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TO IMMEDIATE HONG KONG

TEL NO 006 OF 27 SEPTEMBER 1983

INFO IMMEDIATE FCO PEKING WASHINGTON (FOR COLES IN PM'S PARTY)

FOLLOWING FROM PRIVATE SECRETARY
MEETING WITH CHINESE FOREIGN MINISTER

SUMMARY

1. SECRETARY OF STATE MET WU XUEQIAN FOR AN HOUR ON 27 SEPTEMBER. LENGTHY REHERSAL OF RESPECTIVE POSITIONS. NO GIVE ON CHINESE SIDE. NO WILLINGNESS TO MAKE A GESTURE TO IMPROVE CONFIDENCE IN THE ABSENCE OF A CHANGE IN OUR POSITION.

DETAIL

2. THE SECRETARY OF STATE STRESSED THE POSSIBILITIES FOR THE IMPROVEMENT OF BILATERAL RELATIONS IN TRADE AND OTHER FIELDS (GUANGDONG, OIL, ETC). THE LONG TERM PROSPECTS FOR COOPERATION WERE VERY GOOD. BUT HE WANTED TO DWELL ON A SUBJECT OF GREAT CONCERN TO BOTH CHINA AND BRITAIN. BOTH ATTACHED THE GREATEST IMPORTANCE TO THE MAINTENANCE OF HONG KONGS FUTURE STABILITY AND PROSPERITY. THIS SHOULD NOT BE PUT AT RISK BY ANY MISUNDERSTANDING BETWEEN THE TWO SIDES. WE HAD SET OUT OUR RESPECTIVE POSITIONS IN THE TALKS. IT WAS UNHELPFUL FOR EITHER SIDE TO TAKE THE LINE THAT UNLESS ITS OWN POSITION WAS ACCEPTED FIRST, TALKS COULD GO NO FURTHER. OUR POSITION REPRESENTED OUR HONEST VIEW OF THE BEST WAY TO MAINTAIN HONG KONGS STABILITY AND PROSPERITY. BRITAIN DERIVED NO DIRECT REVENUE FROM HONG KONG OR BENEFIT FROM HONG KONGS RESERVES. WE ADHERED TO OUR POSITION BUT WANTED TO KNOW ABOUT THE DETAILS OF THE CHINESE PROPOSALS. THAT SEEMED TO US THE MOST SENSIBLE NEXT STEP.

3. HOWEVER CONFIDENCE IN HONG KONG WAS NOW BEING BADLY AFFECTED BY THE ATMOSPHERE OF THE TALKS AS REPRESENTED IN THE PRESS. THE VALUE OF THE DOLLAR WAS FALLING. THERE WAS NO QUESTION OF THE BRITISH OR HONG KONG GOVERNMENTS ENGINEERING THIS. ON THE CONTRARY, WE WERE DOING ALL WE COULD TO REVERSE THE TREND THROUGH INTERVENTION

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IN THE CURRENCY MARKETS AND INTEREST RATES. BUT THERE WERE LIMITS TO WHAT A GOVERNMENT OPERATING IN A CAPITALIST ECONOMY COULD DO IF PEOPLE WERE CONCERNED ABOUT POLITICAL UNCERTAINTY. ANXIETY IN HONG KONG HAD BEEN INCREASED BY STATEMENTS FROM THE CHINESE SIDE. SUCH STATEMENTS WERE NOT (RPT NOT) THE WAY TO MAINTAIN CONFIDENCE. WHAT WAS NEEDED WAS A GENUINE EXCHANGE OF VIEWS IN THE TALKS ABOUT HOW BEST TO MAINTAIN PROSPERITY AND STABILITY. THAT WAS WHY WE HAD ASKED TO HEAR DETAILS OF WHAT THE CHINESE SIDE HAD IN MIND. THE BEST REASSURANCE FOR THE PEOPLE OF HONG KONG WAS THE KNOWLEDGE THAT BRITAIN AND CHINA WERE SINCERELY PURSUING THE AIM OF FUTURE STABILITY AND PROSPERITY FOR THEM. WE THEREFORE HOPED THAT THE TALKS WOULD BE ABLE TO CONTINUE IN A MORE CONSTRUCTIVE ATMOSPHERE WITHOUT ULTIMATA FROM EITHER SIDE. THIS WOULD ALLOW CONFIDENCE TO RETURN.

4. WU AGREED ON THE PROSPECTS FOR BILATERAL RELATIONS. ON HONG KONG, CHINA SHARED OUR DESIRE TO SEE A STABLE AND PROSPEROUS FUTURE, BUT THE OBSTACLE WAS THE QUESTION OF SOVEREIGNTY. THE TALKS WERE STALEMATED BECAUSE THE BRITISH TOOK THE VIEW THAT THEY COULD EXCHANGE SOVEREIGNTY FOR ADMINISTRATION. THIS WAS UNACCEPTABLE. SOVEREIGNTY WAS NOT NEGOTIABLE IN ANY SENSE. THE CHINESE HAD IDEAS WHICH THEY WANTED TO DISCUSS, BUT ONLY IF THE QUESTION OF SOVEREIGNTY WAS PROPERLY SETTLED FIRST. DENG HAD TOLD MR HEATH THAT HIS ADVICE TO THE BRITISH GOVERNMENT WAS THAT CHINA COULD NOT COMPROMISE ON SOVEREIGNTY. SHE WOULD TAKE BACK HONG KONG IN 1997. IF THIS WAS ACCEPTED, THE REMAINING QUESTIONS COULD BE DISCUSSED IN A FRIENDLY AND CALM ATMOSPHERE. CHINA INTENDED HONG KONG TO BE A SPECIAL ADMINISTRATIVE REGION. HONG KONG'S PRESENT SOCIAL AND ECONOMIC SYSTEMS WOULD REMAIN UNCHANGED. ITS STANDARD OF LIVING WOULD REMAIN UNCHANGED. FOREIGN INVESTORS WOULD CONTINUE TO BE WELCOME AND FREE TO OPERATE. HONG KONG WOULD HAVE ITS OWN LEGAL SYSTEM. IT WOULD BE ADMINISTERED BY HONG KONG PEOPLE. TO ALLAY THE FEARS OF HONG KONG ENTREPRENEURS, DENG HAD SUGGESTED THAT THIS ARRANGEMENT SHOULD LAST FOR 50 YEARS.

5. WU WENT ON TO REFER TO ARTICLES IN THE HONG KONG AND BRITISH PRESS SUGGESTING THAT CHINESE POLICIES WERE CHANGEABLE AND THAT THE IDEAS CHINA WAS PUTTING FORWARD FOR HONG KONG NOW WOULD BE ABANDONED ONCE SHE HAD RECOVERED SOVEREIGNTY. THE EXAMPLE OF TIBET HAD BEEN CITED. SUCH SPECULATION SHOULD BE DISCOURAGED. BRITAIN SHOULD HAVE FAITH IN CHINA'S WORD. MEASURES TO BE ADOPTED AFTER 1997 COULD BE DISCUSSED FURTHER, BUT ONLY IF BRITAIN DROPPED ITS VIEW THAT THERE WOULD BE DISORDER IN HONG KONG IF IT WAS NOT ADMINISTERED BY BRITAIN. IF THE BRITISH SIDE CONFIRMED THAT SOVEREIGNTY WOULD RETURN TO CHINA IN 1997, THE CHINESE SIDE KNEW THAT BRITISH EXPERIENCE IN RUNNING A CAPITALIST ECONOMY WOULD BE

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VERY HELPFUL AND BRITAIN COULD PLAY A GREAT ROLE. WHATVER HAPPENED IN THE TALKS, CHIAN WOULD ANNOUNCE ITS POLICIES FOR THE FUTURE OF HONG KONG IN SEPTEMBER 1984. HE HOPED THAT THIS WOULD BE A JOINT STATEMENT.

6. THE SECRETARY OF STATE SAID THAT HE COULD NOT ADD TO WHAT MRS THATCHER HAD SAID ABOUT SOVEREIGNTY IN HER LETTER TO THE CHINESE PREMIER IN APRIL. SOVEREIGNTY NEED NOT BE AN OBSTACLE IF AN ACCEPTABLE ANSWER COULD BE FOUND TO HOW HONG KONG COULD BE MANAGED AFTER 1997. THAT WAS WHY WE HAD TO GET ON WITH DISCUSSION OF THE PRACTICAL DETAILS. MEANWHILE THE CHINESE APPROACH WAS DAMAGING CONFIDENCE. WE HAD BEEN VERY DISAPPOINTED BY CHINAS REFUSAL TO ACCEPT OUR IDEA OF A SHORT JOINT STATEMENT AT THE END OF THE LAST ROUND OF TALKS, AIMED AT MAINTAINING CONFIDENCE. WE CONTINUED TO THINK THAT SUCH A STATEMENT WOULD BE HELPFUL.

7. INVITED BY WU TO COMMENT, ZHOU NAN SAID THAT BRITAIN HAD EVADED THE CRUCIAL QUESTION IN THE TALKS SO FAR BY INSISTING THAT WHILE CHINA COULD HAVE NOMINAL SOVEREIGNTY, BRITAIN SHOULD RETAIN ADMINISTRATIVE CONTROL. THIS APPROACH VIRTUALLY CLOSED THE DOOR TO ANY DISCUSSION OF PRACTICAL ARRANGEMENTS TO MAINTAIN HONG KONGS PROSPERITY AND STABILITY AFTER 1997. THE CHINESE SIDE HAD BEEN SURPRISED AND DISAPPOINTED BY THE BRITISH POSITION. IF IT CHANGED, DETAILED DISCUSSIONS ON ALL PRACTICAL ASPECTS OF THE ISSUE COULD BEGIN IMMEDIATELY. CHINA COULD AGREE TO A STATEMENT AS WE WISHED BECAUSE WE HAD NOT CHANGED OUR UNACCEPTABLE POSITION. HE ADDED THAT THE CHINESE SIDE HAD BEEN PARTICULARLY DISTRESSED BY A RECENT STATEMENT BY SIR P CRADOCK THAT BRITISH ADMINISTRATION WAS THE ONLY WAY FOR HONG KONG TO REMAIN STABLE AND PROSPEROUS IN THE FUTURE.

8. AFTER FURTHER REHEARSAL OF THEIR POSITION BY BOTH SIDES, THE SECRETARY OF STATE SAID THAT THERE WAS NO POINT IN TRYING TO DUPLICATE THE TALKS IN PEKING. BOTH SIDES SHOULD REFLECT ON WHAT HAD BEEN SAID, PARTICULARLY ABOUT CONFIDENCE. IT WAS AGREED THAT THE PRESS WOULD BE TOLD THAT A NUMBER OF SUBJECTS HAD BEEN DISCUSSED, INCLUDING HONG KONG, BUT THAT NO DETAILS WOULD BE GIVEN.

THOMSON

PRIME MINISTER

HONG KONG

The news this morning is slightly better.

The exchange rate has stabilised at least temporarily.

On Friday the Hong Kong Dollar closed at 9 to the dollar.

On Monday it closed at 8.75.

Today it closed at 8.43.

The Hang Seng index has also risen a few points from 7.85 yesterday to 8.10 today.

The Foreign Secretary is seeing the Chinese Foreign Minister in New York this morning. He will explain firmly to him the reasons for the present situation and take him to task about the Chinese propaganda campaign and the Chinese refusal to agree, at the end of the last round of talks, to a formula which would have helped confidence.

A. J. C.

27 September, 1983