

Prime Minister



There are a lot of points to consider here. Would you like a meeting in the next few days? A.F.C. 26/11

Foreign and Commonwealth Office

London SW1A 2AH

26 November 1982

There is no change in what will be said to anyone

Dear John,

Future of Hong Kong

Thank you for your letter of 23 November. Mr Pym has considered these points carefully. The Prime Minister may wish to discuss them further, with a particular eye to Lord Belstead's forthcoming visit to Hong Kong (6-10 October). Our views at this stage are as follows.

The hiatus in the talks with the Chinese and their propaganda campaign have had contradictory effects. On the one hand the Chinese reiteration of their intention to resume sovereignty and the suggestion that this is inevitable has caused further concern in Hong Kong, particularly to the unofficials. On the other the tone of more recent Chinese statements has been designed in some ways to restore confidence by stressing their readiness to be reasonable about the continuation of Hong Kong's economic system and way of life. In the short term at any rate this has probably contributed to a relative steadying of the Hang Seng Index and the Hong Kong dollar exchange rate. But the Governor's view is that in the long term the effect is damaging to confidence.

?!

?

The main problem for us is that attention is being diverted from the talks agreed during the Prime Minister's visit but which are now held up. While there are also obviously practical reasons for the Chinese delay, in the shape of the reshuffle within the Chinese Ministry of Foreign Affairs and other preoccupations of the leadership, they are clearly in no hurry to start substantial talks. We do not want to give the impression of anxiety by pressing too hard. Nevertheless, Mr Pym considers that Sir Percy Cradock should now raise the subject. He may shortly be entertaining Zhang Wenjin, the Chinese negotiator on Hong Kong so far, who is being posted as Ambassador to Washington. Sir Percy Cradock could emphasise to him our concern that the momentum of the talks should be sustained, since otherwise confidence would suffer in Hong Kong. He could also point out to the Chinese that their statements outside the talks go back on our understanding on the importance of maintaining confidence.

We are entitled to ask whether or not they intend to enter talks.

Beyond this, there are limits to the extent to which we can counter the Chinese campaign. The main need is to reassure the unofficials. They, as the main channel

/between

How - if we do nothing.



between the Hong Kong people and HMG, feel very exposed to criticism that they are being kept on the sidelines during a period when the Chinese appear to be taking the initiative. The more we can do to take them into our confidence, the more they will be able to adopt a robust attitude and stiffen morale in the Territory. A good deal has already been done on these lines. We can build on this when Lord Belstead visits Hong Kong. He should give the unofficials, in particular EXCO, a full rundown on the position in the talks and ask for their views. We have so far spoken more frankly to the Americans, who are not directly concerned, than we have to the Hong Kong unofficials, who are. Moreover, the unofficials have by now, from Chinese propaganda and other sources, a pretty extensive picture of the Chinese position. This may or may not be accurate. There is therefore every reason for them to be given our assessment.

The Prime Minister also suggested that consideration should be given to HMG issuing a policy statement of their own. In Mr Pym's view, we should avoid public statements which directly challenge the Chinese and are therefore likely to provoke even stronger and probably more officially-based assertions, eg on the unacceptability of British administration, from which the Chinese would not be able to move in negotiation. Such statements would also strengthen the hand of those in Peking who favour a hard line on Hong Kong. But there would be advantage in our stating that we regarded the talks themselves as the key to a stable and prosperous future for Hong Kong, that these were based on agreement with the Chinese during the Prime Minister's visit and that what was said outside did not affect the outcome. In the Governor's view it would be helpful if something could be said on these lines, for instance in answer to an inspired PQ, before Lord Belstead's visit, so that he could refer to it in Hong Kong.

You also refer to the Prime Minister's concern at our lack of success in countering the Chinese campaign by an 'education' programme of our own. The most effective means of education is the talks themselves, hence the need to get them going. In addition, the Governor is briefing every potential and reliable visitor to China on the lines which we have agreed. We have a trawl out to identify major visitors from other countries. A significant contact between the Chinese and another helpful country will come during Premier Zhao Ziyang's visit to Australia in April or May 1983. We did not previously pursue the idea that the Australians might be brought in on a similar basis to the Americans. We now think it would be right to ask Mr Fraser to take the opportunity to say something sensible about the basis of confidence in Hong Kong. It remains the case of course that

/those



those best placed to carry the message to Peking are the people of Hong Kong themselves. They remain too fearful to do so at present. Mr Pym thinks we should put it very plainly to them that if they do not speak up, there is no reason why the Chinese should believe anyone else.

We and the Governor have also been looking at ways in which the press could be influenced. The Governor has suggested that selected editors in Hong Kong should be carefully briefed. We have agreed to this, subject to the caveat by the Ambassador that the British origin of the briefing should be disguised to the extent possible, to avoid an official Chinese reaction. At the same time we intend to inspire articles in the American press, for instance in the 'Wall Street Journal' and 'Time'. We are also planning to inspire articles which argue the basis of confidence in Hong Kong objectively in prestigious international publications such as 'The Economist'.

The Chinese Ambassador has not yet returned from Peking. The date is still uncertain, but when he does we certainly think that he should be seen at a high level. However, we must bear in mind Sir P Cradock's warning that the Chinese London Embassy has not proved a very reliable reporter of our position on a number of issues in the past, and that Ke Hua himself did not appear to be very well informed on the subject of Hong Kong.

*Your ever
J E Holmes*

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

HANIC Kowly - PARTIAL OF PT 2



26 NOV 1927

