

SECRET

DESKBY 071100Z

SECRET

FM PEKING 070950Z JUN 83 * [AMENDED DISTRIBUTION 7 JUNE 1983] *

27A

TO IMMEDIATE FCO

TELNO 526 OF 7 JUNE

RPTD INFO HONG KONG (PERSONAL FOR GOVERNOR).

PERSONAL FOR PUS FROM AMBASSADOR

YOUR TELNO 350: FUTURE OF HONG KONG

MR 15/6
L.C.

1. I FULLY UNDERSTAND MINISTERS' RELUCTANCE TO PURSUE THIS DELICATE ISSUE OR TAKE DECISIONS ON IT BEFORE THE ELECTION.

2. I RECEIVED AN INVITATION THIS MORNING FROM ASSISTANT FOREIGN MINISTER ZHOU NAN TO A WORKING LUNCH ON 9 JUNE. I THEREFORE TELEPHONED HIM AND SPOKE AS IN PARA 3 OF YOUR TUR. I OMITTED THE SPECIFIC MENTION OF THE NPC BECAUSE THE STATEMENTS THERE IN YESTERDAY'S SPEECHES WERE VERY ANODYNE, AND BECAUSE I SEE IT AS POSSIBLY PROVOCATIVE, BUT OTHERWISE KEPT FAIRLY CLOSELY TO YOUR TEXT.

3. ZHOU TOOK CAREFUL NOTE, PARTICULARLY OF THE SENTENCE BEGINNING "IT WOULD IN ANY CASE BE CONSTITUTIONALLY WRONG" AND SAID HE QUITE UNDERSTOOD. HE ALSO SOUNDED RECEPTIVE TO THE POINT ON CONFIDENTIALITY.

4. I WENT ON TO SAY THAT THOUGH I SHOULD, OF COURSE, LIKE TO LUNCH WITH HIM, IN THE CIRCUMSTANCES I SHOULD HAVE LITTLE NEW TO CONTRIBUTE TO A DISCUSSION. ZHOU SAID THAT AFTER OUR TALK YESTERDAY HE HAD REPORTED TO YAO GUANG WITH THE SUGGESTION THAT MY INTERVIEW WITH YAO BE POSTPONED TO ALLOW A CHANCE FOR INFORMAL CONVERSATION. HE ASKED WHEN I THOUGHT I SHOULD NOW BE ABLE TO PURSUE A DISCUSSION ON A PERSONAL BASIS. I SAID I HOPED NEXT WEEK. HE UNDERTOOK TO REPORT TO YAO GUANG. HE LATER TELEPHONED ME TO SAY THAT THE FORMAL MEETING WOULD BE POSTPONED AND THE LUNCH PUT OFF UNTIL SUCH TIME NEXT WEEK AS I COULD TELL ZHOU NAN ANOTHER PERSONAL DISCUSSION WOULD BE POSSIBLE.

COMMENT

5. I NOTED IN MY TELNO 518 THAT THE CHINESE SEEMED TO BE IN A HURRY TO GET SUBSTANTIVE TALKS GOING. ZHOU'S INITIATIVE TODAY, WITHOUT WAITING FOR THE RESPONSE I HAD SAID I WOULD TRY TO GIVE HIM WITHIN 48 HOURS, CONFIRMS THE POINT. THE PRECISE REASONS REMAIN OBSCURE. I WOULD GUESS THAT THE MINISTRY IS UNDER PRESSURE TO SECURE AN EARLY AGREEMENT TO BEGIN TALKS, HAVING FAILED TO KEEP TO THE TIMETABLE, (IE BY THE END OF MAY), WHICH YAO GUANG PROPOSED WHEN HE DELIVERED ZHAO'S LETTER. THAT TIMETABLE MAY HAVE BEEN CONNECTED WITH THE NPC. ALTHOUGH THE ANODYNE REFERENCE TO HONG KONG IN ZHAO'S OPENING STATEMENT ON 6 JUNE DID NOT CONVEY THE IMPRESSION THAT MUCH BUSINESS ON THIS SUBJECT WOULD BE CONDUCTED AT THE NPC, THE CHINESE MAY, NEVERTHELESS, WISH TO MAKE AN ANNOUNCEMENT DURING THE NPC THAT TALKS ARE ABOUT TO BEGIN.

SECRET

/6.

SECRET

6. AS I SAID IN MY TELNO 518, THE CHINESE MAY ALSO BE CONCERNED ABOUT THE RECENT SLIDE OF THE HONG KONG DOLLAR. CERTAINLY THE BLANDNESS OF ZHAO'S NPC REFERENCE TO HONG KONG SUGGESTS THAT THEY ARE AWARE OF THE PRESENT FRAGILITY OF CONFIDENCE. IF SO, THIS IS IMPORTANT. BUT IT SHOULD NOT LEAD US TO FORGET THE PRIMACY OF POLITICAL AS OPPOSED TO ECONOMIC FACTORS IN THE CHINESE LEADERS' MINDS. MOREOVER WE SHOULD BE ILL-ADVISED TO DERIVE MUCH COMFORT FROM IT AS LONG AS THE EVIDENCE CONTINUES TO SUGGEST THAT THE CHINESE DO NOT FULLY UNDERSTAND WHAT IS NEEDED TO ALLAY INVESTORS' FEARS. THEY MAY WELL THINK THAT A STATEMENT THAT SUBSTANTIVE TALKS WERE ABOUT TO BEGIN AND THAT THE SOVEREIGNTY OBSTACLE HAD BEEN OVERCOME WOULD DO THE TRICK. IN FACT, UNLESS SUITABLY QUALIFIED, IT WOULD VERY LIKELY HAVE THE OPPOSITE EFFECT. WE MUST THEREFORE WATCH THIS CAREFULLY, AS I HAVE SAID IN MY TELNOS 517 AND 518.

7. THE IMMEDIATE TASK, HOWEVER, IS TO SETTLE THE AGENDA QUESTION. I HOPE THAT THIS CAN BE DEALT WITH VERY SOON AFTER THE ELECTION ON THE LINES SUGGESTED IN MY TELNOS 517 AND 518. AS YOU SAY IN YOUR PARA 2, WE MUST NOT LOSE THE PRESENT FAVOURABLE WIND. I AM VERY CONCERNED ABOUT THE POINTS AT THE END OF PARA 1 OF YOUR TUR. I DO NOT AGREE THAT THE REFERENCE TO ARRANGEMENTS IN HONG KONG BETWEEN NOW AND 1997 GIVES THE CHINESE A "NEW STATUS". IT IS NOT A NEW ELEMENT IN THE TALKS, BUT A CONSISTENT ONE DATING BACK TO THE PRIME MINISTER'S MEETING WITH DENG XIAOPING IN SEPTEMBER 1982, WHEN HE SPOKE OF TALKS ABOUT "HOW TO ENSURE A GOOD TRANSITIONAL PERIOD OF FIFTEEN YEARS AND WHAT WOULD BE DONE AFTER FIFTEEN YEARS". WE HAVE NEVER DISPUTED THIS, AND THERE IS NO PROSPECT THAT THE CHINESE WOULD AGREE TO THE

OMISSION OF THIS SUBJECT

FROM THE TALKS. MOREOVER, IT IS LOGICALLY INESCAPABLE THAT, HAVING DISCUSSED ARRANGEMENTS AFTER 1997, WE SHOULD TALK ABOUT THE INTERVENING PERIOD. THE NEUTRAL WORDING DOES NOT PREJUDICE OUR POSITION IN ANY WAY. IT WOULD BE DIFFERENT IF THE CHINESE WERE INSISTING ON A REFERENCE TO, SAY, "HOW BRITAIN CAN COOPERATE WITH CHINA IN THE TRANSITIONAL PERIOD".

8. SECONDLY, AN EXPLICIT REFERENCE IN THIS CONTEXT TO THE REQUIREMENT THAT THE ARRANGEMENTS ARE ACCEPTABLE TO THE PEOPLE OF HONG KONG, WITH RESPECT, IS UNNECESSARY, SINCE IT IS COVERED IN THE GENERAL REFERENCE TO MRS THATCHER'S LETTER. MOREOVER IT IS INCONCEIVABLE THAT THE CHINESE WOULD ACCEPT IT. THE FORMAL CHINESE POSITION, FROM WHICH THEY WILL NOT DIVERGE, IS THAT THE TALKS ARE STRICTLY BETWEEN CHINA AND BRITAIN. IF WERE TO INSIST ON REFERENCE TO THIS POINT IN A JOINTLY AGREED FORMULATION WE SHOULD NOT BE ABLE TO REACH AN AGREEMENT. TALKS WOULD BE STYMIED FOR A VERY LONG TIME OR MIGHT NEVER BEIN AT ALL.

SECRET -2-

19.

SECRET

D. TO REPEAT, WE COULD BE WITHIN REACH OF A FORMULA FOR A GENERAL AGENDA WHICH SHOULD ALLOW SUBSTANTIVE TALKS TO BEGIN AND WHICH SELLS NO PASSES. WE NEED HAVE NO ILLUSIONS ABOUT THE TALKS. THEY WILL PROVE EXTREMELY DIFFICULT IF THEY SURVIVE AT ALL. BUT TO EMBARK UPON THEM WILL BE A MODEST ACHIEVEMENT AND THE PREREQUISITE FOR EVERYTHING ELSE.

PARA 7

LINE 13

TO THE OMISSION OF THIS SUBJECT FROM THE TALKS. MOREOVER IT IS

LOGICALLY INESCAPABLE ETC

FUTURE OF HONG KONG

LIMITED

HD/HK D
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/MR HURD
PS/LORD BELSTEAD
PS/PUS
SIR J BULLARD
MR GIFFARD
MR DONALD
MR WRIGHT

COPIES TO

SIR I SINCLAIR LEGAL ADVISER
MR BURROWS LEGAL ADVISERS
MR ROBERTS NEWS D
MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE
MR FLOWER PUSD
MR COLES NO 10 DOWNING ST. }
SIR A. PARSONS }