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DESKBY UKMIS NEW YORK AND OTTAWA 271200Z
 FM HONG KONG 271020Z SEP 83
 TO IMMEDIATE FCO

IN
 ACTION COPY

TELEGRAM NUMBER 1420 OD 27 SEPTEMBER
 AND TO IMMEDIATE UKMIS NEW YORK (FOR PRIVATE SECRETARY),
 OTTAWA (FOR PS TO PRIME MINISTER), PEKING (PERSONAL FOR CHARGE)

FUTURE OF HONG KONG: DISCUSSION WITH EXCO.

P.N. has seen.

W.D. 27/9

1. MR LUCE ATTENDED A TWO AND A HALF HOUR MEETING OF EXCO THIS MORNING. SIR P. CRADOCK WAS ALSO PRESENT.

2. AT THE OUTSET OF THE MEETING MR LUCE INFORMED THE COUNCIL OF YOUR MEETING WITH THE CHINESE FOREIGN MINISTER IN NEW YORK AND SAID THAT YOU WOULD BE SPEAKING VERY ROBUSTLY ABOUT THE BRITISH POSITION AND THE EFFECTS OF THE CHINESE STATEMENT ON CONFIDENCE AND THE HONG KONG DOLLAR. I THEN INVITED THE AMBASSADOR TO GIVE HIS IMPRESSIONS OF THE CHINESE POSITION. HE MADE THE FOLLOWING MAIN POINTS:-

(A) THE CHINESE WERE ADAMANT ON RECOVERING BOTH SOVEREIGNTY AND ADMINISTRATION IN 1997 AND CHARACTERISED OUR INSISTENCE ON BRITISH ADMINISTRATION AS AN INSUPERABLE OBSTACLE TO PROGRESS:

(B) THERE WAS A CONSIDERABLE RISK THAT WITHOUT A SHIFT ON OUR PART THE CHINESE WOULD NOT AGREE TO A FURTHER ROUND AFTER THAT ON 19/20 OCTOBER:

(C) THE CHINESE HAD BEEN UNWILLING TO HELP OVER THE HONG KONG DOLLAR AND CLAIMED WE WERE SIMPLY TRYING TO PRESSURISE THEM. THEY DECLARED THEY WOULD NOT BE INTIMIDATED:

(D) IT WOULD BE DANGEROUSLY WRONG TO ASSUME THE CHINESE WOULD BACK DOWN IN A CONFRONTATION WHEN THEY SAW THE DAMAGE DONE TO THE HONG KONG ECONOMY. THEIR POLITICAL OBJECTIVES WERE PARAMOUNT:

(E) A GENTLEMANLY AGREEMENT TO PAUSE FOR FURTHER REFLECTION IN THE TALKS WAS NOT A REAL OPTION. A BREAK IF IT CAME WOULD BE PUBLIC AND UNPLEASANT:

(F) THE CHINESE HAD INFORMALLY SAID DISCUSSION ON FURTHER DETAILS OF THEIR PLAN WOULD BE UNPROFITABLE UNLESS WE ACCEPTED THEIR PREMISE AND WOULD BE LIKELY TO SAY SO FORMALLY AT THE NEXT MEETING.

3. TOOK THE VIEW THAT THE CHINESE WERE STILL TESTING HMG'S RESOLVE: THAT THERE WAS A CHANCE THAT THEY MIGHT COME TO THEIR SENSES AND CHANGE THEIR POSITION WHEN THEY SAW THE EXTENT OF THE DAMAGE WHICH THEIR INTRANSIGENCE WAS CAUSING THE HONG KONG ECONOMY: AND THAT WHILE A FRIENDLY PAUSE FOR REFLECTION MIGHT NOT BE POSSIBLE NOW IT SHOULD NOT BE RULED OUT FOR THE FUTURE. SINCE THE PEOPLE OF HONG KONG HAD NO FAITH IN THE CHINESE PLAN, THE GREATEST BLOW TO CONFIDENCE WOULD BE A BELIEF ON THEIR PART THAT HMG WAS CAPITULATING TO CHINESE DEMANDS. THERE SHOULD THEREFORE BE NO WEAKENING OR COMPROMISE. FOUR OR FIVE MEMBERS TOOK A SIMILAR VIEW.

4. MR O.V. CHEUNG TOOK THE VIEW THAT WE COULD NOT EXPECT TO MOVE THE CHINESE FROM THEIR POSITION BY A "FRONTAL ASSAULT". HE AND THREE OR FOUR OTHERS THOUGHT THAT WE SHOULD STILL LOOK FOR WAYS OF GETTING THEM TO ENLARGE ON THEIR PLAN, AND EXPLORE WHAT "LINKS" WITH THE U.K. THEY WOULD ACCEPT. WHILE ALL AGREED THAT A BREAKDOWN IN OCTOBER SHOULD BE AVOIDED IF AT ALL POSSIBLE PERHAPS HALF OF THE MEMBERS THOUGHT THAT THE CONSEQUENCES WOULD BE CONTAINABLE, THOUGH SERIOUS, AND THAT THERE WOULD BE PUBLIC SUPPORT FOR CONTINUED RESISTENCE TO THE CHINESE PLAN. OTHERS WERE CONCERNED THAT THE EFFECTS OF A BREAKDOWN WOULD BE IRREPARABLE WITH GRAVE CONSEQUENCES FOR CONFIDENCE, PARTICULARLY IN THE THE HONG KONG DOLLAR: HENCE THEIR VIEW THAT EFFORTS SHOULD BE MADE TO EXPLORE THE CHINESE POSITION FURTHER, IN AN ATTEMPT TO FIND OUT WHAT FLEXIBILITY THERE MIGHT BE IN THEIR CONCEPT OF "ADMINISTRATION" E.G. COULD IT MEAN THE RIGHT TO ADMINISTRATION AS DISTINCT FROM ITS FULL EXERCISE.

5. IN FURTHER DISCUSSION WE SOUGHT TO LEAD MEMBERS TO COMMENT ON:

- (A) WHETHER IT WAS RIGHT TO ASSUME THAT THE ONLY CHOICE LAY BETWEEN CONFRONTATION AND CAPITULATION TO CHINESE DEMANDS: AND
- (B) THE IMPLICATIONS OF A COMPLETE BREAKDOWN IN PARTICULAR WHAT IT WOULD MEAN FOR THE PEOPLE OF HONG KONG AND WHAT WE WOULD EXPECT TO ACHIEVE BY IT.

THE DISCUSSION DID NOT GET VERY FAR ON THESE POINTS, THOUGH THERE WERE SIGNS THAT MEMBERS WERE BEGINNING TO REFLECT ON THEM.

6. I TOLD THE COUNCIL THAT I DID NOT INTEND TO SUM UP THEIR DISCUSSION AT THIS STAGE. MR LUCE SAID THAT HE WOULD REPORT THE VIEWS EXPRESSED TO YOU AND THE PRIME MINISTER. AFTER STRESSING THAT HMG'S COMMITMENT TO HONG KONG AND OBJECTIVES IN THE NEGOTIATIONS REMAINED UNCHANGED HE INFORMED MEMBERS OF MINISTERS' WISH TO CARRY THEIR CONSULTATIONS WITH THE UNOFFICIALS A STAGE FURTHER BY INVITING THEM TO LONDON. HE MENTIONED 6 AND/OR 7 OCTOBER AS VERY TENTATIVE DATES. THE UNOFFICIALS WELCOMED THIS INVITATION AND INDICATED THAT THEY WOULD BE PREPARED TO GO TO LONDON AT ANY TIME WHICH WOULD SUIT MINISTERS.

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