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IMMEDIATE

WONFO 32/30

OO F C O (DESKBY300830Z)

OO GOVERNOR HONG KONG

OO PEKING

RR SINGAPORE

GPS 275

CONFIDENTIAL

DESKBY 300830Z

FROM WASHINGTON 300240Z JUL 82.

TO IMMEDIATE F C O

TELEGRAM NUMBER 2612 OF 29 JULY

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR), PEKING, ROUTINE SINGAPORE.

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R/No 10 287(2)

M.I.P.T.: (NOT TO ALL): MEETING WITH SHULTZ: CHINA.

1. ON HONG KONG, YOU TOLD SHULTZ THAT THE CHINESE HAD MADE IT CLEAR THAT THEY HAD NO INTENTION OF RENEWING THE LEASE ON THE NEW TERRITORIES WHICH EXPIRED IN 1997. THEY ALSO WANTED TO ASSERT SOVEREIGNTY OVER HONG KONG ISLAND AND SOUTH KOWLOON (WHICH WOULD PRESENT US WITH OBVIOUS PROBLEMS IN THE FALKLANDS AND GIBRALTAR CONTEXTS); THE CHINESE HOWEVER WANTED HONG KONG'S ROLE AS AN INTERNATIONAL BUSINESS CENTRE TO CONTINUE. THEY HAD PRODUCED AN OUTLINE OF A SCHEME WHICH WOULD NOT WORK BECAUSE IT WOULD NOT RETAIN THE CONFIDENCE OF THE HONG KONG BUSINESS COMMUNITY. THIS DEPENDED ON A CONTINUED BRITISH ADMINISTRATION. THE PRIME MINISTER, ON HER VISIT TO PEKING IN SEPTEMBER, WOULD TRY TO EXPLAIN TO THE CHINESE THAT A BRITISH ADMINISTRATION WAS NEEDED IN ORDER TO MAINTAIN CONFIDENCE AND THAT, IF THAT WERE AGREED, THE SOVEREIGNTY PROBLEM COULD BE DISCUSSED.

2. SHULTZ SAID THAT LEE KWAN YEW HAD TOLD HIM THAT THE CHINESE PROPOSAL DID NOT MAKE MUCH SENSE BUT THAT THE INTERESTING QUESTION WAS ITS IMPLICATIONS FOR CHINESE INTERNAL AFFAIRS. LEE THOUGHT THAT THE CHINESE UNDERSTOOD WHAT WAS REQUIRED BUT THAT