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 TO IMMEDIATE FCO
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A.J.C. 27/6

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PEKING TELNO 593: FUTURE OF HONG KONG: OPENING STRATEGY

1. UNDER CERTAIN CIRCUMSTANCES I AM NOT OPPOSED TO THE USE OF SUB-COMMITTEES ALTHOUGH FOR THE REASONS SET OUT BELOW I DO NOT SEE THE CONTRIBUTION WHICH SUB-COMMITTEES COULD MAKE AS LIKELY TO BE OF SUCH SIGNIFICANCE IN OUR STRATEGY AS THE AMBASSADOR DOES. BUT BEFORE WE SET THEM UP WE NEED TO BE QUITE CLEAR IN OUR OWN MINDS AS TO THE PURPOSE THEY WOULD SERVE , WHAT THEIR FUNCTION WOULD BE , AND HOW THEY WOULD OPERATE.

2. AS REGARDS THE PURPOSE, OUR AIM IN THE TALKS IS TO CONVINCHE THE CORE OF SENIOR POLITICAL LEADERS WHO ARE RESPONSIBLE FOR POLICY ON HONG KONG OF THE NEED FOR CONTINUING BRITISH ADMINISTRATION. THEIR PRESENT FAILURE TO UNDERSTAND (OR AT ANY RATE ACCEPT) THIS IS UNLIKELY TO BE BASED ON LACK OF ACTUAL INFORMATION ON HOW THE ADMINISTRATIVE, FINANCIAL AND LEGAL SYSTEMS IN HONG KONG WORK. THIS INFORMATION IS FREELY AVAILABLE IN A VARIETY OF PUBLISHED DOCUMENTS. NOR DO THEY LACK SENIOR ADVISERS WHO UNDERSTAND VERY WELL THE QUOTE COMPLEXITIES OF THE HONG KONG FABRIC UNQUOTE (PARA 4 OF PEKING TUR). FOR EXAMPLE AS REGARDS THE FINANCIAL SYSTEM, THE HONG KONG DOLLAR ETC. THE SENIOR DIRECTORATE OF THE BANK OF CHINA (WHO ARE PEKING APPOINTED) OPERATE SUCCESSFULLY AND WITH PROFESSIONAL COMPETENCE IN HONG KONG AND THERE IS NOT MUCH THAT THEY COULD BE TAUGHT ABOUT E.G. THE EXCHANGE FUND. IN SHORT, TECHNICAL SUB-COMMITTEES ARE NOT GOING TO ADD VERY MUCH TO THE (NEXT TWO WORDS UNDERLINED) FACTUAL INFORMATION ALREADY AVAILABLE TO SENIOR CHINESE LEADERS FROM THEIR OWN SIDE ON THE OPERATION OF THE HONG KONG ECONOMY, OR IN OTHER AREAS.

3. IF THEIR WORDS ARE TO BE TAKEN AT FACE VALUE, THE SENIOR LEADERS DO NOT EVEN NEED TO BE CONVINCED THAT THE CHINESE GOVERNMENT IN PEKING COULD NOT DIRECTLY RUN HONG KONG AS IT IS TODAY. THEIR OWN PLAN PROVIDES FOR HONG KONG TO BE RUN BY THE HONG KONG CHINESE. (NOR IS IT ANY PART OF OUR CASE THAT THE HONG KONG CHINESE, (NEXT FOUR WORDS UNDERLINED) IF LEFT TO THEMSELVES, WOULD BE INCAPABLE OF RUNNING THIS TERRITORY).

4. MOREOVER EVEN WHEN WE HAVE EXPLAINED THE COMPLEXITY OF HONG KONG THE CHINESE RESPONSE WILL PRESUMABLY BE THAT THE QUOTE SYSTEMS UNQUOTE WE HAVE DESCRIBED WOULD REMAIN UNCHANGED UNDER HONG KONG CHINESE RULE, AND THAT THERE WOULD THEREFORE BE NO DIFFICULTY.

SECRET

/ 5. THE CASE

5. THE CASE WE HAVE TO MAKE, WHICH IS SET OUT IN ANNEX B TO THE PAPER ON STRATEGY, IS THAT HOWEVER ATTRACTIVE IN THEORY, THE CHINESE PLAN WOULD NOT WORK IN PRACTICE BECAUSE WITHOUT THE QUOTE INSULATOR UNQUOTE BETWEEN HONG KONG AND PEKING WHICH BRITISH ADMINISTRATION PROVIDES THERE WOULD BE NO CONFIDENCE. ACCORDINGLY:

(A) THE PROFESSIONAL CLASSES WHO ARE ESSENTIAL TO THE OPERATION OF ITS COMPLEX ECONOMY WOULD LEAVE:

(B) DOMESTIC AND INTERNATIONAL INVESTORS WOULD CEASE TO INVEST: AND IN CONSEQUENCE

(C) THE ECONOMY WOULD RUN DOWN AND THERE WOULD BE NEITHER PROSPERITY NOR STABILITY.

THESE POINTS CAN BE SUPPORTED BY REFERENCE TO THE YOUNG PROFESSIONALS' MEMORANDUM, TO FIGURES RELATING TO EMIGRATION APPLICATIONS AND SO ON. BUT THEY ARE ESSENTIALLY POLITICAL POINTS WHICH WE NEED TO GET ACROSS AT A HIGH LEVEL. THEY ARE SCARCELY POINTS FOR SUB-COMMITTEES.

6. THIS BRINGS US BACK TO THE FUNCTION OF THE SUB-COMMITTEES. IF THE AMBASSADOR'S VIEW IS THAT THIS WOULD BE PRIMARILY EXPLANATORY ON OUR SIDE, WE COULD CERTAINLY PREPARE FACTUAL PAPERS DESCRIBING HOW THE PRESENT SYSTEMS WORK AND PROVIDE EXPERTS FROM HERE TO AMPLIFY OR ELUCIDATE PARTICULAR POINTS. BUT IN MY VIEW THIS WILL NOT BE ENOUGH. IF THE PAPERS ARE TO FULFILL A GENUINELY EDUCATIVE FUNCTION, AND TO CONTRIBUTE TO OUR OBJECTIVE (PARA 2 ABOVE), THE FACTS WILL NEED TO BE PRESENTED IN SUCH A WAY AS TO LEAD IN-ESCAPABLY TO THE CONCLUSION THAT CONTINUING BRITISH ADMINISTRATION IS NECESSARY (THIS POINT IS ALSO MADE IN PARA 5(B) OF THE QUOTE FORWARD STRATEGY UNQUOTE PAPER: QUOTE OUR AIM SHOULD BE TO CONTINUE THE PROCESS OF EDUCATING THE CHINESE...BY MAKING DETAILED PRESENTATIONS ON SPECIFIC AREAS...(NEXT TWELVE WORDS UNDERLINED) IN ORDER TO DEMONSTRATE THE VITAL IMPORTANCE OF MAINTAINING THE BRITISH LINK UNQUOTE).

7. IT IS HOWEVER UNLIKELY THAT THE CHINESE WILL FALL IN WITH ANY PLAN WHICH ALLOWED SUB-COMMITTEES SUCH A ROLE. THEY MAY LISTEN TO ANY INITIAL PRESENTATIONS WE MAY MAKE IN SUB-COMMITTEES. BUT THEY WILL HAVE A VERY DIFFERENT FUNCTION IN MIND: IN DISCUSSION OF ITEM 1 OF THE AGREED AGENDA THEY WILL WANT THE SUB-COMMITTEES TO DEAL WITH DETAILED ARRANGEMENTS AFTER BRITISH ADMINISTRATION HAS CEASED. WE COULD NOT OF COURSE AGREE TO THIS. WE MIGHT THEREFORE FIND THAT, HAVING ESTABLISHED SUB-COMMITTEES, WORK IN THEM WOULD GRIND TO A HALT AFTER TWO OR THREE MEETINGS.

SECRET

8. IN THE LIGHT OF THE ABOVE IT SEEMS TO ME THAT THE TERMS OF REFERENCE FOR SUB-COMMITTEES WILL BE A KEY ISSUE. POINTS (A) AND (B) IN PARA 7 OF PEKING TUR ARE VIRTUALLY SELF-EVIDENT, AND SUB-COMMITTEES COULD CERTAINLY BE USED TO QUOTE EXCHANGE INFORMATION UNQUOTE (POINT (D)). BUT THE FORMULATION IN POINT (C) DUCKS THE ISSUE: WE SHOULD BE UNDER NO ILLUSIONS THAT IT WILL BE EASY TO REACH AGREEMENT IN PLENARY ON WHAT MATTERS SHOULD BE REFERRED TO SUB-COMMITTEES, OR THAT THE SUB-COMMITTEES THEMSELVES WILL BE ABLE TO PRODUCE QUOTE RESULTS UNQUOTE TO BE REPORTED BACK TO THE PRENARY SESSIONS.

9. IT WAS BECAUSE OF THE PROBLEMS SET OUT ABOVE SURROUNDING THE OPERATING ETC. OF SUB-COMMITTEES THAT I SAW THE EDUCATIVE PROCESS BEING BEST CONDUCTED IN A QUOTE COMMITTEE OF THE WHOLE UNQUOTE WITH APPROPRIATE EXPERT PARTICIPATION.

10. MY TWO IFT'S DEAL WITH MORE DETAILED POINTS ON MODALITIES.

YOUDE

FUTURE OF HONG KONG

LIMITED
HD/HKD
HD/FED
HD/PLANNING STAFF
HD/PUSD
PS
PS/LADY YOUNG
PS/MR LUCE
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