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TO IMMEDIATE TOKYO (FOR PM'S PARTY)

TELEGRAM NUMBER 24 OF 16 SEPTEMBER

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

PERSONAL FOR DONALD

YOUR TELNO 403: PRIME MINISTER'S DRAFT OPENING STATEMENT ON HONG KONG

1. THIS DRAFT CONTAINS MOST OF THE ESSENTIAL POINTS BUT I HAVE SOME SERIOUS RESERVATIONS.

2. I STILL FEEL THAT IT IS IMPORTANT TO MAKE A BOW TO THE CHINESE POSITION ON SOVEREIGNTY AS EARLY AS POSSIBLE SO AS NOT TO RISK AN UNHELPFUL SALVO FROM THEM ON THIS POINT. THE BEST PLACE TO DO THIS WOULD PERHAPS BE IN YOUR PARA 4 BUT THE SUBSTANTIVE DISCUSSION OF THE SOVEREIGNTY QUESTION (PARAS 8-12) COULD OF COURSE BE DEALT WITH LATER. I WOULD SUGGEST THEREFORE AN INSERTION BETWEEN YOUR FIRST AND SECOND SENTENCES OF A PASSAGE ALONG THE LINES OF QUOTE IF MY UNDERSTANDING IS CORRECT, THE TWO MAIN ELEMENTS OF THE CHINESE VIEW CONCERN SOVEREIGNTY AND THE CONTINUED PROSPERITY OF HONG KONG. THE FIRST OF THESE IS LIKELY TO BE A DELICATE MATTER FOR BOTH SIDES AND I SHALL SAY SOMETHING ABOUT THIS LATER. I SHOULD LIKE FIRST TO DISCUSS THE SECOND ELEMENT - PROSPERITY. I NOTE ... UNQUOTE.

3. I ALSO THINK THAT THE PRIME MINISTER SHOULD BE MUCH MORE SPECIFIC AND MUCH MORE FRANK IN WHAT SHE SAYS ABOUT THE PROPOSALS PUT BY DENG TO MR HEATH. I SUGGEST THAT SHE SHOULD REHEARSE PRECISELY WHAT IT WAS THAT DENG SAID (THIS IS THE STARTING POINT OF DISCUSSIONS FOR THE CHINESE), TAKE ZHAO THROUGH THE POINTS ONE BY ONE AND DESCRIBE EXACTLY WHAT WE BELIEVE THE EFFECTS OF THESE CHANGES WOULD BE. THIS SHOULD BE DONE IN EXPLICIT AND STARK TERMS, ILLUSTRATING THE THESIS THAT IF THIS PLAN WERE IMPLEMENTED, OR EVEN ANNOUNCED, IT WOULD PROVOKE A WHOLESALE FLIGHT OF CAPITAL FROM HONG KONG. THIS IS SOMETHING WE WOULD NOT PROMPT, BUT WE COULD NOT CONTROL IT. NOR WOULD THE MONEY, HAVING LEFT, RETURN. WE SHOULD BE ARGUING OVER A WASTE LAND.

4. THE DRAFT MAKES NO MENTION OF THE CONNECTION BETWEEN THE HONG KONG QUESTION AND TAIWAN. THIS IS A VERY STRONG POINT AND IT MUST BE INCLUDED. IF THE CHINESE TOUCH BRINGS ECONOMIC COLLAPSE IT WILL BE THE GREATEST DISINCENTIVE FOR TAIWAN.

5. I AM ALSO UNHAPPY ABOUT PARA 12 IN WHICH IT IS SUGGESTED THAT THE SOVEREIGNTY QUESTION SHOULD BE LEFT ON ONE SIDE FOR THE TIME BEING. THE CHINESE WOULD CERTAINLY REACT VERY BADLY INDEED TO SUCH A SUGGESTION. THEIR POSITION WILL BE THAT WE SHOULD ONLY DISCUSS ADMINISTRATIVE ARRANGEMENTS ONCE AN UNDERSTANDING ON SOVEREIGNTY IS REACHED. IF WE PROPOSE A POSITION WHICH IS PRECISELY THE OPPOSITE OF THAT WE SHALL RISK A COMPLETE FAILURE OF THE VISIT. WE SHOULD I THINK PROPOSE THAT THE QUESTIONS ON SOVEREIGNTY AND ADMINISTRATION SHOULD BE DISCUSSED IN PARALLEL THROUGH OFFICIAL TALKS AND THAT THESE TALKS WOULD BEGIN WITHOUT PREJUDICE OR PRE-CONDITIONS.

6. I HAVE ALSO A FEW RELATIVELY MINOR POINTS:

(A) PARA 1 OF YOUR DRAFT REALLY BELONGS TO THE OPENING OF THE FIRST SESSION OF TALKS WITH ZHAO IE. THAT ON INTERNATIONAL ISSUES. IT WOULD BE BETTER TO BEGIN THE HONG KONG SESSION BY REFERRING TO THE FRUITFUL EXCHANGE OF THE PREVIOUS DAY.,

(B) PARA 3 OF YOUR DRAFT SHOULD I THINK COME AFTER WHAT IS NOW PARA (C) AS A PREFACE TO OUR RESPONSE TO DENG'S PROPOSALS. IT STANDS COULD STICK IN THE CHINESE GULLET. I SHOULD PREFER IT IF THIS WERE OMITTED AND THE FINAL SENTENCE REDRAFTED TO READ "BRITISH ADMINISTRATION HAS PROVIDED EFFICIENT AND CONSISTENT GOVERNMENT POLICIES AND WITHOUT...".,

(D) YOUR PARA 13(C). I THINK IT WOULD PERHAPS BE PREMATURE TO ANTICIPATE A DISAGREEMENT ON SUBSTANCE IN THE PRIME MINISTER'S OPENING STATEMENT BUT THIS IS OF COURSE A POINT WHICH COULD BE USED LATER.

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PARA 6

(B) PARA 3 OF YOUR DRAFT SHOULD I THINK COME AFTER WHAT IS NOW PARA 4 AS A PREFACE TO OUR RESPONSE TO DENG'S PROPOSALS.,
(C) ALSO IN PARA 3 I THINK THE PENULTIMATE SENTENCE AS IT STANDS COULD STICK IN THE CHINESE GULLET. I SHOULD PREFER IT IF
..... OK ??????

RGR
PARA 6

(B) PARA 3 OF YOUR DRAFT WOULD I THINK COME AFTER WHAT IS NOW
PARA 4 AS A PREFACE TO OUR RESPONSE TO DENG'S PROPOSALS.,
(C) ALSO IN PARA 3 I THINK THE PENULTIMATE SENTENCE AS IT STANDS
COULD STICK IN THE CHINEXSE GULLET. I SHOULD PREFER IT IF
..... OK ??????