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FM HONG KONG 191025Z APR 83
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 536 OF 19 APRIL 1983
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Read in full.

*The FIC.O. will send
 shortly further advice on how
 we should react
 to these leaks.
 A.C. 4*

FUTURE OF HONG KONG: PRESS REPORTS

TODAY'S ECONOMIC JOURNAL'S (INDEPENDENT) FRONT PAGE LEAD IS A STORY UNDER THE HEADLINE QUOTE CHINA REJECTS CONFIDENTIAL BRITISH PROPOSALS UNQUOTE. QUOTING QUOTE SOURCES CLOSE TO CHINESE OFFICIALS UNQUOTE THE JOURNAL ASSERTS THAT BRITAIN PUT FORWARD A SECRET PROPOSAL ON HONG KONG'S FUTURE THROUGH THE BRITISH EMBASSY IN PEKING LAST OCTOBER. THE PROPOSAL CONCENTRATED ON THE MAINTENANCE OF HONG KONG'S STABILITY AND PROSPERITY AND DID NOT (NOT) DEAL WITH THE QUESTION OF SOVEREIGNTY. THE BRITISH SIDE INSISTED THAT THE TALKS BE CONDUCTED WITHOUT PRECONDITIONS. HOWEVER, SIR P CRADOCK HAD HINTED ORALLY TO ZHANG WENJIN DURING THEIR PRELIMINARY CONTACTS THAT THE BRITISH MIGHT RECOGNISE CHINA'S SOVEREIGNTY OVER HONG KONG IN RETURN FOR RETAINING ADMINISTRATIVE CONTROL AFTER THE EXPIRY OF THE NEW TERRITORIES LEASE.

2. THE ARTICLE SAYS THAT THE CHINESE SIDE DELAYED GIVING A REPLY TO THESE PROPOSALS UNTIL LATE JANUARY THIS YEAR, WHEN YAO GUANG TOLD SIR P CRADOCK ORALLY THAT THE PROPOSALS WERE UNACCEPTABLE. THE BRITISH SIDE EXPRESSED DISSATISFACTION THAT THE CHINESE HAD DELAYED THEIR REPLY FOR THREE MONTHS AND THAT THE CHINESE HAD NOT RESPECTED THE CONFIDENTIALITY OF THE DISCUSSIONS. YAO GUANG EXPLAINED THAT THE MAIN REASON FOR THE DELAY WAS PERSONNEL CHANGES. HE ALSO SAID THAT THE VIEWS EXPRESSED BY SENIOR OFFICIALS WERE NO MORE THAN REITERATIONS OF CHINA'S PUBLIC STAND ON THE QUESTION AND THAT THERE WAS NO BREACH OF THE AGREEMENT ON CONFIDENTIALITY. CHINA'S OPEN DECLARATION OF HER POSITION WOULD IN FACT BE BENEFICIAL TO THE PROGRESS OF THE TALKS.

3. YAO GUANG IS ALSO SAID TO HAVE STRESSED THAT SOVEREIGNTY WAS NON-NEGOTIABLE AND THAT THE CHINESE SIDE COULD NOT PERMIT ANY FORM OF BRITISH CONTROL AFTER 1997. THE TALKS WOULD THEREFORE CONCENTRATE ON HOW TO MAINTAIN HONG KONG'S PROSPERITY BETWEEN NOW AND 1997, ON THE BASIS THAT SOVEREIGNTY LAY WITH CHINA. IN THE CHINESE VIEW THE TRANSITIONAL PERIOD BEFORE HONG KONG REVERTED TO CHINA REFERRED TO THE 14 YEARS BEFORE 1997 AND NOT TO THE POST-1997 PERIOD. ON THE PREMISE THAT BRITAIN ACCEPTED CHINESE SOVEREIGNTY, THE CHINESE WERE ALSO PREPARED TO DISCUSS WITH THE BRITISH SIDE REFORMS TO THE EXECUTIVE AND LEGISLATIVE COUNCILS AND THE QUESTION OF HONG KONG'S RESERVES. IN OTHER WORDS CHINA WAS PREPARED TO DISCUSS WITH BRITAIN ANY MATTERS RELATING TO THE TRANSITIONAL PERIOD BEFORE 1997. THE QUESTION OF HONG KONG'S FUTURE AFTER 1997 WAS A DOMESTIC MATTER FOR CHINA AND DID NOT CONCERN OTHER COUNTRIES.

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4. ON THE FURTHER CONDUCT OF THE TALKS, THE ARTICLE SAYS THAT THE CHINESE SIDE HAS NOT CHOSEN ITS NEGOTIATING TEAM BECAUSE THE TALKS ARE STILL AT A PRELIMINARY STAGE AND BECAUSE THEY ARE WAITING TO SEE WHO WILL SUCCEED SIR P CRADOCK WHO IS DUE TO RETIRE IN OCTOBER. THE GOVERNOR WOULD NOT BE ABLE TO TAKE PART AS A REPRESENTATIVE OF HONG KONG, BECAUSE THE TALKS ARE BETWEEN THE CHINESE AND BRITISH GOVERNMENTS.

5. ON THE SELF RULE PROPOSAL, THE SOURCES ARE QUOTED AS SAYING THAT THE CHINESE GOVERNMENT HOPED THAT HONG KONG CHINESE WOULD PROGRESSIVELY TAKE OVER THE SENIOR POSITIONS WITHIN THE HONG KONG GOVERNMENT WITHIN SEVEN OR EIGHT YEARS. PROMOTION OF LOCAL CHINESE INTO THESE POSTS SHOULD BEGIN WITHIN TWO OR THREE YEARS. BY 1997 THE CHINESE FLAG WOULD HAVE REPLACED THE BRITISH FLAG, AND THE GOVERNOR, THE SECRETARY FOR SECURITY AND THE COMMANDER, BRITISH FORCES WOULD HAVE TO RETURN TO BRITAIN. THE ARTICLE ALSO SUGGESTED THAT THE CHINESE WISHED THE CHARTERED BANK AND THE HONG KONG AND SHANGHAI BANK TO CONTINUE ISSUING HONG KONG'S BANKNOTES. IF THEY DID NOT CO-OPERATE, CHINA WOULD CONSIDER INVITING US AND JAPANESE BANKS TO HELP THE BANK OF CHINA ISSUE LOCAL CURRENCY.

6. IN CONCLUSION, THE SOURCES ARE QUOTED AS SAYING THAT THE LACK OF PROGRESS IN THE TALKS IS DUE TO OBSTACLES RAISED BY BRITAIN. CHINA IS SHOWING ITS CONCERN FOR THE WELL BEING OF HONG KONG PEOPLE BY INVITING A SERIES OF DELEGATIONS TO PEKING TO PRESENT THEIR VIEWS. BRITAIN HAD UNDER-ESTIMATED THE FIRMNESS OF CHINA'S STAND ON SOVEREIGNTY, AND HAD MISTAKENLY THOUGHT THAT SOVEREIGNTY MIGHT BE A BARGAINING COUNTER IN THE NEGOTIATIONS. CHINA WAS CONFIDENT THAT A SOLUTION WOULD BE FOUND, BUT WOULD NOT BE THE DEMANDEUR, EVEN THOUGH AN EARLY SOLUTION WOULD BE IN HONG KONG'S BEST INTERESTS. THE SOURCES ARE QUOTED AS HAVING SAID QUOTE CHINA IS NOT ARGENTINA AND HONG KONG IS NOT THE FALKLANDS UNQUOTE. THIS IS INTERPRETED AS MEANING THAT CHINA'S POSITION IS BOTH QUOTE REASONABLE AND BACKED BY STRENGTH UNQUOTE (THE ORIGINAL CHINESE INVOLVES A PLAY ON WORDS).

7. FULL TRANSLATION FOLLOWS BY BAG.

YOUDE

FUTURE OF HONG KONG

LIMITED

HD/HKGD

HD/FED

HD/PLANNING STAFF

HD/FUSD

PS

PS/MR HURD

PS/LORD BELSTEAD

PS/FUS

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