

FUTURE OF HONGKONG

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FROM PEKING 240600Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 937 OF 24TH SEP

INFO IMMEDIATE HONG KONG

MS

MY TELNO 933 : FUTURE OF HONG KONG.

1. THE TALKS HAVE NOW REACHED A CRITICAL JUNCTURE. IT MAY BE HELPFUL IF I SET OUT MY VIEWS ON THE CHOICES OPEN TO US.

2. AS WILL BE CLEAR FROM THE RECORDS AND FROM OUR COMMENTS ON THEM, THIS ROUND WAS TOTALLY STERILE. THE CHINESE DID NOTHING BUT REPEAT IN A STEADILY DETERIORATING ATMOSPHERE THEIR BASIC THESIS THAT BRITAIN MUST ACCEPT THE RETURN OF BOTH SOVEREIGNTY AND ADMINISTRATION TO CHINA IN 1997. THEY SHOWED NO INTEREST IN DISCUSSION OF THE DETAILS OF THE HONG KONG SYSTEMS, AND THEY REJECTED OUR FOUR PAPERS AS A PUT-UP JOB DESIGNED TO SERVE WHAT THEY DESCRIBE AS OUR COLONIALIST PURPOSE OF CONTINUING TO RULE HONG KONG. THEY CHARACTERISED OUR INSISTENCE ON BRITISH ADMINISTRATION AS AN INSURMOUNTABLE OBJECT TO PROGRESS, AND MADE THINLY VEILED THREATS THAT THE TALKS WOULD BE BROKEN OFF IF WE DID NOT MOVE. THEY SHOWED NO PARTICULAR CONCERN AT THE CONSEQUENCES A BREAKDOWN WOULD HAVE FOR HONG KONG. FINALLY, THEY STATED UNEQUIVOCALLY THAT CHINA WOULD MAKE A UNILATERAL ANNOUNCEMENT ON THE FUTURE OF HONG KONG IF AGREEMENT WERE NOT REACHED BY SEPTEMBER 1984.

3. THERE IS NO RELIEF IN THIS SOMBRE PICTURE. THE CHINESE MADE IT CLEAR AT THE DINNER LAST NIGHT THAT THEY SAW NO POINT IN ELABORATING THEIR PROPOSALS UNLESS WE FIRST ACCEPTED THE PREMISE. THIS ANSWER WILL PROBABLY BE PUT FORMALLY TO US AT THE BEGINNING OF THE NEXT ROUND, IF NOT BEFORE. THEIR INTEREST IN THE EXPRESSION 'BRITISH LINK' MEANS ONLY THAT THEY ARE SEEKING TO DISCOVER WHETHER THE EXPLANATION WHICH I GAVE ON DAY ONE OF THIS ROUND BETOKENS A CHANGE IN POSITION. THEY ALREADY SUSPECT CORRECTLY THAT IT DOES NOT.

4. IN THE LIGHT OF WHAT HAS BEEN SAID IN THESE TWO DAYS, IT IS CLEAR THAT WE ARE AT THE END OF THIS ROAD. THERE ARE, IN ESSENCE,

TWO PATHS WHICH WE CAN FOLLOW, THAT OF CONFRONTATION, OR THAT OF SEEKING TO NEGOTIATE THE BEST POSSIBLE ARRANGEMENTS FOR HONG KONG AS A SPECIAL ADMINISTRATIVE REGION OF CHINA.

5. THERE IS, I UNDERSTAND, A DISPOSITION IN EXCO TO ARGUE THAT IF BRITISH ADMINISTRATION IS UNOBTAINABLE THEN CONFRONTATION IS BETTER THAN SURRENDER. THIS VIEW IS PARTLY, IF NOT WHOLLY, PREDICATED ON THE BELIEF THAT WHEN THE CHINESE SEE THE DAMAGE WHICH A CONFRONTATION CAUSES TO THE HONG KONG ECONOMY, THEY WILL BACK DOWN. I REGARD THIS VIEW AS DANGEROUSLY WRONG: THE CHINESE HAVE ALL ALONG MADE IT CLEAR THAT IF THEY HAVE TO CHOOSE BETWEEN REUNIFICATION AND THE PROSPERITY OF HONG KONG THEY WILL CHOOSE REUNIFICATION. I BELIEVE THEY MEAN THIS. IF ANY PROOF WERE NEEDED, THE CHINESE GAVE IT WHEN THEY REFUSED TO GIVE US ANY ASSISTANCE FOR THE HONG KONG DOLLAR BY WAY OF A WORD IN THE COMMUNIQUE. CONFRONTATION WILL NOT, THEREFORE, ACHIEVE ITS OBJECT. NOR WILL IT REMOVE THE FACT THAT UNDER THE TREATIES WHICH THE UK RECOGNISES - 92 PERCENT OF THE TERRITORY OF HONG KONG WILL REVERT TO CHINA IN 1997. CONVERSELY, IT IS CLEAR THAT CONFRONTATION WILL GRAVELY DAMAGE AND EVENTUALLY RUIN THE HONG KONG ECONOMY. IT COULD, IN MY VIEW, LEAD TO A CHINESE TAKE-OVER OF HONG KONG WELL BEFORE 1997. THERE IS, IN FACT, NO FUTURE AT ALL FOR HONG KONG EXCEPT IN COOPERATION WITH CHINA.

6. THE ALTERNATIVE TO CONFRONTATION IS TO SEE WHAT CAN BE NEGOTIATED ON THE CHINESE PREMISE. THIS IS OPTION 'C'. OPTION 'B' WILL NOT RUN: FROM WHAT THE CHINESE HAVE SAID IN THE TALKS, AND INDEED FROM WHAT THEY SAID AT THE DINNER ON 23 SEPTEMBER, IT IS PLAIN THAT THEY WILL NOT CONSIDER ANY SOLUTION INVOLVING A BRITISH-APPOINTED GOVERNOR, OR A GOVERNOR WITH A LINK OF AUTHORITY TO LONDON. MOREOVER, SINCE UNDER OPTION B WE WOULD BE PROPOSING CHANGES TO THINGS WHICH, UNDER OPTION C, WE WOULD WISH TO KEEP UNCHANGED, WE WOULD DAMAGE OUR PROSPECTS OF OBTAINING THE BEST TERMS POSSIBLE UNDER OPTION C: TO TRY OPTION B WOULD, THEREFORE, BE SELF-DEFEATING.

7. WE HAVE AT THIS MEETING SECURED A SINGLE FURTHER ROUND OF TALKS ON 19-20 OCTOBER. IN MY VIEW THERE IS A BETTER THAN EVEN CHANCE THAT, UNLESS I AM ARMED AT THE NEXT MEETING WITH A FALLBACK POSITION WHICH ENABLES US TO DISCUSS THE CHINESE PLAN POSITIVELY, THE BREAKDOWN WILL OCCUR DURING THAT ROUND. I BELIEVE THE CHINESE ARE NOW PREPARED IF NECESSARY TO ACCEPT SUCH A BREAKDOWN AND THE CONSEQUENCES. IT FOLLOWS THAT WE MUST CONSIDER BEFORE THAT ROUND WHETHER A BREAKDOWN IS ACCEPTABLE. IF MY VIEW THAT IT IS NOT IS ENDORSED, WE MUST THEN FIND A BASIS WHICH WILL AT LEAST ALLOW US TO EXPLORE THE POSSIBILITIES UNDER OPTION C. TO DO THIS WE SHALL HAVE TO MAKE A BOW IN THE DIRECTION OF THE CHINESE PREMISE. BUT IT IS POSSIBLE TO DEVISE A FORMULA WHICH WOULD ALLOW US TO DO THIS WHILE RESERVING THE ULTIMATE RIGHT, IF THE PACKAGE PROVES UNACCEPTABLE, TO REJECT IT.

8. I REALISE THAT THIS IS A SERIOUS STEP, AND THAT EXCO WILL FIND IT DIFFICULT TO CONTEMPLATE. THE GOVERNOR WILL, NO DOUBT, GIVE HIS VIEWS ON HOW THEY SHOULD BE CONSULTED.

9. IT MIGHT SEEM TEMPTING TO DEFER A DECISION OF THIS IMPORTANCE UNTIL THE CHINESE HAVE FORMALLY REJECTED THE PROPOSAL THAT THEY ELABORATE ON THEIR IDEAS. THIS WOULD BE EXTREMELY DANGEROUS, BECAUSE IT WOULD GIVE US NO FALLBACK WHEN, AS WE EXPECT THE CHINESE REJECT OUR PROPOSAL AT THE FIRST MEETING OF THE NEXT ROUND. THERE WOULD THEN BE NO MEANS OF STAVING OFF A BREAKDOWN. THIS WOULD IMMEDIATELY BECOME PUBLIC. WE SHOULD THEN FACE THE NEED TO DEVISE A RETREAT FORMULA IN A PUBLIC ATMOSPHERE OF CRISIS WITH ALL THE RESULTANT DAMAGE TO THE HONG KONG ECONOMY. A RETREAT IN SUCH CIRCUMSTANCES WOULD BE A PUBLIC HUMILIATION. MOREOVER, IN SUCH AN ATMOSPHERE THE PRICES IN THE MARKET WOULD CHANGE: WE SHOULD FIND IT MUCH MORE DIFFICULT TO GET THE BEST TERMS UNDER OPTION C.

10. THERE IS NO POSSIBILITY OF A GENTLEMANLY AGREEMENT TO SUSPEND TALKS. IF THE TALKS BREAK DOWN THE CHINESE WILL TURN ON THE FULL PROPAGANDA MACHINE, WHICH AT PRESENT IS AT NO MORE THAN HALF THROTTLE. CHINESE LEADERS WOULD BE LIKELY TO TAKE UP PUBLIC POSITIONS FROM WHICH THEY COULD NOT LATER RETREAT, AT AN EARLY STAGE, THE CHINESE PLAN WOULD PROBABLY BE FORMALLY ANNOUNCED.

11. WE DO NOT WISH TO SUGGEST THAT THE COURSE WE PROPOSE IS A SAFE ONE. BUT WE FACE A CHOICE OF EVILS. BEFORE WE MAKE THE FINAL CHOICE BETWEEN THEM, WE ARE BOUND TO EXAMINE WHAT IS AVAILABLE TO US. IF WE WERE TO CHOOSE CONFRONTATION NOW, WE SHOULD DO SO WITHOUT HAVING ANY CLEAR IDEA OF WHAT WE MIGHT BE ABLE TO NEGOTIATE UNDER OPTION C. CONFRONTATION AT ANY TIME CANNOT BE IN THE INTERESTS OF THE PEOPLE OF HONG KONG: STILL LESS CAN IT BE IN THEIR INTERESTS TO ALLOW IT TO HAPPEN BEFORE WE KNOW WHAT ELSE MIGHT BE DEvised FOR THEM.

12. TO SUM UP, AS WE SEE IT, WE NEED TO FIND A WAY OF EXPLORING WHAT WE CAN ACHIEVE UNDER OPTION C. WE NEED TO BRING EXCO WITH US. WE NEED TO DO THIS IN THE RELATIVELY SHORT TIME BEFORE 19 OCTOBER.

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