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FROM PEKING 170550Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1037 OF 17/10/83

*And - full.*REPEATED FOR INFO TO IMMEDIATE HONG KONG
FUTURE OF HONG KONG

1. I SAT NEXT TO ZHOU NAN AT A DINNER FOR THE AIRBUS DELEGATION ON 15 OCTOBER. HE HAD RETURNED FROM NEWYORK ON 13 OCTOBER.
2. HE SAID HE HAD READ THE MESSAGE OF 14 OCTOBER. IN ANSWER TO MY QUESTION HE SAID IT WAS BEING STUDIED AND SUBMITTED TO CHINESE LEADERS. HE SOUGHT TO BELITTLE IT AS A SMALL STEP WITH A NUMBER OF AMBIGUITIES. HE NOTED ALSO THAT WE MAINTAINED OUR VIEW THAT BRITISH ADMINISTRATION WAS THE BEST FOUNDATION FOR PROSPERITY. I SAID THIS REMAINED OUR HONEST VIEW BUT IN A SPIRIT OF ACCOMMODATION WE WERE READY TO EXPLORE OTHER POSSIBILITIES. TO THINK OF THE MESSAGE AS A SMALL STEP WOULD BE A MAJOR MISASSESSMENT. IT REPRESENTED A VERY GREAT EFFORT ON OUR PART AND CALLED FOR A SIMILAR RESPONSE FROM THE CHINESE SIDE. IF HE FELT THERE WERE ANY AMBIGUITIES HE HAD ONLY TO ASK ME.
3. HE SAID WE HAD WASTED A LOT OF TIME WITH OUR STAND ON BRITISH ADMINISTRATION AND HE HAD WARNED US MONTHS AGO WHAT WOULD HAPPEN. I TOLD HIM NOT TO RAKE OVER THE PAST: BOTH SIDES COULD MAKE ACCUSATIONS ABOUT THAT: WHAT WE NEEDED TO DO WAS TO LOOK FORWARD. HE THEN SAID THAT WHAT THE CHINESE WANTED TO KNOW WAS WHAT WE WANTED IN DETAIL. THEY HAD SET OUT THEIR PROPOSALS. WHAT, FOR EXAMPLE, WAS MEANT BY THE BRITISH ROLE?
4. I SAID IT WAS FOR THE CHINESE TO SPEAK IN MORE DETAIL ABOUT THEIR IDEAS. WE WERE READY TO DISCUSS THEM CONSTRUCTIVELY. WHAT THE CHINESE HAD SAID SO FAR WAS EXTREMELY VAGUE. WE HAD ASKED FOR DETAIL EARLIER AND HAD BEEN TOLD THAT WE HAD FIRST TO ACCEPT THE PREMISE. WE HAD NOW MADE A BIG BOW IN THE DIRECTION OF THE PREMISE AND WERE ENTITLED TO HEAR MORE. HE PERSISTED THAT WE SHOULD GIVE MORE DETAIL OF OUR IDEAS. I SAID WE WERE VERY SATISFIED WITH THE PRESENT ADMINISTRATIVE SET-UP. IF THE CHINESE WISHED TO CHANGE IT THEY SHOULD SAY WHERE.
5. IN ANSWER TO MY CLAIM THAT ^{CHINESE} ~~CHINESE~~ PROPOSALS WERE EXCESSIVELY GENERALISED, ZHOU CITED THE CHINESE STATEMENT THAT THE LEGAL SYSTEM SHOULD REMAIN BASICALLY UNCHANGED. I ASK WHAT THEY MEANT BY BASICALLY. HE SAID IT MEANT NO APPEALS TO LONDON OR PEKING BUT A FINAL COURT OF APPEAL IN HONG KONG. HE ALSO SAID ^{THAT} THE CURRENCY COULD BE EASILY DISCUSSED AND SETTLED. THIS SUGGESTS THAT DESPITE POTENTIAL WRANGLING ON WHO MOVES FIRST, WE SHOULD BE ABLE TO MAKE PROGRESS ON CERTAIN IMPORTANT AREAS. IT WOULD BE WISE TO GO FOR THEM.

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6. ZHOU SAID ^{TIAA} HW CHINA DID NOT SEEK DISTURBANCES IN HONG KONG. HE HOPED WE DID NOT. HE THEN ASSERTED THAT THE FALL IN THE HONG KONG ^{DOLLAR} DOLLAR WAS OUR DOING. I REJECTED THIS OUT OF HAND AND ASKED HIM TO TALK TO ME SENSIBLY. WHAT HE WAS SAYING WOULD DO VERY WELL IN THE PEOPLE'S DAILY BUT DID NOT BECOME AN INTELLIGENT MAN LIKE HIMSELF. I CITED OUR EFFORTS TO SUSTAIN THE DOLLAR, DESPITE ACUTE ANXIETY OVER THE FUTURE, ~~ALSO~~ ^{OUR} INTERVENTION OVER THE HANG LONG BANK. ON THE OTHER HAND I REMINDED HIM OF YAO GUANG'S REFUSAL TO ADD A WORD TO THE COMMUNIQUE ON 23 SEPTEMBER DESPITE THE OBVIOUS ADVERSE EFFECT THIS WOULD HAVE ON THE DOLLAR. HE SAID THIS WAS BECAUSE OF OUR OBSTINACY ON PRINCIPLE. I REPLIED THAT ONE IMPORTANT THING WE COULD DO ON 20 OCTOBER WOULD BE TO SAY SOMETHING POSITIVE IN OUR COMMUNIQUE. HE MADE NO COMMENT.

7. IT WAS NOT AN ENTIRELY SATISFACTORY CONVERSATION, AND PUNCTUATED BY CRIPPLING QUANTITIES OF MAOTAI. ^{ONE} ~~THE~~ PROBLEM IS THAT THE CHINESE HAVE NOT YET HAD THEIR INSTRUCTIONS. BUT TO JUDGE FROM THIS EXCHANGE IT WOULD SEEM WE ARE LIKELY TO MEET A RATHER GRUDGING RESPONSE THIS WEEK WITH A TENDENCY TO RAKE OVER THE PAST IN A SELF-RIGHTEOUS WAY. THERE IS ALSO LIKELY TO BE A PROBLEM ABOUT WHO GOES INTO DETAIL FIRST. ONE OF THE DIFFICULTIES HERE, I SUSPECT, IS THAT THE CHINESE HAVE NOT DONE MUCH DETAILED THINKING. WE MUST AVOID A SITUATION IN WHICH WE ARE CONSTANTLY PUTTING FOWARD OUR IDEAS, TO BE TOLD TO GO AWAY AND DO OUR HOMEWORK AGAIN. ON THE OTHER HAND, THEY ARE LIKELY TO NEED SOME HELPFUL QUESTIONING BEFORE WE CAN GET DOWN TO CONSTRUCTIVE DISCUSSION. PARA 5 ABOVE SUGGESTS THAT DESPITE THIS WRANGLING WE SHOULD BE ABLE TO DO SOME USEFUL WORK. ZHOU NAN'S FINAL ADMOCTION WAS HE HOPED WE WOULD NOW STOP MANOEUVRING AND GET DOWN TO BUSINESSLIKE DISCUSSION

CRADOCK

FUTURE OF HONG KONG

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