

China's Negotiation Strategy in Recovering Hong Kong

JOSEPH Y. S. CHENG

This article focuses on Beijing's negotiation strategy and its preparations regarding the conclusion of the Sino-British Joint Declaration. The negotiation process is divided into several important stages, and a framework is offered for further research. The Chinese decision-making processes before the negotiations started were detailed and scientific. The decision to recover Hong Kong by 1997 was certainly influenced by nationalist considerations, and Chinese leaders were willing to pay the price. The "one country, two systems" policy for Hong Kong demonstrated the Chinese leadership's liberation in thinking at that time, and that it was ready to adopt a set of highly pragmatic guidelines to secure the confidence of the Hong Kong people and to maintain the territory's stability and prosperity. In contrast, the British side did not have a good understanding of the situation in China. In particular, the British seriously neglected the impact of nationalism on the Chinese leadership and the Hong Kong people.

KEYWORDS: Sino-British Joint Declaration; negotiation strategy; "one country, two systems"; united front policy; nationalism.

JOSEPH Y. S. CHENG (鄭宇碩) is Chair Professor of Political Science and Coordinator of the Contemporary China Research Project, City University of Hong Kong. He is the founding editor of the *Hong Kong Journal of Social Sciences* and the *Journal of Comparative Asian Development*. He has published widely on political development in China and Hong Kong, Chinese foreign policy, and local government in southern China. He can be reached at <cccrc@cityu.edu.hk>.

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The Sino-British negotiations on Hong Kong's future were a major challenge to the Chinese leadership. They involved China's fundamental position on the unequal treaties,¹ Hong Kong's demonstration effect on Taiwan, and the potential historical legacy of the Chinese leaders. Other considerations included the need to maintain the territory's stability and prosperity (to show the world that the Chinese could administer Hong Kong better than the British) and China's united front strategy toward Hong Kong.

The negotiations did not end in 1984 with the issuing of the Sino-British Joint Declaration. Various arrangements surrounding the transfer of administration, from the political system of the Hong Kong Special Administrative Region (HKSAR) to the fiscal reserves of the British administration, triggered many disagreements. During the negotiations, political and economic developments within China had a significant impact on the talks. The achievements of China's economic reforms and its opening to the outside world naturally enhanced the Hong Kong people's confidence that the handover would be successful, but on the other hand, the Tiananmen Incident of 1989 prompted many Hong Kong people to emigrate, introducing new complications to the negotiations.

A detailed analysis of the Sino-British negotiations would require a huge volume. This article, after a brief introduction, focuses on Beijing's negotiation strategy, dividing the negotiation process into the following important stages: (1) China's position before the negotiations; (2) the raising of the question by the British authorities; (3) preparations for negotiations: formula for recovery; (4) preparations before Margaret Thatcher's China visit: research and united front work; (5) diplomatic preparations before Margaret Thatcher's China visit; (6) Margaret Thatcher's visit to China; (7) five rounds of secret negotiations and the public opinion war; (8) the start of the formal Sino-British negotiations; (9) the handover of Hong Kong;

¹For references to the important historical documents concerned, see Peter Wesley-Smith, *Unequal Treaty, 1898-1997* (Hong Kong: Oxford University Press, 1980).

(10) post-1997 arrangements; and (11) the final stage of the negotiations. The conclusion offers general observations concerning China's negotiation strategy and a framework for further research. When the relevant British Foreign Office files become available to the public, and when more key figures have published their memoirs, academics will have sufficient material for a more conclusive analysis.

There is a considerable literature on Chinese negotiating behavior. Richard H. Solomon's volume, for example, attempts to assess the "unique" aspects of Chinese negotiating behavior as perceived by the American officials who encountered their Chinese counterparts in the 1970s. Solomon assumes that Chinese official negotiators had a distinctive negotiating style and that they revealed distinctive negotiating characteristics.² To a large extent, the British negotiators who engaged with China over Hong Kong would agree with Solomon, especially the "old China hands" in the British foreign-policy establishment like Sir Percy Cradock. Authors of other academic books and articles on China's negotiating behavior tend to share similar views.³

The Hong Kong negotiations, however, had other significant features. Beijing needed to win the hearts of the Hong Kong people, especially in order to maintain the confidence of investors.⁴ For the handover to be successful, Hong Kong's economy had to continue to prosper, otherwise the Chinese leadership's reputation would be damaged and China's international image would be tarnished just as it was embarking on economic reform and opening up. The Chinese Communist Party's (CCP's) strong point, its united front strategy and tactics, came into the picture here.⁵

²Richard H. Solomon, *Chinese Negotiating Behavior: Pursuing Interests Through "Old Friends"*, new edition (Washington, D.C.: United States Institute of Peace Press, 1999), xi.

³See, for example, Carolyn Blackman, *Negotiating China: Case Studies and Strategies* (St. Leonards: Allen & Unwin, 1997); William Burr, ed., *The Kissinger Transcripts: The Top Secret Talks with Beijing and Moscow* (New York: New Press, 1999); Goh Bee Chen, *Negotiating with the Chinese* (Aldershot: Dartmouth, 1996).

⁴Lucian W. Pye's investigation of the deeper cultural and institutional factors important for understanding Chinese negotiating practices is most relevant.

⁵John C. Kuan, *The KMT-CCP Wartime Negotiations, 1937-1945* (Taipei: Asia and World Institute, 1982).

Finally, the Hong Kong people attracted a lot of public sympathy internationally, as they were perceived as having to accept a return to China (or emigration) against their will. This concern for China's image was a new challenge for the Chinese authorities and their diplomats as China emerged from the Cultural Revolution and the influence of the Gang of Four.

China's Position Before the Negotiations

From a military point of view, taking back Hong Kong would not have been very difficult after the founding of the People's Republic of China (PRC). As decolonization was perceived as an inevitable global trend, the international community could hardly have condemned the PRC authorities for doing this. But Chinese leaders at the time wanted to maintain the status quo in Hong Kong as a window to the Western world through which China could conduct limited trade and financial transactions, as well as for information gathering.⁶

From an ideological point of view, these arrangements were embarrassing. After the deterioration in Sino-Soviet relations, the Hong Kong question attracted a lot of criticism from the Soviet Union and its allies. On March 8, 1963, a commentary in the *People's Daily* entitled "Commentary on the Statement of the Communist Party USA" explained the PRC position as follows:

We consistently advocate that regarding some unresolved issues which are a historical legacy, they will be settled peacefully through negotiations when the conditions are ripe; and the status quo will be maintained before their settlement. For example, the questions of Hong Kong, Kowloon and Macau, and all border issues as yet to be formally delineated by both parties concerned belong to this category.

In September 1964, at the conference of the World Youth Forum in Moscow, the representative of Ceylon (now Sri Lanka) proposed the pro-

⁶Norman Miners, *The Government and Politics of Hong Kong*, 5th ed. (Hong Kong: Oxford University Press), 3-13.

motion of independence for Hong Kong and Macau according to the United Nations (UN) Charter. The Chinese authorities believed that the Ceylon representative acted at the instigation of the Soviet Union. In response, the Chinese representative stated:

Hong Kong and Macau are a part of the Chinese territory occupied by force by British and Portuguese imperialism on the basis of unequal treaties. The settlement of the Hong Kong and Macau issue is a matter that is entirely within China's sovereign jurisdiction, and basically does not fall within the usual scope of so-called "colonies."⁷

After the PRC's admission into the UN, on March 8, 1972, its permanent representative to the UN, Huang Hua (黃華), wrote a letter to the chairman of the UN Special Committee on Decolonization, requesting that Hong Kong and Macau should be removed from the list of territories which came under the committee's supervision. Huang stated:

The settlement of the questions of Hong Kong and Macau is entirely within China's sovereign right and they do not at all fall under the category of colonial territories. Consequently they should not be included in the list of colonial territories covered by the declaration on the granting of independence to colonial countries and people. With regard to the questions of Hong Kong and Macau the Chinese government has consistently held that they should be settled in an appropriate way when conditions are ripe.⁸

From the 1960s, following Hong Kong's economic take-off, the PRC secured substantial trade surpluses from the territory, and these became an important source of the PRC's foreign exchange revenue, enabling it to meet its demand for "hard currencies" before the economic reforms and opening up. Hong Kong's impressive economic growth had earned it a respectable international status, and the PRC's recovery of the territory at that time would have shocked the international community in a much more significant way than did India's liberation of Goa at the end of 1961.

Serious riots occurred in both Hong Kong and Macau in 1967 due to the influence of China's Cultural Revolution. The Portuguese administra-

⁷Yeh Ming-te, *Xianggang zhengzhi zhidu jiqi gaige wenti* (Hong Kong's political system and the issues of its reform) (Taipei: Hong Kong and Macau Group, Executive Yuan, 1989), 42.

⁸Robert Cottrell, *The End of Hong Kong: The Secret Diplomacy of Imperial Retreat* (London: John Murray, 1993), 32.

tion in Macau lost control, and the Portuguese government offered to return Macau to the PRC, but Beijing refused to accept it. It was generally believed that the Chinese leadership did not want to adversely affect Hong Kong's stability and prosperity.⁹ In 1974, a left-wing military regime was established in Lisbon, and between 1974 and 1977, Portugal offered to return Macau three times, but Beijing still declined the offer.¹⁰

It appears that in the period between the Sino-Soviet split in the early 1960s and the PRC's entry into the UN, Beijing gradually defined its formal position on Hong Kong. Despite pressures from various quarters, Chinese leaders stood firm in maintaining Hong Kong as China's "window." Chinese officials often repeated Chairman Mao Zedong's (毛澤東) statement that the issue of Hong Kong would be settled after the liberation of Taiwan to avoid destabilizing Hong Kong.

These gestures designed to maintain confidence in the territory are best illustrated by the dialogue between the then British prime minister Edward Heath and Chinese leaders during Heath's visit to Beijing in May 1974. Mao assured Heath that Hong Kong's position as an Asian trade and financial center under British administration was secure, at least for the present. Mao dismissed the matter thus: "It is all history! You have this Hong Kong question outstanding, and we are not going to talk about this now." Heath had three detailed discussions with Deng Xiaoping (鄧小平) on the Hong Kong issue during the visit. During the third meeting, Deng said he hoped that regarding the Hong Kong question, China "can wait till you have fully considered the issue, perhaps when you are reelected prime minister, to reach an agreement."¹¹

⁹Miners, *The Government and Politics of Hong Kong*, 7.

¹⁰Chiu Hungdah, "Zhonggong yu Yingguo jiu Xianggang wenti tanpan shi suo caiyong zhi celue fenxi" (An analysis of China's strategy in the negotiations with the UK on the issue of Hong Kong), in *Zhonggong tanpan celue yanjiu* (A study of China's negotiating strategies), ed. Chiu Hungdah and Ren Xiaoqi (Taipei: Linking, 1987), 146; Tam Chi-keung, *Aomen zhuquan wenti shimo* (A complete account of the question of Macau's sovereignty) (Taipei: Yongye, 1994), 237-72.

¹¹Chen Dunde, *Xianggang tanpan wenti shimo* (A complete account of the negotiations on the Hong Kong question) (Hong Kong: Chung Hwa, 2009), 4-5.

According to Sir Percy Cradock, the new PRC government in 1949 appeared content with the status quo in Hong Kong, although it sought to appoint a Chinese commissioner in the territory, something which was rejected by the British government. In 1971, Premier Zhou Enlai (周恩來) indicated to Malcolm Macdonald, the former British commissioner-general for Southeast Asia, that "China had no intention of seeking to recover Hong Kong until the expiry of the New Territories lease." Cradock considered this "the firmest indication of Beijing's thoughts on timing."¹² At the end of the 1970s, in view of Mao's departure and the launch of economic reforms in China, Sir Percy believed that "the way was clear for more practical co-operation between Hong Kong and the mainland."¹³

Raising the Question

In May 1978, China's State Council began preparations for the establishment of a Hong Kong and Macau Affairs Office (HKMAO). Before the Cultural Revolution, there had been a Hong Kong and Macau Group (*xiaozu*) within the State Council's Foreign Affairs Office that was responsible for Hong Kong and Macau affairs. At that time, Liao Chengzhi was deputy director of the Foreign Affairs Office and head of the group, hence he was the person actually in charge of Hong Kong and Macau affairs. During the Cultural Revolution, the Foreign Affairs Office was abolished, and the West European Affairs Department of the Ministry of Foreign Affairs took charge of Hong Kong and Macau affairs. In 1978, Liao was in charge of preparing for the establishment of the HKMAO, and he subsequently became its head, while concurrently heading the State Council's Overseas Chinese Affairs Office. Initially, the existence of the HKMAO was not made known to the public.¹⁴ Its establishment reflected the Chi-

¹²Percy Cradock, *Experiences of China* (London: John Murray, 1994), 162.

¹³*Ibid.*, 163.

¹⁴Lu Ping and Qian Yijiao, *Lu Ping koushu: Xianggang hui gui* (Lu Ping dictates the history of Hong Kong's return) (Hong Kong: Sanlian, 2009), 4-5.

nese leadership's awareness of Hong Kong's significance, and was possibly related to its soon-to-be-launched economic reforms.

In November 1978, Wang Kuang (王匡) arrived in Hong Kong to take up the position of head of the Hong Kong branch of the New China News Agency (NCNA). A short time later, the Hong Kong governor, Sir Murray MacLehose (later Lord MacLehose) invited Wang to a banquet and raised the question of the "New Territories lease"; Sir Murray hoped that the Chinese authorities would reveal their position in a positive manner, so as to ease the fears of investors. The HKMAO suggested that Beijing did not need to offer a positive reply for the time being. At the time, Lu Ping (魯平) quoted Deng Xiaoping as saying: "Although nineteen years are not a short period of time for us, yet if foreigners are to invest, they must consider this factor. To promote their investment in Hong Kong means that their hearts must be put at ease. Hence we have to study this question."¹⁵

Putting investors' hearts at ease thus became China's most important consideration in its Hong Kong policy. Though the reform and opening up was yet to happen, Chinese leaders headed by Deng Xiaoping obviously wanted to maintain Hong Kong's status as an international trade and financial center, and they recognized the significance of the issue of confidence. This consideration seems to have remained unchanged throughout the negotiation period and even today. Since the return of Hong Kong to China another factor has been added: the need to demonstrate that the Chinese can administer the HKSAR better than the British did.

In March 1979, Sir Murray MacLehose visited Beijing. During his meeting with Deng Xiaoping, he formally raised the "New Territories lease" question. There were still eighteen or nineteen years to go before its expiry, but bankers in Hong Kong saw it as a pressing issue related to real estate mortgages. Throughout the 1970s, Sir Murray's administration worked hard to develop new towns and public housing estates in the New Territories to meet the demand for housing among the lower-middle and lower socioeconomic strata, as this was perceived to be essential for Hong

¹⁵*Ibid.*, 5-6.

Kong's stability and development. These projects were also based on the premise that private developers would acquire land to build houses for middle-class families. Those families had in turn to borrow money from the banks through mortgages that lasted for a decade or more. If the land leases and the housing deeds could not go beyond 1997, then the mortgages would have shorter and shorter time limits, and the development of the New Territories would be severely hampered. In view of the very high population density in Hong Kong Island and Kowloon, slowing down the development of the New Territories was inconceivable.

Sir Murray attempted to probe the PRC authorities as to whether they would allow the New Territories land leases and housing deeds to go beyond 1997. Deng Xiaoping's answer was:

Hong Kong's sovereignty belongs to China; it is a part of China. This question cannot be discussed, but we consider Hong Kong a special area. . . . In this century and for a considerably long time in the following century, Hong Kong may continue to practice its capitalism, and we practice our socialism. Upon your return you can tell the people, investors may set their hearts at ease.¹⁶

This is Lu Ping's version; according to Sir Sze-yuen Chung (鍾士元), at that time a member of both the Executive and Legislative Councils of Hong Kong, Deng Xiaoping indicated that even though Hong Kong might be in ruins, the recovery of the country's lost territory could not be delayed.¹⁷

Both versions became available to the public some years later, but at that time, all that the people of Hong Kong were told was that "investors may set their hearts at ease." Deng Xiaoping's position deserves careful examination. In the first place, although the Chinese authorities had been handling the Hong Kong issue very flexibly, on the question of sovereignty its position was very firm—probably because it was related to a fundamental principle of New China: abolish all unequal treaties and conclude

¹⁶*Ibid.*, 8.

¹⁷Sze-yuen Chung, *Hong Kong's Journey to Reunification: Memoirs of Sze-yuen Chung* (Hong Kong: Chinese University Press, 2001), 30-31.

new treaties with all countries concerned on the basis of equality.¹⁸ The PRC authorities' firm position on sovereignty matters soon became clear in various aspects of the Sino-British negotiations. Further, according to Lu Ping's version, there was a hint of the emerging "one country, two systems" model; it appears that this was related to the new approach to Taiwan being considered by the Chinese leadership at this time.

In the 1980s, Hong Kong community leaders close to Beijing believed that if the British government had not insisted on settling the New Territories issue, the question of Hong Kong's future could have been delayed much longer, and formal diplomatic negotiations might even have been avoided. However, the rule of law is of paramount importance to the British government and Western bankers, an implicit understanding would not have been accepted as a satisfactory or even workable solution.

In July 1979, the British ambassador to Beijing, Sir Percy Cradock, presented a diplomatic note from the British government to the Chinese authorities, formally raising the New Territories issue. The British side proposed that its Privy Council would issue a Royal Instruction, and the British colonial administration would follow the Royal Instruction and amend the law to allow the New Territories land leases not to specify time limits; new leases would not set time limits, and existing leases would abolish time limits so as to avoid the 1997 question.

At this point, the PRC authorities had to respond. In September, the assistant foreign minister, Song Zhiguang (宋之光), provided a reply for Sir Percy Cradock rejecting the British proposal. Song also issued a warning to the ambassador: "If you do not listen to our advice and adopt unilateral measures, you can imagine our probable responses."¹⁹

¹⁸Joseph Y. S. Cheng and Shi Zhifu, eds., *Zhonghua renmin gongheguo duiwai guanxi shigao*, Vol. 1, 1949-1964 (A draft history of the foreign relations of the People's Republic of China, Vol. I, 1949-1964) (Hong Kong: Cosmos Books, 1994), 29-32.

¹⁹Lu and Qian, *Xianggang huigui*, 9-10.

Preparations for Negotiations: Formula for Recovery

Chinese officials began to understand that the issue of Hong Kong's future could no longer be delayed. The HKMAO and the Foreign Ministry began detailed discussions in March 1981, and the prospects of recovery gained a distinct edge over those of maintaining the status quo. In April, Liao Chengzhi (廖承志) delivered a report to the party leadership proposing that the recovery of Hong Kong be carried out according to schedule, that is, in 1997. Liao considered that the crux of the matter would lie in the adoption of an appropriate policy so as to minimize the shock.

In December 1981, the secretariat of the CCP Central Committee (CCPCC) met to consider Liao's report that Deng Xiaoping had made the decision to "definitely recover (Hong Kong) according to schedule." It was decided at this meeting that systems in Hong Kong would remain unchanged after its return to China, and the territory would be administered by Hong Kong people. The meeting also requested that the HKMAO draw up a concrete plan for the maintenance of the territory's prosperity and stability, as well as policies to be adopted concerning the 1997 issue within three months.

Recovery According to Schedule

In early 1981, the PRC government approved the arrangements for a visit to China by the British foreign secretary, Lord Carrington, and it was expected that preparations would be made for negotiations on Hong Kong's future. Initially, discussions between the HKMAO and the foreign ministry concentrated on the following two options: "bypassing 1997" and "not avoiding 1997." The former would be similar to the Macau model. In the wake of the revolution in Portugal in 1974, the new government proposed to return Macau to China. Lisbon's initiative led to negotiations in Paris in 1979 between the two countries' ambassadors to France. A secret agreement was then reached in connection with the establishment of formal diplomatic relations: that the Portuguese government's recognition of the PRC's sovereignty over Macau would mean that the status quo would be maintained there.

If the Macau model were adopted, the British government would declare that Hong Kong was China's sovereign territory, that it was a historical legacy about which negotiations would be held when the time was right, and until such negotiations, the status quo would be maintained. But the Thatcher government insisted that the three treaties (concerning Hong Kong) remained valid,²⁰ Hong Kong and Kowloon were territories already ceded to Britain, and the negotiations would only cover the extension of the New Territories' lease upon its expiry. This position actually denied that Hong Kong and Kowloon were territories of China, and could not be accepted by the Chinese leadership.

"Not avoiding 1997" hinged on this advantageous opportunity for the recovery of Hong Kong. As the British government insisted on the validity of the three treaties, it would lose the legal basis of its administration of the New Territories by 1997; this would then offer the PRC an opportunity to recover the whole of Hong Kong. Naturally, the Chinese officials concerned were well aware that although the recovery of Hong Kong would be easy, the maintenance of its stability and prosperity would be a severe challenge. If Hong Kong's economy fell into recession and social unrest broke out upon its return to China, the latter's image would be considerably damaged.

In the early discussions, advocates of "bypassing 1997" seemed to have the upper hand. After all, there was not much confidence that Hong Kong's stability and prosperity would be maintained upon its return to China, and the status quo had been tolerated for over three decades. Another international factor was the establishment of formal diplomatic relations between the PRC and the United States, and the termination of official ties between Washington and Taipei at the end of 1978. The Chinese leadership's aspiration was that reunification with Taiwan would be

²⁰The three treaties are the Treaty of Nanjing (1842) which permanently ceded the island of Hong Kong; the Beijing Convention (1860), which permanently ceded the Kowloon Peninsula; and the New Territories Lease (1898) which leased a piece of land north of the Kowloon Peninsula and several neighboring island (subsequently known as the New Territories) for ninety-nine years. See Peter Wesley-Smith, *Unequal Treaty, 1898-1997: China, Great Britain and Hong Kong's New Territories* (Hong Kong: Oxford University Press, 1980).

followed by the settlement of the Hong Kong question. However, this scenario was not very realistic.

Since Sir Murray's visit to Beijing in March 1979, however, the British government had been stepping up pressure on the Chinese authorities regarding the New Territories lease while insisting on the validity of the three treaties. Hence, by March 1981, the mainstream view among the Chinese officials concerned was that Hong Kong should be recovered by 1997. It was said that when Liao Chengzhi reported back to Deng Xiaoping after the March 1981 meeting of the HKMAO and Foreign Ministry officials, Deng responded as follows: "If we don't take back Hong Kong now and sign another unequal treaty, we will all become another Li Hongzhang (李鴻章), and any government would fall from power. Chinese leaders must not be another Li Hongzhang."²¹

The British government considered that the Chinese would not kill the goose that lays the golden egg. Beijing had been willing to accept the status quo regarding Hong Kong in the past, so why could it not continue to do so now that the territory had achieved impressive economic development and was capable of making an important contribution to China's economic reform and opening up? The PRC had established formal diplomatic relations with the United States, having already concluded a treaty of peace and friendship with Japan in August 1978. In early 1979, it launched a punitive war against Vietnam. In the late 1970s and early 1980s, the PRC and the United States arguably enjoyed a relationship of "pseudo-alliance," and in the context of this strategic cooperation, London believed that Beijing was susceptible to pressure from Western public opinion. The Thatcher government, however, underestimated the significance of sovereignty in the eyes of the Chinese leadership as well as the impact of the British insistence on the "validity of the three treaties" on its nationalist feelings.²²

²¹Wong Man Fong, *Zhongguo dui Xianggang huifu xingshi zhuquan de juece licheng yu zhixing* (The policy-making process and the implementation of China's resumption of the exercise of its sovereignty over Hong Kong) (Hong Kong: David C. Lam Institute for East-West Studies, Hong Kong Baptist University, 1997), 12.

²²Britain's negotiating strategy does not fall within the scope of this article. For research in

In June 1982, Britain scored an impressive victory over Argentina in the Malvinas (Falkland Islands) War. Margaret Thatcher's domestic political status and her government's popularity with the British public were boosted substantially; the British government also enhanced its influence in the international community. The military victory probably hardened the British position in the negotiations over Hong Kong and strengthened Thatcher's confidence that she could settle the Hong Kong issue in line with the British position.

With the benefit of hindsight, if the Thatcher government had had a better understanding of the Chinese leadership's position, and therefore been willing to adopt "bypassing 1997" as the basic approach in negotiations, there is a distinct possibility that the return of Hong Kong to China in 1997 could have been avoided.

"One Country, Two Systems"

Sir Percy Cradock, the lead British negotiator, reflected on the negotiations as follows: "There was a vivid memory of humiliations suffered at foreign hands, a determination to reassert sovereignty and recover lost territory, an abiding suspicion of foreign capitalists and their devious ways, plus a formidable ignorance of the working of the Hong Kong economy and the territory's connections with London."²³ Sir Percy also admitted that this was something that was "insufficiently appreciated by most of the British actors until well into the negotiations and which from time to time is underestimated even today [the early 1990s] in London and Hong Kong."²⁴

Deng's reference to Li Hongzhang was a significant symbolic reflection and indicator. It indicated that the fundamental rationale for recovering Hong Kong, and doing so by 1997, was based on strategic considerations; that is, if the Chinese authorities could recover the New Territories legitimately by that date, it would be impossible for the British to

this area, see Cottrell, *The End of Hong Kong*; Mark Robert, *The Fall of Hong Kong: China's Triumph and Britain's Betrayal* (New York: Harper Collins, 1993).

²³Cradock, *Experiences of China*, 164.

²⁴*Ibid.*

continue their administration over Hong Kong and Kowloon. Having defined the primary objective, the key priority was to secure a smooth return of the territory while maintaining its stability and prosperity. This was important for the prestige and good image of the Chinese leadership, as it would show that China could administer Hong Kong as well as, or even better than, the British colonial government. This would be essential for convincing Taiwan to accept the "one country, two systems" model and ensuring the international community's confidence in China's policy of economic reform and opening up.

In early 1981, the Chinese authorities did not have a detailed plan for recovering Hong Kong, and neither were they confident that they could maintain stability and prosperity in the territory. In order to make the decision to take it back, they had to be willing to pay the price—that is, to allow the Hong Kong economy to fail if necessary. Psychologically, this would ensure China's success in the negotiation process. Tactically, the Chinese leaders accepted that concessions had to be made if they were to secure British cooperation in maintaining Hong Kong's stability and prosperity. There was an obvious logic in this negotiating plan once the primary objective had been set.

The Chinese authorities were well aware that the British side would like to seek a continuation of the status quo by means of a formal agreement, and this was why the British had approached Beijing to initiate negotiations. For China to reject this or even to reject the extension of the British administration of the territory would mean total defeat for London in the negotiation process. This was why the Chinese authorities were willing to offer economic benefits to the British side, mainly the benefits it enjoyed while Hong Kong was a British colony, to secure its cooperation in maintaining Hong Kong's stability and prosperity; this was also why they distrusted the British side so much, especially after the conclusion of the Sino-British Joint Declaration. This distrust was exacerbated by the conventional view that British diplomats were very shrewd, and that in the process of decolonization elsewhere in the world, the United Kingdom had deliberately left a lot of problems for the newly independent states to sort out. There was also an acute awareness on the part of the Chinese authori-

ties that they had little understanding of how a market economy and an international financial center functioned.

In April 1981, Liao Chengzhi delivered his report on the Hong Kong question to the CCPCC, in preparation for consideration by a meeting of its Secretariat scheduled for later in the month. According to Li Hou, the proposed policy framework was as follows:

Upon its return to China, Hong Kong would become a special region directly administered by the central government. Besides those essential changes related to state sovereignty, the rest basically should remain unchanged. The capitalist system would be allowed to continue to exist, the free port policy would be maintained, investment from all countries would be welcomed and the interests of private investors would be guaranteed, and the special region government would enjoy fiscal autonomy. The Hong Kong dollar would continue to circulate; political organizations and the administrative system of governance, with the exception of those parts representing colonial rule, would basically follow the existing systems, institutions, laws, and measures. The civil servants of the British administration, including the police force, would be retained.²⁵

This "one country, two systems" model was publicized internationally through "Chairman Ye Jianying's (葉劍英) Elaboration on Policy Concerning Return of Taiwan to Motherland and Peaceful Reunification" released on September 30, 1981. This nine-point document was the foundation of Beijing's Taiwan policy in the reform era. Point 2 of the document discussed the establishment of the "three links" across the Taiwan Strait, point 3 introduced the concept of a special administrative region, and point 4 offered to guarantee that Taiwan's existing economic and social systems would remain unchanged after reunification, while private property and foreign investment would be safeguarded.²⁶

It was said that Liao was the initiator and drafter of this important document. After its release, Liao used it as a foundation for organizing dis-

²⁵Li Hou, *Bainian qurushi de zhongjie: Xianggang wenti shimo* (The end of a century's history of humiliation: a complete account of the Hong Kong question) (Beijing: Zhongyang wenxian chubanshe, 1997), 68.

²⁶Ye Jianying, "Guanyu Taiwan huigui zuguo, shixian heping tongyi de fangzhen zhengce" (On the guiding policy concerning the return of Taiwan to the motherland, and the realization of peaceful unification), *Renmin ribao* (People's Daily), October 1, 1981.

cussions with responsible officials from the HKMAO, Foreign Ministry, and the Hong Kong branch of the NCNA. Gradually a "twelve-point policy" on the settlement of the Hong Kong question was developed. The document also became the basis for the crucial decision of the CCPCC Secretariat at its December 1981 meeting that after recovery, Hong Kong's original systems would remain unchanged and that Hong Kong would be administered by Hong Kong people.²⁷ This was also the thinking behind Annex I of the Sino-British Joint Declaration, "Elaboration by the Government of the PRC of Basic Policies Regarding Hong Kong."

Shortly before the release of the "Letter to the Taiwan Compatriots from the Standing Committee of the NPC," on January 1, 1979 Deng Xiaoping met Prime Minister Takeo Fukuda of Japan in Tokyo. When they talked about the rejection of the proposals in the letter by the Taiwan authorities, Deng indicated that settlement of the Taiwan question "needs time."²⁸ The Chinese leaders realized that the Hong Kong question was more pressing, and they therefore had to resolve the Hong Kong issue first. They naturally hoped that the Hong Kong model would have a demonstration effect on Taiwan.

The "one country, two systems" model and the Hong Kong policy framework were certainly very innovative. It was a bold move by Liao Chengzhi and his colleagues from the HKMAO and the Foreign Ministry to present such a proposal to the Chinese leadership, although the proposal reflected their sophisticated understanding of Hong Kong. This sophisticated understanding certainly impressed the Hong Kong public during the course of Beijing's subsequent united front work in the territory. It had

²⁷Documentary Research Office of the Central Committee of the Communist Party of China, *Deng Xiaoping nianpu* (1975-1997) (A chronology of Deng Xiaoping [1975-1997]), Vol. II (Beijing: Zhongyang wenxian chubanshe, 2004), 781-82.

²⁸Deng Xiaoping, "Dang he guojia lingdao zhidu de gaige" (Reform of the leadership system of the party and state), in *Deng Xiaoping wenxuan*, Vol. 2, 1975-82 (Selected works of Deng Xiaoping, Vol. 2, 1975-82), ed. Documentary Research Office of the Central Committee of the Communist Party of China (Beijing: Renmin chubanshe, 1983), 280-302; Joseph Y. S. Cheng, "Introduction: China's Modernization Programme in the 1980s," in *China: Modernization in the 1980s*, ed. Joseph Y. S. Cheng (Hong Kong: Chinese University Press, 1989), ix-xix.

been achieved through a long period of dedicated research and a willingness to learn from all circles; restrictions imposed by ideological doctrines seem to have been ignored. This preparatory work also laid an excellent foundation for meeting the challenge of the coming Sino-British negotiations.

This open mindedness on the part of the Chinese officials probably reflected the "thought liberation" that was being encouraged in China during this period. The Chinese leadership was keen to promote reforms. Deng Xiaoping's talk entitled "Reform of the Party and State Leadership System," delivered to an enlarged meeting of the Politburo on August 18, 1980, was a sign of the official enthusiasm for seeking breakthroughs in political reform and ignoring existing taboos.²⁹

Preparations for Margaret Thatcher's China Visit: Research and United Front Work

In March 1982, the HKMAO presented a "Preliminary Plan on the Settlement of the Hong Kong Question," signed by Liao Chengzhi, to the CCPCC Secretariat. The Secretariat endorsed the plan and asked for further views to be sought from the various parties concerned.³⁰ At this point, the die had already been cast regarding the date for taking back Hong Kong and the related basic policy. Seeking "further views from the various parties concerned" actually meant united front work. The principal purpose of this united front work was to generate support from all those who could be won over.

The Chinese authorities' united front work in Hong Kong was initially rather difficult. The Hong Kong people had formed a very unfavorable impression of China during the chaos and violence of the Cultural Revolution years. Elderly people in the territory were mainly refugees who had fled

²⁹Deng, "Dang he guojia lingdao zhidu de gaige," 280-302.

³⁰Lu and Qian, *Xianggang huigui*, 17.

from mainland China after 1949 or as a result of the subsequent political campaigns and chaos. They had very little trust in the Chinese leadership. Before early 1984, when the British government indicated that it was prepared to abandon Hong Kong, the vast majority of Hong Kong people had clearly hoped that the territory's status quo could be maintained, and this status quo included British administration.³¹

The Hong Kong community was very much encouraged by China's economic reforms and opening up, not to mention the "four modernizations" program. Certainly Hong Kong would be more valuable to a China interested in economic reforms and opening up. A majority of Hong Kong people perceived themselves as Chinese nationals, and they wanted to see a strong and prosperous China. At the end of the 1970s, spiralling land prices and wages were creating problems for the territory's export-oriented, labor-intensive industries. From the early 1980s, small and medium-sized enterprises began moving their operations across the border to the Pearl River Delta in order to benefit from lower land and labor costs.

Deng Xiaoping's statement that "investors may set their hearts at ease" was initially rather effective in reassuring the Hong Kong people. The average price of a private apartment rose by 67 percent in 1979 and another 30 percent the following year. The Hang Seng Index, which reflected stock market prices, almost doubled from 1979 to 1980.

As the issue of Hong Kong's future began to loom large, the Hong Kong people became worried. One important indicator of this was the number of people moving abroad. Many middle-class families were inclined to move out, or at the very least to send their children to study overseas so that the next generation could avoid the adverse impact of the territory's uncertain future. Some of these families acquired property in the United States, Canada, or elsewhere, a trend reflected by the many overseas real estate advertisements appearing in local newspapers in the early 1980s. Even a small Central American state like the Dominican Republic set up an

³¹See Joseph Y. S. Cheng, "The Future of Hong Kong: A Hong Kong 'Belonger's' View," *International Affairs* 58, no. 3 (Summer 1982): 476-88.

office in Hong Kong selling real estate; its attraction was that property owners could acquire permanent residence immediately and full citizenship after half a year of residence in the country. Holders of a Dominican Republic passport were permitted to hold passports of other states.

The wave of emigration became an important consideration in Beijing's Hong Kong policy for some years, and it was a convenient issue which enabled London to exert pressure on Beijing. The reason was simple: the British government could not defend Hong Kong, and if the Chinese leadership decided to take it back at all costs, it could achieve the goal with relative ease. But in these circumstances, all the territory's talented individuals would have emigrated and investment would have been withdrawn, making the recovery of Hong Kong a failure. The Chinese leadership would have lost face, as the recovery of Hong Kong would have made no contribution to the Chinese nation or the CCP. This was why the top Chinese leadership spent a lot of time and effort on the Hong Kong issue.

From the end of 1981 to mid-1982, Deng Xiaoping received a number of Hong Kong community leaders who were close to Beijing, such as Henry Fok Ying-tung (霍英東). These individuals were mostly NPC deputies or delegates to the National Committee of the Chinese People's Political Consultative Conference (CPPCC). Premier Zhao Ziyang (趙紫陽) also met a group of business leaders from the territory, including Li Ka-shing (李嘉誠) and Gordon Wu Ying-sheung (胡應湘), who were thought to be interested in investing in the mainland. The messages these visitors were given reflected the gist of Liao Chengzhi's "twelve-point policy" proposal.³²

Public opinion surveys carried out in Hong Kong at that time indicated that local people had a lot of trust in the British administration, but not much trust in Beijing or London, especially Beijing. From the list of community leaders received by Deng and Zhao, it is obvious that the Chinese still had little opportunity to reach out to the political elites who still remained loyal to the British administration. This was a political reality

³²Sima Yi, *Rongyao quangui Deng Xiaoping de Xianggang qiantu tanpan* (Negotiations on Hong Kong's future: all honors to Deng Xiaoping) (Hong Kong: Hong Kong Economic Journal, 1984), 4.

during the initial stage of Beijing's united front work in the territory. At that stage, the emphasis was on motivating the core of the united front, allowing it to fully understand the spirit of the Party's policy line, and enabling it to become influential in the Hong Kong community. After the end of the Cultural Revolution in the late 1970s, the Chinese authorities had begun to rebuild the united front and its mass organizations in Hong Kong; now that the decision had been made to take back Hong Kong, united front work was accorded an even higher priority.

In 1982, a five-member group consisting of senior cadres from the HKMAO and the Hong Kong branch of the NCNA was dispatched to Hong Kong to engage in research work. This group was directly led by Liao Chengzhi and headed by Lu Ping whose publicly acknowledged status was that of advisor to the West European Affairs Department of the Foreign Ministry. The other four members of the group had been born and raised in Hong Kong or Macau; they were fluent in Cantonese and had established extensive ties in Hong Kong.³³

The group did a lot of detailed research work in Hong Kong. They focused on the factors contributing to Hong Kong's success, as well as the variables affecting public confidence and the stability of the territory. More than twenty reports were completed on specific topics to do with Hong Kong's economic, political, legal, and social situation for the CCPCC Secretariat. At the same time, Liao Chengzhi presided over the substantiation and revision of the "twelve-point policy" proposal.³⁴

The group's members made contact with Hong Kong experts in various fields, and they gained a good understanding of the network of ties within the territory's various professional groups. They paid special attention to the political orientation of the various community and professional leaders, and this was clearly a preliminary to united front work. Considering how unfavorable the local environment for united front work was at that time, the group's progress was impressive. On one occasion, Premier Zhao

³³Lu and Qian, *Xianggang huigui*, 18.

³⁴Chen, *Xianggang tanpan wenti shimo*, 64.

Ziyang tried to strengthen the Hong Kong people's confidence in the territory's future by saying, "Just change the flag; horse races will continue, dancing will continue, and speculation in the stock market will continue."

In their attempts to win public support, both Beijing and London focused on the territory's elites and investors. But in the eyes of the young people of the territory, nationalism and democracy were important concerns, and in that respect, China's united front work enjoyed a distinct edge over that of Britain. On August 9, 1980, the student unions of the territory's tertiary institutions released an open letter to the local NPC deputies who were due to take part in the third plenary session of the Fifth NPC. The letter expressed the hope that the PRC government would adopt a positive attitude toward local mass movements, and understand the needs and demands of Hong Kong people.³⁵

At the end of March 1983, after a year of detailed research work, the HKMAO presented its revised policy plan on the settlement of the Hong Kong question, the guideline for the coming negotiations with Britain, to the CCPCC. In April, the plan was endorsed by the Politburo, and in July Sino-British negotiations on Hong Kong formally began.³⁶ In December 1982, the PRC Constitution had been revised to allow for the formation of special administrative regions. The revised version of Article 31 states: "The state may establish special administrative regions when necessary. The systems to be instituted in special administrative regions shall be prescribed."

In February 1984, during his reception of a U.S. delegation from Georgetown University, Deng presented a fairly comprehensive account of the "one country, two systems" concept for the first time. He stated:

The model we proposed for the unification of the mainland and Taiwan is reasonable and appropriate. After unification, Taiwan continues to practice its capitalism and mainland China practices socialism; but they will be in one unified China, i.e., "one China, two systems." The issue of Hong Kong will be the same, one China, two systems.

³⁵Cheng, "The Future of Hong Kong," 487.

³⁶Lu and Qian, *Xianggang huigui*, 21.

In June, Deng addressed the subject of "one country, two systems" while receiving a group of Hong Kong community leaders. He again indicated that "our policy is to implement 'one country, two systems'". In practical terms, this means within the PRC, the practice of the socialist system in the mainland with its population of one billion and the practice of the capitalist system in Hong Kong and Taiwan." In March 1985, the third plenary session of the Sixth NPC formally affirmed "one country, two systems" as a basic state policy, and in 1990, "one country, two systems" was written into Hong Kong's Basic Law.³⁷

The Chinese leadership realized that the cadre corps in China had to be ideologically prepared for the practice of "one country, two systems." On February 13, 1982, the then CCP general secretary, Hu Yaobang (胡耀邦), and the party theoretician Hu Qiaomu (胡喬木) discussed the idea during a training course for new cadres called the Guangdong and Fujian Work Forum. Hu Yaobang declared, "At present, besides opening to the external world in the economic arena, we have to adopt another model in the not too distant future, i.e., a model allowing two social systems within one country, to settle questions regarding Taiwan reunification and the recovery of the sovereignty of Hong Kong and Macau." Hu Qiaomu also pointed out, "If we take back Hong Kong and Macau, a large body of the capitalist class will become citizens of the PRC. They become a part of the territory of the PRC, but will continue to maintain their existing systems; they are still free ports. One country, two systems, and there will unavoidably be new and very complicated situations emerging, we need to have adequate preparation."³⁸

Diplomatic Preparations before Margaret Thatcher's Visit to China

In September 1979, Deng Xiaoping met the former British prime minister Edward Heath; the following month, he met another former Con-

³⁷Ibid., 28.

³⁸Sima, *Rongyao quanguo Deng Xiaoping*, 4-5.

servative prime minister, Harold Macmillan. In May 1980, he received former Labour prime minister James Callaghan. Deng accorded these retired British politicians red-carpet treatment, but did not release any new information on the Hong Kong question.

In January 1982, the British Lord Privy Seal Humphrey Atkins visited China. Premier Zhao Ziyang arranged to receive him in order to explain the PRC government's position on Hong Kong, and indicated that the Chinese would be willing to negotiate with the British in the near future. Premier Zhao reaffirmed the stance that Hong Kong, Kowloon, and the New Territories were all Chinese sovereign territory, and declared that China attached significance to Hong Kong's status as a free port, international trading center, and international financial center. The Chinese premier stated that Beijing would consult people from various social strata in Hong Kong on the territory's status, and would take local people's views into full consideration when defining its policy on Hong Kong. He asked that, prior to the negotiations, both sides should avoid any acts that would damage the territory's stability and prosperity.³⁹

On January 5, 1982, six days before Zhao Ziyang's meeting with Humphrey Atkins, the governor of Hong Kong Sir Murray MacLehose asked to see Wang Kuang, head of the Hong Kong branch of the NCNA. Sir Murray's message before his impending retirement was that without the British administration, Hong Kong's economy would crash, and neither the Hong Kong people nor the international community would have confidence in the territory. Sir Murray advised the Chinese authorities to give more consideration to how they could make further use of Hong Kong, so that the territory could make a major contribution to China's economic development.⁴⁰

This was the crucial factor determining the outcome of the Sino-British negotiations. Beijing was well prepared to begin the talks and

³⁹Chen, *Xianggang tanpan wenti shimo*, 68-69. This account is based on several interviews the author conducted with Tang Longbin (唐龍彬), former director of the bureau of protocol, Ministry of Foreign Affairs of China.

⁴⁰Wong, *Zhongguo dui Xianggang huifu xingshi zhuquan*, 9.

London was trying to exert pressure on the Chinese authorities, arguing that they were not capable of administering Hong Kong well. But by then Beijing had decided to take back Hong Kong on schedule, to adopt the "one country, two systems" model to minimize the adverse impact, and to boost the Hong Kong people's confidence with a united front strategy.

The British government felt optimistic about the meeting between Zhao and Atkins. It believed that the door to negotiations had been opened, that the Chinese leadership appreciated Hong Kong's importance, and that it would take the local community's views into account. The British media observed that the Thatcher government then felt a sense of relief.⁴¹

Margaret Thatcher judged that her visit to China would provide a good opportunity to discuss the Hong Kong issue. In March 1982, she made a gesture of goodwill to Beijing by accepting an invitation from Sir Y. K. Pao (包玉剛), a leading Hong Kong shipping magnate, to go to Sunderland to launch a freighter belonging to a joint venture between Pao's Worldwide Shipping group and a Chinese shipping company. She also asked Edward Heath, her predecessor, to visit Beijing again as "an old friend of the Chinese people," to probe the PRC's position on Hong Kong.

Heath was received by Deng Xiaoping in April 1982. Deng reaffirmed the stance that Hong Kong was China's sovereign territory and indicated that sovereignty and administration were inseparable. He further discussed the establishment of a special administrative region (SAR), and the local government to be formed by Hong Kong people; he even suggested that the British could participate in the SAR government and reassured Heath that British business interests in Hong Kong would not be affected at all. It seems that Deng wanted to convey a sense of well-preparedness and confidence, though he still tried to give Heath face, informing him that "now is the time to consider the Hong Kong question."⁴²

Early that month, Sir Murray MacLehose invited Wang Kuang to a "farewell tea party." He presented Wang with an informal document ex-

⁴¹Cottrell, *The End of Hong Kong*, 67.

⁴²Deng Xiaoping nianpu, 812.

plaining how Hong Kong operated, the indispensable key being the British administration.⁴³ At that time, the British administration had been mobilizing Hong Kong's community leaders to pass the same message to any Chinese official with whom they came into contact.

Before Thatcher's visit to China, Deng Xiaoping typically indicated to China's domestic audience and foreign audiences that it was just as prepared to take a hard line as it was a soft line. On June 15, 1982, Deng received the NPC deputies and CPPCC delegates from Hong Kong. In a speech said to have lasted two hours, Deng argued that China "needs to secure the cooperation of the British," and hence "has to fully take care of the British interests, in exchange for their delivery of the administration in a peaceful and orderly manner." He warned that if the British were "uncooperative," China would take back Hong Kong "ahead of schedule by military means."⁴⁴

On July 24, the new Hong Kong governor, Sir Edward Youde, and his predecessor, Sir Murray MacLehose, met the Chinese ambassador to London, Ke Hua (柯華). Sir Edward and Sir Murray suggested a solution that would involve Hong Kong's sovereignty being returned to China while the territory would continue to be administered by Britain. Ambassador Ke retorted, "Just a while ago didn't you launch a distant military campaign to the Malvinas? . . . You might as well try the same method you adopted for dealing with the Malvinas!"⁴⁵

Margaret Thatcher's Visit to China

The British Position

On July 27, 1982, Margaret Thatcher called an emergency policy meeting specifically on the Hong Kong issue, in preparation for her visit to

⁴³Li, *Bainian qurushi de zhongjie*, 74-76.

⁴⁴Wong, *Zhongguo dui Xianggang huifu xingshi zhuquan*, 20.

⁴⁵This account is based on the record of the author's several interviews with Tang Longbin, former director of the bureau of protocol, Ministry of Foreign Affairs of China.

China in September. Right from the start, the British prime minister insisted on "the validity of the three treaties concerned." In her view, "if China wants to take back Hong Kong Island and Kowloon, it has to negotiate with Britain and revise the treaties." After listening to Sir Edward Youde, however, Thatcher finally came to accept his obvious conclusion—that in order to maintain the British administration of Hong Kong, the New Territories, Hong Kong Island, and Kowloon could not be considered separately.

The British ambassador to China, Sir Percy Cradock, was the British Foreign Office's main China expert. He was generally considered a "dove" where China was concerned, and the Hong Kong media believed that he was ready to sacrifice the interests of local people. Sir Percy's proposal was that Britain should accept the formal transfer of Hong Kong's sovereignty to China, but ask for a revision of the treaties in exchange for the right to continue the British administration of Hong Kong. Alan Donald, the assistant undersecretary in charge of Asia and the Pacific at the British Foreign Office, also articulated the Foreign Office's position of an exchange of sovereignty for administration; he pointed out that when James Callaghan was prime minister, his foreign secretary, David Owen, had intended to offer the Chinese a similar deal after Sir Murray MacLehose had informed him of the PRC's position.⁴⁶

Margaret Thatcher rejected the formula of the previous Labour government, however, and indicated that she would not go to Beijing to promise the Chinese that they could resume the exercise of sovereignty over Hong Kong. In her memoirs, she recalled that her objective in the negotiations was to exchange the sovereignty over Hong Kong Island for an extension of the British administration over the entire colony.⁴⁷

The agenda for Thatcher's China visit had already been decided before this crucial meeting. She was to discuss the bilateral relationship first, then international issues, and finally the Hong Kong question. After the meeting, the British side altered the agenda, putting the issue of Hong

⁴⁶On the discussions in this meeting, see Cottrell, *The End of Hong Kong*, 71-72.

⁴⁷See Margaret Thatcher, *Margaret Thatcher: The Downing Street Years* (New York: Harper Collins, 1993), 259.

Kong first to show how much importance they attached to it.⁴⁸

The Sino-British Diplomatic Encounter

On September 23, 1982, formal talks were held between Margaret Thatcher and Zhao Ziyang. Thatcher insisted that the three treaties related to Hong Kong remained valid internationally, and any revisions had to be based on these three treaties. She also declared that without the British administration, Hong Kong would "crash." Hence, if Hong Kong's prosperity and confidence was to be maintained, the British administration would have to be retained. Zhao, however, focused on the specific policies that the PRC government would put in place after it had recovered Hong Kong, and he also formally notified the British side that "the Chinese government will take back the sovereignty of the entire Hong Kong region not later than 1997."⁴⁹

The following day, Deng Xiaoping was scheduled to meet Margaret Thatcher. Deng intended to teach Thatcher a small lesson: after the British prime minister had entered the Great Hall of the People, she walked all the way to the door of the Fujian Room, which was then slowly opened. Deng only shook hands with Thatcher, in contrast to the previous day when Zhao had awaited her arrival outside the Great Hall of the People.⁵⁰

Deng informed Thatcher that the "sovereignty question" would not be discussed. He said, "If [Hong Kong] is not to be recovered this would mean that the Chinese government [is like] the late Qing government, and Chinese leaders [are like] Li Hongzhang." Deng indicated that "within one or two years, China will formally announce its policy of taking back Hong Kong."

In what was probably the sharpest exchange, Thatcher warned that an announcement by China that it was going to take back Hong Kong would have disastrous effects on the territory. Deng replied, "If the announcement

⁴⁸Wong, *Zhongguo dui Xianggang huifu xingshi zhuquan*, 50.

⁴⁹Chen, *Xianggang tanpan wenti shimo*, 105-7; and Thatcher, *The Downing Street Years*, 260-61.

⁵⁰Sima, *Rongyao quanguo Deng Xiaoping*, 27.

of taking back Hong Kong would, as madam stated, have 'disastrous effects' we shall bravely face this disaster and make (our) policy!"⁵¹

Thatcher asked Deng not to publicize the content of their conversation or China's plans, for fear of the reaction this would provoke in Hong Kong. The question of the joint communique on the Sino-British negotiations was also controversial; Thatcher adamantly refused to accept the premise of the recovery of Hong Kong by China in 1997. In the end, the two sides agreed to issue a joint communique without any concrete commitments.⁵²

As she descended the steps of the Great Hall of the People, Margaret Thatcher slipped and fell. The media in both Hong Kong and Britain made a lot of this incident. In his memoirs, Sir Percy Cradock referred to the meeting, saying that since China had demanded the return of both sovereignty and administration by 1997, it appeared that the sovereignty question could not be raised again. Sir Percy admitted that the British government found itself in a disadvantageous position right at the beginning of the showdown, and any negotiations thereafter would be extremely difficult.⁵³

In the evening after the negotiations, Margaret Thatcher instructed Sir Percy to reaffirm her views on the Hong Kong question and present them to the PRC government as a formal document. On September 27, she arrived in Hong Kong. In a BBC (British Broadcasting Corporation) interview conducted at the governor's residence, she again stressed the validity of the three treaties. She warned that refusing to abide by these treaties would set a precedent for other international treaties. She suggested that if

⁵¹For the actual statement, see Chen, *Xianggang tanpan wenti shimo*, 107-13; the author's data come from several interviews he conducted with Tang Longbin, former director of the Bureau of Protocol, Ministry of Foreign Affairs of China. For related references, also see Deng Xiaoping, "Women dui Xianggang wenti de jiben lichang" (Our basic position on the Hong Kong question), in *Deng Xiaoping wenxuan*, Vol. 2, 1982-92 (Beijing: Renmin chubanshe, 1993), 12-15; and Jonathan Dimpleby, *The Last Governor: Chris Patten and the Handover of Hong Kong* (London: Little, Brown and Company, 1997), 45.

⁵²Li, *Bainian qurushi de zhongjie*, 87; and *People's Daily*, September 25, 1982.

⁵³Percy Cradock, *Experiences of China* (London: John Murray, 1994), 170.

some people did not like the treaties, the way to resolve the problem would be to conduct discussions between the two parties.

The battlefield rapidly shifted from the negotiating table to the media, with both sides attempting to exploit international public opinion to exert pressure on the other and to win the hearts of the Hong Kong people. On September 30, a Chinese Foreign Ministry spokesman, in answer to a journalist's question, indicated that the Chinese government "would not be bound by these unequal treaties, and would take back the entire Hong Kong region when the conditions are ripe."⁵⁴ On October 1, a commentator's article entitled "Our Solemn and Righteous Position on the Hong Kong Question" sternly rejected the position that "the three treaties concerned are valid." It stated:

These treaties were the products of nineteenth century British imperialism promoting the "gunboat policy" of invading China, . . . and were also the iron proof of British imperialism snatching Chinese territory. . . . Chinese people have already stood up, and we cannot accept these unequal treaties forcefully imposed on the Chinese people by Britain in the past.

In response to Margaret Thatcher's claim that "Britain has to be responsible to the five million Hong Kong people," the article emphasized that "only the PRC government has the right to say that it has a sovereign state's responsibility for the Hong Kong residents."

Those in the British Foreign Office who were familiar with Beijing's negotiating style should have understood that after such an explicit declaration by the Chinese leadership, China would not concede on the sovereignty issue.

Five Rounds of Secret Negotiations and a Public Opinion War

After Margaret Thatcher's visit to China, five rounds of informal negotiations were held between the two negotiating teams, beginning on

⁵⁴New China News Agency dispatch, September 30, 1982.

October 5, 1982. The Chinese team was headed by Vice Foreign Minister Zhang Wenjin (章文晉) and the British team by Sir Percy Cradock. At the beginning of 1983, Zhang was appointed China's ambassador to the United States, and the Chinese ambassador to France, Yao Guang (姚廣), returned to Beijing to become the vice foreign minister responsible for Western European affairs and China's representative at the Sino-British informal negotiations. The aim of the informal negotiations was to exchange views concerning the basis of future formal negotiations and to examine the differences between the two sides' positions. They took place in a Foreign Ministry guesthouse for foreign visitors in Beijing. The talks were supposed to be confidential, but since the Hong Kong governor, Sir Edward Youde, had to come to Beijing to participate, Hong Kong journalists managed to pick up some information about them.⁵⁵

According to Li Hou, in the informal negotiations, the British side stressed prosperity and stability as the common objectives, while the Chinese side insisted on the premise of resuming the exercise of sovereignty over Hong Kong. The gap was obvious, and the impasse remained.⁵⁶

The British government's bargaining power was limited. Admittedly the British administration may have been important to the maintenance of Hong Kong's stability and prosperity, allowing it to contribute to China's "four modernizations." This line of argument would have been convincing had the Thatcher government been willing to abandon sovereignty in exchange for continued administration, but it was not particularly relevant while it still insisted on the validity of the three treaties.

London's second asset was pressure on China from the Western world and international public opinion. However, this was a time when Western countries were beginning to take a keen interest in China's economic reforms, and they found it difficult to criticize China's refusal to recognize the unequal treaties. The United States was still trying to cultivate China as a hedge against Soviet expansionism, and the Sino-U.S. joint communiqué

⁵⁵Chen, *Xianggang tanpan wenti shimo*, 122-24; and Lu and Qian, *Xianggang hui gui*, 40-41.

⁵⁶Li, *Bainian qurushi de zhongjie*, 98.

on the limitation of American arms sales to Taiwan concluded by the Reagan administration on August 17, 1982, was an important case in point. The Chinese leaders' proposals, such as "Hong Kong people administering Hong Kong," "one country, two systems," and "no change for fifty years," appeared reasonable and even liberal. Although Western governments and international public opinion understood the Hong Kong people's worries and feelings of helplessness, few Western countries came out in support of the British government's position regarding the validity of the three treaties and its sovereignty over Hong Kong Island and Kowloon.

London's most significant asset remained public opinion in Hong Kong. The British administration had been governing the territory for more than 140 years, its *laissez-faire* political philosophy (later known as positive noninterventionism), rule of law, and various institutions had laid the foundation for Hong Kong's impressive economic growth. Since the late 1960s, the British administration's "administrative absorption" policy cultivated a respectable pro-British local elite, and in general the colonial government had the trust and support of the Hong Kong people.⁵⁷ In comparison, the pledges made by the Chinese leadership did not inspire much confidence in the local community. Many whose relatives had fled to Hong Kong from mainland China had bitter memories of the CCP's united front policy. The vast majority of local people would have preferred the maintenance of the status quo, including the British administration.

The Thatcher government failed to exploit this asset effectively, thus allowing Beijing's united front strategy to become increasingly effective. Hong Kong people still perceived themselves as part of the Chinese nation, and they were reluctant to openly support the British position on the validity of the three treaties. Idealistic university students were the first to protest against the Thatcher government's stand. When Margaret Thatcher

⁵⁷See Joseph Y. S. Cheng, "Political Modernization in Hong Kong," *Journal of Commonwealth & Comparative Politics* 27, no. 3 (November 1989): 294-320; on the "administrative absorption" policy of the British administration, see Ambrose Ye-o-chi King, "The Administrative Absorption of Politics in Hong Kong: Emphasis on the Grass Roots Level," *Asian Survey* 15, no. 5 (May 1975): 422-39.

arrived in Hong Kong after her China visit, the Hong Kong Polytechnic Students Union, the Current Affairs Committee of Hong Kong Baptist College Students Union, and the Chinese University of Hong Kong Students Union all released statements severely criticizing the British position that the three treaties were valid, and rejecting the British government's claim that it was "responsible for the five million Hong Kong people." These student bodies all firmly supported the view that Hong Kong's sovereignty belonged to China.

Before Thatcher's visit to China, public opinion in Hong Kong overwhelmingly supported renewal of the New Territories lease, extension of the British administration, and maintenance of the status quo. After her visit, groups of young political activists began to come round to the idea of self-administration after the return of Hong Kong to China. The majority of business and professional elites still lacked trust in Beijing, but they also began to show a tendency toward neutrality and a greater reluctance to openly support the British administration's position, whilst privately planning to emigrate as an "insurance policy."

In 1982, Hong Kong fell into economic recession. The Hong Kong dollar continued to slide from HK\$5.6 to the U.S. dollar at the start of the year to HK\$6.9 by the year's end. The Hang Seng Index dropped from about 1,400 points to 700 points in the same period. Hong Kong's economic growth rate declined from over 10 percent to below 4 percent in 1982 while imports fell, factories operated at less than full capacity, and a serious deficit emerged in the government's budget. As real estate prices fell by more than half, some banks and finance companies encountered liquidity problems and there was a danger of a banking crisis. The British government naturally exploited these economic difficulties to exert pressure on its Chinese counterpart, and the British administration encouraged local business leaders to articulate their grievances to the Chinese officials they met. But according to the monthly publication of the Hong Kong and Shanghai Bank, the recession in Hong Kong was 52 percent due to the global economic recession, 32 percent due to the economic policies of the Hong Kong administration, and only 16 percent due to the impact of the "1997 question."

Liao Chengzhi, head of the HKMAO, was very active during this period. He received a lot of individual visitors and delegations from Hong Kong, explaining to them the PRC government's policy package for the territory after its return to China, and trying to win the support of the local community and maintain the confidence of the local people. Liao indicated that Beijing had passed the ball—in other words, the sovereignty question—to London, and he encouraged the Hong Kong people to insist that the British government not delay the issue but arrive at an early settlement of the Hong Kong question.⁵⁸

In its attempts to secure the support of local public opinion, the British government encountered two setbacks. In late 1979, the British government proposed to Parliament a new nationalities bill which was obviously related to the future of Hong Kong. In mid-1981, the bill was passed by the House of Commons, but before the vote in the House of Lords, a number of members of Hong Kong's Executive Council urged the formation of a delegation to lobby the upper house. This move was vetoed by the governor, who insisted that he personally would fulfil his responsibility toward the Hong Kong people in this regard. When the 1981 Nationality Act became law, more than two million Hong Kong people who had held British passports and had been citizens of the United Kingdom and Colonies lost their right of abode in Britain. They became British dependent territories citizens, widely perceived to be tantamount to "second class citizenship." A vivid indication of the change in status was that Hong Kong students studying in Britain were reclassified as overseas students and had to pay much higher tuition fees than those paid by locals. Now Hong Kong people realized what fulfilling "responsibility to the five million Hong Kong people" actually meant.⁵⁹ In fact the major destinations for Hong Kong emigrants in those years were the United States, Canada, and Australia rather than the United Kingdom.

⁵⁸Liao Chengzhi, *Liao Chengzhi wenji* (Collected works of Liao Chengzhi), Vol. II (Hong Kong: Joint Publishing, H.K., 1990), 735-36, 744-46.

⁵⁹Sima, *Rongyao quangui Deng Xiaoping*, 13-14; and Joseph Y. S. Cheng, "The British Nationality Act and the Rights and Future of Hong Kong People," *Ming Pao* (Hong Kong), June 1981, 33-36.

Local executive and legislative councillors had earlier asked permission to form a "think tank" on the settlement of the Hong Kong issue, but this was also opposed by Sir Murray. The British government clearly intended to retain full control of the negotiations and related issues. Before the end of 1983, members of Executive and Legislative Councils mainly worked as individuals, they were not trying to collectively mobilize the Hong Kong people so that they could become a force to be reckoned with.

During Margaret Thatcher's visit to China, Beijing and London agreed to keep their negotiations confidential so as to avoid instability in the local community. This agreement had its rationale, but confidentiality meant that the British government could not influence or mobilize public opinion in Hong Kong, and it also exacerbated the Hong Kong people's lack of trust in London. When Thatcher met members of the Executive and Legislative Councils after her China visit, the latter had already put forward demands for Hong Kong people to be allowed access to information about the negotiations. In December 1982, when Lord Belstead, the junior Foreign Office minister responsible for Hong Kong affairs, visited the colony, he encountered the same demand from the same group.

In the following January, the British government finally conceded and agreed that the Executive Council had the right to make proposals to London, and, to a certain extent, to decide whether the British government's proposals should be accepted. One executive councillor subsequently stated that this amounted to the right of approval—that London had promised it would consult the Executive Council and seek its endorsement before it signed an agreement with Beijing on Hong Kong's future.⁶⁰ But the Hong Kong people still had no access to information about the content of negotiations.

It was said that during a meeting of the British teams responsible for the Sino-British negotiations on January 28, 1983, at 10 Downing Street, Margaret Thatcher proposed that if the negotiations did not make any progress, Hong Kong should be allowed to become independent or to exercise

⁶⁰*Financial Times*, January 25, 1983; and Sima, *Rongyao quanguo Deng Xiaoping*, 32-34.

autonomy within a short period of time, following the Singaporean model; another alternative would be the holding of a referendum by the United Nations on the question of Hong Kong, allowing self-determination for the local people.⁶¹ This actually amounted to an ultimatum equivalent to the threat to recover Hong Kong by force on the part of Beijing. For an ultimatum of this kind to be convincing, the British government had to demonstrate that it was able to mobilize public opinion in Hong Kong, but London's "public opinion card" obviously lacked the essential mobilization capability.

The Start of the Sino-British Negotiations

The Chinese government's threat to make a unilateral announcement on the recovery of the Hong Kong within one or two years had clearly exerted considerable pressure, and the Thatcher government began to reveal a willingness to compromise. On March 9, 1983, Thatcher wrote to Zhao Ziyang indicating that the British government would not oppose negotiations with China even if the Chinese upheld their position on Hong Kong's sovereignty. In the following month, Zhao replied that the Chinese government agreed to initiate formal negotiations as soon as possible.

In July 1983, Sino-British negotiations formally began. The two delegations were headed by the Chinese vice foreign minister, Yao Guang, and the British ambassador to Beijing, Sir Percy Cradock. They were subsequently replaced by Zhou Nan (周南), an assistant foreign minister, and Sir Percy's successor, Sir Richard Evans. Lu Ping participated in the Chinese delegation as an advisor to the Foreign Ministry's Department of West European Affairs.

Two Controversies before the Negotiations

Representatives of the two sides held two rounds of talks on procedural arrangements, one at the end of May and the other at the end of

⁶¹Lu and Qian, *Xianggang huigui*, 42.

June. Regarding the agenda, the Chinese side asked for initial recognition of China's sovereignty over the Hong Kong region by the British side, and then discussions would proceed to the technical issues of stability and prosperity as well as the transfer of sovereignty. The British side considered that there should be no preconditions attached to the negotiations; the sovereignty issue should be discussed as a part of the overall exchanges on broader, more concrete issues.

Deng Xiaoping agreed to give the British side "face" on this point. Hence agreement on the agenda was reached at the end of June. Both sides would first discuss arrangements for the maintenance of Hong Kong's stability and prosperity after 1997, then they would negotiate the transitional arrangements for Hong Kong in the run-up to 1997 and matters relating to the transfer of sovereignty.⁶²

The second controversy had to do with the participation and representation of the Hong Kong people. During Lord Belstead's visit to Hong Kong in December 1982, he mentioned the "three-legged stool" idea to the media, indicating that the Hong Kong people needed a representative, and their representative would be the Hong Kong governor, Sir Edward Youde.⁶³ On July 1, 1983, when the two governments simultaneously announced that the second stage of negotiations on Hong Kong's future would start in Beijing on July 12, Sir Edward released a statement indicating that he would take part in the negotiations as the governor of Hong Kong, representing the Hong Kong people.

Qi Huaiyuan (齊懷遠), head of the information department of the Chinese Foreign Ministry, immediately responded. He stated that the Sino-British negotiations were to be held between two sovereign states on an equal basis. The Hong Kong government was a local government under the British government, so the Hong Kong governor, Sir Edward Youde, could not represent the Hong Kong people, he could only participate as a member

⁶²Chen, *Xianggang tanpan wenti shimo*, 142-44. The author's data come from the notes of his interviews with Yao Guang, September 18 and 22, 2000.

⁶³Yuan Qiushi, *Xianggang huigui dashiji 1979-1997* (A record of the major events of Hong Kong's return to China, 1979-1997) (Hong Kong: Sanlian, 1997), 10.

of the British government's delegation.⁶⁴ At the same time, Margaret Thatcher received Sir Edward and a group of Hong Kong executive and legislative councillors in London. The latter insisted that they should be able to take part in the negotiations as members or advisors of the British delegation, but Margaret Thatcher rejected this demand.

Upon his return to Hong Kong, Sir Edward continued to declare publicly that he would "take part in the negotiations in his capacity as the governor of Hong Kong representing the Hong Kong people." But the British side soon retreated. Sir Percy Cradock informed the Chinese that Sir Edward would participate in the negotiations as a senior member of the British delegation. When Sir Edward went to Beijing, he intended to bring with him Peter Tsao, head of the Information Services Department of the Hong Kong government, as his "private information officer." The Chinese Foreign Ministry refused to give Tsao a visa on the grounds that as a civil servant of the British administration in Hong Kong, he was not qualified to take part in talks on state affairs between China and Britain.⁶⁵

These incidents are ample evidence of how sensitive the Chinese authorities were concerning the "three-legged stool," and how they did everything they could to avoid it.

Initial Stage of Negotiations: The Offer of Sovereignty in Exchange for Administration

Three rounds of negotiations were completed between July 12 and August 3, 1983, concentrating on arrangements for the maintenance of Hong Kong's prosperity and stability after 1997. The British side no longer mentioned "the validity of the three treaties," and they agreed to China's resumption of the exercise of sovereignty over Hong Kong. Sir Percy Cradock suggested that after 1997, except for the replacement of the union flag by the PRC flag, everything else would remain unchanged in Hong Kong, and that the British authorities would continue to be entrusted with

⁶⁴*People's Daily*, July 6, 1983.

⁶⁵Chen, *Xianggang tanpan wenti shimo*, 150-51; and Yuan, *Xianggang huigui dashiji*, 11.

its administration. Yao Guang, on the other hand, stressed that "sovereignty and administration cannot be separated"; he said that "after 1997, China will resume exercising not only sovereignty over Hong Kong but also administration." Yao also indicated that "the Chinese government [would] not entrust to the British the continued administration" of the territory. Instead, it would only promote "the administration of Hong Kong by Hong Kong people."

In the arguments, Sir Percy said that China's proposals were utopian, and that since China's policies frequently changed and China had had a number of constitutions, people would wonder whether there might not be changes again in the future. Yao Guang and other members of the Chinese delegation glared angrily at this.⁶⁶

Arguments grew very heated on a number of occasions during the talks. At the end of the first round, the British side asked that a brief statement be released describing the talks as "useful and constructive." The purpose was to avoid generating either too much optimism or grave concern in Hong Kong. The joint statement at the end of the second round said only that the talks were "useful." Yao Guang then refused to include any adjectives in the joint statement issued after the third round. There were ample indications that the negotiations had not gone well.⁶⁷

There was a seven-week break after the third round. According to Zhou Nan's memoirs, the Chinese side abandoned the term "transfer of sovereignty" after the second round of negotiations. Instead it adopted the term "resumption of the exercise of sovereignty" following the advice of Shao Tianren (邵天任), head of the Foreign Ministry's department of treaty and law, who argued that China had never relinquished sovereignty over Hong Kong.⁶⁸

⁶⁶*People Daily*, July 6, 1983.

⁶⁷*Ibid.*; Li, *Bainian qurushi de zhongjie*, 107-9.

⁶⁸Zong Daoyi et al., *Zhou Nan koushu: shenzai jifeng zouyu zhong* (An oral account by Zhou Nan: in strong winds and sudden rains), revised by Zhou Nan (Hong Kong: Joint Publishing, H.K., 2007), 274.

Showdown outside the Negotiation Venue

Initially, the British side attempted to secure the continuation of its administration of Hong Kong in exchange for recognition of China's sovereignty. While there were heated arguments during the negotiation sessions, confrontations also broke out outside the negotiation venue. In June 1983, Newsweek published an article about a meeting between CCP General Secretary Hu Yaobang and the Chinese-American political scientist Parris Chang. Hu told Chang that during Margaret Thatcher's visit to China in 1982, Deng Xiaoping had informed her that if Beijing and London could not reach an agreement on Hong Kong's future by the end of 1984, China would unilaterally announce its own plan.⁶⁹ On August 15, *The People's Daily* reported on Hu Yaobang's meeting with a delegation from Japan's *Mainichi Shimbun* during which Hu elaborated on the Chinese government's basic position on the Hong Kong question. British embassy diplomats asked for a meeting with Zhou Nan to express London's dissatisfaction with these statements.⁷⁰

On September 10, Deng Xiaoping met again with Edward Heath. Deng stated that "trying to use sovereignty to bargain for (the continuation of) administration will not work. . . . it will be September next year. It is hoped that China will not have to issue a statement unilaterally by then." Deng finally stressed, "(We) hope that at the fourth round of Sino-British negotiations due to start on September 22, the British side will no longer dwell on the issue of sovereignty for administration. (We) have to concretely discuss how Hong Kong should be managed in the future. . . . This would be most beneficial for both sides."⁷¹

While the Chinese side continued to exert pressure, the British seemed to be divided, with Margaret Thatcher advocating a hard line. On September 5, the British prime minister held a meeting to assess the situation before the fourth round of Sino-British negotiations. It was said that Sir

⁶⁹Sima, *Rongyao quanguo Deng Xiaoping*, 53-55.

⁷⁰Li, *Bainian qurushi de zhongjie*, 109-10.

⁷¹Documentary Research Office of the Central Committee of the Communist Party of China, *Deng Xiaoping nianpu*, 932.

Geoffrey Howe, the foreign secretary, and Sir Percy Cradock hoped that Thatcher would make concessions, but Sir Philip Hadden-Cave, Hong Kong's chief secretary, and the territory's executive councillors who attended the meeting, were opposed to this. The latter group believed that China was heavily dependent on the Hong Kong economy; once the territory showed signs of economic collapse, China would retreat. Even if the negotiations failed, there would probably be a long-term break, and the impact would be more limited. Margaret Thatcher agreed that there was no reason why in the early stage of the negotiations Britain had to accept that its administration of Hong Kong could not continue, and she demanded that the negotiating team use every card to the fullest extent to achieve the maximum effect.⁷²

Economic Confrontation

During the fourth round of negotiations, Sir Percy Cradock emphasized the importance of the "linkage" between Hong Kong and Britain, and warned that once that linkage was broken, confidence would disappear. Yao Guang sternly rejected that argument, and he quoted Deng's statement to Edward Heath at their recent meeting, that an announcement on China's policy toward Hong Kong would be made no later than September 1984.⁷³

The fourth round of negotiations ended on September 23 and news spread in Hong Kong that talks had broken down. The following day was labelled "black Saturday" by the local media: the Hong Kong dollar fell to HK\$9.5 to U.S. dollar, the price of gold rose to over HK\$4,700 per ounce, and the Hang Seng Index fell to its lowest level that year (690.6 compared to its highest level of over 1100). People queued up to withdraw their Hong Kong dollar deposits and change them into U.S. dollars, and supermarkets were full of people stocking up on food and daily necessities.

⁷²Chen, *Xianggang tanpan wenti shimo*, 162-63. The author's data come from notes of his interviews with Wang Kang, advisor to the State Council's Hong Kong and Macau Affairs Office, on July 28, 1987.

⁷³Li, *Bainian qurushi de zhongjie*, 111-12.

According to the Chinese side's analysis, after the September 5 meeting on the Sino-British negotiations called by Margaret Thatcher, British financial groups began to sell large quantities of Hong Kong dollars in London, causing the sharp fall in the exchange rate. On September 16, the general manager of the Hong Kong Bank, Peter John Wrangham, declared that if China took back Hong Kong in 1997, the territory's prosperity and its status as an international financial center would be lost. He also said that China's words and actions concerning the Hong Kong question had directly damaged the credibility of the Hong Kong dollar. On the same day, Hong Kong's financial secretary, Sir John Bremridge, told reporters that China's words and deeds concerning the negotiations on the Hong Kong question had directly affected the performance of the Hong Kong dollar; unless China made clear-cut indications in the negotiations, the Hong Kong dollar would remain weak. On September 17, a Hong Kong newspaper, the *Tin Tin Daily* (天天日報), reported that British business groups had been selling large quantities of Hong Kong dollars in London and even in New York.⁷⁴ However, Sir Percy Cradock later claimed that "there was evidence that the Bank of China itself had been speculating against the [Hong Kong dollar], which lost 8 per cent in one day."⁷⁵

Before the fourth round of negotiations, several neutral Hong Kong newspapers, including *Ming Pao* and the *Hong Kong Economic Journal*, published editorials and commentaries criticizing the British government and the British administration in Hong Kong for generating a financial crisis in an attempt to exert pressure on the Chinese side over the negotiating table.

On September 26, Governor Youde called an emergency meeting at which it was decided that the government would intervene in the foreign exchange market to support the Hong Kong dollar. But this required the agreement of the British prime minister and her cabinet. When Thatcher, who was visiting Canada at the time, received the report from Hong Kong,

⁷⁴Chen, *Xianggang tanpan wenti shimo*, 170-71.

⁷⁵Cradock, *Experiences of China*, 190.

she consulted her economic advisor Sir Alan Walters who proposed to support the Hong Kong dollar and peg it to the U.S. dollar so as to prevent its collapse. Although Nigel Lawson, the chancellor of the exchequer, and the governor of the Bank of England disagreed, Thatcher took Walters' advice. This decision was based on the judgment of Sir Percy Cradock, who believed that China would still take back Hong Kong even if it had been reduced to a wasteland.⁷⁶

The Chinese authorities openly criticized the British side for playing "little tricks," and this accusation was frequently made in private communications. The Hong Kong dollar crisis was often cited as evidence. While there was a tendency for Beijing and London to blame each other, Hong Kong people were naturally worried that they would be the victims in the confrontations.

Giving up the Administration of Hong Kong

The Decision to Concede

On September 27, Sir Edward Youde held an expanded meeting of the Executive Council with the participation of Richard Luce, the Foreign Office minister responsible for Hong Kong affairs, and Sir Percy Cradock. Sir Percy gave an account of the previous four rounds of negotiations. He then indicated that unless the British side made concessions, the negotiations could no longer progress. This would mean that China would make a unilateral announcement on the recovery of Hong Kong, and the terms imposed would be harsh. There were no differing views from members of the British government; the opposing voices came from the unofficial members of the Hong Kong Executive Council.

On October 7, Margaret Thatcher received Sir Edward Youde and all the nonofficial members of the Hong Kong Executive Council. She had accepted Sir Percy Cradock's proposals before the meeting. Sir Percy con-

⁷⁶Ibid., 171-79.

sidered that since the Chinese government had rejected the proposal of sovereignty in exchange for administration, the British government would have to be prepared to "examine" China's other arrangements for Hong Kong after 1997 on a "completely conditional basis." If a plan could be formed after revising the Chinese proposals, and the British government felt confident about it, London would then give it support.⁷⁷ At this stage, Sir Percy had just been appointed foreign affairs advisor to the British prime minister.

According to the memoirs of Sir S. Y. Chung, at this meeting, the doves and the hawks engaged in a series of arguments; but in the end, the reality of the situation was recognized. The majority agreed that Hong Kong's fragile confidence could not endure any further blows. The British side finally decided to alter its negotiation strategy; it would no longer insist on British administration of Hong Kong after 1997, and it would first listen to the Chinese side regarding its policy proposals for Hong Kong post-1997 and allow the British and Hong Kong governments to study them.⁷⁸

On October 14, Sir Percy met Yao Guang and delivered a verbal message, in sophisticated diplomatic language, for Zhao Ziyang from Margaret Thatcher on Britain's willingness to give up the administration of Hong Kong.⁷⁹ In the evening of the same day, Sir Edward Youde called a meeting with John Bremridge, Peter Wrangham, and officials from the British Treasury and the Bank of England. It was decided that the Hong Kong dollar would be pegged at HK\$7.8 to the U.S. dollar, and the 10 percent interest rate tax on Hong Kong dollar bank deposits would be abolished. These measures were to be effective from October 17.⁸⁰ The

⁷⁷Ibid., 172-73, 179-80.

⁷⁸Sze-yuen Chung, *Xianggang huigui licheng: Zhong Shiyuan huiyilu* (Hong Kong's journey to reunification: memoirs of Sze-yuen Chung) (Hong Kong: Chinese University Press, 2001), 53.

⁷⁹*People's Daily*, July 6, 1983. The author's data come from notes of his interviews with Yao Guang on September 18 and 22, 2000.

⁸⁰Chen Liyu, *Hong Kong's Financial Turmoil* (Beijing: Dragon, 1997), 89.

financial situation in Hong Kong was soon stabilized, and the Hong Kong dollar peg has been maintained ever since.

The Fifth, Sixth, and Seventh Rounds of Negotiations

The fifth round of negotiations was held in Beijing on October 19 and 20. Sir Percy indicated that the bilateral discussions would be based on the premise of the Chinese proposals. The words "useful and constructive" again appeared in the press communique released after the talks. Sir Percy, in his memoirs, observes that the Chinese negotiating team stubbornly refused to accept any division between sovereignty and administration, and that it grew increasingly emotional on the subject.⁸¹ This was probably a tactic.

The Chinese side, however, continued to exert pressure. The Foreign Ministry spokesman, Qi Huaiyuan, announced on November 9 that China hoped to reach agreement with Britain before September 1984. If agreement could not be reached by then, the Chinese government would unilaterally announce its policy toward Hong Kong.

The British government strongly objected to this setting of a time limit, claiming it "would bind it hand and foot." Sir Percy Cradock and Sir Edward Youde, on the other hand, believed that a time limit had its advantages—if it was binding on both sides, Beijing would possibly be forced to make concessions and compromises in order to meet the deadline. The British government in the end accepted the judgment of the negotiating team; Margaret Thatcher's instructions were that the Chinese side must not be allowed to leave the negotiating table.⁸² The episode to some extent reflected Thatcher's trust in Sir Percy, and the fact that the British side had realized how unfavorable its position was, and that it would have to secure its interests through concessions.

Setting a deadline is a typical negotiating tactic, and it has its advantages and disadvantages. Both the Chinese and British teams understood

⁸¹Cradock, *Experiences of China*, 188.

⁸²Chen, *Xianggang tanpan wenti shimo*, 187-89; and Cottrell, *The End of Hong Kong*, 145.

this well, and they both believed that they could exploit the advantages of a deadline. In the end, both were proved correct, as the Chinese side managed to avoid the negotiations dragging on over details while the British also secured some important concessions, especially over the political system of the future Hong Kong SAR.

The sixth round of negotiations followed on November 14 and 15 in Beijing. The Chinese side stepped up the pressure and demanded an explanation from the British regarding the exact meaning of Margaret Thatcher's statement in a BBC television interview on October 30, when she had said that maintaining the links between Britain and Hong Kong would be very important. Thatcher instructed Sir Percy to clarify that the British side had no intention of establishing any authority or reporting linkage at any level between the SAR government and the British government after 1997. Sir Percy emphasized that the British government would not seek the joint administration of Hong Kong in any form. At this point, the Chinese authorities realized that they had achieved the basic objective of the negotiations.⁸³

During the seventh round of negotiations, Yao Guang formally delivered Beijing's policy document on Hong Kong's future—the "twelve-point policy" proposal—to the British side. According to the press communiqué, "both sides reviewed the process of the negotiations and the progress achieved."⁸⁴ This indicated that the negotiations were entering a new stage.

The "twelve-point policy" proposal is interesting in that it reveals the differences in the negotiating styles and political cultures of the two sides.⁸⁵ The British side demanded details of the post-1997 arrangements

⁸³Chen Xueying, ed., *Deng Xiaoping and Hong Kong* (Beijing: Contemporary World Press, 1997), 227-28; Cottrell, *The End of Hong Kong*, 132.

⁸⁴*People's Daily*, November 17, 1983.

⁸⁵On the broad issue of cross-cultural negotiation, see Kevin Avruch, *Culture and Conflict Resolution* (Washington, D.C.: United States Institute of Peace Press, 1998); Hans Binnendijk, ed., *National Negotiating Styles* (Washington, D.C.: Center for the Study of Foreign Affairs, 1987); Raymond Cohen, *Negotiating Across Cultures: International Communication in an Interdependent World*, revised edition (Washington, D.C.: United States Institute

partly because it believed that they were essential in order to meet the demands of the Hong Kong community and to satisfy international public opinion, and partly because it was a reflection of the British (or Western) negotiating style and political culture. In short, it wanted to secure a well-defined contract with clear-cut accountability. The Chinese side, on the other hand, considered that trust and sincerity were key factors in international agreements; it was the spirit and not the details that mattered. At the same time, the Chinese authorities desired flexibility in the agreement. These differences in the two sides' negotiating styles and political cultures became more prominent in the subsequent negotiations, as the earlier stages of negotiation were zero-sum games in which each was trying to exert pressure on the other to force it to yield. From this point on, the two sides understood that there had to be considerable give-and-take or mutual compromises and concessions between them.

Post-1997 Arrangements

"A High Degree of Autonomy" and "Complete Autonomy"

The seventh round of negotiations took place on January 25 and 26, 1984. Both sides had new heads for their respective negotiating teams. Assistant Foreign Minister Zhou Nan replaced Yao Guang, and the new British ambassador to Beijing, Sir Richard Evans, took over from Sir Percy Cradock. The Hong Kong media observed that the two heads of delegation had lower ranks than previously.

In the previous stage of negotiations, the Chinese side had managed to force the British side to abandon the "sovereignty for administration"

of Peace Press, 1997); and Glen Fisher, *International Negotiation: A Cross-Cultural Perspective* (Chicago: Intercultural Press, 1980). On the political culture characteristics of the PRC as demonstrated in its diplomatic negotiations, see Arthur Lall, *How Communist China Negotiates* (New York: Columbia University Press, 1968); Kazuo Ogura, "How the 'Inscrutables' Negotiate with the 'Inscrutables': Chinese Negotiating Vis-à-Vis the Japanese," *China Quarterly* 79 (September 1979): 529-52; and Louis J. Samuelson, *Soviet and Chinese Negotiating Behavior: The Western View* (Beverly Hills, Calif.: Sage, 1976).

strategy; the agenda for the next stage would concentrate on the post-1997 arrangements for Hong Kong. The Chinese side was far from complacent; it appreciated the daunting challenge of securing the cooperation of the British and the maintenance of confidence within the Hong Kong community. In his memoirs, Li Hou noted that the Chinese authorities remained on the alert. There was concern that the British, having received the Chinese proposal,

would play tricks on the issues of 'a high degree of autonomy', 'Hong Kong people administering Hong Kong', etc. . . . they would even attempt to turn Hong Kong into an independent political entity in practical terms, so as to facilitate continued control by Britain. Hence the following negotiations in reality would still center on the struggles regarding sovereignty and administration, although the way of the struggle would be different from that before."⁸⁶

According to Zhou Nan,

The British approach was to test China's bottom line all the time, . . . so as to maintain that after Hong Kong's return [to China], Britain would be able to continue to control Hong Kong's political situation to the greatest extent. . . . The British side adopted the tactic of "avoiding direct encounters." Every time the negotiations came to a certain question, the delegation would present a few sheets of paper; it would then say that it did not object to this guideline, but its interpretation would be as follows. Its interpretation differed substantially from our interpretation, and its interpretation would be aimed at damaging our sovereignty.⁸⁷

This was the situation that prevailed right up until 1997 when the British withdrew from Hong Kong; the two sides were suspicious of each other and conspiracy theories abounded.

The controversies that arose at this stage often reemerged at later stages of the negotiations. On the one hand, both sides were restrained by the deadline, hence the agreements they reached were sometimes no more than temporary compromises. They later came up with different interpretations, and arguments broke out again during the transitional period. On the other hand, post-1997 arrangements were necessarily very broad-

⁸⁶Li, *Bainian qurushi de zhongjie*, 119-20.

⁸⁷Zong et al., *Zhou Nan koushu*, 283.

brush ones; many issues simply could not be anticipated, and they arose only after the agreement was concluded. Since both governments wanted to reach agreement before the deadline, they realized that they both had to make frequent concessions.

The following commentary in Zhou Nan's memoirs probably provides a good reflection of these controversies:

We said 'a high degree of autonomy and they demanded "complete autonomy." Today we still argue over this question with Hong Kong's "opposition" supported by the West. . . . They also argued that if "complete autonomy" could not be accepted, then they would ask for "autonomy to the greatest extent." . . . The revisions the British side wanted would have changed Hong Kong into a "political entity" independent of the central people's government.⁸⁸

It was said that the British side even suggested that "to maintain Hong Kong's prosperity, it has to continue to maintain its links with Britain, so that capitalist Hong Kong would be separated and insulated from the socialist mainland."⁸⁹ These statements reveal that the Chinese authorities were very sensitive about the issue of linkages between Hong Kong and Britain, and they deeply resented the idea of "insulation."

Another controversy was related to the difference between "return the administration to China" and "return the administration to the people." This was connected with the open Sino-British disputes over political reforms and democratization in Hong Kong in the mid- to late 1980s.⁹⁰ At this stage in the negotiations, the British side maintained that in 1997, it would hand executive and administrative powers over the territory directly to the HKSAR government. The Chinese position was that the British side would initially deliver its political, executive, and administrative powers over Hong Kong to the central government of China and the latter would then bestow a high degree of autonomy on the HKSAR government. Beijing's insistence on this point secured a concession from London.

⁸⁸Ibid., 283-84.

⁸⁹Li, *Bainian qurushi de zhongjie*, 127; and Chen, *Xianggang tanpan wenti shimo*, 197.

⁹⁰Joseph Y. S. Cheng, "Hong Kong: The Pressure to Converge," *International Affairs* 63, no. 2 (Spring 1987): 271-83.

The Hong Kong People's Interests and the Three-Legged Stool Controversy

According to Sir S.Y. Chung's account, "in December 1983, when the British government decided to deliver Hong Kong's complete sovereignty and administration to China by 1997, the situation changed. Unofficial members of the Executive and Legislative Councils could . . . try to secure for the people of Hong Kong a detailed and binding Sino-British agreement to maintain the status quo." Hence, this group explored ways of mobilizing the Hong Kong people to articulate their views on the Sino-British agreement, and to incorporate these views into the Sino-British negotiations.⁹¹

In March 1984, Rogerio Hyndman Lobo, an unofficial member of the Hong Kong Legislative Council, introduced a motion in the legislature that stated, "an agreement which cannot obtain Hong Kong people's trust, absolutely cannot maintain Hong Kong's stability and prosperity." A spokesman of the British Foreign Office also indicated in London that the agreement to be reached would have to be accepted not only by the legislatures of Britain and China, but also by the people of Hong Kong, and no means of probing public opinion in the territory had yet been formulated.⁹² At almost the same time, the British government once again proposed to include Michael Thomas, attorney general in the British administration in Hong Kong, as a member of the British negotiating delegation.

During the eleventh round of negotiations, held on March 26 and 27, Zhou Nan indicated that "any attempt to treat institutions established by the British in Hong Kong as 'people's representatives' would not be permitted." The Chinese side repeated their view that legislative councillors in Hong Kong were nominated by the governor for appointment by the British secretary for foreign and commonwealth affairs, so the Chinese had never recognized them as representatives of Hong Kong public opinion. On the subject of Thomas's participation in the British delegation, Zhou Nan hoped "that the British side would study other channels or methods so as avoid creating a 'three-legged stool' impression."

⁹¹Chung, *Xianggang huigui licheng*, 57-58.

⁹²*Ibid.*, 58-60.

After a few days, Sir Richard Evans was instructed by the British government to offer Zhou Nan an explanation. Sir Richard stated that the Lobo motion had not been instigated by the British government or by the Hong Kong authorities. He reassured the Chinese that the individuals concerned would not seek veto power over the agreement soon to be reached by both sides, and they would not challenge China's resumption of the exercise of sovereignty."⁹³

At the end of June, Deng Xiaoping received three unofficial members of the Hong Kong Executive Council, Sir S. Y. Chung, Lydia Dunn (鄧蓮如), and Lee Quo-wei (利國偉). Right at the start of the meeting, Deng told them that they did not represent Hong Kong public opinion but rather British interests.⁹⁴ Chinese leaders were always alert to the British government's attempts to use the "public opinion card" to exert pressure on China; they probably realized that there would still be many arguments during the transitional period, so they took precautions at every step.

London: From Playing the Public Opinion Card to Being Cautious about Hong Kong Public Opinion

Before it gave up both sovereignty and administration, the British government naturally hoped to exploit Hong Kong public opinion to exert pressure on China. However, in the eyes of Hong Kong people, the British government was betraying their interests by secretly agreeing to return the territory to China by 1997 without securing their consent, knowing that the vast majority of them wanted to see maintenance of the status quo.

If Hong Kong people strongly objected to the soon-to-be-reached Sino-British agreement, the British government could hardly secure an honorable retreat, and if there were riots and instability in the territory, the situation might get out of control. Hence, at this stage of negotiations, while China had to seek British cooperation in maintaining Hong Kong's stability and prosperity, London had no intention of making things difficult for Bei-

⁹³Li, *Bainian qurushi de zhongjie*, 130-31.

⁹⁴Lu and Qian, *Xianggang huigui*, 44-45.

jing, as it hoped to obtain the Hong Kong people's endorsement of the Sino-British agreement to facilitate its honorable retreat from the territory.

The British government had its own selfish considerations too. If Hong Kong people were strongly dissatisfied with the Sino-British agreement and condemned it for its betrayal of their interests, they might demand that the British offer the holders of British Dependent Territory passports the right of abode in Britain. Then the British government would not only suffer in terms of its international image and prestige, but there might also be a wave of domestic protest against the inflow of Hong Kong immigrants. Hence in the final stage of the negotiations, both governments had at least one interest in common, that is, they both needed to sell the agreement to Hong Kong. This common interest helped to explain why the negotiations seemed to go smoothly despite the extreme complexity of the work of planning the future HKSAR and the various arrangements in the transitional period.

Final Stage of the Negotiations

The Sino-British Joint Liaison Group

From the twelfth round of negotiations on April 11 and 12, both sides agreed that, while they continued to discuss the unresolved issues under agenda item one, they would also begin to negotiate on agenda item two (the transitional arrangements from the present to 1997) and agenda item three (issues related to the transfer of the administration).

It was said that Deng Xiaoping was worried that the British authorities might try to create confusion in the transitional period before 1997, and he therefore considered it necessary to establish a Sino-British Joint Liaison Group (JLG), to be stationed in Hong Kong, to coordinate the implementation of the Sino-British agreement and to discuss issues related to the transfer of the administration.⁹⁵ The British side was quite shocked

⁹⁵Li, *Bainian qurushi de zhongjie*, 131-32.

by this proposal, as it believed that the stationing of the JLG in Hong Kong would amount to joint administration of the territory before 1997. The British were concerned that the JLG would become a "second power center," and the governor would be reduced to a "lame duck."⁹⁶

The announcement in March 1984 by Jardine Matheson, the territory's oldest and most famous trading house, that it was moving its legal domicile from Hong Kong to Bermuda attracted the attention of Deng Xiaoping and reinforced his determination to seek the establishment of the JLG. In consideration of the strong response from the British side, Deng agreed to some concessions. The JLG would be established when the Sino-British agreement became effective, but it would not be stationed in Hong Kong until July 1988, and it would continue in operation until 2000. These arrangements were supposed to give "face" to the British government.⁹⁷

The Jardine Matheson move was perceived as an attempt by the British government to exert pressure on China at a crucial moment. Sir Richard Evans, head of the British negotiating team, indicated that his government had no prior knowledge of the move, which was purely a commercial decision. Zhou Nan refused to accept the British side's explanation.⁹⁸ At that time, the Chinese leadership was very concerned about capital flight from the territory and how it would affect the Hong Kong people's confidence. Lu Ping said that the Chinese side had done a lot of work with the major business corporations, including the Hong Kong and Shanghai Bank. Later, the Chinese authorities and the Hong Kong government established a confidential fiscal and financial group, headed by Lu Ping on the Chinese side and the financial secretary of the Hong Kong government on the British side. In the transitional period before the territory's return to China, the two sides engaged in joint research and consultation on the fiscal and financial situation in Hong Kong.⁹⁹

⁹⁶Zong et al., *Zhou Nan koushu*, 292-93.

⁹⁷Lu and Qian, *Xianggang huigui*, 51-52.

⁹⁸Feng Bangyan, *Xianggang Ying-zi caituan, 1841 nian zhi 1996 nian* (Hong Kong's British business groups, 1841-1996) (Hong Kong: Joint Publishing, H.K., 1996), 290-91.

⁹⁹Lu and Qian, *Xianggang huigui*, 47-48.

The British Foreign Secretary's Visits to China and Hong Kong

In mid-April, the British foreign secretary, Sir Geoffrey Howe, visited China, and the media speculated that agreement would soon be reached between the two sides. Zhao Ziyang received Howe and stated China's position as follows: (1) the agreement must clearly resolve the question of Hong Kong's return to China; (2) the "twelve-point policy" was China's domestic policy, hence it should be announced by the Chinese side and there should not be any attempt to create the impression that it had to be approved by another party; and (3) the agreement should deal with principles, it could not be too detailed. Hence the Chinese side proposed that the two governments should release a joint statement.

Sir Geoffrey responded that the announcement on the post-1997 arrangements should be in the form of a bilateral agreement and not a joint declaration, and the British side had to clearly stipulate on what basis it agreed to the return of Hong Kong's sovereignty. Furthermore, the bilateral agreements reached on all the concrete questions should also be embodied in the agreement. Chinese leaders indicated that the annexes to the joint declaration could contain a considerable amount of detail and that the annexes should have the same legal effect and binding power as the joint declaration itself.¹⁰⁰

Sir Geoffrey also met Deng Xiaoping. They reached a preliminary agreement that the detailed explanation of post-1997 arrangements should be included in annexes to the joint declaration; they also agreed that the joint declaration would be initialled and announced at the end of September, while the formal conclusion would take place before the end of the year. This timetable took into consideration the British Parliament's summer recess. Deng warned Sir Geoffrey that the British administration in Hong Kong should not over-spend its resources, including the sale of government land, while Sir Geoffrey pledged that Britain would not return Hong Kong to China in a state of shambles.¹⁰¹

¹⁰⁰Li, *Bainian qurushi de zhongjie*, 134-35.

¹⁰¹Deng Xiaoping nianpu, 970; Cottrell, *The End of Hong Kong*, 149.

Sir Geoffrey's next important task was to fulfil his duty of accountability to the Hong Kong community. Upon arrival in Hong Kong he held a press conference at the Legislative Council, where he openly admitted that it would be impossible to reach an agreement which would enable Hong Kong to continue to be administered by Britain after 1997, so the objective of the British government was to arrive at a set of arrangements that allowed Hong Kong to continue to be a prosperous and energetic society, and to secure an agreement that would put these arrangements on record. Sir Geoffrey declared that after 1997, the administration of Hong Kong would be in the hands of Hong Kong people, and that the Hong Kong government would continue to develop toward a representative political system.¹⁰²

Most Hong Kong people considered that they had been betrayed by the British government. A section of Sir S. Y. Chung's memoirs is entitled "Britain Raising the White Flag." The unofficial members of the Executive and Legislative Councils cultivated by the British administration believed that "their greatest responsibility at that moment was to strive to secure a Sino-British agreement acceptable to the vast majority of Hong Kong people." They organized a delegation to London to articulate the demands of the local community before the debate on the Hong Kong question in the British Parliament, and they drafted "A Statement on the Question of Hong Kong's Future" before the delegation's departure for London.¹⁰³

At this juncture, the British authorities wanted to keep their distance from the pro-British elite in Hong Kong as they worried about interference in the Sino-British negotiations. In fact, a verbal message from Sir Geoffrey Howe was delivered to the Chinese side, denying that the British and Hong Kong governments had any part in the actions of the unofficial members of the two councils.¹⁰⁴ When the councillors' delegation arrived in London, even the British media criticized them for being unqualified to represent the Hong Kong people as they had never been

¹⁰²Yuan, *Xianggang huigui dashiji*, 20.

¹⁰³Chung, *Xianggang huigui licheng*, 60-64.

¹⁰⁴*Ibid.*, 220-21.

elected.¹⁰⁵ After being betrayed by the British authorities, the elite group was further embarrassed by their petty tricks.¹⁰⁶ No wonder a large part of the elite (including Sir S. Y. Chung) was later absorbed into the pro-Beijing united front; at any rate, throughout the Sino-British controversies and confrontations in the transitional period, the "public opinion card" gradually fell into the hands of the Chinese side.

The Stationing of the PLA in Hong Kong and Other Issues

Deng had raised the issue of the People's Liberation Army (PLA) being stationed in Hong Kong when he met Sir Geoffrey Howe in mid-April 1984. Deng was quite serious about the issue. When the Chinese Foreign Ministry sent him a report on the talks with Sir Geoffrey on the Hong Kong question, he indicated that "on the issue of the garrison in Hong Kong, [we] must hold firm and cannot concede."¹⁰⁷ Huang Wenfang (黃文放), a member of the five-person group responsible for research on Hong Kong policy which had produced the "twelve-point policy" proposal, later revealed that the group understood that Hong Kong people were very sensitive about the issue of a garrison. Initially there were different views on the Chinese side, and three plans were proposed. The first was that the bulk of the troops would be stationed just across the border in Shenzhen, and that there would be no more than a symbolic force stationed in Hong Kong; the second was that the PLA garrison would principally be stationed in Hong Kong, with Shenzhen as the logistical base; and the third was that the PLA would not be stationed in Hong Kong but would stay in Shenzhen and come to Hong Kong only if the need arose.¹⁰⁸

After the seventh round of negotiations, the British side had indicated that it hoped that the PLA would not be stationed in Hong Kong, although it accepted that the Chinese authorities had the right to station troops in the

¹⁰⁵Allen Lee, *Fengyu sanshi nian: Li Pengfei huiyilu* (Thirty years in wind and rain: memoirs of Allen Lee) (Hong Kong: TOM [Cup Magazine], 2004), 17.

¹⁰⁶Sima, *Rongyao quanguo Deng Xiaoping*, 90-97.

¹⁰⁷*Deng Xiaoping nianpu*, 972.

¹⁰⁸Wong, *Zhongguo dui Xianggang huifu xingshi zhuquan*, 70.

territory.¹⁰⁹ At the insistence of the Chinese leadership, the British finally gave in. Subsequently, when the Chinese authorities resumed the exercise of sovereignty over Hong Kong on July 1, 1997, the PLA garrison entered the HKSAR in the early hours of the morning, in consideration for the sensitivities of the Hong Kong people.

There was another controversial episode concerning the issue of the garrison. In May 1984, when the Sixth NPC and the National Committee of the Sixth CPPCC held their respective second plenary sessions in Beijing, Geng Biao (耿飚), a vice chairman of the NPC Standing Committee and former minister of defense, indicated during a group discussion for deputies from Hunan that "Chinese troops will not be stationed in Hong Kong." This statement was prominently reported by the Hong Kong media, and Deng Xiaoping was apparently displeased. Later, when he received the NPC deputies and CPPCC National Committee delegates from Hong Kong and Macau, he made the following statement to journalists covering the meeting:

Formal representatives of the central government speaking on the Hong Kong question include me, Premier Zhao Ziyang, etc. Agencies concretely speaking on behalf of the Chinese government are the HKMAO whose head is Ji Pengfei (姬鵬飛); another one is the Ministry of Foreign Affairs, and Wu Xueqian (吳學謙) is the minister. Besides them, no other statements have binding effect. I would like to get rid of some rumors here regarding talk on "not to station troops in Hong Kong in the future." This is all rubbish! Since Hong Kong is China's territory, why can't [we] station troops in Hong Kong?¹¹⁰

This episode revealed the lack of institutionalization in the PRC, and that power was highly concentrated in the hands of Deng Xiaoping. He was personally involved in the Sino-British negotiations, and important matters were decided by him. Other officials actually understood that Hong Kong people were very sensitive about the issue of a garrison at that stage, and realistically there was no need to station troops in the territory. However, since Deng had made the announcement, they could

¹⁰⁹Li, *Bainian qurushi de zhongjie*, 137.

¹¹⁰Lee, *Fengyu sanshi nian*, 17.

only try to adopt remedial measures. But the fact that Deng was personally in charge also had its benefits. A great deal of flexibility and many compromises were needed to deal with the complicated Hong Kong question, and the officials concerned understood that once they had secured Deng's approval, they need not worry about criticism from elsewhere in the Party.

After Deng's dramatic public statement, the British side realized that it could no longer expect any concessions from the Chinese on the PLA garrison issue. The stationing of the Sino-British JLG in Hong Kong thus became the last barrier to the conclusion of the Sino-British Joint Declaration. Margaret Thatcher adopted a proposal from Sir Percy Cradock, and Sir Geoffrey Howe was sent to Beijing once again to try to extricate the British from the impasse. But at the same time, Sir Geoffrey issued a strong statement indicating that unless the conditions were reasonable, the British side would not accept the overall agreement.¹¹¹

The Chinese side understood the seriousness of the question and recognized that London's concerns were reasonable. Ji Pengfei, Wu Xueqian, and Zhou Nan went to seek further instructions from Deng Xiaoping. Deng was ready to make some concessions, including changing the original name of the Sino-British Joint Committee to Sino-British JLG (the final version in the Sino-British Joint Declaration); agreeing that the period during which it would be stationed in Hong Kong could be flexible and that the JLG could meet in Beijing, London, and Hong Kong; and suggesting that in case of disagreements, the British representatives in the JLG would refer back to the Hong Kong government, thus avoiding the impression that the JLG was of higher rank than the Hong Kong government. Deng agreed that the counter-proposal from the British side could serve as the basis for discussion leading to an agreement. He also indicated that the promulgation of the Basic Law should move forward, "no later than 1990, ideally a bit earlier."¹¹²

¹¹¹Cottrell, *The End of Hong Kong*, 157.

¹¹²Chen, *Xianggang huigui licheng*, 240-41; and *Deng Xiaoping nianpu*, 988.

Deng's concessions led to agreement on the establishment of the Sino-British JLG (Annex II of the Sino-British Joint Declaration). Later, when Deng Xiaoping met Sir Geoffrey Howe, he invited Queen Elizabeth II to make a state visit to China.

The last items on the agenda included land leases, nationality, and civil aviation landing rights. Agreement on the land issue was embodied in Annex III of the Sino-British Joint Declaration. From the beginning of the transitional period to 1997, the Hong Kong government was not permitted to sell more than fifty hectares of land per annum. The Chinese side's original purpose was to prevent the Hong Kong government from selling too much land, but this limitation led to a substantial increase in real estate prices before 1997, adversely affecting economic development and people's livelihoods.

The PRC government does not recognize dual nationality, and both sides tried to secure a consensus on this issue while recognizing each other's differences and agreeing to exchange memoranda of understanding stating their respective positions. The British memorandum states that individuals who were British Dependent Territories citizens by virtue of a connection with Hong Kong would no longer enjoy that status from July 1, 1997, nor would they have the right of abode in the United Kingdom. They would, however, be entitled to continue to use passports issued by the British government and to receive British consular services and protection when in third countries. The Chinese memorandum, on the other hand, states that Chinese nationals in Hong Kong who were previously called "British Dependent Territories citizens" may use travel documents issued by the British government for the purpose of travelling to other states, but they would not be entitled to British consular protection in the HKSAR or other parts of the PRC.

On the question of civil aviation landing rights, the Chinese side agreed to maintain the status quo until 1997, that is, that Britain could continue to enjoy the benefits derived from its control of civil aviation rights in Hong Kong. However, Cathay Pacific Airways, perceived to be a British enterprise, subsequently allowed Chinese enterprises to acquire its shares in order to share in its profits.

Conclusion: China's Negotiation Strategy

Initially, the Chinese leadership thought that it could muddle through the Hong Kong question and maintain the status quo. But due to persistent requests from the British government, it finally realized that it had to resolve the issue. The Chinese decision-making processes before the negotiations were detailed and scientific. The decision to recover Hong Kong by 1997 was certainly influenced by nationalist considerations, and Chinese leaders were willing to pay the price; but this fundamental stand placed China in an advantageous position. The "one country, two systems" policy for Hong Kong demonstrated the Chinese leadership's liberation in thinking at that time. It was clear that they were ready to adopt a set of highly pragmatic guidelines to secure the confidence of the Hong Kong people and to maintain the territory's stability and prosperity. Chinese leaders understood that although the recovery of Hong Kong itself would not be difficult, China's reform and opening up policy and its modernization drive would suffer a severe setback if talented individuals fled the territory and the economy was reduced to a shambles. In those circumstances, China's image would be tarnished and the reputation of its leaders would be ruined.

This was why Deng Xiaoping was personally involved in the overall negotiating strategy. As with crucial foreign policy issues like relations with the United States, when the top leaders give these issues high priority and fully mobilize the regime's talents and resources, a good outcome is usually assured. The responsible officials at the HKMAO seemed to enjoy Deng's support; they were thorough in their research and had a good grasp of the essential variables involved in securing the community's confidence and maintaining the territory's stability and prosperity. With the benefit of hindsight, however, they were not entirely sincere when they guaranteed that Hong Kong people would administer Hong Kong.

The united front strategy has long been recognized as an effective secret weapon of the CCP. From a highly disadvantageous starting-point, the Communist cadres displayed sophisticated skills and tremendous patience in gradually bringing round Hong Kong public opinion. In the final stage of the Sino-British negotiations, when the Hong Kong people realized

that the die had been cast, the united front strategy further widened the net to win over all who could be won over in order to isolate the die-hard pro-British and anticommunist elites in the society. The vast majority of Hong Kong people adopted a pragmatic attitude.¹¹³ While they avoided confronting Beijing openly, they explored the option of emigration if they had the means.

On the basis of good assessments of the situation and preparation for the worst-case scenario, the Chinese leadership was quite effective in exerting pressure on its British counterpart, and where concessions were called for, it was pragmatic and flexible. In sum, in terms of negotiating strategy and tactics, the performance of the Chinese leaders and other officials may be considered to be almost flawless.

The inadequacies of the negotiations were exposed after the conclusion of the Sino-British Joint Declaration. The Chinese leadership actually had no intention of granting Hong Kong genuine democracy; ultimately it wanted to control the territory within a united front framework. When this became apparent, there was no chance that the "one country, two systems" model could have any appeal in Taiwan, so the HKSAR's demonstration effect was limited to the economic sphere in mainland China. By the turn of the century, Shanghai and other major coastal cities in China had abandoned Hong Kong as a model. The recovery of Hong Kong and the maintenance of its stability and prosperity were highly successful, but securing the loyalty of the Hong Kong people remains a different matter. Nevertheless, developments after 1984 are outside the scope of this article.

In contrast, the British side did not have a good understanding of the situation in China. It seriously neglected the influence of nationalism on the Chinese leadership and the Hong Kong people. Efforts to get the Chinese to accept the continuation of British administration in Hong Kong

¹¹³There has been criticism of the Hong Kong people's pragmatism, i.e. their willingness to cooperate with the authorities; see, for example, Philip Snow, *The Fall of Hong Kong: Britain, China and the Japanese Occupation* (New Haven and London: Yale University Press, 2003).

ignored the Chinese leadership's nationalist stance.

Before the ultimate British concession, the vast majority of Hong Kong people desired the maintenance of the British administration on a long-term basis, but the British government almost completely failed to mobilize the local community in support of its position. Little consideration was given to securing the support of international public opinion either. The British government's desire to be in full control of the negotiations ultimately led the Hong Kong people and even the pro-British elite to consider that the British had betrayed their interests. The various kinds of sleight of hand utilized to stop Hong Kong people from obtaining right of abode in Britain also provoked a lot of resentment.

In the transitional period, the British side continued to retreat, and the bulk of the pro-British elite which made up the territory's establishment was absorbed by the pro-Beijing united front. Britain no longer has any significant influence in Hong Kong. Perhaps the only consolation is that when Hong Kong people grumble about the administrations of C. H. Tung and Donald Tsang, they still comment favorably on the fine institutions set up by the British administration.

This study complements the existing literature on China's negotiating behavior. It demonstrates that the key factors identified previously as contributing to China's success were at work in this case too. These factors include: meticulous planning and management, political discipline, patience, effective briefing, skilful exploitation of the opponents' weaknesses, and use of "old friends." These are distinctive features of successful Chinese diplomacy, but they are not unique. The Chinese authorities and their diplomats in this case study also benefitted from their secretive decision-making processes, while their counterparts were under a lot of pressure from public opinion in Hong Kong and internationally. The intense interest of the mass media, both Hong Kong and international, worked against London and the British colonial government. United front strategies and tactics have all the time been strong points of the CCP,¹¹⁴ and they were

¹¹⁴See Joseph Y. S. Cheng, "The Japan Policy of the People's Republic of China 1968-1974"

effective in dampening local opposition and quelling suspicion about the return of Hong Kong to China. To some extent, the Chinese negotiating team could claim to have home court advantage too.

With the benefit of hindsight, promises of autonomy and self-administration for the Hong Kong people had serious limitations in the calculations of the Chinese leaders. At the very least, they considered that their implementation must not be perceived as a challenge of the CCP's ultimate control. When power is highly concentrated, the attention and priorities of the top leadership become a critical factor, and in this case, Deng Xiaoping's deep interest in the issue was a positive factor for China's negotiating team. It sometimes had a negative impact though, as demonstrated by Deng's open rebuke of the former foreign minister, Huang Hua, and former defense minister, Geng Biao, over the issue of stationing the PLA in Hong Kong. The "one country, two systems" model had significant ideological overtones, but serious controversy within the Chinese leadership was avoided, probably because of the prestige and influence of Deng Xiaoping at the time. The model soon lost its appeal as far as Taiwan was concerned because Deng and his successors did not have the political will to fully exploit a model which had the potential to cause major disputes among the Chinese leaders.

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