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TO PRIORITY FCO

TELEGRAM NUMBER 715 OF 3/11/82
AND TO PRIORITY HONG KONG

FUTURE OF HONG KONG: TDC VISIT

1. YOU WILL HAVE SEEN MY TELS NO S 704 AND 707 REPORTING REMARKS MADE TO THE TDC DELEGATION BY VICE TRADE MINISTER JIA SHI AND BY XI ZHONGXUN. DAVID NEWBIGGING ALSO BRIEFED ME ON THIS PRIVATE MEETINGS WITH TANG KE (MINISTER OF PETROLEUM) AND SONG GUOHUA (PICC) AND I HAD SOME TALK WITH Y K KAN.
2. TANG KE DESCRIBED SOME OF THE PRIME MINISTER'S REMARKS, ESPECIALLY ON THE VALIDITY OF THE TREATIES, AS "INAPPROPRIATE" (BU HESHI). HE SHOWED KEEN INTEREST IN THE PROBLEMS OF THE HONG KONG STOCK MARKET, WHICH ON THAT DAY HAD FALLEN DRAMATICALLY AFTER THE CARRIAN RIGHTS ISSUE. TANG ASKED DIRECTLY IF JARDINES INTENDED TO MOVE THEIR MONEY OUT OF HONG KONG. NEWBIGGING HAD SAID NO, BUT TOLD ME THAT HE NOW REGRETTED THAT HE HAD NOT QUALIFIED HIS ANSWER.
3. SONG WAS ALSO WELL INFORMED ABOUT THE PROPERTY MARKET IN HONG KONG. MORE THAN ONCE HE SAID THAT HONG KONG INVESTORS SHOULD NOT WORRY AS THEY HAD 14 YEARS AHEAD OF THEM. NEWBIGGING HAD ADDED "AND PERHAPS LONGER?" BUT SONG WAS NOT DRAWN.
4. BOTH TANG AND SONG IMPLIED THAT PRESENT DIFFICULTIES WERE TEMPORARY, THAT THE EXCITEMENT WOULD DIE DOWN AND THAT CONFIDENCE WOULD RETURN FOR THE REMAINING 14 YEARS OF THE LEASE. THERE WAS THE CLEAR IMPLICATION THAT THE CHINESE AUTHORITIES DID NOT WANT TO BE FACED WITH THE CONFIDENCE PROBLEM NOW AND WERE HOPING THAT, AS A RESULT OF SUITABLE MASSAGING OF THE TDC, IT WOULD GO AWAY. NEWBIGGING COMMENTED THAT THE VISIT HAD BROUGHT OUT CLEARLY THE DEPTHS OF IGNORANCE ON BOTH SIDES ABOUT HOW EACH OTHER'S SOCIETY WORKED.

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5. Y K KAN WAS ENCOURAGED BY THE GROUP'S RECEPTION, IN PARTICULAR THE REMARKS BY JIA SHI AND XI ZHONGXUN. HE SOUGHT ADVICE FROM ME BEFORE SEEING XI.

I ADVISED HIM TO SAY FIRMLY THAT ANY DRASTIC CHANGE IN HONG KONG WOULD HAVE DISASTROUS CONSEQUENCES. IN THE EVENT HE DID NOT HAVE THE OPPORTUNITY, BUT I HAD THE STRONG IMPRESSION THAT HE WAS NOT PREPARED TO SPEAK UP. MUCH OF HIS TALK WITH ME WAS A COMPLAINT ABOUT THE PROMINENT ROLE Y K PAO SEEMED TO BE SEEKING, A MATTER WHICH ALSO EXCITED OTHERS AMONG THE HONG KONG CHINESE.

6. COMMENT: IN DEALING WITH THE HONG KONG DELEGATION THE CHINESE WERE DELIBERATELY AFFABLE AND ENCOURAGING, EMPHASISING THE CONTRIBUTION HONG KONG COULD MAKE. THE LINE WAS WELL ORCHESTRATED AND IT SEEMS THAT ONE OF THE MAIN OBJECTIVES WAS TO CALM THE HONG KONG BUSINESS COMMUNITY AND ENCOURAGE THEM TO THINK THAT, DESPITE THE NERVOUSNESS WHICH HAD FOLLOWED THE PRIME MINISTER'S VISIT, CONFIDENCE ON THE PREVIOUS BASIS COULD BE RESTORED. CONTENTIOUS MATTERS WERE AVOIDED. XI, FOR EXAMPLE, IN A LONGISH TALKS SAID NOTHING ABOUT SOVERIGNTY OR THE TREATIES. THE TDC DELEGATES WILL THEREFORE PROBABLY RETURN TO HONG KONG WITH REASSURING REPORTS, WHICH SHOULD BE GOOD FOR CONFIDENCE AT LEAST IN THE SHORT-TERM.

7. THERE IS, HOWEVER, ANOTHER SIDE TO THIS. THE CHINESE HAVE GIVEN NOTHING AWAY, CONFINING THEIR COMMENTS TO THE NEXT 14 YEARS. BY IMPLYING THAT CURRENT NERVOUSNESS IN HONG KONG WAS GROUNDLESS THEY SOUGHT TO AVOID THE CONSEQUENCES OF THEIR RECENT STATEMENTS AND LEAKS, AND I AM AFRAID THE DELEGATION DID NOT MAKE IT CLEAR TO THEM THAT THEY CANNOT HAVE IT BOTH WAYS.

8. ALTHOUGH THE EMBASSY WERE REPRESENTED AT ALL TDC MEETINGS, IN SOME CASES AT COUSSELLOR LEVEL, THE CHINESE DID NOT INVITE ME TO ATTEND FOR XI ZHONGXUN, AND I DID NOT PRESS. CLARK ATTENDED. MY IMPRESSION IS THAT THEY WANTED TO PRESENT THIS AS A CHINESE-HONG KONG RATHER THAN A SINO-BRITISH ENCOUNTER.

9. THE CHINESE LINE MAY OF COURSE REFLECT REALISATION THAT RECENT DEVELOPMENTS IN THE HONG KONG STOCK-MARKET MAY HAVE BEEN BROUGHT ABOUT PARTLY BY THEIR OWN ACTIONS AND THAT THEY SHOULD BE MORE CAREFUL IN FUTURE. I HOPE THIS IS THE CASE.

WE SHALL SOON SEE.
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TO PRIORITY F C O

TELEGRAM NUMBER 1266 OF 3 NOVEMBER

INFO PRIORITY PEKING

MY TELNO 1261 : FUTURE OF HONG KONG : PRESS COMMENT

1. APART FROM THE MEETING BETWEEN PROPERTY DEVELOPERS AND WANG KUANG DESCRIBED IN MY TUR, WIDESPREAD COVERAGE HAS BEEN GIVEN BY THE LOCAL PRESS TO :

(A) SIR Y K KAN'S RATHER SELECTIVE ACCOUNT OF XI ZHONGXUN'S REMARKS TO HIM (PEKING TELNO 707 REFERS).

(B) A VISIT TO PEKING BY URBAN COUNCILLOR DR DENNY HUANG DURING WHICH HE WAS RECEIVED BY LIAO CHENGZHI.

(C) A STATEMENT BY THE HONG KONG REFORM CLUB.

(D) A SERIES OF NEWSPAPER ARTICLES AND A SPEECH BY MEMBERS OF THE HONG KONG OBSERVERS.

(E) STATEMENTS MADE DURING A SEMINAR ORGANISED BY THE HONG KONG JUNIOR CHAMBER OF COMMERCE (JAYCEES).

2. SIR Y K KAN IS REPORTED BY ALL PAPERS AS HAVING EXPRESSED SATISFACTION AT XI'S REAFFIRMATION OF CHINA'S INTENTION TO MAINTAIN HONG KONG'S STABILITY AND PROSPERITY. XI'S REMARKS ABOUT LEAVING ALL PRESENT SYSTEMS UNCHANGED AND THE PROSPECTS FOR EXPANSION OF ECONOMIC COOPERATION BETWEEN HONG KONG AND CHINA ARE GIVEN MOST PROMINENCE.

3. DR. HUANG SAID HE HAD SUGGESTED TO LIAO CHENGZHI THAT HONG KONG SHOULD BECOME A FREE CITY FOR 40 YEARS FROM 1990: THAT THE EXECUTIVE, LEGISLATIVE AND URBAN COUNCILS SHOULD GRADUALLY BECOME FULLY ELECTED BODIES, AND THAT CHINA SHOULD BE RESPONSIBLE FOR HONG KONG'S DEFENCE AND FOREIGN RELATIONS WHILE REFRAINING FROM INTERFERING IN HONG KONG'S INTERNAL AFFAIRS. HUANG PROVIDED NO DETAILS OF WHAT LIAO SAID TO HIM, BUT CLAIMED THAT HIS DISCUSSIONS GAVE CAUSE FOR CONFIDENCE IN HONG KONG'S FUTURE STABILITY AND PROSPERITY.

4. THE REFORM CLUB ISSUED A RATHER CONFUSED STATEMENT ON 31 OCTOBER SAYING THAT THE AGREEMENT TO HOLD TALKS ON HONG KONG'S FUTURE HAD BEEN A WELCOME DEVELOPMENT, BUT THAT THE PRIME MINISTER'S REMARKS ABOUT THE TREATIES HAD PRECIPITATED CURRENT FINANCIAL PROBLEMS. THE STATEMENT ADDED THAT ALL CHINESE PEOPLE OF WHATEVER POLITICAL PERSUASION REGARDED THE TREATIES AS UNEQUAL. HONG KONG'S WISH TO HAVE A SAY IN ITS OWN FUTURE HAD NOTHING TO DO WITH THE TREATIES BUT "WAS BASED ON ITS PRESENT ECONOMIC SUCCESS AND WHAT THE HONG KONG GOVERNMENT HAVE DONE AND IS DOING FOR ITS PEOPLE ... TOGETHER WITH THE TRADITIONAL SUPPORT AND COOPERATION FROM THE CHINESE GOVERNMENT".

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5. THE PRIME MOVER IN RECENT OBSERVERS ACTIVITIES HAS BEEN MARY LEE OF THE FAR EASTERN ECONOMIC REVIEW. SHE WROTE ARTICLES WHICH APPEARED IN THE GUARDIAN ON 18 OCTOBER, IN THE SOUTH CHINA MORNING POST (SCMP) ON 19 OCTOBER AND IN THE FAR EASTERN ECONOMIC REVIEW ON 28 OCTOBER. THE ARTICLES START FROM THE OBSERVERS' BASIC ACCEPTANCE OF CHINESE SOVEREIGNTY (MY TELNO 944), AND DEVELOP THREE MAIN THEMES:

- (A) ACCEPTANCE OF AN END TO BRITISH ADMINISTRATION IN 1997:
- (B) THE NEED FOR AN ORDERLY TRANSITION AND HMG'S RESPONSIBILITY TO HELP ACHIEVE IT: AND
- (C) THE NEED FOR HONG KONG PEOPLE TO HAVE A SAY IN DETERMINING THEIR OWN DESTINY BY ELECTING THE LEGISLATIVE COUNCIL, WHICH THE OBSERVERS BELIEVED THAT THE CHINESE WOULD ACCEPT IF SOVEREIGNTY HAD BEEN CONVINCINGLY RECOVERED.

6. THE MOST PROMINENTLY REPORTED CONTRIBUTION TO THE JAYCEE'S SEMINAR WAS A SPEECH BY HU JUREN, THE EDITOR OF THE LOCAL LEFT WING "SEVENTIES" MAGAZINE. HU REPORTEDLY SAID THAT HONG KONG'S TRANSFORMATION INTO A SPECIAL ADMINISTRATIVE REGION WOULD NOT ADEQUATELY SAFEGUARD THE ESSENTIAL FEATURES OF HONG KONG LIFE. HU FAVOURED THE CONTINUATION OF BRITISH ADMINISTRATION FOR 20-25 YEARS. (HU'S REMARKS WERE INCONSISTENT WITH RECENT EDITORIAL COMMENT IN THE "SEVENTIES", WHICH HAS TENDED TO ACCEPT CHINESE ASSERTIONS THAT HONG KONG'S WAY OF LIFE WOULD BE SAFEGUARDED).

7. EDITORIAL COMMENT IN THE INDEPENDENT PRESS HAS CONTINUED TO SIFT FAMILIAR ARGUMENTS, AND HAS GENERALLY BEEN OPTIMISTIC. THE WAH KIU YAT PO ECHOED THE VIEWS OF UNOFFICIAL MEMBERS OF THE LEGISLATIVE COUNCIL IN THEIR REPLIES TO MY SPEECH: MING PAO SAID THAT THE PRIME MINISTER'S ASSERTION OF A MORAL RESPONSIBILITY TOWARDS HONG KONG WAS BOTH JUSTIFIED AND INTENDED TO INDICATE THAT SOVEREIGNTY WAS NEGOTIABLE. THE COMMUNIST PRESS HAVE HIGHLIGHTED INDEPENDENT CRITICISM OF THE PRIME MINISTER'S REMARKS, AND HAVE CRITICISED OTHER EDITORIAL COMMENT FAVOURABLE TO THE BRITISH POSITION. THERE HAVE ALSO BEEN FURTHER ARTICLES ON THE PERFDY OF LI HUNG CHANG AND EMPHASISING CHINA'S CONTRIBUTION TO HONG KONG'S PRESENT PROSPERITY.

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TELEGRAM NUMBER 1261 OF 02 NOVEMBER
INFO PEKING

FUTURE OF HONG KONG

PEKING TELNO 707 REPORTS THAT XI ZHONGXUN TOLD THE HONG KONG TDC DELEGATION ON 1 NOVEMBER THAT "WE" AGREE WITH WHAT WANG KUANG (FIRST DIRECTOR OF NCNA HERE) SAID ABOUT THE FUTURE ON 28 OCTOBER "AND IT IS THE POLICY OF OUR GOVERNMENT".

2. WANG KUANG'S REMARKS WERE MADE AT A MEETING OVER DINNER WITH A GROUP OF HONG KONG PROPERTY DEVELOPERS. NO STATEMENT WAS ISSUED, AND NO TEXT IS AVAILABLE OF WHAT WANG KUANG SAID, BUT HIS REMARKS HAVE BEEN WIDELY REPORTED IN BOTH THE ENGLISH AND THE CHINESE LANGUAGE PRESS (THOUGH NOT (NOT) THE COMMUNIST PRESS).

3. WANG KUANG IS REPORTED AS HAVING SAID THAT "CHINA WON'T TOUCH HONG KONG FOR AT LEAST 15 YEARS". THE TERRITORY WOULD EVENTUALLY BECOME A SELF GOVERNING SPECIAL ADMINISTRATIVE ZONE OF CHINA BUT HONG KONG'S PRESENT POLITICAL, ECONOMIC, SOCIAL AND OTHER INSTITUTIONS WOULD NOT BE CHANGED. INVESTMENTS WOULD NOT BE AFFECTED, AND HONG KONG PEOPLE WOULD NOT LOSE THEIR PRESENT FREEDOMS. FOR EXAMPLE, THEY COULD CONTINUE TO DRIVE ON THE LEFT EVEN THOUGH CHINA DRIVES ON THE RIGHT.

4. IN AN EDITORIAL COMMENT ON 1 NOVEMBER, MING PAO (INDEPENDENT) SAID THAT WANG KUANG SPOKE WITH AUTHORITY. THE ECONOMIC DIFFICULTIES WHICH HONG KONG HAD EXPERIENCED IN RECENT MONTHS WERE NOT TO THE LIKING OF EITHER BRITAIN OR CHINA, AND WANG KUANG'S REMARKS, EVEN THOUGH MADE AT A PRIVATE FUNCTION, WERE IN SOME WAY INTENDED TO REMEDY THE SITUATION.

5. WE HAVE HEARD FROM MORE THAN ONE OF THOSE PRESENT AT THE MEETING THAT WANG KUANG DID NOT SPEAK AS CLEARLY AS THE PRESS REPORTS SUGGESTED: IN PARTICULAR HE DID NOT SAY IN TERMS THAT CHINA WOULD NOT TOUCH HONG KONG FOR AT LEAST 15 YEARS. THE PRESS REPORTS APPEAR TO HAVE COME FROM THE PROPERTY DEVELOPERS PRESENT AT THE MEETING (POSSIBLY IN THE HOPE OF REVIVING THE MARKET) RATHER THAN NCNA. BUT THE CHINESE HAVE EVIDENTLY NOW DECIDED THAT THE REPORTS ADQUATELY SERVE CHINA'S PURPOSES.

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TELNO 707 OF 1 NOVEMBER
AND TO IMMEDIATE HONG KONG.

FUTURE OF HONG KONG

1. AT A MEETING BETWEEN THE HONG KONG TRADE DEVELOPMENT COUNCIL DELEGATION LED BY SIR Y K KAN, AND VICE CHAIRMAN OF THE NATIONAL PEOPLE'S CONGRESS, XI ZHONGXUN, ON 1 NOVEMBER, XI ZHONGXUN MADE THE FOLLOWING COMMENTS ON HONG KONG.

QUOTE

THE HONG KONG ISSUE AND THE NEAR FUTURE OF HONG KONG CONCERN ALL OF US. ON OCTOBER 29 MR WANG KUANG OF THE NCHA OFFICE IN HONG KONG SPOKE ON THIS SUBJECT. WE AGREE WITH WHAT HE SAID AND IT IS THE POLICY

OF OUR GOVERNMENT. WE WILL TRY TO KEEP THE STABILITY AND PROSPERITY OF HONG KONG AFTER 1997. DURING MRS THATCHER'S VISIT TO BEIJING IT WAS DISCUSSED. WE WANT TO SOLVE THE PROBLEM BY DIPLOMATIC CHANNELS, AND A PLAN SHOULD BE WORKED OUT WITHIN ONE TO TWO YEARS.

AS A FORMER GOVERNOR OF GUANGDONG, I AM VERY FAMILIAR WITH HONG KONG. HONG KONG IS A WORLD FINANCIAL CENTRE AND IS A VERY FAMOUS FREE PORT. ALTHOUGH LIMITED IN AREA, IT IS VERY IMPORTANT, NOT MILITARILY BUT IN ECONOMIC AND FOREIGN TRADE TERMS. ALL CURRENT SYSTEMS WILL REMAIN UNCHANGED. ALL THE INTERESTS OF BOTH THE HONG KONG PEOPLE AND OF FOREIGNERS WILL BE PROTECTED. ALTHOUGH IT IS IMPORTANT THAT THE SYSTEM REMAIN UNCHANGED, NEVERTHELESS THERE WILL HAVE TO BE SMALL CHANGES IN LAWS AND LEGISLATION, IN ORDER TO BENEFIT THE STABILITY OF THE HONG KONG AREA.

HONG KONG HAS A LOT OF MONEY. MANY PEOPLE THINK THAT AFTER 1997 HONG KONG WILL NO MORE BE A FREE PORT OR A FINANCIAL CENTRE. THESE PEOPLE ARE SHORT-SIGHTED. IF WE TAKE THE LONG-TERM VIEW THE AREA WILL STILL BE PROFITABLE. NOT ONLY DOES CHINA WANT TO RECOVER THE AREA, BUT OTHERS WANT IT TO DEVELOP GOOD ECONOMIC AND FOREIGN RELATIONS. HONG KONG IS A PART OF GUANGDONG PROVINCE.

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THE GOVERNOR OF HONG KONG IS SIR EDWARD YOUDE, A FORMER AMBASSADOR TO CHINA. I DO NOT KNOW HIM BUT I KNEW HIS PREDECESSOR, SIR MURRAY MACLEHOSE. I THINK YOUDE IS A GOOD AND OPEN-MINDED MAN.

MAINTENANCE OF THE STABILITY AND PROSPERITY OF HONG KONG DEPENDS BOTH ON THOSE PRESENT HERE AND ON SOME WHO ARE ABSENT SEMICOLON THE ABSENTEES INCLUDE THE ECONOMIC AND PRESS CIRCLES IN HONG KONG AND ALSO SOME PEOPLE IN UK. THERE ARE THOSE WHO SAY WAS CANNOT ACHIEVE THE FOUR MODERNISATIONS PROGRAMME WITHOUT HONG KONG BUT AFTER LIBERATION WE FACED A LOT OF BATTLES AND MADE OUT OWN WAY. EVEN AFTER THE 1950S WHEN THE SOVIET ADVISORS WERE WITHDRAWN WE RELIED ON OUR OWN EFFORTS.

UNQUOTE

2. IN RESPONSE TO A POINT OF SIR Y K KAN'S, XI'S LAST COMMENTYAS QUOTE I THINK ALL OF US MUST HAVE CONFIDENCE IN THE FUTURE OF HONG KONG UNQUOTE.

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TELNO 704 OF 29 OCTOBER
AND IMMEDIATE HONG KONG

FUTURE OF HONG KONG

1. VICE MINISTER JIA SHI, MFERT, DURING THE COURSE OF A MEETING WITH THE HONG KONG TDC DELEGATION ON 29 OCTOBER AT THE END OF OVER AN HOUR'S PRESENTATION, ON CHINA'S ECONOMIC PRIORITIES AND PROBLEMS, VOLUNTEERED THE STATEMENT THAT HE SINCERELY HOPED THAT HONG KONG WOULD REMAIN STABLE AND PROSPEROUS. HE WENT ON TO SAY THAT CHINA'S EXPORTS TO HONG KONG ACCOUNTED FOR 25 PER CENT OF DOMESTIC EXPORTS AND THAT HONG KONG WAS CHINA'S THIRD LARGEST EXPORT MARKET AFTER USA AND JAPAN. HE THEN SAID THAT HE HOPED THAT "OUR FRIENDS HERE" (IE TDC DELEGATION) SHARED THE VIEW THAT HONG KONG SHOULD REMAIN STABLE AND PROSPEROUS.

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