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FM PEKING 201100Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1058 OF 20 OCTOBER

INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: FIFTH ROUND: SECOND DAY

1. I AGAIN SPOKE FIRST. I SAID THAT WHILE I WAS GLAD TO HEAR YAO WELCOME THE PRIME MINISTER'S MESSAGE, AND STATE THAT THE CHINESE SIDE ATTACHED IMPORTANCE TO IT, I WAS NEVERTHELESS WORRIED BY HIS APPARENT RELUCTANCE IN THE SECOND HALF OF YESTERDAY'S SESSION TO RECOGNISE THE CONSIDERABLE DISTANCE WE HAD TRAVELLED TO ACCOMMODATE CHINESE VIEWS ON SOVEREIGNTY AND ADMINISTRATION.

IT WAS VITAL THAT THE TERMS OF THE PRIME MINISTER'S MESSAGE SHOULD NOT BE MISUNDERSTOOD. HAVING TAKEN YAO AGAIN THROUGH MOST OF THE FINAL PARAGRAPH OF THE PRIME MINISTER'S MESSAGE, I REITERATED THAT WE WERE NO LONGER INSISTING ON BRITISH ADMINISTRATION AS A PREREQUISITE, AND THAT THE PRIME MINISTER HAD PROPOSED, IN PURSUANCE OF HER LETTER OF 10 MARCH, AND WITHOUT PREJUDICE TO ANY FINAL AGREEMENT, THAT THE TWO SIDES SHOULD DISCUSS WHAT OTHER EFFECTIVE METHODS MIGHT BE DEvised TO MAINTAIN HONG KONG'S STABILITY AND PROSPERITY.

I REPEATED THE PURPOSE OF THESE DISCUSSIONS. I COMMENTED THAT BOTH SIDES HAD NOW SET THEIR POSITIONS OUT VERY FULLY AND SHOULD UNDERSTAND ONE ANOTHER CLEARLY. I HOPED THAT WE SHOULD NOW BE ABLE TO MOVE ON TO MORE CONSTRUCTIVE WORK.

2. I REFERRED TO THE THREE PRINCIPLES WHICH THE MINISTER HAD YESTERDAY STRESSED. I CONFIRMED THAT WE FULLY UNDERSTOOD THE CHINESE POSITION ON THE FIRST PRINCIPLE AND DID NOT INTEND TO EVADE THE QUESTION OF SOVEREIGNTY. ON THE SECOND AND THIRD PRINCIPLES, I ALSO CONFIRMED THAT THE BRITISH SIDE WOULD BE WILLING IN THE COURSE OF THE TALKS TO PUT FORWARD VIEWS ON THE CHINESE PROPOSALS.

3. I THEN TURNED TO YAO'S REPEATED ATTEMPTS YESTERDAY TO GET ME EXPLICITLY TO AFFIRM OUR ACCEPTANCE OF THE CHINESE PREMISE. I SAID THAT I COULD CERTAINLY CONFIRM THAT WE FULLY UNDERSTOOD THE PREMISE. HOWEVER IN PRESSING ME TO GO FURTHER, YAO WAS ASKING FOR SOMETHING WHICH WAS NOT ONLY BEYOND MY POWER BUT ALSO THAT OF THE PRIME MINISTER TO GIVE. I REPEATED THE CONSTITUTIONAL CONSTRAINTS SET OUT IN THE PRIME MINISTER'S LETTER OF 10 MARCH TO ZHAO ZIYANG. AGREEMENT TO TRANSFER SOVEREIGNTY COULD ONLY BE OBTAINED AFTER WE HAD TOGETHER CONSTRUCTED ARRANGEMENTS WHICH THE PRIME MINISTER COULD RECOMMEND TO PARLIAMENT.

4. I EMPHASISED AGAIN THAT WE WERE NOW PREPARED TO CONDUCT TOGETHER POSITIVE AND CONSTRUCTIVE DISCUSSIONS ON THE BASIS OF THE CHINESE PROPOSALS. THE CHINESE SIDE HAD REPEATEDLY STATED

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THAT THEIR PROPOSALS AND THEIR PREMISE WERE INDISSOLUBLY LINKED. IT THEREFORE FOLLOWED IN LOGIC THAT OUR DISCUSSIONS TOGETHER WOULD BE BASED ON THE CHINESE PREMISE.

5. I URGED YAO ONCE AGAIN NOT TO UNDERESTIMATE THE OPPORTUNITY WHICH THE PRIME MINISTER'S MESSAGE HAD CREATED FOR THE TWO SIDES TO WORK TOGETHER CONSTRUCTIVELY AND TO ACHIEVE AN AGREEMENT WHICH WOULD BE OF LASTING VALUE TO THE PEOPLE OF HONG KONG AND TO THE BENEFIT OF BOTH COUNTRIES. WE WERE OFFERING NOT ONLY TO CONSTRUCT TOGETHER ARRANGEMENTS TO ENSURE THE CONTINUING STABILITY AND PROSPERITY OF HONG KONG ON THE BASIS OF THE CHINESE PROPOSALS, BUT ALSO, IF A SATISFACTORY ARRANGEMENT COULD BE REACHED, TO DO OUR UTMOST OVER THE INTRODUCTION AND IMPLEMENTATION OF SUCH ARRANGEMENTS. I THEN REFERRED TO WU XUEQIAN'S CONVERSATION WITH YOU IN NEW YORK IN WHICH HE RECOGNISED THAT THE BRITISH HAD ACCUMULATED CONSIDERABLE EXPERIENCE OF HONG KONG AND THE WAY IT WORKS. I HOPED THAT THE

CHINESE SIDE ALSO RECOGNISED THAT OUR COOPERATION IN THE INTRODUCTION OF WHATEVER NEW ARRANGEMENTS MIGHTS BE AGREED WOULD BE OF VERY GREAT VALUE IN ENSURING THEIR SUCCESS.

6. I REPEATED THE NEED TO HAVE MUCH MORE DETAILS OF THE CHINESE PROPOSALS FOR HONG KONG AND HOW THEY WOULD WORK. I HAD MADE A START ON THIS AREA YESTERDAY BY SUGGESTING CERTAIN QUESTIONS ABOUT THE CHINESE PROPOSALS ON THE LEGAL SYSTEMS. I PROPOSED IN THE SECOND HALF OF THE SESSION TO TURN TO THE FINANCIAL SYSTEMS.

7. ON YAO'S QUESTION ABOUT WHAT WE MEANT BY AN IMPORTANT ROLE FOR BRITAIN, I SAID THAT WE HOPED THAT A SUBSTANTIAL BRITISH ROLE IN HONG KONG'S VARIOUS SYSTEMS, CONSISTENT WITH THE CHINESE PROPOSALS, WOULD EMERGE FROM DISCUSSION OF ARRANGEMENTS AFTER 1997.

8. FINALLY, I STRESSED THAT THERE SHOULD BE NO DOUBT THAT THE MESSAGE WENT AS FAR AS WAS CONSTITUTIONALLY POSSIBLE FOR THE PRIME MINISTER. I THEREFORE HOPED THAT THE CHINESE SIDE WOULD NOW BE PREPARED TO WORK TOGETHER CONSTRUCTIVELY ON THE BASIS OF CHINA'S PROPOSALS. WE WERE READY TO PLAY OUR PART TO THE FULL.

9. YAO SAID HE HAD LISTENED WITH GREAT CARE. HE REITERATED THAT THE CHINESE GOVERNMENT WELCOMED AND ATTACHED IMPORTANCE TO THE PRIME MINISTER'S MESSAGE AS WELL AS TO OUR EFFORT TO PUSH THE TALKS FORWARD. WHILST THEY WELCOMED THE PRIME MINISTER'S MESSAGE, HE WISHED AGAIN TO EXPLAIN CLEARLY AND EXPLICITLY THAT THE CHINESE PREMISE CONSTITUTED THE BASIS FOR A SETTLEMENT. HE WAS GLAD TO KNOW THAT THE BRITISH SIDE WAS INDEED AWARE THAT THE CHINESE PROPOSALS AND PREMISE WERE INDISSOLUBLY LINKED. IT WAS SIGNIFICANT AND CONSTRUCTIVE THAT I HAD ALSO SAID THAT WE WERE PREPARED TO CONDUCT TALKS ON THE BASIS OF THE CHINESE

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PREMISE. HE HAD ALSO NOTED THAT WE NO LONGER INSISTED ON BRITISH ADMINISTRATION AS A PREREQUISITE. HE HAD REFERRED TO OUR PREVIOUS INSISTENCE ON THIS AS AN UNSURMOUNTABLE OBSTACLE WHICH HAD NOW BEEN REMOVED. HE WELCOMED MY COMMENT THAT WE WISHED TO KNOW MORE OF THE CHINESE PROPOSALS, NOT FOR DESTRUCTIVE COMMENT BUT AS PART OF OUR CONSTRUCTIVE AND POSITIVE APPROACH. THESE INDICATIONS HAD HELPED TO GIVE A GREATER UNDERSTANDING OF THE PRIME MINISTER'S MESSAGE. THEY WERE VERY SIGNIFICANT. HOWEVER, HE STILL HAD SOME QUESTIONS TO WHICH WERE INTENDED INCREASE MUTUAL UNDERSTANDING AND MAKE THE TALKS MORE FRUITFUL AND CONSTRUCTIVE.

10. YAO THEN PUT FORWARD FIVE MAIN QUESTIONS:

(A) WHAT WAS THE FORM AND NATURE OF THE UK ROLE WE ENVISAGED, AND IN WHAT WAY COULD IT BE CONSISTENT WITH CHINESE PROPOSALS?

(B) HOW WOULD THE BRITISH SIDE APPROACH THE FURTHER DISCUSSIONS ON QUESTIONS OF DETAIL?

(C) COULD WE NOT EXPLICITLY RECOGNISE CHINESE SOVEREIGNTY OVER HONG KONG AND THAT CHINA WOULD RECOVER SOVEREIGNTY? YAO UNDERSTOOD OUR EXPLANATION OF OUR DIFFICULTIES: NEVERTHELESS, AFFIRMATION OF THE CHINESE PREMISE WOULD MAKE THE TALKS MORE FRUITFUL AND LEAD TO MORE CONSTRUCTIVE DISCUSSION. THIS WOULD BE VERY IMPORTANT AND USEFUL. THE TALKS COULD THEN PROCEED SMOOTHLY TO ACHIEVE SATISFACTORY RESULTS. OTHERWISE, THE CHINESE SIDE WOULD HAVE TO REVERT TO THOSE QUESTIONS OF PRINCIPLE ON EVERY CONCRETE ISSUE. IT WOULD THEN BE QUITE LIKELY THAT THE TALKS COULD BECOME BOGGED DOWN OVER OUR DIFFERENCES AGAIN. THIS WOULD BE REGRETTABLE.

(D) WHAT KIND OF BILATERAL AGREEMENT DID WE HAVE IN MIND AND WHAT SHOULD IT ENSHRINE? YAO SAID HE DID NOT EXPECT AN IMMEDIATE REPLY ON THIS.

(E) WHAT DID WE MEAN BY ARRANGEMENTS OF LASTING VALUE?

11. HE REITERATED THAT THE CHINESE GOVERNMENT WELCOMED AND ATTACHED IMPORTANCE TO THE PRIME MINISTER'S MESSAGE AND THE PROPOSAL IT CONTAINED. THE CHINESE SIDE WOULD WELCOME QUESTIONS AND PROPOSALS FROM US. THE CHINESE SIDE WAS APPROACHING THESE DISCUSSIONS IN A CONSTRUCTIVE AND COOPERATIVE FASHION. THEY HOPED FOR SMOOTH PROGRESS LEADING TO AN EARLY AND SATISFACTORY RESULT.

12. HE SAID HE WAS ENCOURAGED BY THE SUBSTANCE AND TONE OF SOME OF YAO'S COMMENTS. THEY SUGGESTED THAT THE PRIME MINISTER'S MESSAGE HAD BEEN BETTER APPRECIATED TODAY THAN YESTERDAY. HE WOULD DO MY BEST TO ANSWER YAO'S QUESTIONS.

13. ON (A), I SAID THAT I HAD DEALT WITH OUR ROLE IN MY EARLIER STATEMENT THAT MORNING. I REPEATED THAT WE HAD NO PRECONCEIVED IDEAS. THE ROLE WOULD EMERGE IN THE COURSE OF OUR TALKS. WU XUEQIAN HAD RECOGNISED IN NEW YORK THAT THE UK MIGHT BE ABLE TO PLAY A CONSIDERABLE ROLE. EXACT DETAILS OF IT COULD ONLY BE WORKED OUT IN DETAILED DISCUSSION OF THE VARIOUS FIELDS. IF THE CHINESE SIDE SAW ANY INCONSISTENCY WITH THEIR PROPOSALS THEY WOULD, NO DOUBT, DRAW OUR ATTENTION TO IT. I SAW, HOWEVER, AN EMERGING DIFFICULTY. IT WAS CERTAINLY OUR INTENTION THAT WHATEVER UK ROLE MIGHT EMERGE SHOULD BE CONSISTENT WITH THE CHINESE PROPOSALS. HOWEVER, TO ENSURE SUCH CONSISTENCY, WE NEEDED TO KNOW MORE ABOUT WHAT THE PROPOSALS WERE. WE HAD HEARD ON 25 JULY AND IN YAO'S STATEMENT YESTERDAY A GENERAL ACCOUNT OF CHINESE PROPOSALS. IF WE WERE TO ENSURE THAT THE UK ROLE WAS CONSISTENT WITH CHINESE PROPOSALS WE NEEDED TO KNOW MORE DETAIL ABOUT THEM. WERE THESE TWO STATEMENTS ALL THE CHINESE SIDE HAD TO TELL US OR DID THEY HAVE A MORE DETAILED PLAN?

14. ON (B), I SAID THAT I HAD ALSO DEALT WITH THIS YESTERDAY. I HAD DRAWN UPON THE LEGAL SYSTEMS AS AN EXAMPLE. BY PUTTING A NUMBER OF QUESTIONS ON THE BASIS OF THE CHINESE PROPOSALS I SOUGHT TO HELP OUR COMMON UNDERSTANDING. THIS WAS A CLEAR EXAMPLE OF OUR APPROACH. I REMINDED YAO THAT I SHOULD WISH TO MOVE ON TO THE FINANCIAL SYSTEMS. WE WERE SEEKING COMMON GROUND.

15. ON (C), I SAID THIS WAS A FAMILIAR QUESTION. I HAD SAID ALL I COULD SAY ABOUT THE PREMISE IN MY OPENING STATEMENT. NEITHER I NOR THE PRIME MINISTER COULD GO FURTHER. HOWEVER, I SAW NO NEED FOR THE DISCUSSIONS TO GET BOGGED DOWN OVER THIS ISSUE IN THE FUTURE.

16. ON (D), I NOTED THAT YAO HAD INVITED US TO CONSIDER AND REFLECT. I SHOULD THEREFORE NOT PURSUE THIS QUESTION AT THIS STAGE.

17. ON (E), I SAID THAT IN GENERAL WE WERE SEEKING, AS HAD BEEN LAID UPON US BY OUR LEADERS, TO ENSURE HONG KONG'S PROSPERITY AND STABILITY INTO THE MOST DISTANT FUTURE. THIS WAS WHAT WE MEANT BY ARRANGEMENTS OF LASTING VALUE. HOWEVER, THE DETAIL IN EACH SPHERE WOULD BE DEVELOPED AS OUR DISCUSSIONS PROCEEDED.

18. I THEN MOVED ON TO TALK ABOUT THE FINANCIAL SYSTEMS IN HONG KONG. I DEALT FIRST WITH THE CURRENCY. YAO HAD SAID THAT THE DOLLAR WOULD CONTINUE TO CIRCULATE AND WOULD REMAIN FREELY CONVERTIBLE. I TOOK IT THAT THE CHINESE SIDE'S GENERAL APPROACH IN THIS, AS IN OTHER AREAS, WOULD BE THAT THE PRESENT SYSTEM SHOULD CONTINUE WITHOUT FUNDAMENTAL CHANGE. COULD WE ASSUME THAT THE CURRENCY WOULD CONTINUE TO BE THE HONG KONG DOLLAR; THAT IT WOULD BE INDEPENDENTLY MANAGED AS NOW; THAT IT

WOULD BE ISSUED BY THE TWO BANKS WHICH NOW FULFILLED THAT RESPONSIBILITY: AND THAT ITS RELATIONSHIP WITH THE RENMINBI WOULD REMAIN AS AT PRESENT? I PUT FORWARD COMPARABLE QUESTIONS ON THE EXCHANGE FUND, HONG KONG'S STATUS AS A FINANCIAL CENTRE, AND HONG KONG'S DEGREE OF FINANCIAL INDEPENDENCE. THESE WERE THE SORT OF QUESTIONS WHICH NEEDED TO BE DISCUSSED IN THE AREA OF THE FINANCIAL SYSTEMS. THERE WERE CERTAINLY OTHER AREAS NEEDING SIMILAR DISCUSSION. WE HAD NOW OFFERED PRELIMINARY COMMENTS ON TWO AREAS OF THE CHINESE PROPOSALS INTENDED TO CONFIRM THAT THE BASIC CHINESE INTENTION WAS TO LEAVE THE SYSTEMS BASICALLY UNCHANGED, AND TO ESTABLISH WHAT ASSURANCES THE CHINESE SIDE MIGHT GIVE THAT THESE SYSTEMS WOULD CONTINUE FOR A VERY LONG PERIOD. HOWEVER, FOR THE DIALOGUE TO BE CONSTRUCTIVE IT MUST BE A TWO-WAY PROCESS. IF THE CHINESE SIDE WAS WILLING TO CONTINUE WORK ON THESE AREAS, I SUGGESTED SUGGEST A MEETING AS EARLY AS 26 AND 27 OCTOBER.

19. YAO THANKED ME FOR MY PATIENT AND REPEATED REPLIES TO HIS REQUESTS FOR CLARIFICATION. HE WISHED TO MAKE FURTHER OBSERVATIONS ABOUT THE CHINESE PROPOSALS. HE MADE THE FOLLOWING POINTS:

(A) THE PROPOSALS WERE BASED ON THE NATIONAL CONSTITUTION WHICH PERMITTED THE ESTABLISHMENT OF A SAR. HE HAD ALREADY SPOKEN OF THE COMPOSITION OF THE GOVERNMENT OF THE HONG KONG SAR AND OF THE MAJOR ELEMENTS OF CHINESE POLICY TO BE PURSUED.

(B) CHINA WAS CONSIDERING KEEPING THESE POLICIES UNCHANGED FOR 50 YEARS.

(C) THE POLICIES WERE DETAILED, CONCRETE AND FORMED AN INTEGRAL WHOLE.

(D) HE WOULD WELCOME OUR VIEW ABOUT THESE CHINESE POLICIES. WE HAD ALREADY RAISED A NUMBER OF QUESTIONS ABOUT THE LEGAL SYSTEM. THIS WAS WELCOMED. THE ANSWERS TO OUR QUESTIONS WERE READILY AVAILABLE BY FURTHER STUDY OF HIS EARLIER POLICY STATEMENTS.

(E) AFFIRMATION OF OUR ACCEPTANCE OF THE CHINESE PREMISE WOULD MAKE IT POSSIBLE FOR US TO ENTER DISCUSSION OF FUTURE ARRANGEMENTS.

(F) HE WOULD RESERVE THE RIGHT TO COMMENT ON MY EXPLANATION OF OUR CONSTITUTIONAL CONSTRAINTS.

20. IN RESPONSE I SAID THAT OTHER MATTERS (COMMUNIQUE, TIMING OF NEXT MEETING) REMAINED TO BE SETTLED. I SHOULD THEREFORE OFFER ONLY THE BRIEFEST OBSERVATIONS. I WELCOMED SOME OF YAO'S POSITIVE REMARKS. I SAW NO REASON WHY THE TALKS SHOULD BECOME BOGGED DOWN OVER THE QUESTION OF THE CHINESE PREMISE. HE WAS CONSTANTLY PRESSING FOR SOMETHING MORE EXPLICIT. BUT OUR POSITION WAS VERY CLEAR. THE PRIME MINISTER'S MESSAGE SHOULD SATISFY ALL REASONABLE REQUESTS. I HAD EXPLAINED WITH GREAT CARE THAT NEITHER I NOR THE PRIME MINISTER COULD GO FURTHER. HE MUST UNDERSTAND THAT.

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21. I THEN REMINDED YAO OF MY SPECIFIC PROPOSAL THAT WE SHOULD HAVE FURTHER DETAILED DISCUSSIONS NEXT WEEK. THE DIALOGUE MUST BE TWO-WAY TO BE FRUITFUL. I TOOK HIM UP ON HIS ASSERTION THAT ANSWERS TO OUR QUESTIONS COULD BE FOUND IN HIS EARLIER STATEMENTS AND ASKED HIM FOR AN EXAMPLE OF ONE OF OUR QUESTIONS WHICH HAD ALREADY BEEN ANSWERED IN HIS EARLIER COMMENTS.

22. ON MY LETTER POINT, YAO SIMPLY REITERATED THAT FURTHER STUDY OF THE CHINESE PROPOSALS WOULD ANSWER OUR QUESTIONS. TURNING TO OUR NEXT MEETING, HE SAID THAT HE HAD GIVEN SERIOUS CONSIDERATION TO THE THINKING. HE UNDERSTOOD THAT WE MIGHT HOPE TO BUILD ON OUR MOMENTUM. BUT A SERIES OF IMPORTANT VISITORS MADE FURTHER TALKS BEFORE THE END OF THIS MONTH IMPOSSIBLE. HE PROPOSED THE 9TH OF NOVEMBER. THIS WAS IMPOSSIBLE FOR MYSELF AND THE GOVERNOR AND WE THEREFORE SETTLED ON 14/15 NOVEMBER.

PRESS STATEMENT

23. I PRESSED STRONGLY FOR A FULLER PRESS STATEMENT THAN LAST TIME. YAO WAS AT FIRST PREPARED TO OFFER ONLY THE WORD 'USEFUL' TO DESCRIBE THE TALKS. AFTER PROTRACTED ARGUMENT I GOT HIM TO ACCEPT THE ADDITIONAL WORD 'CONSTRUCTIVE' THAT WAS AS FAR AS HE WOULD GO. THE TEXT OF THE AGREED STATEMENT IS MY TELNO 1054.

24. SEE MIFT FOR COMMENT.

CRADOCK

FUTURE OF HONG KONG

LIMITED

HD/HKD

HD/FED

HD/PLANNING STAFF

HD/PUSD

PS

PS/LADY YOUNG

PS/MR LUCE

PS/PUS

SIR J BULLARD

MR GIFFARD

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MR MARTIN ASSESSMENTS STAFF
CABINET OFFICE

MR FLOWER PUSD

MR COLES NO 10 DOWNING STREET

SIR A PARSONS NO 10 DOWNING STREET

MR WALKER RESEARCH D CAB 2/82

MR GOODALL, CABINET OFFICE

SIR PHILIP MOORE, BUCKINGHAM PALACE

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FM PEKING 200945Z OCT 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1057 OF 20 OCTOBER
INFO IMMEDIATE HONG KONG

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P. R. has seen.

MIPT: FIFTH ROUND: SECOND DAY.

COMMENT.

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1. THE ATMOSPHERE WAS STRIKINGLY WARMER TODAY, IN PART NO DOUBT BECAUSE OF THE STRESS WE LAID YESTERDAY IN OUR VARIOUS CONTACTS ON THE NEED FOR AN ADEQUATE RESPONSE TO THE PRIME MINISTER'S MESSAGE.
2. ONE CLEAR RESULT OF THE PRIME MINISTER'S MESSAGE HAS BEEN THAT THERE HAS BEEN NO FURTHER THREAT TO BREAK OFF THE TALKS. ON THE CONTRARY, THE CHINESE APPEAR ANXIOUS TO PURSUE INFORMAL CONTACTS BETWEEN NOW AND THE NEXT ROUND. IN THE PAST THIS HAS USUALLY BEEN A SIGN THAT THEY WANTED PROGRESS. IT WILL ONLY EMERGE AS WE ATTEMPT TO PURSUE THESE CONTACTS WHETHER WE CAN DO USEFUL WORK IN THEM OR WHETHER WE SHALL BE CONSTANTLY HARKING BACK TO DISCUSSION OF THE CHINESE PREMISE.
3. THE MESSAGE HAS DONE MORE THAN THIS, BUT IT IS STILL HARD TO JUDGE THE PRECISE EXTENT OF THE PROGRESS. WHILE YAO REPEATED SEVERAL TIMES WITH GREAT EMPHASIS HIS WELCOME FOR THE PRIME MINISTER'S MESSAGE AND MY EXPLANATORY COMMENTS, HE PERSISTED IN TRYING TO PUSH US TOWARDS A CLEAR AND EXPLICIT AFFIRMATION, PREFERABLY OF THE PREMISE ITSELF, OR, IE NOT THAT, AT LEAST OF THE CHINESE THESIS THAT THE TALKS AS A WHOLE ARE BASED UPON IT. IT IS NOT YET CLEAR, NOR WILL IT BE UNTIL WE MAKE FURTHER ATTEMPTS TO PURSUE DETAILED DISCUSSION OF THE CHINESE PLAN, WHETHER THIS IS A RITUAL REPETITION OF THE CHINESE VIEW, OR WHETHER THEY REALLY THINK THAT WE CAN BE PUSHED FURTHER. HOWEVER, EXPLICIT AFFIRMATION OF THE PREMISE WAS NO LONGER MADE, AS IN THE PAST, THE PRECONDITION FOR FURTHER DISCUSSION.
4. A FURTHER POINT EMERGING IS THAT THE CHINESE MAY IN ANY CASE EXPERIENCE DIFFICULTY IN GOING INTO MORE DETAIL ON THEIR PLAN. WE STRONGLY SUSPECT THAT THEY DO NOT HAVE DETAILED IDEAS, OR AT LEAST DETAILED IDEAS WHICH HAVE BEEN APPROVED BY THE LEADERSHIP.
5. TO SUM UP, I AM MODERATELY HOPEFUL THAT WE ARE EDGING THROUGH THE DOOR, AND IT HAS CERTAINLY NOT BEEN CLOSED AGAINST US. IT IS, HOWEVER, CLEAR THAT THE CHINESE HAVE ONLY SUSPENDED JUDGMENT ABOUT OUR MOTIVES AND OBJECTIVES IN THE TALKS, AND WILL RETURN

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TO INSISTENCE ON THE PREMISE AT THE LEAST INDICATION THAT WE ARE PUTTING FORWARD SUGGESTIONS WHICH THEY SEE AS CONFLICTING WITH THE RETURN OF SOVEREIGNTY AND ADMINISTRATION OVER HONG KONG TO CHINA.

6. I SHALL TELEGRAPH FURTHER SUGGESTIONS ON FUTURE TACTICS.

CRADOCK

FUTURE OF HONG KONG

LIMITED

ED/HKD

ED/FED

HD/PLANNING STAFF

HD/FUSD

PS

PS/LADY YOUNG

PS/MR LUCE

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