July 1983. TNA, FCO 40/1553.

¹⁰⁹ *Ibid.*

¹¹⁰ Holmes to Clift, 12 September 1983, TNA, FCO 40/1555.

¹¹¹ Clift to Whitmore, 4 October 1983, TNA, File FCO 40/1555.

the Hong Kong people of the inevitability of China's plan to make Hong Kong a Special Administrative Region, China forced Britain into a weakened position. FCO officials therefore concluded that the prospect of Britain maintaining even administration powers over Hong Kong seemed unlikely.

III A Crisis of Confidence

In 1983, the FCO devised a formal statement on the progress of the Hong Kong negotiations that they deployed consistently in press conferences, official meetings and briefings of government ministers. It stated, "Our aim is to seek a solution acceptable to Britain, China and to the people of Hong Kong. Their views being taken fully into account."¹¹² However, Britain's goal proved limited and difficult to quantify. The word "acceptable" was especially ambiguous and the international community demanded more information from the British side about the specific agenda items and action points they discussed with China.

Despite enormous governmental and public opinion pressure to be more forthcoming on the negotiations, Britain refused to abandon their commitment to confidentiality. The FCO concluded that confidentiality would bolster confidence and was a central part of well-executed diplomacy.¹¹³ Unfortunately, this analysis backfired as the Hong Kong people interpreted Britain's refusal to talk about the negotiations or respond to China's propaganda as a lack of commitment to the territory.

As a negotiator on behalf of the people of Hong Kong, the FCO concluded that Britain had an obligation to speak not only for itself but also for Hong Kong. The British publicly and

¹¹² Hollingworth to Luce, 8 September 1983, TNA, FCO 40/1554.

¹¹³ Miller to Pym, 22 December 1982, TNA FCO 40/1557

emphatically stated their goal to “reflect the community’s cause vigorously.”¹¹⁴ Certain FCO officials believed in Britain’s moral commitment to the people of Hong Kong more than they believed in the importance of good British and Chinese relationships. In a letter to Robert Adley, Lord Belstead stated: “it would not be right to place a higher premium on good UK/ China relations than on this fundamental moral responsibility.”¹¹⁵ The symbol of the three-legged chair became associated with this way of thinking and was publicly criticized by the Chinese. Coined by Lord Belstead, a firm proponent of Britain’s moral obligation to the people of Hong Kong, each leg of the chair represented China, Britain and Hong Kong. The analogy suggested that a functional and acceptable arrangement would be one in which each country’s voices had been taken fully into account.

In response to a flurry of requests from the Hong Kong people to be more represented in the negotiations, the FCO made active efforts to consult with groups in Hong Kong on the territory’s future.¹¹⁶ The Executive or Legislative Councils (LEGCO) were Britain’s primary consulting group in Hong Kong. Specifically, LEGCO advised the British negotiating team on Hong Kong opinion and made recommendations for negotiation strategies to employ with China. However, LEGCO did not truly represent the voices of the Hong Kong people, because they were appointed, rather than elected.¹¹⁷ However, with no electoral tradition in Hong Kong, the FCO found it difficult to find a group who did.

The FCO additionally concluded that ‘localizing’ the Hong Kong Government would make the outcomes of the negotiations easier for Britain to control. By ‘localizing,’ the FCO meant

¹¹⁴ Clift to Donald, 26 January 1983, TNA, FCO 40/1547.

¹¹⁵ Clift to Donald, 26 January 1983, TNA, FCO 40/1547.

¹¹⁶ Clift to Howe, 3 October 1983, TNA FCO 40/1557

¹¹⁷ Clift to Youde, 15 July 1983, TNA FCO/1552

giving the Hong Kong government more autonomy, particularly in internal affairs, and reducing the areas where HMG previously intervened.¹¹⁸ This solution offered several advantages. First, it had the potential to reduce the Hong Kong government's requirement to consult HMG on appointments, promotions and dismissals. Second, it would increase and accelerate the number of Hong Kong Chinese employed in senior grades, and it would remove the requirement for Administrative Officers to be British passport-holders.¹¹⁹ While the Hong Kong Governor, Edward Youde, doubted the efficacy of taking any action at this stage that might appear to dilute the role of HMG, he agreed with FCO officials that change was both desirable and inevitable in the longer term. Granting Hong Kong more autonomy to govern itself would ultimately limit China's administrative powers.

While Britain attempted to demonstrate to Hong Kong that they understood their anxiety about the future, Chinese officials rejected Britain's bid to consider the Hong Kong people in the negotiations. In the existing literature, Britain has come under much criticism about excluding the voices of the people of Hong Kong. For example, in Mark Roberti's account the negotiations represented a Chinese triumph and British betrayal.¹²⁰ However, China's insistence that the negotiations should be bilateral constrained Britain's ability to legitimately include the voice of the Hong Kong people.

For Britain, Hong Kong's period of separation from China as a British colony complicated Hong Kong's status, and Britain felt a responsibility to represent Hong Kong's voices. In 1982, a parliamentary debate in Britain concluded that putting the eventual negotiation agreement to a

¹¹⁸ Hong Kong and General Department, 26 January 1983, FCO 40/1547

¹¹⁹ Clift to Donald, 26 January 1983, TNA, FCO 40/1547.

¹²⁰ Roberti, *The Fall of Hong Kong*, 167

referendum in Hong Kong would be untenable due to China's negotiating terms. Francis Pym reiterated China's position by saying "the Chinese have made it clear that they consider the negotiations to be bilateral and that the views of the 5 million people of Hong Kong count for nothing against those of the 1 billion people of the PRC. A referendum would have unacceptable internal implications for them."¹²¹ China's insistence on a bilateral negotiation reflected their position that Hong Kong was not autonomous but a central part of China. A referendum only counting Hong Kong's voice would therefore not be representative to the PRC. China also advocated publicly that their solution was acceptable to the people of Hong Kong and so a referendum would be futile.

FCO officials doubted the truth behind China's claims that their solution was acceptable to the people of Hong Kong. Public opinion data collected by The Institute for the Study of Conflict and sent to the Secretary of State confirmed the FCO's suspicions. The report highlighted two public opinion polls: the first, carried out on behalf of the Reform Club of Hong Kong, a body to which some elected members of the Urban Council belonged, found that "maintenance of the status quo" was the "preferred outcome" for 70 per cent of those questioned, while a further 15 per cent opted for continued British administration under a "trust territory" arrangement to be made with China. The second poll was commissioned by the Hong Kong Observers who were a group that described itself as consisting of "about 30 concerned Hong Kong people from various walks of life, including lawyers, educators, journalists and business executives."¹²² In their poll respondents indicated which solutions they would find acceptable out of five options. 95 per cent

¹²¹ Lee Peng-fei to FCO, 25 June 1983, TNA, File FCO 40 1552.

¹²² Lewis, D. K. *The Prospects for Hong Kong*. Vol. 142. London: Institute for the Study of Conflict, 1982. The British National Archives, File FCO40 1547

found “retention of the status quo” acceptable, 64 per cent wanted “Hong Kong to remain under British administration with sovereignty belonging to China” and only 26 per cent considered the possibility of “returning Hong Kong to China” – a phrase implying either only sovereignty or sovereignty plus administration — acceptable.¹²³ However, while the data supported the FCO’s own conclusions about the acceptability of China’s claims to the Hong Kong people, the opinion data was ultimately limited due to the sample sizes of the respondents, as well as the inherent biases of the two groups who collected it. In addition, the categories used terms such as “acceptability” which meant different things to China and Britain.

For Britain, an acceptable solution to the Sino-British negotiations preserved Hong Kong’s way of life. British officials defined acceptability as “an agreement that would satisfy the majority of the people of Hong Kong to the extent that they would be prepared to continue to live in Hong Kong and not seek to remove themselves or their capital elsewhere.”¹²⁴ The idea of acceptability was thus inherently tied to the issue of immigration. Britain feared an influx of Hong Kong residents to the UK because, as Richard Clift concluded, such an immigration pattern would be “politically dangerous.”¹²⁵ As chapter one outlines, Britain made an intervention to avoid this contingency and restrict movement in Hong Kong via the 1981 Immigration Act. For many in Hong Kong, Britain’s public goal of an acceptable solution thus required a greater commitment to clarify immigration legislation to avoid the risk of large numbers trying to come to the UK from Hong Kong.

¹²³ *Ibid.*

¹²⁴ Clift to Youde, 15 July 1983, TNA, FCO 40/1552.

¹²⁵ Sparrow to Clift, 6 September 1983, TNA, FCO 40/1554.

IV The Problems of Confidentiality

The effect of different negotiation strategies on Hong Kong's future incited a crisis of public confidence in Hong Kong that gave rise to a sense of British betrayal. While British policy and goals evolved within the FCO, Britain's commitment to confidentiality meant that the Hong Kong people and international community held only a vague idea of the British side of the negotiations.

In contrast to China's propaganda claims, Britain's commitment to confidentiality led people in Hong Kong and the international community to demand greater transparency from the UK. To everyone but the FCO, Britain's commitment to confidentiality was problematic. In a white paper, Richard Clift, underscored some of the problems caused by the British confidentiality policy that were discussed in several news reports and reviews in Hong Kong. In addition to the people of Hong Kong, the American, French, German and Japanese governments demanded to know more about the British position in the negotiations.¹²⁶ However, rather than acquiesce to demands to be more open, and even though China actively ignored the confidentiality agreement, the FCO concluded that keeping the negotiations strictly confidential was "vitally important to maintain confidence in Hong Kong."¹²⁷ Britain urged Hong Kong people to "not take lack of official bulletins for lack of action. It is the talks themselves which count and not what is said outside them."¹²⁸ However, with no other information except propaganda issued from the PRC, Hong Kong people feared the worst and interpreted Britain's commitment to confidentiality as a signal of British apathy toward Hong Kong's future.

¹²⁶ Clift to Private Secretary, 20 September 1983, TNA, FCO 40/1555.

¹²⁷ Eldon to Clift, 23 September 1983, The British National Archives, File FCO 40 1555.

¹²⁸ Clift to Reichert Esq, no date, TNA, FCO 40/1555.

Economic downturn and a decline in public opinion signaled that the FCO wrongly concluded that confidentiality was key to maintaining confidence. During the recess in the talks in 1983, public and press opinion in Hong Kong became increasingly gloomy as reflected in the general trend of the stock market and the Hong Kong dollar. From 13- 16 September 1983, the HKD stood at a low figure of 7.89 to the US dollar .¹²⁹ In addition to a sharp depreciation in the exchange value of the Hong Kong dollar, sluggish growth in private consumption expenditure and a decline in private investment expenditure during a period of recovery in the export sector accompanied the second phase of the negotiations, demonstrating low consumer and business confidence in Hong Kong.¹³⁰

Ironically, this economic and public confidence crisis was exactly what Britain hoped to avoid by beginning the negotiations and maintaining their commitment to confidentiality. Finding no fault in their own policy, the FCO concluded that the main cause of the declines in confidence was the Chinese propaganda campaign.

Britain entered the final round of negotiations with the hope that securing greater assurances from China about what a SAR would look like and maintaining confidentiality would restore lost confidence. However, in early September 1983, there was a general feeling in Hong Kong that people in Britain were apathetic towards Hong Kong. Britain offered limited information about the progress of the Sino-British talks on Hong Kong's future and there was an absence of substantial British media coverage on the Hong Kong negotiations. This created an

¹²⁹ Clift to FCO, 16 September 1983. TNA, FCO 40/1555.

¹³⁰ Paper on Possible Manifestations of a loss of confidence sent to FCO, September 1983. TNA, FCO 40/1555.

unfavorable impression, both of HMG and of the Governor. Consequently, the prevailing attitude in Hong Kong was that HMG had a “a “less-than-total commitment to the negotiations.”¹³¹

V Geoffrey Howe’s Visit and the End of Talks

Even if Britain had opened up about the negotiations, their statements could not have revealed much substantive information. Despite over a dozen rounds of talks, Britain and China’s discussions were still not anchored in certainty about what the eventual agreement would look like. FCO officials researched possible solutions to questions about things like law, immigration and transfer of sovereignty, but concluded that the outcomes of the negotiations in Beijing since they resumed in the middle of August had been “disappointing.”¹³² It was not until Geoffrey Howe’s visit to Beijing, arranged for 15-18 April, 1984 that the initial drafts of the Sino-British Joint Declaration began to emerge.

For the Chinese, Sir Geoffrey Howe’s willingness to come to Beijing was a positive sign, a reassurance that the British did genuinely want to move forward towards an agreed solution despite being forced into concessions on the questions of sovereignty and administration. The common objective was to reach an agreement which fulfilled their joint purposes in Hong Kong. At the meeting, Zhao said that great progress had been made in the negotiations so far due to Britain’s recognition, in explicit terms, that China would resume the exercise of sovereignty over Hong Kong in 1997 and that Chinese sovereignty was not separable from its rights of administration of Hong Kong.¹³³ Zhao also highlighted that to the extent permitted by the principle of Chinese sovereignty, the Chinese side had shown the greatest possible flexibility and

¹³¹ Hollingworth to Luce, 8 September 1983, TNA, FCO40/1554.

¹³² Youde telegram to FCO, 3 September 1983, MSS, PREM19/1267 f306

¹³³ UKE Beijing telegram to FCO, 6 September 1983, MSS, PREM19/1267 f294.

given full consideration to Britain's concerns. The Secretary of State said that the two sides were close to understanding each other and agreed that great progress had been made on both sides.

On the afternoon of April 20th, Howe stood up in the Legislative Council Chamber and delivered to Hong Kong the most momentous news about 1997 ever to have been spoken by a British minister, saying "It would not be realistic to think in terms of an agreement that provides for continued British administration in Hong Kong after 1997."¹³⁴ He went on to outline the various pledges already made by China to leave Hong Kong substantially unchanged. Both sides also agreed that the document could be signed in September 1984 and ratified before the end of the year. However, Howe's meeting with Deng Xiaoping had left much of the substance of the negotiation document unresolved.

In the months following Howe's visit, the FCO concluded that the Chinese shift of position on their deadline, and Britain's agreement to work for a draft to be published by September, imposed constraints on both sides. The FCO had drafted a general agreement that Howe's visit made clear would not survive in its original form given China's hard line on the indivisibility of sovereignty and administration. However, the Chinese did accept both the concept of a binding joint agreement and annexes, which would contain at least the bulk of the points agreed on in the FCO working papers.¹³⁵ The major disagreement that occurred as both Britain and China committed to drafting up proposals was the establishment of a Joint Commission Group in Hong Kong to oversee the transfer. Convinced that this arrangement would fail,

¹³⁴ Luce to Thatcher, 24 April 1984, MSS, PREM19/1264 f20

¹³⁵ Youde telegram to FCO, 20 April 1984, MSS, PREM19/1264 f38.

Governor Youde instead suggested a Sino-British Joint Liaison Group that would be strictly consultative.

Further, Howe's trip to Beijing deepened friendly relations between him and his Chinese counterpart, Wu Xueqian. Howe was able to send a strong private message to Wu following the fifteenth round of talks urging that a commitment to an agreement should be translated as quickly as possible into substance at the negotiating table. Howe and Wu agree that the working group should be launched in tandem with the main negotiations and should concentrate on finalizing the text of the main agreement, based on China's "Twelve Points," while the main team continued to work on the main material.

With this new structure and an impending deadline, the Joint Declaration, after 21 months of discussions, formally began to emerge. By early September 1984, the British and Chinese negotiators in Peking agreed to the texts of an agreement on the future of Hong Kong. This agreement declared that Hong Kong would become a Special Administrative Region (SAR) of the People's Republic of China from 1997 under specified arrangements and with a high degree of autonomy. The agreement was published as a White Paper on the day it was initialed in Peking on 26 September 1984. Upon reflection, the FCO concluded that it met all the British Government's essential requirements, namely: that it was an unequivocally binding international agreement; that it contained sufficient detail and clarity about the arrangements to apply to Hong Kong after 1997 to command the confidence of the people of Hong Kong; and finally, that it contained a provision that its terms would be stipulated in the basic law to be passed by the National People's Congress of China, which will in effect form the constitution of post-1997

Hong Kong.¹³⁶ For the British, the major points that the Declaration fell short on was the right of British Dependent Territory Citizens to transmit their status for one generation to their children after 1997. They also failed to persuade the Chinese that a Chief Executive of Hong Kong should be elected immediately in 1997.¹³⁷

On December 19, 1984, Thatcher and Zhao Ziyang signed the Sino-British Joint Declaration that laid out the terms of the negotiations on Hong Kong's political future. Local reactions to the Joint Declaration were mixed. Consistent with earlier opinion polls, most people preferred that Hong Kong remain a British colony. Although some feared the prospect of living under Chinese rule, they were glad that a deal had finally been reached and recognized that continued British rule was unrealistic. The declaration, as defined by Cradock, was said to be "as comprehensive protection as could be devised and agreed"¹³⁸ and it offered different advantages to both Britain and China. For the PRC government, the Joint Declaration was a way to prepare Hong Kong for eventual reunification as smoothly as possible and to assure Hong Kong people that their way of life would not change. Still, many people in Hong Kong were frustrated, and they resented the way that the negotiations had been conducted because they determined they did not have any say in the process. For the British, the Joint Declaration was an attempt to protect Hong Kong after 1997 and to withdraw with dignity without appearing as if they had surrendered Hong Kong and betrayed its people. This explains why Britain sought to include the voices of the Hong Kong Executive Council and introduce greater democratic institutions into Hong Kong throughout the Sino-British negotiations.

¹³⁶ Howe minute to MT, 19 September 1984, MSS, PREM19/1267 f55.

¹³⁷ *Ibid.*

¹³⁸ Cradock, *Experiences of China*, 209

CONCLUSION

In 1979, British officials kickstarted discussions on Hong Kong's future with China and had high hopes of an outcome that maintained British administration of both the ceded and leased territories. International law guaranteed Britain's sovereign rights over Hong Kong Island and the Kowloon Peninsula, and British administration established rule of law institutions, an internationally accepted currency and attractive free-market economy, which spurred enormous economic investment. However, by 1984 Britain ultimately made a concession on Hong Kong sovereignty after overestimating the relative strength of the legal and economic leverage they had over China. Several factors led Britain to cede sovereignty of Hong Kong Island and Kowloon Peninsula, two territories otherwise guaranteed to them indefinitely, and these included: the expiration of the New Territories Lease, the necessity of managing Hong Kong as one entity, China's absolute commitment to regaining sovereignty of Hong Kong at any cost and Britain's desire to maintain Hong Kong's economic vitality.

A comparison of Britain and China's goals at the beginning of the negotiations to the outcomes both sides achieved by 1984, offers an entry point to assess the relative success of the negotiation outcome for Britain. When Edward Heath visited Deng Xiaoping in 1982, China communicated their commitment to regaining sovereignty and administration over the whole of Hong Kong and envisaged an outcome after 1997 where Hong Kong transitioned to a Special Administrative Region (SAR) with a high degree of autonomy under a "one-country, two systems" model.¹³⁹ In contrast, British officials desired an outcome in 1982 that allowed Britain to continue to exercise full control of domestic and external affairs in Hong Kong after the New Territories lease expired. By 1984, the terms in the Sino-British Joint Declaration bore a

¹³⁹ Atkins to FCO on Taiwan nine-point statement, September 1982, TNA, FCO 40/1290.

striking—almost exact—resemblance to China’s stated aims in 1982. Therefore, when analyzing the relative success of this outcome for Britain, at face value the negotiations read as a story of British capitulation and possible failure.

However, while it is true that Britain made a series of major concessions, chief among them was ceding sovereignty of Hong Kong Island and the Kowloon Peninsula back to China and withdrawing permanently from Hong Kong, this result drew in large part from China’s commitment to take Hong Kong at any cost. China’s commitment to reunification placed considerable constraints on the British negotiating team because China’s demands were essentially non-negotiable.

Though both Hong Kong and China stood much to gain economically from continued British administration, Britain overlooked the central importance China placed on reclaiming Hong Kong to their nationalist, political identity. Under the leadership of Deng Xiaoping, China resolved that, if the PRC’s resumption of sovereignty over Hong Kong brought economic collapse to Hong Kong, then the PRC “would courageously face up to this catastrophe.”¹⁴⁰ China’s sovereignty-at-any-cost approach combined with the fact that Hong Kong was only economically and politically viable as one entity, meant that Britain’s legal claims to the ceded territories of Hong Kong Island and the Kowloon Peninsula were powerless in practice. Britain determined that if they held on to just the ceded territories, it would be the Hong Kong people who would suffer as the ceded territories could not meet their basic food, water or power needs. Furthermore, structural interdependency and near-total economic integration of the ceded and leased territories meant that any partition to Hong Kong would carry severe economic

¹⁴⁰ Deng Xiaoping, quoted by Tsang, *A Modern History of Hong Kong*, 96.

consequences. Britain, thus, traded its prestige and legal rights in Hong Kong to maintain Hong Kong's economic viability. Therefore, given China's constraints, achieved the Britain best deal they could and accusations in the existing literature of British cowardice or betrayal are unfounded.

While journalists such as Mark Roberti argue that Britain betrayed the people of Hong Kong, it was the Chinese who barred Hong Kong people and Hong Kong administrators from the negotiations. China was fiercely opposed to Britain's aim to secure a solution that was acceptable to the Hong Kong people because it implied a trilateral negotiation involving China, Hong Kong and Britain. When Lord Belstead suggested this approach in 1982 through his metaphor of the three-legged stool, Chinese leaders rejected it outright. As far as China was concerned, the Hong Kong negotiations were a bilateral "problem left over from history"¹⁴¹ that called for the removal of a foreign government that ruled over ethnic Chinese on Chinese soil.

Moreover, when the Hong Kong Governor, Edward Youde, became a negotiator in mid-1983 he told journalists that he was representing Hong Kong at the negotiating table. In response, the Xinhua News Agency, a Chinese newspaper, replied, "Mr. Youde is a member of the British delegation. Only the Chinese government can represent the people of Hong Kong."¹⁴² This crucial exchange reveals an important dimension to the negotiations. Specifically, it demonstrates that both Britain and China considered themselves to be representing the Hong Kong people even though the Hong Kong people were not allowed to take part in negotiations and had no elected voice to speak for them.

¹⁴¹ Kemenade, Willem van, and Diane Webb. *China, Hong Kong, Taiwan, Inc.* New York: Knopf, 1997.

64

¹⁴² Ibid.

In the context of China's refusal to grant the Hong Kong people a right to participate in the negotiations, Britain advocated for an acceptable solution. While Roberti argues that Britain did not consult the people of Hong Kong nor take their wishes into account, public opinion data reveals that Britain advocated for the same outcomes that most Hong Kong people wanted, specifically, British administration. More significantly, Roberti's argument denies the agency Hong Kong people exercised even under China's constraints to involve themselves in internal debates and play a significant role in working out Britain's policy.¹⁴³ In particular, members of LEGCO consulted with British officials on how to best negotiate with China and on what terms.

Throughout the negotiations, British officials responded to unexpected Chinese constraints on Hong Kong's future. While Britain miscalculated the strength of their negotiating leverage by failing to consider the symbolic value of Hong Kong's reunification to China, they did achieve an outcome that allowed the Hong Kong people to administer Hong Kong for fifty years with assurances from China that they would not interfere in Hong Kong judicial or administrative processes. As we anticipate the end of the terms of the Sino-British Joint Declaration in 2047, only time will tell if the difficult questions of Hong Kong sovereignty, administration and economic prosperity that fueled the 1982-1984 Sino-British negotiations will reemerge.

¹⁴³ Thatcher, Margaret. *The Downing Street Years*. New York, NY: HarperCollins, 1993.491.

Bibliography

Archives consulted:

The British National Archives (TNA)

Margaret Thatcher Foundation

Secondary Works:

Cannadine, David. *Margaret Thatcher : A Life and Legacy*. Oxford ; New York, NY: Oxford University Press, 2017.

Carroll, John M, and Chi-Kwan Mark. *Critical Readings on the Modern History of Hong Kong*. Leiden ; Boston: Brill, 2015.

Carroll, John M. *A Concise History of Hong Kong*. Lanham: Rowman & Littlefield, 2007.

Cassese, Antonio. *Self-Determination of Peoples : A Legal Reappraisal*. New York, NY ; Cambridge: Cambridge University Press, 1995.

Chan, Ming K, and John D Young. *Precarious Balance : Hong Kong between China and Britain, 1842-1992*. Armonk, N.Y.: M.E. Sharpe, 1994.

Cheng, Joseph. *Hong Kong in Search of a Future*. Hong Kong ; New York: Oxford University Press, 1984. 45-74.

Cottrell, Robert. *The End of Hong Kong: The Secret Diplomacy of Imperial Retreat*. London: John Murray (Publishers) Ltd., 1993.

Cradock, Percy. *Experiences of China*. London: John Murray, 1994.

Eitel, Ernest John. *Europe in China; the History of Hongkong from the Beginning to the Year 1882*. Ch'eng-wen Pub. Co., 1968.

Flowerdew, John. *Critical Discourse Analysis in Historiography : The Case of Hong Kong's Evolving Political Identity*. Houndmills, Basingstoke, Hampshire ; New York: Palgrave Macmillan, 2012.

Flowerdew, John. *The Final Years of British Hong Kong : The Discourse of Colonial Withdrawal*. New York: St. Martin's Press, 1998.

Han, Anna. "Hong Kong 's Economy Under Chinese Rule: Prosperity and Stability?" *Santa Clara Law Digital Commons*, January 1, 1997.
<https://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?article=1507&context=facpubs>.

Hong Kong Housing Authority. "Public Housing Development." Housing Department, The Government of the Hong Kong Special Administrative Region. London. Accessed 01/11/17. <https://www.housingauthority.gov.hk/linear/en/about-us/public-housing-heritage/public-housing-development/index.html>.

- Kemenade, Willem van, and Diane Webb. *China, Hong Kong, Taiwan, Inc.* New York: Knopf, 1997.
- Macintyre, Thomas. "Impact of the Sino-British Agreement on Hong Kong's Economic Future," *Journal of Comparative Business and Capital Market Law* 7, no. 2 (June 1985): 197-216
- Moore, Charles. 2013. *Margaret Thatcher : The Authorized Biography : From Grantham to the Falklands*. New York: Alfred A. Knopf.
- Renwick, Robin. *A Journey with Margaret Thatcher : Foreign Policy under the Iron Lady*. London: Biteback, 2013.
- Roberti, Mark. *The Fall of Hong Kong : China's Triumph and Britain's Betrayal*. New York: John Wiley & Sons, 1996.
- Tax Foundation . "OECD Corporate Income Tax Rates, 1981-2013." taxfoundation.org, December 18, 2013. <https://taxfoundation.org/oecd-corporate-income-tax-rates-1981-2013/>.
- Thatcher, Margaret. *The Downing Street Years*. New York, NY: HarperCollins, 1993
- The National Archives, "Citizenship 1906-2003." National Archives. Accessed March 16, 2018. http://www.nationalarchives.gov.uk/pathways/citizenship/brave_new_world/citizenship4.htm.
- Tsang, Steve. *Modern History of Hong Kong, A : 1841-1997 (1)*. London, GB: I.B.Tauris, 2007. Accessed September 13, 2017. ProQuest ebrary.
- Wang, Dong. "The Discourse of Unequal Treaties in Modern China." *Pacific Affairs* 76, no. 3 (2003): 399-425. <http://www.jstor.org/stable/40023820>.
- Welsh, Frank. *A History of Hong Kong*. London: HarperCollins, 1997.