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DESKBY 010830Z FCO

DESKBY 011000Z PEKING

FM HONG KONG 010755Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1105 OF 1 OCTOBER

INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

f.a.
AD/10.

PERSONAL FOR DONALD FROM GOVERNOR

PEKING TELNOS 610 AND 611: FUTURE OF HONG KONG: PRIME MINISTER'S TALKS

1. AS A CONSEQUENCE OF THE AGREED STATEMENT ISSUED IN PEKING AND OF THE PRIME MINISTER'S MEETINGS AND STATEMENTS HERE THERE IS AN UNDERLYING ACCEPTANCE THAT THE AGREEMENT TO HOLD TALKS AND THE ENDORSEMENT BY BOTH SIDES OF A COMMON OBJECTIVE FOR THEM WERE A SUBSTANTIAL STEP FORWARD. THIS VIEW WAS CLEARLY EXPRESSED IN THE PRIME MINISTER'S MEETING WITH UMELCO AND AGAIN AT EXECUTIVE COUNCIL YESTERDAY, AND IS PROBABLY HELD BY MOST THINKING PEOPLE HERE.
2. THERE IS NEVERTHELESS A VERY CONSIDERABLE STATE OF NERVOUSNESS WHICH HAS BEEN EXACERBATED BY THE COUNTER STATEMENT PUT OUT YESTERDAY BY NCNA ABOUT THE PRIME MINISTER'S COMMENTS ON THE VALIDITY OF THE TREATIES. THIS HAS COINCIDED WITH THE PUBLICATION OF THE FINANCIAL SECRETARY'S HALF-YEARLY REVIEW OF THE STATE OF THE ECONOMY. AS A CONSEQUENCE OF THE CONTINUATION OF THE WORLD RECESSION THE FORECAST FOR GROWTH OF GNP IS DOWN TO 4 PER CENT FROM THE 8 PER CENT IN THE BUDGET SPEECH IN FEBRUARY. OVER THE PAST WEEK THE NOMINAL VALUE OF THE HONG KONG DOLLAR IN U.S. DOLLAR TERMS HAS FALLEN BY 4 PER CENT AND THE EFFECTIVE INDEX BY NEARLY 3 PER CENT. THE HANG SENG INDEX HAS FALLEN BY OVER 22 PER CENT IN THE SAME PERIOD. BOTH THE FOREIGN EXCHANGE AND EQUITY MARKETS LOOK LIKE STAYING IN A HIGHLY NERVOUS AND VOLATILE STATE FOR THE TIME BEING AS DOWNSIDE RISKS ARE EVALUATED.
3. A THIRD ELEMENT IS THE STRONGLY EXPRESSED WISH HERE THAT HONG KONG SHOULD NOT ONLY BE INVOLVED IN THE TALKS IN PEKING ON THE FUTURE BUT SHOULD BE SEEN TO BE INVOLVED THROUGH THE GOVERNOR PERSONALLY. THE SENIOR UNOFFICIAL MEMBER MADE THIS POINT AT THE IMELCO MEETING AND READ THE STATEMENT WHICH HE MADE THEN INTO THE MINUTES OF EXECUTIVE COUNCIL YESTERDAY.
4. IN THE LIGHT OF THE ABOVE, I THINK THE HONG KONG DIMENSION WILL HAVE TO BE GIVEN GREATER WEIGHT IN THE SCENARIO FOR THE TALKS (PEKING TELNO 611). TO BEGIN WITH, WE MUST BE ABLE TO SAY SOON THAT THE TALKS HAVE BEGUN. THERE IS A DANGER THAT IF WE START TALKING ABOUT MODALITIES ONLY WE MAY NEVER GET TO A POINT WHERE WE CAN SAY THAT SUBSTANTIVE

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TALKS HAVE COMMENCED. I THEREFORE SUGGEST THAT IN THE AMBASSADOR'S APPROACH TO ZHANG WENJIN, THE DISTINCTION BETWEEN MODALITIES AND GUIDELINES SHOULD BE BLURRED. THIS WOULD ENABLE THE FIRST CONTACT TO BE PRESENTED AS THE COMMENCEMENT OF THE TALKS PROPER.

5. MY SECOND POINT CONCERNS PARAGRAPH 3 OF PEKING TELNO 611. I DO NOT THINK WE SHOULD LEAD THE CHINESE TO BELIEVE THAT THE TALKS CAN BE CONDUCTED QUIETLY AND DISCREETLY WITH ONLY THE PARTICIPATION OF 'OFFICIALS' FROM HONG KONG IN THE TEAM. IF CONFIDENCE IS TO BE MAINTAINED HERE THERE WILL NEED TO BE 'EVENTS' FROM TIME TO TIME OF A KIND WHICH WILL DEMONSTRATE PUBLICLY THAT SOMETHING IS HAPPENING AND THAT HONG KONG IS CLOSELY INVOLVED. DEPENDING ON HOW THINGS GO, THE FIRST SUCH EVENT MIGHT HAVE TO TAKE THE FORM OF A VISIT BY ME TO PEKING AT AN APPROPRIATE POINT IN THE NOT TOO DISTANT FUTURE. FOR THIS REASON I CONSIDER THAT IT WOULD BE BEST IF THE CHINESE WERE SIMPLY TOLD THAT THE COMPOSITION OF THE BRITISH TEAM WOULD VARY IN ACCORDANCE WITH THE REQUIREMENTS OF THE NEGOTIATIONS.

6. IN PARALLEL WITH THE START OF TALKS IN PEKING WE CAN BEGIN IN HONG KONG THE OVERT (BUT NOT PUBLIC) PROCESS OF GETTING OTHERS TO CORROBORATE TO THE CHINESE THE ARGUMENTS WHICH THE PRIME MINISTER PUT TO THEM ABOUT THE NEED FOR CONTINUING BRITISH ADMINISTRATION (AND, ABOVE ALL, THE BRITISH CONSTITUTIONAL LINK AS SUCH) IF CONFIDENCE HERE IS TO BE PRESERVED. IN ADDITION TO CONTACTS WITH CHINESE OFFICIALS, INCLUDING THE BANK OF CHINA, WE WILL ENCOURAGE LOCAL BUSINESSMEN AND COMMUNITY LEADERS TO MAKE THIS POINT IN THEIR CONTACTS WITH CHINESE OFFICIALS STATIONED HERE, AND IN ANY FURTHER VISITS THEY MAY MAKE TO PEKING. THERE ARE ALSO A NUMBER OF CHANNELS THROUGH WHICH PROMINENT AMERICAN AND PERHAPS OTHER FOREIGN VISITORS TO CHINA MIGHT BE BROUGHT TO MAKE THE SAME POINT IN THEIR CONTACTS WITH CHINESE LEADERS. SHULTZ'S OFFER TO HELP (UKMIS TELNO 1485) SHOULD CERTAINLY BE BORNE IN MIND IN THIS CONTEXT.

7. IN THE MEANTIME WE SHALL BE CONSIDERING FURTHER THE OTHER ISSUES RAISED WHILE THE PRIME MINISTER WAS HERE, AND I SHALL BE IN TOUCH SEPARATELY IN DUE COURSE.

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TO IMMEDIATE FCO
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INFO IMMEDIATE PEKING

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lead in file.

PEKING TELNO 613: FUTURE OF HONG KONG.

on 10.

THE MFA STATEMENT IS PROMINENTLY REPORTED IN TODAY'S ENGLISH AND CHINESE LANGUAGE PRESS. MANY CHINESE LANGUAGE NEWSPAPERS MAKE IT THEIR FRONT PAGE LEAD. THE LEFT WING TA KUNG PAO AND WEN WEI PO CARRY AN ADDITIONAL REPORT BY AN NCNA "COMMENTATOR" WHICH EXPANDS UPON THE MFA STATEMENT. THIS IS ALSO REPORTED IN THE NON-COMMUNIST PRESS. THE WEN WEI PO AND TA KUNG PAO ALSO CARRY SHORT HISTORICAL ARTICLES ON THE THREE TREATIES AND THE OPIUM WARS. 2. THE NCNA COMMENTARY REFERS TO THE ACQUISITION OF HONG KONG IN THE 19TH CENTURY AS AN EXAMPLE OF BRITISH IMPERIALISM'S "GUN-BOAT DIPLOMACY". THE CHINESE PEOPLE CAN NEVER ACCEPT THAT THE TREATIES HAVE ANY VALIDITY. PICKING UP THE PRIME MINISTER'S REMARKS ABOUT MORAL RESPONSIBILITY TOWARDS HONG KONG, THE COMMENTARY SAYS THAT HONG KONG IS PART OF THE GREAT CHINESE NATION OF ONE BILLION PEOPLE AND THAT "ONLY THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA HAS THE RIGHT TO SAY THAT IT HAS THE RESPONSIBILITY OF A SOVEREIGN COUNTRY TOWARDS THE CHINESE INHABITANTS OF HONG KONG". THE COMMENTARY CONCLUDES BY REPEATING ZHAO ZIYANG'S REMARKS IN HIS SPEECH AT THE WELCOME BANQUET FOR THE PRIME MINISTER IN WHICH HE REFERRED TO SOLVING THE PROBLEM LEFT OVER FROM HISTORY ON THE BASIS OF A LONG-TERM STRATEGIC POINT OF VIEW AND IN ACCORDANCE WITH THE FIVE PRINCIPLES OF PEACEFUL COEXISTENCE.

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3. ONLY THREE NON-COMMUNIST NEWSPAPERS PUBLISH EDITORIAL COMMENT. THE FINANCIAL DAILY (INDEPENDENT) URGES A MORE FLEXIBLE APPROACH ON BOTH SIDES AND SAYS THAT THE PRESENT EXCHANGES HAVE BEEN INSPIRED BY STUDENT PROTESTS TO WHICH GOVERNMENTS SHOULD NOT PAY TOO MUCH ATTENTION. THE HONG KONG ECONOMIC JOURNAL (INDEPENDENT) RECOGNISES CHINA'S ULTIMATE CLAIM TO SOVEREIGNTY OVER THE WHOLE OF HONG KONG BUT SAYS THAT THE CHINESE GOVERNMENT SHOULD NOT CONFUSE THIS CLAIM WITH HONG KONG'S STATUS IN LAW. THE TIN TIN DAILY NEWS (INDEPENDENT BUT SMALL CIRCULATION) SAYS THAT THE PRESENT TURN OF EVENTS IS WORRYING: THE TWO SIDES HAVE DIAMETRICALLY OPPOSED VIEWS ON THE SOVEREIGNTY ISSUE AND WILL HAVE TO MODIFY THEM BEFORE THE TALKS CAN START.

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