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FROM PEKING 150540Z JUL 83

*Read in full.*

TO IMMEDIATE FCO

TELEGRAM NUMBER 678 OF 15/7/83

*mt*

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MY TEL NO 672: FUTURE OF HONG KONG

1. I SAID IN TUR THAT I WOULD TELEGRAPH MY VIEWS ON THE STRATEGY FOR THE SECOND AND THIRD ROUNDS. IT IS CLEAR FROM THIS WEEK'S TALKS THAT WE HAVE A VERY DIFFICULT TASK AHEAD, NOT THAT WE HAVE EVER EXPECTED OTHERWISE. THE CENTRAL DIFFICULTY IS THE NEW 'PREMISE', WHETHER ACTUAL OR POTENTIAL, THAT ADMINISTRATIVE RIGHTS WILL PASS WITH SOVEREIGNTY TO CHINA IN 1997. I SEE NO WAY THAT THIS POINT CAN BE FINESSED IN THE WAY THAT THE SOVEREIGNTY PREMISE WAS FINESSED BY THE PRIME MINISTER'S LETTER. IN THE ABSENCE OF A CREATIVE MOVE FROM THE CHINESE SIDE (WHICH IS HIGHLY IMPROBABLE) WE MUST EXPECT A VERY HARD SLOG.

2. ALTHOUGH THEY REJECTED MY EXHORTATION TO KEEP AN OPEN MIND ON ADMINISTRATION, THE CHINESE DID AGREE TO LISTEN TO WHAT WE HAD TO SAY ABOUT PRESENT DAY HONG KONG. FURTHERMORE, THEY AGREED DATES FOR BOTH A SECOND AND THIRD ROUND, WITHOUT HAVING ANY REASON TO SUPPOSE THAT WE INTENDED TO DO OTHER THAN DISCUSS THE PRESENT ARRANGEMENTS FOR MAINTAINING STABILITY AND PROSPERITY IN HONG KONG.

FUTURE BRITISH STRATEGY.

3. AS I SEE IT, OUR IMMEDIATE TASK SHOULD BE TO EXPLOIT THIS SMALL OPENING IN THE CHINESE POSITION TO THE FULL BY GETTING ACROSS TO THEM AS MUCH FACTUAL INFORMATION ABOUT HONG KONG AS POSSIBLE, WHILE REMAINING ABSOLUTELY FIRM ON THE NEED FOR THE PRESENT BRITISH ADMINISTRATION UNADULTERATED. SINCE THE ESTABLISHMENT OF SUB-COMMITTEES SEEMS A PRETTY REMOTE PROSPECT, CERTAINLY UNLIKELY WITHIN NEXT THREE OR FOUR MONTHS, MUCH OF THE EDUCATIVE PROCESS THAT WE HAD HOPED TO PURSUE IN EXPERT WORKING GROUPS WILL NOW HAVE TO BE DONE, AS FAR AS IT IS POSSIBLE, IN PLENARY MEETINGS.

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4. THE SCENARIO I ENVISAGE IS THAT THE NEXT MEETING WILL CONSIST OF:

- (A) THE GOVERNOR'S PRESENTATION WITH AN INTRODUCTION BY MYSELF (SEMI-CLN)
- (B) A CHINESE STATEMENT WHICH WILL PROBABLY ADDRESS ITSELF MAINLY TO THE QUESTION OF ARRANGEMENTS AFTER 1997 (SEMI-CLN) AND
- (C) AN EXCHANGE OF COMMENTS.

AT THE THIRD ROUND WE WOULD AIM TO DEAL WITH MORE SPECIFIC ASPECTS OF THE HONG KONG SYSTEMS. FOR THIS PURPOSE WE SHOULD AIM TO HAVE THE FOUR PAPERS CURRENTLY UNDER PREPARATION IN HONG KONG READY TO BE HANDED OVER AT THAT ROUND. EITHER THE GOVERNOR OR I WOULD SAY SOMETHING ABOUT EACH ONE BEFORE HANDING IT OVER, PROBABLY USING THE SUMMARIES FOR THIS PURPOSE. ONCE AGAIN WE SHOULD EXPECT A CHINESE STATEMENT AND A SESSION OF COMMENTS.

5. IN SHORT THEREFORE OUR AIM SHOULD BE TO SAY AS MUCH AS POSSIBLE ABOUT THE PRESENT ARRANGEMENTS IN HONG KONG AND TO PASS AS MANY SPEAKING NOTES AND PAPERS ON THE SUBJECT AS WE CAN TO THE CHINESE BEFORE THE AUGUST RECESS WHEN THE GOVERNOR, YAO GUANG AND I SHALL BE AWAY.

#### EXPECTED CHINESE STRATEGY

6. THE CHINESE OBJECTIVE IS TO INVOLVE US IN A DISCUSSION OF THE PRINCIPLES GOVERNING POST-1997 ARRANGEMENTS IN ORDER TO EXTRACT FROM US AGREEMENT TO THE PRINCIPLE OF CHINESE ADMINISTRATION AS A PART OF CHINESE SOVEREIGNTY. THEY ARE PREPARED TO LIVE WITH SOME DISCUSSION OF PRESENT DAY ARRANGEMENTS BUT THERE IS A DANGER THAT BEFORE LONG THEY WILL BE COME RESTIVE, SAY THAT HAVE LISTENED BUT ARE NOT CONVINCED AND THAT WE MUST SWALLOW THIS NEW PREMISE OR FACE DEADLOCK. WE COULD APPROACH THAT POINT IN ROUND THREE. WE SHALL CERTAINLY DO SO IN THE AUTUMN.

7. IN THE MEANTIME THE CHINESE WILL NO DOUBT HAVE COMMENTS ON WHAT WE ARE SAYING ON PRESENT DAY HONG KONG AND MAY SEEK TO PRESENT THEIR OWN VERSION OF THE FACTS. IF THEIR PERFORMANCE TO DATE IS ANY GUIDE THEIR STATEMENTS ON THIS SUBJECT WILL NOT BE DIFFICULT TO HANDLE. BUT WE SHALL NEED TO PREPARE MORE CONTINGENCY REBUTTAL PAPERS WHICH AFTER USE WE COULD HAND OVER TO THEM AS COPIES OF OUR SPEAKING NOTES. WE ARE ALREADY HANDING OVER COPIES OF THE REBUTTAL NOTES USED AT THE FIRST SESSION. THE MORE SOUND INFORMATION THEIR DELEGATION HAS AVAILABLE, THE MORE CHANCE THAT SOME OF IT MAY PERCOLATE THROUGH TO THE LEADERS.

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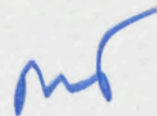
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8. AT THE SAME TIME I WOULD EXPECT THE CHINESE TO SAY SOMETHING ABOUT THE WAY THEY SEE ADMINISTRATIVE ARRANGEMENTS AFTER 1997. THEY MAY BE UNABLE OR UNWILLING TO BE SPECIFIC ABOUT THESE ARRANGEMENTS. IF HOWEVER THEY DO GO INTO DETAIL, THIS WOULD GIVE US A BETTER UNDERSTANDING OF WHAT THEY ARE REALLY AFTER AND THE OPPORTUNITY WE HAVE BEEN SEEKING (AND FOR WHICH ANNEX C HAS BEEN PREPARED) TO EXPLAIN TO THE CHINESE PRECISELY WHY THEIR IDEAS ARE INADEQUATE AND UNABLE TO MAINTAIN CONFIDENCE.

9. SEE MIFT FOR THOUGHTS ON THE RESUMPTION OF TALKS AFTER THE AUGUST BREAK.

CRADOCK



FUTURE OF HONG KONG

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