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TO IMMEDIATE PEKING

TELEGRAM NUMBER 481 OF 11 OCTOBER,

INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR).

YOUR TELNOS 620, 623 AND 636 AND HONG KONG TELNO 1130: FUTURE
OF HONG KONG: CALL ON ZHANG WENJIN

- h-a.
Mc 13/10.
1. WE AGREE WITH YOUR ANALYSIS OF THE CHINESE POSITION AND WITH YOUR GENERAL STRATEGIC APPROACH. FOR THE SAKE OF MAINTAINING CONFIDENCE IN HONG KONG, OUR IMMEDIATE AIM MUST BE TO DEMONSTRATE THAT CONTACTS ARE CONTINUING. (WE ALSO NEED TO BEAR IN MIND THAT PARLIAMENT RESUMES THIS WEEK.) WE NEED TO SUSTAIN THE LINE TAKEN BY THE GOVERNOR IN HIS SPEECH TO LEGCO. FOR THIS PURPOSE WE OURSELVES NEED NOT DISTINGUISH BETWEEN PRELIMINARY CONTACTS AND SUBSTANTIVE TALKS ALTHOUGH WE ACCEPT THAT WE MUST TRY TO STEER THE CHINESE TOWARDS SUBSTANCE AS SOON AS POSSIBLE AND THAT WE MUST AVOID A PUBLIC WRANGLE WITH THE CHINESE ON THE QUESTION.
 2. WE AGREE THAT THE CHINESE ARE UNLIKELY TO WANT A BREAKDOWN AND WE SHOULD TAKE ADVANTAGE OF THIS. IT IS IMPORTANT FOR YOU TO BE ABLE TO CONFIRM TO THE CHINESE, AFTER REFERENCE TO LONDON, THAT THE PRIME MINISTER REGARDS THE LINE TAKEN IN THE AGREED STATEMENT AS THE BASIS FOR TALKS. IT SHOULD BE POSSIBLE TO DO THIS AND TO SUGGEST WAYS IN WHICH SUBSTANTIVE DISCUSSIONS COULD BE STARTED BY FOLLOWING BROADLY THE LINE SUGGESTED IN PARAGRAPH 5 OF YOUR TELNO 623 BUT WITHOUT AT THIS STAGE OFFERING ANY STRONGER ASSERTION ABOUT OUR INTENTION TO CONSIDER THE SOVEREIGNTY QUESTION.
 3. PLEASE THEREFORE SEEK A VERY EARLY MEETING WITH ZHANG AND MAKE THE FOLLOWING POINTS:
 - A) IN OUR VIEW THE JOINT STATEMENT AGREED BY THE PRIME MINISTER AND CHAIRMAN DENG SHOULD BE THE BASIS FOR THE TALKS:
 - B) THIS WOULD NOT MEAN THAT THE CHINESE WOULD BE GIVING UP THEIR POSITION, OF WHICH WE ARE FULLY AWARE, BUT MRS THATCHER MADE CLEAR SHE COULD ONLY CONSIDER MAKING RECOMMENDATIONS

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ON SOVEREIGNTY IF THE PRACTICAL ARRANGEMENTS FOR THE FUTURE ADMINISTRATUON SEEMED SATISFACTORY:

C) DENG XIAOPING SAID THAT THE TALKS SHOULD AMONG OTHER MATTERS COVER ARRANGEMENTS POST-1997. IT IS THEREFORE LOGICAL THAT THE NEXT STAGE SHOULD BE AN EXCHANGE ON THE PRACTICAL ARRANGEMENTS FOR ADMINISTRATION, IN ORDER TO SEE WHETHER THESE MET THE REQUIREMENTS OF STABILITY AND PROSPERITY. WE WOULD LIKE TO HEAR MORE ABOUT THE CHINESE IDEAS.

D) TO SUM UP, OUR PROPOSAL IS FOR TALKS ON SUBSTANCE WITHOUT PREJUDICE TO POSITIONS OF PRINCIPLE, IN ORDER THAT WE CAN CONCENTRATE ON THE POINTS ON WHICH WE AGREE, AND MOVE ON FROM THERE.

4. IN TAKING THIS LINE YOU SHOULD NOT SUGGEST THAT WE WOULD BE TALKING ON THE BASIS OF THE CHINESE PREMISE, EVEN BY INFERENCE. WE THINK IT WOULD BE UNWISE TO GIVE THEM ANY SUGGESTION OF THIS, HOWEVER QUALIFIED.

5. DEPENDING ON THE OUTCOME OF THE NEXT ROUND WE SHALL NEED TO CONSIDER MORE FULLY THE IDEAS IN PARAGRAPH 6 OF YOUR TELNO 623.

6. WE FULLY TAKE THE GOVERNOR'S POINT IN HONG KONG TELNO 1130 OF THE NEED FOR A VISIBLE SIGN OF MOVEMENT SOON. WE DO HOWEVER SEE SOME POSSIBLE RISKS IN THE GOVERNOR BECOMING INVOLVED WHILE PRELIMINARY DISAGREEMENT HAS NOT BEEN OVERCOME:

A) THE CHINESE WOULD BE LIKELY TO RESPOND TO APPEALS FOR HELP IN MAINTAINING CONFIDENCE IN HONG KONG BY BLAMING US FOR RIGIDITY. THIS COULD LEAD INTO ANOTHER ARGUMENT ABOUT THE NEED TO ACCEPT THE PREMISE OF SOVEREIGNTY. THE GOVERNOR WOULD THUS BE INVOLVED AT AN EARLY STATE IN A DISCUSSION IN WHICH NO PROGRESS WAS MADE.

B) IF THIS HAPPENED SIR E YOUDE, WHO WOULD BE UNDER GREAT PRESSU FROM THE PRESS ON HIS RETURN TO HONG KONG, WOULD BE UNABLE TO GIVE ANY INDICATION ON PROGRESS. RELIANCE ON REITERATING THE NEED FOR CONFIDENTIALITY WOULD NOT BE ENOUGH.

C) IT IS POSSIBLE THAT TOO MUCH STRESS ON NERVOUSNESS IN HONG KONG COULD PERMIT THE CHINESE TO REMIND US OF DENG XIAOPING'S THREAT THAT IF THINGS GOT OUT OF CONTROL IN THE TERRIROTY THEY MIGHT NEED TO REVISE THEIR TIMETABLE FOR THE RECOVERY

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OF SOVEREIGNTY.

7. IT MAY THEREFORE BE RIGHT FOR A VISIT BY THE GOVERNOR TO WAIT UNTIL THE CHINESE HAVE AGREED TO MOVE ON TO SUBSTANCE. BUT WE ARE VERY CONSCIOUS, TOO, OF THE DESIRABILITY OF INVOLVEMENT BY THE GOVERNOR IN THE NEGOTIATIONS AND WE SHALL BE REVIEWING THIS IN THE LIGHT OF YOUR MEETING WITH ZHANG. ONE WAY OF AVOIDING AN EARLY CLASH ON THE SOVEREIGNTY ISSUE COULD BE FOR THE GOVERNOR TO PROVIDE A FULL FACTUAL BRIEFING ON THE PRESENT SYSTEM OF GOVERNMENT IN HONG KONG. ALTHOUGH THE CHINESE WILL BE GENERALLY FAMILIAR WITH THIS THERE MUST BE MANY ASPECTS OF WHICH THEY ARE IGNORANT. INDEED IF WE JUDGED IT TACTICALLY NECESSARY SUCH A BRIEFING COULD BE SPUN OUT OVER TWO OR EVEN THREE SESSIONS AND WOULD ALLOW TIME FOR US TO ENGAGE IN FURTHER EDUCATION ABOUT THE BASIS OF CONFIDENCE IN THE TERRITORY. WE SHALL BE GRATEFUL FOR YOUR AND THE GOVERNOR'S VIEWS ON THIS.

8. FINALLY, WE AGREE WITH YOUR TELNO 634 THAT STATEMENTS BY CHINESE OFFICIALS TO THE PRESS WHICH REFLECT SUBSTANTIVE POINTS MADE BY THE CHINESE LEADERS TO MRS THATCHER ARE VERY DAMAGING. HONG KONG TELNO 1128 UNDERLINES THIS. WE WOULD LIKE YOU TO DRAW ZHANG WENJIN'S ATTENTION TO THIS ON THE FOLLOWING LINES. PREMIER ZHAO AGREED WITH MR ATKINS IN JANUARY THAT UNTIL A CONCRETE FORMULA HAD BEEN WORKED OUT NOTHING SHOULD BE DONE BY EITHER SIDE TO HARM PROSPERITY IN HONG KONG. STATEMENTS OF THIS SORT WILL CAUSE NERVOUSNESS IN HONG KONG AND DAMAGE CONFIDENCE, A FUNDAMENTAL ELEMENT IN PROSPERITY. IT WAS IMPLICIT IN MRS THATCHER'S OFFER TO ENTER INTO TALKS THAT WE WOULD BE HOLDING THESE CONFIDENTIALLY THROUGH DIPLOMATIC CHANNELS. THE CHINESE STATEMENTS SUGGEST THAT THE CHINESE GOVERNMENT WOULD PREFER TO NEGOTIATE THROUGH THE PRESS. THIS IS NOT LIKELY TO BE CONDUCIVE TO TRUST BETWEEN US IN THE TALKS. FOR OUR PART WE HAVE NOT LEAKED ANY OF THE SUBSTANCE OF THE CONFIDENTIAL TALKS WITH CHINESE LEADERS. WE HOPE THAT ON THE CHINESE SIDE GREATER DISCRETION WILL BE SHOWN IN FUTURE IN TALKING TO THE PRESS.

PYM
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HD/HKGD
HD/FED
HD/PLANNING STAFF
PS

PS/LORD BELSTEAD
PS/PUS
MR GIFFARD
MR DONALD

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