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FM HONG KONG 260537Z SEP 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1407 OF 26 SEPTEMBER

INFO IMMEDIATE PEKING UKMIS NEW YORK (PERSONAL FOR PRIVATE SECRETARY)

OTTAWA (PERSONAL FOR PRIVATE SECRETARY TO PRIME MINISTER)

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Prime Minister  
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PEKING TELNO 937: FUTURE OF HONG KONG

1. I AGREE GENERALLY WITH THE AMBASSADOR'S ASSESSMENT OF THE POSITION WE HAVE REACHED IN THE TALKS AND THE ALTERNATIVES NOW FACING US.

2. THE OTHER DIMENSION IS THE SITUATION IN HONG KONG. OVER THE PAST FEW WEEKS THE COMMUNIST PRESS HAVE CREATED AN ATMOSPHERE OF CONFRONTATION THROUGH A BARAGE OF PROPAGANDA DESIGNED TO CONVINCCE PEOPLE THAT CHINESE DEMANDS ARE NON-NEGOTIABLE AND THAT THE BRITISH ARE BEING UNREASONABLE IN REFUSING TO ACCEPT THEM. THEY HAVE ALSO SOUGHT TO SHIFT RESPONSIBILITY FOR THE RESULTING SLIDE IN CONFIDENCE ON TO THE HONG KONG GOVERNMENT. ALL THIS HAS HAD A SEVERE EFFECT ON THE MARKETS, AND PARTICULARLY ON THE EXCHANGE VALUE OF THE HONG KONG DOLLAR. IT IS THEREFORE A MATTER OF URGENCY TO DECIDE HOW WE SHOULD PROCEED.

3. ALTHOUGH SOME MEMBERS OF EXCO MAY NOW BE BEGINNING TO DOUBT PRIVATELY WHETHER THE OBJECTIVE OF CONTINUING BRITISH ADMINISTRATION IS IN FACT ATTAINABLE IT WILL BE VERY DIFFICULT FOR THE MAJORITY TO CONTEMPLATE THE IDEA, AND STILL MORE DIFFICULT FOR THEM TO COME TO TERMS WITH IT. IT IS THEREFORE VERY UNLIKELY THAT THEY WILL AT THIS STAGE BE PREPARED TO SUGGEST ANY OTHER COURSE THAN A CONTINUATION OF THE PRESENT STRATEGY, ACCEPTING THE NEAR CERTAINTY OF CONFRONTATION.

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4. I NEVERTHELESS BELIEVE THAT THE TIME HAS COME WHEN WE MUST PUT OUR ASSESSMENT FRANKLY TO EXCO. IT WILL NEED VERY CAREFUL PREPARATION AND I SEE ADVANTAGE IN WAITING UNTIL AFTER THE S OF S' MEETING WITH THE CHINESE FOREIGN MINISTER ON 27 SEPTEMBER AND IN ALLOWING A LITTLE MORE TIME FOR THE LESSONS OF THE LAST ROUND TO SINK IN. WE CAN ALSO TAKE INTO ACCOUNT MR LUCE'S IMPRESSIONS OF THE MOOD OF EXCO. I SHOULD HOWEVER LIKE AUTHORITY TO PUT TO THEM A PAPER WHICH WOULD CONFIRM OUR ASSESSMENT OF THE CHINESE POSITION AND SET OUT THE OPTIONS AS WE NOW SEE THEM. THE PAPER WOULD CONTAIN NO RECOMMENDATIONS, AND I WOULD ASK MEMBERS NOT TO REACH CONCLUSIONS OR GIVE ADVICE AT THIS STAGE. I WOULD SAY THAT MINISTERS WISHED TO HAVE A FULL DISCUSSION WITH THE UNOFFICIALS IN LONDON BEFORE THEY THEMSELVES REACHED ANY CONCLUSION, BUT THEY WANTED MEMBERS TO HAVE A FRANK ASSESSMENT OF THE POSITION BEFOREHAND.

5. AS THE AMBASSADOR SAYS, OPTION (C) IS NOT WITHOUT CONSIDERABLE RISKS. THERE CAN BE NO CERTAINTY THAT IT CAN BE MADE TO WORK, AND EVEN THE PURSUIT OF IT CARRIES RISKS FOR CONFIDENCE. THERE IS LITTLE FAITH HERE IN ANY GUARANTEE OTHER THAN BRITISH ADMINISTRATION AND EVEN THE BEST OBTAINABLE VERSION OF (C) MAY BE REJECTED IN HONG KONG. MUCH WOULD CERTAINLY DEPEND ON THE DEGREE OF SUPPORT HMG WERE PREPARED TO EXPRESS FOR IT. BUT AT LEAST WE SHOULD HAVE OFFERED THE PEOPLE OF HONG KONG AN HONEST CHOICE (AND TO THIS END IT WILL BE IMPORTANT TO MAINTAIN THE ULTIMATE RIGHT OF REJECTION: PARA 7 OF PEKING TELEGRAM UNDER REFERENCE) AND NOT HAVE DECIDED TO MAKE THEM RUN THE FULL RISKS OF (A) WITHOUT HAVING EXPLORED (C).

6. I WILL TELEGRAPH A POSSIBLE DRAFT OF THE PROPOSED PAPER WITHIN THE NEXT FEW DAYS. ASSUMING THAT MINISTERS AGREE THAT THE UNOFFICIALS SHOULD BE INVITED TO RETURN TO LONDON BEFORE THE NEXT ROUND OF THE TALKS WITH THE CHINESE (SEE MY TELNO 1408) I WOULD PUT THE PAPER TO THE COUNCIL A FEW DAYS BEFOREHAND.

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