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PP HONG KONG

GRS 935

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FM FCO 291800Z OCT 82

TO PRIORITY HONG KONG

TELEGRAM NUMBER 914 OF 29 OCTOBER

AND TO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

HONG KONG TELNOS 1216, 1217 AND 1250 AND PEKING TELNO 699:

FUTURE OF HONG KONG

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1. WE ARE GRATEFUL FOR THE SUGGESTIONS IN THESE TELEGRAMS. THE DRAFT IN HONG KONG TELNO 1217 PROVIDES A COMPREHENSIVE DIGEST OF THE ESSENTIAL POINTS WHICH WE NEED TO GET OVER TO THE CHINESE DURING THE NEGOTIATIONS AND WE AGREE THAT IT IS A USEFUL QUARRY FOR OTHER PURPOSES AS WELL. FIRM RECOMMENDATIONS TO THE PRIME MINISTER WILL OF COURSE HAVE TO AWAIT ZHANG WENJIN'S REPLY TO THE AMBASSADOR. HOWEVER THE FOLLOWING SUMS UP OUR PRESENT THINKING ON HOW WE MIGHT PLAY OUR HAND IF WE MOVE ON TO SUBSTANTIVE TALKS.

2. THERE IS GENERAL AGREEMENT THAT WE SHOULD MAKE AN EARLY PRESENTATION TO THE CHINESE AND THAT THE GOVERNOR SHOULD BE INVOLVED IN THIS STAGE. IN DECIDING THE FORM AND CONTENT OF THIS PRESENTATION WE NEED TO BALANCE TWO OBJECTIVES:

A. TO KEEP THE TALKS GOING WITH A GENUINE SUBSTANTIVE CONTENT SO THAT WE CAN REASSURE HONG KONG THAT THE PROCESS IS CONTINUING IN A GOOD ATMOSPHERE AND THUS HELP CONFIDENCE THERE:

B. TO EDUCATE THE CHINESE ABOUT THE BASIS OF CONFIDENCE IN HONG KONG AND THE PROBLEMS WHICH THEIR PROPOSALS RAISE.

3. THE EXCHANGE OF TELEGRAMS HAS SHOWN THAT THERE ARE DIFFICULTIES IN RECONCILING (A) AND (B). WE WANT TO AVOID AN EARLY DEADLOCK AS A RESULT OF THE DISCUSSION COMING UP AGAINST THE QUESTIONS OF SOVEREIGNTY AND CONTROL: BUT WE DO WANT SOME MEAT IN THE EXCHANGE AND WE MUST AIM AT GETTING OVER THE ESSENTIAL POINT ABOUT THE VALUE OF BRITISH ADMINISTRATION AS A GUARANTEE AGAINST CHINESE INTERFERENCE. WE THINK THE ANSWER LIES IN THE TIMING OF OUR REACHING THE LATTER POINT. IN OUR VIEW WE

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SHOULD MOVE TOWARDS THIS GRADUALLY IN ORDER TO ENTICE THE CHINESE ONTO FAVOURABLE GROUND (SEE PEKING TELNO 699 PARA 2) AND CONCENTRATE ON RELATIVELY UNCONTENTIOUS POINTS DURING THE FIRST SUBSTANTIVE TALKS.

4. IT FOLLOWS FROM THIS THAT WE WOULD BE AGAINST LEAVING WITH THE CHINESE ANY PAPER WHICH SPELLED OUT THE POINT ABOUT INTERFERENCE. THE CHINESE WOULD PROBABLY FEEL THAT IT WOULD CALL FOR A WRITTEN REPLY WHICH WOULD CERTAINLY BE UNHELPFUL.

5. WE THINK THEREFORE THAT THE FIRST ROUND SHOULD CONSIST OF AN ORAL PRESENTATION IN TWO PARTS BASED ON AN ADAPTATION OF THE MATERIAL IN HONG KONG TELNO 1217. THESE WOULD EITHER BE COVERED IN CONSECUTIVE SESSIONS DURING A SINGLE VISIT BY THE GOVERNOR OR SPACED OUT WITH A GAP OF A WEEK OR MORE. THE AIM WOULD BE TO CONCENTRATE ON FACTUAL MATERIAL BUT WITH EMPHASIS AT THE END ON THE VALUE OF THE PRESENT SYSTEM AS A GUARANTEE. WE TAKE THE POINT IN PARAGRAPH 2 OF HONG KONG TELNO 1250 THAT THE CHINESE COULD ACQUIRE A GOOD DEAL OF INFORMATION ON HOW HONG KONG WORKS FROM THEIR OWN PEOPLE IN HONG KONG. WE STILL THINK NEVERTHELESS THAT IT IS IMPORTANT FOR THEM TO BE PRESENTED WITH OUR VERSION AT A SENIOR LEVEL IN A FORM WHICH WILL BE REPORTED TO THE LEADERSHIP.

6. SUCH A PRESENTATION MIGHT BE ON THE FOLLOWING LINES:

PART I: PARAGRAPHS 1-5 OF HONG KONG TELNO 1217. THIS COULD CONCENTRATE PARTICULARLY ON THE ECONOMIC ASPECTS. (LESS PERHAPS MIGHT BE MADE OF 4(C) WHICH IS NOT LIKELY TO PROVE VERY PERSUASIVE TO THE CHINESE).

PART II: THIS WOULD START WITH A PRESENTATION ON CURRENCY AND TRADE ON THE LINES OF 8(C) AND (D). WE SEE THESE AS THE MOST TELLING POINTS IN THE ARGUMENT AND THE ONES ON WHICH IT IS GENUINELY WORTH PROVIDING MORE DETAIL. THE GOVERNOR MAY WISH TO CONSIDER BEING SUPPORTED BY THE FINANCIAL SECRETARY AT THIS STAGE. THIS WOULD BE FOLLOWED BY A PRESENTATION ON THE LEGAL SYSTEM ON THE LINES OF 8(B). (WE DO NOT THINK HOWEVER THAT WE SHOULD EMPHASISE THE UK'S RIGHT OF DISALLOWANCE OF LEGISLATION- OUR UNDERLYING THOUGHT THROUGHOUT MUST BE THE NEED TO FIND WAYS OF PRESERVING HONG KONG'S DE FACTO

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AUTONOMY). THIS WOULD LEAD TO A SUMMNNG UP DRAWING ON THE FIRST SENTENCES OF PARAGRAPHS 7 AND 9. THIS COULD END ON THE FOLLOWING LINES:

BEGINS : ' AT PRESENT THEREFORE THERE IS A GUARANTEE AGAINST FUNDAMENTAL CHANGE IN THE SYSTEM AND POLICIES PURSUED IN HONG KONG. IN OUR VIEW, WE SHOULD IN SUCCEEDING MEETINGS EXAMINE WAYS IN WHICH THIS SITUATION COULD BE MAINTAINED.' ENDS.

7. THIS PATTERN WOULD CLEARLY HAVE TO BE ADAPTED TO MEET CHINESE MOVES. FOR EXAMPLE IF, AS THE AMBASSADOR EXPECTS, THE CHINESE BEGIN WITH A REHEARSAL OF THEIR POSITION ON SOVEREIGNTY, WE SHALL HAVE TO REPLY. THIS WOULD BE THE POINT NOT MERELY TO RESTATE OUR POSITION BUT TO EMPHASISE THAT WE DO NOT SUGGEST THAT THE PRESENT ARRANGEMENTS SHOULD NECESSARILY LAST FOR ALL TIME (PARAGRAPH 10 OF HONG KONG TELNO 1217).

SECOND ROUND.

8. SUCH A PRESENTATION WOULD GIVE US A GOOD CHANCE OF AVOIDING EARLY BREAKDOWN AND WOULD CLEAR THE WAY FOR THE NEXT ROUND. THAT WOULD PROBABLY BE THE TIME TO BRING IN THE MORE HARD-HITTING ARGUMENTS IN PARAGRAPHS 6, 7 AND 8(A) OF HONG KONG TELNO 1217. THE NATURAL LEAD IN TO THAT WOULD BE TO ASK THE CHINESE TO EXPAND ON THE GENERAL PROPOSALS THEY HAVE ALREADY MADE. (WE WOULD PROPOSE IN OUR RECOMMENDATION TO SUGGEST HOW THIS COULD BE DONE WITHOUT CONCEDED ANY POINT OF PRINCIPLE.) THIS SHOULD ALLOW US TO ENGAGE IN A MODIFIED VERSION OF THE 'CRITIQUE' IDEA IN WHICH OUR QUESTIONING WOULD CONCENTRATE ON HOW THE CHINESE ASSURANCES OF AUTONOMY FOR HONG KONG WOULD BE GUARANTEED AND ALLOW US TO MAKE OUR KEY POINTS ON INTERFERENCE.

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TO IMMEDIATE F C O
TELEGRAM NUMBER 1250 OF 29 OCTOBER
INFO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

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PEKING TELNO 699: FUTURE OF HONG KONG

1. I HAVE NO OBJECTION TO DIVIDING THE PRESENTATION ON HOW AND WHY HONG KONG WORKS INTO TWO PARTS, WITH THE FIRST CONFINED TO A DESCRIPTION OF THE MAIN ELEMENTS IN HONG KONG'S SUCCESS ON THE LINES OF PARAS 1 TO 5 OF THE DRAFT IN MY TELNO 1216. I ACCEPT THAT TACTICALLY THIS MIGHT BE THE BEST COURSE. BUT I AM NOT CONVINCED THAT THE REVISION OF THE SECOND HALF OF THE DRAFT ON THE LINES RECOMMENDED BY THE AMBASSADOR IN PARA 5 OF PEKING T U R WOULD DO MORE THAN POSTPONE FOR A SHORT WHILE THE NEED TO SPELL OUT THE REASONS WHY THE CONTINUATION OF BRITISH ADMINISTRATION IS ESSENTIAL.

2. THE CHINESE HAVE A GREAT DEAL OF INFORMATION AVAILABLE TO THEM FROM THEIR OWN SIDE ON HOW HONG KONG WORKS. THE BANK OF CHINA, NCNA AND MAINLAND COMMERCIAL ORGANISATIONS ARE STRONGLY REPRESENTED HERE AND OPERATE SUCCESSFULLY ON THE HONG KONG SCENE. WE MUST OBVIOUSLY HIGHLIGHT, FOR THE BENEFIT OF SENIOR POLITICAL LEADERS (WHO ARE THE ONES WE HAVE TO CONVINCE) THE MAIN COMPONENTS OF HONG KONG'S SUCCESS (PARA 1 - 5 OF THE DRAFT), BUT SIMPLY GOING OVER IN MORE DETAIL INFORMATION WHICH SHOULD ALREADY BE AVAILABLE TO THEM IS NOT IN ITSELF GOING TO CONVINCE THEM OF THE NEED FOR CONTINUING BRITISH ADMINISTRATION.

3. I REFERRED TO SOME OF THE DIFFICULTIES INVOLVED IN PREPARING A CRITIQUE OF DENG'S PROPOSALS IN MY TELNO 1178. THE MAIN ONE, APART FROM THEIR VERY SKETCHY NATURE, IS THAT THE PROPOSALS WERE COUCHED IN SUCH A FORM THAT IT IS HARD TO CRITICISE THEM WITHOUT SAYING WHY IT IS THAT THEY WOULD NOT WORK. THIS APPLIES, FOR EXAMPLE, TO THE NOTIONS THAT HONG KONG WOULD BE RUN BY A LOCAL GOVERNMENT FORMED BY THE INHABITANTS, AND THAT 'THE VARIOUS SYSTEMS' WOULD REMAIN UNCHANGED: AND THAT HONG KONG WOULD REMAIN A FREE PORT AND AN INTERNATIONAL FINANCIAL CENTRE, WITH FOREIGN INVESTMENT UNAFFECTED. WE SHOULD NOT BE ON SOUND GROUND IN ARGUING THAT HONG KONG CHINESE COULD NOT RUN HONG KONG SUCCESSFULLY (THEY COULD AND WOULD BE DOING SO NOW IF INDEPENDENCE HAD BEEN AN OPTION). AS I SEE IT THE ONLY EFFECTIVE WAY TO CHALLENGE THESE ASSERTIONS IS TO SHOW THAT THERE WOULD BE NO CONFIDENCE IN AN AUTONOMOUS HONG KONG WITHIN CHINA.

3. WE COULD FACE SIMILAR DIFFICULTIES IN TRYING TO GET THE CHINESE TO EXPLAIN THEIR PLAN IN MORE DETAIL. IF WE ASK THEM E.G.

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WHAT THEY INTEND TO DO ABOUT THE JUDICIAL SYSTEM OR THE HONG KONG DOLLAR THEY MAY WELL RESPOND THAT PRESENT ARRANGEMENTS WILL CONTINUE UNCHANGED I.E. THAT BRITISH LAW WILL CONTINUE TO BE USED, WITH JUDGES RECRUITED FROM OVERSEAS AS NECESSARY: AND THAT THE LOCAL GOVERNMENT WILL MANAGE THE CURRENCY EXACTLY AS IT DOES NOW. AGAIN, THE ONLY EFFECTIVE COUNTER TO THIS LINE IS TO TRY TO BRING HOME THE IMPORTANCE OF THE BRITISH CONNECTION.

4. I AGREE ENTIRELY THAT WE WANT TO AVOID CONTENTIOUS ARGUMENT, AND THAT OUR POINTS SHOULD BE PRESENTED IN AS OBJECTIVE AND INOFFENSIVE WAY AS POSSIBLE. THE SECOND HALF OF THE DRAFT SEEKS TO DO THIS AND TO EXPLAIN (SINCE THE CHINESE DO NOT APPEAR TO UNDERSTAND IT) THE PART PLAYED BY THE BRITISH LINK IN PRESERVING CONFIDENCE AND WHY CONFIDENCE WOULD NOT BE MAINTAINED, AT LEAST FOR THE TIME BEING, IF THAT LINK WAS TO BE BROKEN. I AM NOT WEDDED TO THE DRAFTING, AND THE MAIN POINTS COULD WELL BE PUT IN THE FORM OF QUESTIONS, EG THE LAST SENTENCE OF PARA 8(A) COULD BE REPHRASED TO READ: 'HOW COULD THIS GUARANTEE REMAIN CREDIBLE IF THE ULTIMATE AUTHORITY LAY IN CHINA, WHICH HAS A COMPLETELY DIFFERENT ECONOMIC AND SOCIAL SYSTEM?'. WITH SIMILAR MODIFICATIONS ELSEWHERE IN PARAS 7 AND 8. THE CONCLUSION IN PARA 9 COULD ALSO BE SOFTENED. BUT HOWEVER WE DO IT, WE MUST SOMEHOW GET THE KEY POINT ACROSS.

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