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DESKBY 190830Z

FM PEKING 190740Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 673 OF 19/10/82

AL 24/10

REPEATED FOR INFO TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

h.a.

PERSONAL FOR DONALD

YOUR TELNO 856 TO HONG KONG: FUTURE OF HONG KONG

1. I AGREE BROADLY WITH THE IDEAS IN TUR, BUT HAVE THE FOLLOWING SPECIFIC COMMENTS.

(A) THIS EMBASSY AND HONG KONG REPRESENTATIVES TAKING PART IN THE TALKS WILL NECESSARILY BE THE MAIN CHANNEL OF CONTACT WITH THE CHINESE AND WILL HAVE TO TAKE THE LEAD IN THE EDUCATION PROCESS. ALTHOUGH WE SHOULD TAKE ADVANTAGE OF ALL THE HELP WE CAN GET FROM OTHERS TO CORROBORATE WHAT WE ARE SAYING, WE SHOULD NOT EXPECT THEM TO DO OUR WORK FOR US WHILE WE REMAIN DIFFIDENT FOR FEAR OF OUR APPROACHES BEING SEEN AS SPECIAL PLEADING. I THEREFORE FEEL THAT WE SHOULD BE LISTED AS ITEM (A) NON THE LIST, NOT (F) .

(B) THE CHINESE EMBASSY IN LONDON HOWEVER IS AN UNRELIABLE CHANNEL EVEN ON RELATIVELY SIMPLE BUSINESS AND I AM DISINCLINED TO RECOMMEND THAT WE ATTEMPT TO GET ANYTHING COMPLICATED OVER TO THE CHINESE THROUGH THIS CHANNEL. HOWEVER KE HUA WILL UNDOUBTEDLY RETURN TO LONDON WITH INSTRUCTIONS TO FIND OUT HOW FIRM MRS. THATCHER'S STAND IS. IT IS IMPORTANT THAT HE SHOULD BE GIVEN NO REASON TO THINK THAT IT IS NOT FIRM. IT COULD BE USEFUL IF HE COULD BE CONVINCED OF THE CONSTITUTIONAL IMPOSSIBILITY OF MAKING CONCESSIONS ON SOVEREIGNTY IN ADVANCE OF SATISFACTION ON ADMINISTRATION.

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(C) ALTHOUGH WE WISH TO DO MORE THAN MERELY EDUCATE THE CHINESE IN ECONOMIC REALITIES, I DO NOT THINK WE CAN SAY THAT WE ARE PAST THAT STAGE (YOUR PARA 1(H)). WE HAVE REALLY BARELY BEGUN. THEIR DEEP IGNORANCE IN THIS FIELD IS AT THE ROOT OF OUR DIFFICULTIES, SECOND ONLY TO THE EMOTIONAL/POLITICAL PROBLEM OF SOVEREIGNTY.

2. POTENTIALLY THE BEST CORROBORATIVE EFFORT COULD COME FROM HONG KONG PEOPLE. IT IS THEIR INTERESTS THAT ARE PRIMARILY AT STAKE. THEY KNOW THE TERRITORY AND MANY OF THEM HAVE REGULAR HIGH-LEVEL ACCESS HERE. UNFORTUNATELY VISITING HONG KONG BUSINESSMEN HAVE SELDOM IF EVER BEEN DISPOSED OR COURAGEOUS ENOUGH TO SPEAK FRANKLY TO THE CHINESE. SEEN FROM HERE IT WOULD BE VERY HARD TO SELECT PEOPLE WHO WERE RELIABLE, YET NOT ALSO SEEN TO BE CLOSELY LINKED WITH US. THIS IS FOR THE GOVERNOR TO ADVISE. IF THE RIGHT PEOPLE COULD BE FOUND TO SPEAK ON THE RIGHT LINES, THEY COULD BE A POWERFUL HELP TO US.

3. MOVING NOW TO THIRD COUNTRIES , I AGREE THAT THE AMERICANS ARE LIKELY TO BE THE BEST BET. SHULTZ'S OFFER SHOULD BE TAKEN UP, BUT THERE IS A PROBLEM IN THAT SHULTZ HAS NOT YET HAD THE OPPORTUNITY TO BUILD ANY KIND OF PERSONAL RELATIONSHIP WITH CHINESE LEADERS SUCH AS THAT ENJOYED BY HIS PREDECESSOR. WE SHALL NEED TO CONSIDER CAREFULLY HOW BEST HIS OFFER MIGHT BE UTILISED AND THE AMERICANS THEMSELVES MAY WISH TO GIVE IT SOME THOUGHT. IF YOU AGREE I SHOULD LIKE TO SPEAK ON A STRICTLY CONFIDENTIAL AND PERSONAL BASIS TO THE AMERICAN AMBASSADOR TO DISCUSS WITH HIM WHEN A SUITABLE OPPORTUNITY MIGHT ARISE AND HOW BEST TO HANDLE IT.

4. THE AUSTRALIANS HAVE SHOWN A KEEN INTEREST IN THE HONG KONG QUESTION. THEY HAVE BEEN HELPFUL IN INFORMING US OF CHINESE REMARKS TO THEM ON THE SUBJECT AND HAVE BEEN DISCREET IN THEIR HANDLING OF THE MATTER. I AM SURE THEY WOULD BE PREPARED TO SPEAK HELPFULLY. THEIR INTERESTS HERE ARE GENERALLY NOT IN COMPETITION WITH OUR OWN AND I WOULD BE INCLINED TO TREAT THEM AS A MORE RELIABLE CHANNEL THAN OUR EC COLLEAGUES OR THE JAPANESE (AND PERHAPS MORE RELIABLE THAN THE AMERICANS, BUT WITHOUT COMPARABLE INFLUENCE) AND THUS TO USE THEM MORE READILY FOR ANY "INITIATIVE".

5. INTERNATIONAL ORGANISATIONS SUCH AS THE WORLD BANK AND THE IMF COULD BE VERY HELPFUL. I BELIEVE THAT EARLY USE SHOULD BE MADE OF THESE. I AM NOT SO SURE ABOUT COMMERCIAL FIRMS

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SINCE ANY USEFUL APPROACH WILL NEED TO TAKE SOME ACCOUNT OF CHINESE POLITICAL SENSIBILITIES.

LORD CARRINGTON WOULD BE AN EXCEPTION OF COURSE.

6. APPROACHES TO THIRD PARTIES OF THE KIND CONTEMPLATED WILL MEAN SLIGHTLY WIDENING THE CIRCLE OF KNOWLEDGE, AND MAY ALSO SEEM TO CONTRADICT OUR WARNINGS TO THE CHINESE TO MAINTAIN CONFIDENTIALITY. WE SHOULD NOT GO FURTHER THAN IS NECESSARY. WE COULD EXPLAIN OUR APPROACH BY SAYING WE FEAR THE CHINESE ARE STILL UNAWARE OF THE EFFECT ON CONFIDENCE AND INVESTMENT OF SUBSTANTIAL CHANGES IN CONTROL OF HONG KONG AND ARE STILL OVER-CONFIDENT OF THEIR ABILITY TO RUN THE PLACE THEMSELVES.

7. IT WILL ALSO BE NECESSARY TO BRIEF OUR HELPERS VERY PRECISELY ON WHAT THEY ARE TO SAY TO THE CHINESE. IT WILL NOT SUFFICE TO EXPRESS GENERAL WORRIES ABOUT THE FUTURE OF HONG KONG. THEY MIGHT SAY SOMETHING ON THE FOLLOWING LINES. DRASTIC CHANGES COULD DESTROY CONFIDENCE IN HONG KONG. THE PROSPERITY OF HONG KONG DEPENDS UPON A GUARANTEE OF STABILITY AND CONTINUITY SUCH AS BRITISH ADMINISTRATION HAS PROVIDED. CHINESE ADMINISTRATION MAY ONE DAY BE ABLE TO OFFER SUCH A GUARANTEE BUT THE RECENT COURSE OF CHINESE HISTORY IS SUCH THAT INVESTORS WILL NOT BE PREPARED TO TAKE THAT KIND OF RISK IN THE SHORT-TO-MEDIUM TERM FUTURE.

8. IT WILL ALSO BE NECESSARY TO PREPARE THEM FOR CHINESE ASSURANCES THAT THEIR PARTICULAR INVESTMENTS WILL NOT BE THREATENED. (SOMETHING SIMILAR HAS ALREADY BEEN SAID TO THE JAPANESE.) THE ANSWER IS THAT GUARANTEED INVESTMENTS IN A WASTELAND ARE OF LITTLE VALUE.

CRADOCK

FUTURE OF HONG KONG

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HD/PLANNING STAFF
HD/PUSD
PS/LORD BELSTEAD
PS/PUS
MR GIFFARD
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