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FUTURE OF HONGKONG

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SECRET

DESKBY FCO 041200Z

DESKBY PEKING 041130Z

FM HONG KONG 040950Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1468 OF 4 OCTOBER

INFO IMMEDIATE PEKING



M 10/6
T.A.

FUTURE OF HONG KONG: EXCO DISCUSSION

1. AT TODAY'S EXCO MEETING SIR S Y CHUNG GAVE A BRIEF ACCOUNT OF THE CONVERSATION WITH NCNA DIRECTOR XU JIATUN REPORTED IN MY TELSNOs 1456 AND 1457. A RECORD OF THE CONVERSATION WAS ALSO CIRCULATED.

2. MEMBERS WERE INTRIGUED BY XU'S REFERENCE TO THE POSSIBILITY OF SELLING LAND IN THE NEW TERRITORIES FOR PERIODS EXTENDING BEYOND 1997. SOME THOUGHT THIS WAS ESSENTIALLY A PERIPHERAL ISSUE AND THAT THE EFFECT ON CONFIDENCE WOULD BE COMPARETEVELY SMALL EVEN IF THE CHINESE WERE PREPARED TO AGREE TO SOME SUCH ARRANGEMENT. OTHERS SAW XU'S REMARKS AS AN INDICATION THAT THE CHINESE ARE SERIOUSLY WORRIED ABOUT THE HONG KONG ECONOMY AND THE DOLLAR AND THAT THEY MAY SEE A NEED FOR SOME CONCRETE ACTION TO STABILISE THE SITUATION IN THE SHORT TERM. SIR S Y CHUNG (WHOSE INTERPRETATION IS SET OUT IN MY SECOND TELEGRAM UNDER REFERENCE) SUGGESTED THAT A CHECK SHOULD BE MADE IN PEKING TO SEE WHETHER XU WAS AUTHORISED TO SPEAK AS HE DID, AND IF SO WHAT THE CHINESE HAVE IN MIND.

3. IT SEE ADVANTAGE IN SEEKING CLARIFICATION QUICKLY. THERE WILL OTHERWISE BE A RISK THAT THE POSSIBILITY OF ACTION ON LAND LEASES WILL COLOUR THE THINKING OF SOME AT LEAST OF THE UNOFFICIALS WHEN

THEY MEET MINISTERS LATER THIS WEEK, AND IF THE CHINESE WERE TO BE READY TO REVERSE THEIR VIEW ON THIS ISSUE IT WOULD BE NO BAD ^{THING.} I THEREFORE RECOMMEND THAT THE EMBASSY SHOULD BE INSTRUCTED TO RAISE THE MATTER INFORMALLY WITH A MEMBER OF THE CHINESE NEGOTIATING TEAM AS SOON AS POSSIBLE, ON THE FOLLOWING LINES:

(A) IN A CONVERSATION WITH SIR S Y CHUNG AND MR Q W LEE ON 30 SEPTEMBER THE FIRST DIRECTOR OF THE NCNA IN HONG KONG SAID THAT IF A MEANS COULD BE FOUND FOR LAND IN THE NEW TERRITORIES TO BE SOLD FOR PERIODS EXTENDING BEYOND 1997 THIS WOULD SERVE TO RESTORE CONFIDENCE IN THE PROPERTY MARKET. HE DID NOT ELABORATE BUT LEFT SIR S Y CHUNG AND MR LEE WITH THE IMPRESSION THAT HE HAD SOME FORMULA IN MIND.

(B) ON 5 JULY 1979 SIR P CARDOCK PUT FORWARD A PROPOSAL TO THE FOREIGN MINISTRY WHICH WOULD HAVE ENABLED INDIVIDUAL LAND LEASES IN THE NEW TERRITORIES TO BE GRANTED FOR PERIODS EXTENDING BEYOND 1997. IN THEIR REPLY DELIVERED TO THE AMBASSADOR ON 24 SEPTEMBER 1979 THE FOREIGN MINISTRY INDICATED THAT THE CHINESE GOVERNMENT REGARDED THE PROPOSED MEASURES AS UNNECESSARY AND INAPPROPRIATE.

(C) WE WERE THEREFORE PUZZLED BY MR XU'S REMARKS. IT WOULD BE HELPFUL TO KNOW WHETHER THE CHINESE HAVE RECONSIDERED THEIR EARLIER VIEW AND, IF SO, WHAT ACTION THEY HAVE IN MIND.

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Read in file.

A.S.C. 4/10

YOUR TELNOS 998, 999 AND 1001: FUTURE OF HONG KONG: DISCUSSION WITH EXCO.

1. EXCO DISCUSSED THE POSITION THIS MORNING ON THE BASIS OF THE PAPER IN YOUR SECOND TEL UNDER REF. IT EXPLAINED THAT THE PAPER HAD BEEN PRODUCED TO HELP MEMBERS PREPARE FOR THE DISCUSSIONS WITH MINISTERS LATER THIS WEEK. IT DELIBERATELY CONTAINED NO CONCLUSIONS OR RECOMMENDATIONS AND MINISTERS HAD SO FAR EXPRESSED NO VIEWS ON THE OPTIONS DESCRIBED IN IT. AFTER TAKING MEMBERS THROUGH EACH IT ASKED THEM NOT TO REACH DEFINITE CONCLUSIONS OR OFFER FORMAL ADVICE UNTIL THEY HAD BEEN ABLE TO DISCUSS THE SITUATION WITH MINISTERS. IT THEN INVITED ANY PRELIMINARY COMMENTS THEY WISHED TO MAKE, AND SUGGESTIONS FOR ADDITIONAL OPTIONS.

2. WITHOUT SPECIFICALLY SUPPORTING OPTION D, MR O.V. CHEUNG AND MR D.K. NEWBEGGING THOUGHT THAT SOME WAY SHOULD BE FOUND TO GET A GENUINE DIALOGUE GOING IN ORDER TO EXPLORE THE CHINESE POSITION FURTHER. ALL THE OTHER UNOFFICIALS MADE CLEAR THAT THEIR CHOICE WILL BE OPTION A. THEY ACCEPTED THAT THERE WAS A MORE THAN EVEN RISK OF A BREAKDOWN AND OF PUBLIC CONFRONTATION, BUT TOOK THE VIEW THAT THERE WAS AT LEAST A CHANCE THAT THE CHINESE WOULD SHIFT THEIR POSITION AND RETURN TO THE NEGOTIATING TABLE WHEN THEY SAW THE ECONOMIC CONSEQUENCES FOR HONG KONG. REMINDERS OF THE RIGIDITY OF THE CHINESE POSITION, THE LIKELY HOSTILITY OF THE CHINESE REACTION, AND THE DIFFICULTIES WHICH HONG KONG MIGHT THEN FACE LEFT THEM UNMOVED. IN ANY CASE THEY BELIEVED THAT THE PURSUIT OF ANY OTHER COURSE WOULD LEAD TO A CRISIS OF CONFIDENCE SOONER OR LATER AND THAT THE RISKS INHERENT IN OPTION A WOULD THEREFORE HAVE TO BE ACCEPTED (MISS

DUNN FOR EXAMPLE COMMENTED THAT ALL THE OPTIONS OTHER THAN OPTION A WERE DIRECTLY, OR BY IMPLICATION, FORMS OF CAPITULATION). SOME OF THESE MEMBERS, INCLUDING SIR S.Y. CHUNG, SUGGESTED THAT IF THE CHINESE MADE PROPOSALS ON THE LINES OF OPTION B OR D THE BRITISH NEGOTIATORS SHOULD BE PREPARED TO LISTEN. THEY GAVE NO INDICATION HOW THEY THOUGHT THE CHINESE MIGHT BE INDUCED TO PUT FORWARD SUCH PROPOSALS: BUT WERE SURE THAT THE BRITISH SIDE SHOULD MAKE NO FURTHER CONCESSIONS.

3. IN RESPONSE TO QUESTIONS I DECLINED TO INDICATE MY OWN PREFERENCE AMONG THE OPTIONS. BUT I ASKED EACH MEMBER TO CONSIDER VERY SERIOUSLY THE IMPLICATIONS OF HIS OR HER PREFERRED COURSE OF ACTION, ITS CONSEQUENCES AND WHAT IT WAS LIKELY TO ACHIEVE, BEFORE GIVING ADVICE TO MINISTERS.

4. WHILE THIS WAS STILL A PRELIMINARY DISCUSSION, THE VIEWS EXPRESSED BY THE UNOFFICIALS WERE CLEAR. UNLESS MINISTERS ARGUE POSITIVELY FOR SOME OTHER OPTION WHILE WE ARE IN LONDON, I HAVE NO DOUBT THAT THE MAJORITY ADVICE WILL BE TO STICK TO OPTION A: AND INDEED IN THE LIGHT OF THIS MORNING'S DISCUSSION THIS IS LIKELY TO BE THEIR ADVICE IN ANY CASE.

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