



Foreign and Commonwealth Office

London SW1A 2AH

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*P. N. has seen.**AGY**h.a.**Dear Sam,*Future of Hong Kong

The Ambassador in Peking and the Governor of Hong Kong have reported recent remarks made in Peking, Hong Kong and Shanghai by senior Chinese officials to Hong Kong businessmen. The Prime Minister may like to have a brief analysis before her dinner with Dr Kissinger tonight. It is being submitted to Mr Pym in parallel.

There were three main contacts. On 29 October, Wang Kuang, the Head of the New China News Agency in Hong Kong, made remarks at dinner to a group of Hong Kong property developers. At the same time, a delegation of the Hong Kong Trade Development Council (TDC) visited Peking. They were met by a number of senior Chinese including Xi Zhongxun, a Vice Chairman of the National People's Congress and a former Governor of Guangdong Province. Later they saw Wang Kaohan, Mayor of Shanghai.

The three occasions were linked in that in speaking to the TDC, Xi Zhongxun referred specifically to Wang Kuang's remarks, saying 'we agree with what he said and it is the policy of our Government'. The Mayor of Shanghai in turn commended Xi Zhongxun's statements as reflecting the policy of the top leaders.

While the Governor has not been able to obtain an authoritative text of Wang Kuang's remarks, accounts by those present show that all three took a reassuring line. With different phraseology the point was made that the interests of businessmen and investors would be protected after China regained sovereignty. A similar line was taken by other senior Chinese whom members of the TDC saw in Peking.

The Ambassador has commented that the Chinese line was well orchestrated. It seems clear that one of the main objectives was to offset concern which has been shown in the Hong Kong Stock Market about hard line Chinese statements following the Prime Minister's visit and to restore confidence. Moreover, contentious matters such as sovereignty and the Treaties seem to have been played down.

It looks as though the messages were carefully tailored to the audience, ie Hong Kong businessmen. The remarks appear to have contributed to the improvement on the Hong Kong Stock Exchange over the past two weeks and this has been helpful in steadying confidence.

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On the other hand, as the Ambassador has pointed out, there is another side to this. The Chinese do not appear to have given anything away. There does not seem to be any shift in the intention to resume sovereignty in 1997. (A report that Wang Kuang said that China would not touch Hong Kong for 'at least 15 years' was probably garbled). The Mayor of Shanghai emphasised that sovereignty was not negotiable. He did add to this the interesting statement that management and administration were negotiable. However the Ambassador does not see this as suggesting a more flexible line on British administration but as more likely to mean simply that the details of a new Chinese administration could be discussed. On the face of it, it does not override the statement by Zhao Ziyang to the Prime Minister that foreign administration after 1997 was unacceptable (a point subsequently reinforced to the Ambassador by Zhang Wenjin).

The Mayor of Shanghai also said that 'shuttle diplomacy in the Kissinger mould' could be used to solve the key issues. It is interesting that he volunteered this but we do not know at this stage how much significance to read into it in the context of the talks. The Governor has suggested that he might have been implying that Hong Kong itself should get more involved in the negotiating process. The Ambassador believes that he may have been referring to the idea of rapid ministerial visits. On the whole we think that it would be wrong to conclude that the Mayor was trying to send a specific signal to HMG on this or other points. We believe that the main objective of the whole batch of remarks to Hong Kong businessmen was to back up the Chinese attempt to encourage Hong Kong people to accept the inevitability of a benevolent Chinese assumption of sovereignty.

The Ambassador has pointed out that it is worrying in these circumstances that none of those to whom the Chinese spoke appear to have taken the opportunity to point out to the Chinese that their earlier statements about the recovery of sovereignty were largely responsible for damage to confidence in Hong Kong or that investors were worried about the prospect of the removal of British administration. Neither David Newbigging of Jardine Matheson, nor Sir Y K Kan, the TDC delegation leader, spoke up in this way. The latter at least was fully briefed by the Ambassador, and the Governor is keeping a very careful eye on the need to encourage visitors to Peking to put over to the Chinese the facts about the basis of confidence. But the TDC visit shows the difficulty of giving people from Hong Kong the necessary courage to speak their minds.

Yours ever
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