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FM WASHINGTON 082234Z NOV 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3602 OF 8 NOVEMBER 1982

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR) HONG KONG (PERSONAL FOR GOVERNOR)

YOUR TELNO 1890: FUTURE OF HONG KONG

1. ACCOMPANIED BY DONALD, I CALLED ON SHULTZ ON 5 NOVEMBER AND SPOKE AS INSTRUCTED. SHULTZ THANKED US WARMLY FOR HAVING TAKEN HIM INTO OUR CONFIDENCE AND GAVE ME HIS ASSURANCE THAT KNOWLEDGE OF OUR CONVERSATION WOULD BE HANDLED ON A STRICT NEED-TO-KNOW BASIS. HE SAID THE UNITED STATES WAS CONCERNED ABOUT THE FUTURE OF HONG KONG AND THE PROBLEM HAD A PERSONAL DIMENSION FOR PEOPLE LIKE HIMSELF WHO KNEW IT WELL: IF THE CHINESE BELIEVED THAT CONFIDENCE IN HONG KONG COULD BE MAINTAINED WITHOUT THE BRITISH LINK THE CHINESE DID NOT UNDERSTAND WHAT CONFIDENCE WAS.

2. SHULTZ SAID HE WOULD BE GLAD TO GIVE US ADVANCE NOTICE OF IMPORTANT VISITS TO HONG KONG WITH A VIEW TO OUR PROVIDING BRIEFING. HE HIMSELF WOULD BE GOING TO CHINA IN LATE JANUARY OR EARLY FEBRUARY. HOWEVER, THE UNITED STATES WOULD HAVE TO CONSIDER CAREFULLY WHAT HELP THEY COULD GIVE US, BECAUSE THEY COULD DO OUR INTERESTS MORE HARM THAN GOOD. IN HIS VIEW, WE SHOULD KEEP WELL AWAY FROM ANY PARALLEL WITH TAIWAN. AT A MINIMUM HE THOUGHT THAT, IF ASKED OR GIVEN AN OPPORTUNITY TO COMMENT BY THE CHINESE, THE AMERICANS SHOULD TRY TO TACKLE THEIR ASSUMPTION THAT THEY COULD MAKE MAJOR CHANGES STILL AND MAINTAIN BUSINESS. THE HONG KONG PROBLEM WAS QUITE DIFFERENT FROM WHAT THE CHINESE WERE USED TO, IN THAT GOVERNMENTAL ACTION WOULD NOT BE THE DETERMINING FACTOR. THE MARKET HAD ALREADY CONVEYED A SIGNAL TO THE CHINESE, WHICH MIGHT NOT BE AN UNHELPFUL THING. THERE WAS THEN SOME DISCUSSION AS TO WHETHER US BUSINESSMEN IN HONG KONG COULD BE USEFUL TO US IN GETTING THE MESSAGE OVER TO THE CHINESE. SHULTZ THOUGHT THAT IT WOULD BE NATURAL IN ANY CASE FOR AMERICANS VISITING PEKING TO ENQUIRE ABOUT CHINESE GOVERNMENT INTENTIONS. WE NOTED HERE THAT THIS MIGHT RAISE DIFFICULTIES FOR MAINTAINING CONFIDENTIALITY. WE ALSO MENTIONED THAT THE CHINESE BELIEF THAT BRITAIN MADE A LARGE PROFIT FROM HONG KONG WAS QUITE MISTAKEN, BUT INDICATIVE OF THEIR MISUNDERSTANDING OF REALITY.

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/3. SHULTZ

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3. SHULTZ CONCLUDED BY SAYING HE WOULD LIKE TO TALK AGAIN BEFORE HIS VISIT TO PEKING. IN THE MEANTIME HE WOULD CONSIDER WHAT ELSE THEY COULD DO TO HELP.

4. I THEN CALLED ON VICE PRESIDENT BUSH WHO WAS SIMILARLY APPRECIATIVE. HE ASKED A NUMBER OF QUESTIONS ABOUT THE BACKGROUND TO THE PROBLEM AND THOUGHT THAT THE HONG KONG CHINESE PROBABLY OFFERED THE BEST AVENUE OF INFORMAL COMMUNICATION.

5. THIS WAS A MOST USEFUL EXERCISE. WHICH HAD INCIDENTAL BENEFITS FOR OUR BILATERAL RELATIONS IN THE LIGHT OF RECENT PROBLEMS. THE AMERICANS WERE CLEARLY AWARE OF THE BROAD NATURE OF THE PROBLEMS CONFRONTING US AND, WHILE ANXIOUS NOT TO INTERFERE, ARE OBVIOUSLY WILLING TO SHARE INFORMATION AND IDEAS WITH US. IT WAS ALSO VALUABLE TO HAVE DONALD HERE TO PROVIDE AN EXPERT VIEW OF THE PROBLEM, AND HE WAS ABLE TO HAVE PROFITABLE CONVERSATIONS ON THE SIDE WITH US GOVERNMENT OFFICIALS. I HOPE YOU WILL AUTHORISE ME TO BRIEF SHULTZ AGAIN BEFORE HIS VISIT TO PEKING AND, IF DEVELOPMENTS MERIT IT, TO CONSIDER MAKING DONALD AVAILABLE AGAIN.

WRIGHT

FUTURE OF HONG KONG
LIMITED

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HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/LORD BELSTEAD
PS/PUS
MR GIFFARD
MR DONALD

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