

DWF NR G 006/01

LDX 806

LIM 623/01

OO HONG KONG

GR 1400

SECRET

FM PEKING 010001Z OCT 82  
TO IMMEDIATE HONG KONG  
UNNUMBERED TELEGRAM OF 1 OCTOBER

PERSONAL FOR GOVERNOR

FOLLOWING REPEATED TO YOU:

FM PEKING 231500Z SEP 82  
TO IMMEDIATE FCO  
TELNO 588 OF 23 SEP 82.

PERSONAL FOR PS TO SECRETARY OF STATE  
FROM PRIVATE SECRETARY TO PRIME MINISTER.

PRIME MINISTER'S TALKS WITH ZHAO ZIYANG: FUTURE OF HONG KONG.

1. THE PRIME MINISTER BEGAN THE SECOND SESSION WITH ZHAO ZIYANG ON 23 SEPTEMBER WITH A STATEMENT ON HONG KONG. RECALLING WHAT ZHAO HAD TOLD MR ATKINS IN JANUARY AND DENG XIAOPING'S REMARKS TO MR HEATH IN APRIL SHE SAID SHE HAD IDENTIFIED TWO MAIN ELEMENTS IN THE CHINESE THINKING. THE FIRST WAS SOVEREIGNTY WHICH WAS LIKELY TO BE A DELICATE MATTER SEMICOLON SHE WOULD RETURN TO THAT LATER. THE SECOND WAS THE NEED TO MAINTAIN THE PROSPERITY OF HONG KONG.

2. THE PRIME MINISTER DESCRIBED WHAT SHE SAW AS THE FUNDAMENTAL ELEMENTS ON WHICH CONFIDENCE IN HONG KONG DEPENDED. BRITISH ADMINISTRATION HAD PROVIDED THESE. CHANGES SUCH AS THOSE ENVISAGED IN DENG'S REMARKS TO MR HEATH WOULD IF IMPLEMENTED OR EVEN ANNOUNCED AS A DECISION OF THE CHINESE GOVERNMENT HAVE A DISASTROUS EFFECT UPON CONFIDENCE IN HONG KONG. THERE WOULD BE ECONOMIC COLLAPSE, A FLIGHT OF CAPITAL FROM THE TERRITORY, MANY PEOPLE IN HONG KONG WOULD SUFFER FINANCIAL HARDSHIP, MANY WOULD SEEK TO LEAVE, THERE WOULD BE INTERNATIONAL REPERCUSSIONS AND BRITAIN WOULD HAVE FAILED IN ITS DUTY TO HONOUR ITS OBLIGATIONS TO THE PEOPLE OF HONG KONG WHO HAD LACED THEIR FAITH IN BRITISH ADMINISTRATION FOR MORE THAN A CENTURY. THE PROBLEM WAS NOT WHAT WOULD HAPPEN IN 1997, BUT WHAT PEOPLE BELIEVED NOW IN 1982 WOULD HAPPEN TO THE FUTURE ADMINISTRATION OF HONG KONG. THE COMMON OBJECTIVE OF THE TWO SIDES TO MAINTAIN THE PROSPERITY OF HONG KONG COULD ONLY BE ACHIEVED IF PEOPLE BELIEVED THAT THE PRESENT ARRANGEMENTS FOR ADMINISTERING HONG KONG WOULD CONTINUE FOR A LONG TIME, BEYOND 1997. A CHANGE AWAY FROM BRITISH ADMINISTRATION WOULD HAVE A VERY DESTRUCTIVE EFFECT.

3. SOMETHING HAD TO BE DONE VERY SOON. THE PRIME MINISTER WAS FAMILIAR WITH THE CHINESE POSITION ON SOVEREIGNTY, BUT SHE COULD ONLY MAKE RECOMMENDATIONS TO HER GOVERNMENT ON THE QUESTION OF SOVEREIGNTY IF THERE WAS AGREEMENT BETWEEN THE TWO SIDES ON CONCRETE ARRANGEMENTS FOR THE ADMINISTRATION AND CONTROL OF HONG KONG AND SHE WAS SATISFIED THAT THEY WOULD COMMAND CONFIDENCE AND WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG. THE PRIME MINISTER PROPOSED THAT OFFICIAL TALKS SHOULD BEGIN SOON TO SEEK AGREEMENT ON SUCH ARRANGEMENTS WHICH WOULD MEET THE WISHES OF CHINA, BRITAIN AND THE PEOPLE OF HONG KONG AND PRESERVE THE PROSPERITY OF HONG KONG. SHE PROPOSED THAT THESE TALKS SHOULD BEGIN VERY EARLY AND THAT THERE SHOULD BE A PUBLIC ANNOUNCEMENT TO THIS EFFECT BEFORE SHE LEFT PEKING.

4. ZHAO ZIYANG SAID THAT THE CHINESE GOVERNMENT HAD ALL ALONG STATED THAT THIS PROBLEM LEFT OVER FROM HISTORY WOULD BE SETTLED IN THE PROPER WAY WHEN CONDITIONS WERE RIPE. IT COULD BE SAID THAT CONDITIONS WERE RIPE NOW. CHINA COULD NOT BUT RECOVER ITS SOVEREIGNTY OVER HONG KONG, NO LATER THAN 1997. CHINA DID NOT ACCEPT THE TREATIES BUT IN ANY CASE BRITAIN WOULD HAVE NO LEGAL BASIS TO ADMINISTER THE NEW TERRITORIES AFTER 1997. HONG KONG ISLAND AND KOWLOON WERE SIMILARLY INSEPERABLE FROM

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5. ZHAO SAID THAT AFTER THE RECOVERY OF SOVEREIGNTY THE CHINESE GOVERNMENT WOULD PURSUE SPECIAL POLICIES DESIGNED TO MAINTAIN STABILITY AND PROSPERITY IN HONG KONG. HONG KONG COULD BECOME A SPECIAL ADMINISTRATIVE ZONE ADMINISTERED BY LOCAL PEOPLE AND ITS EXISTING ECONOMIC AND SOCIAL SYSTEM AND LIFE STYLE COULD REMAIN UNCHANGED. THE CAPITALIST SYSTEM IN HONG KONG WOULD REMAIN AS WOULD THE FREE PORT AND THE INTERNATIONAL FINANCIAL CENTRE. THE HONG KONG DOLLAR WOULD CONTINUE TO BE USED AND TO BE CONVERTIBLE. CHINA WOULD TAKE INTO PROPER CONSIDERATION THE ECONOMIC RELATIONSHIP BETWEEN BRITAIN AND HONG KONG, BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN AT THEIR POSTS WHEN THE SPECIAL ADMINISTRATIVE ZONE WAS SET UP.

6. TO SUM UP THE TWO ELEMENTS OF CHINA'S BASIC POLICY ON THE HONG KONG QUESTION - RECOVERY OF SOVEREIGNTY AND MAINTENANCE OF PROSPERITY - WERE INSEPERABLE, BUT RECOVERY OF SOVEREIGNTY WAS THE PREREQUISTIE. ON THE PREMISE OF RECOVERING SOVEREIGNTY, CHINA COULD EXPLORE WAYS OF MAINTAINING AND DEVELOPING THE PROSPERITY OF HONG KONG. ZHAO SAID THAT CHINA WOULD NOT MAINTAIN AND DEVELOP THE PROSPERITY OF HONG KONG AT THE EXPENSE OF THE RECOVERY OF SOVEREIGNTY. CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF, NOR PLACE HONG KONG UNDER OTHERS TRUSTEESHIP.

7. ZHAO THEN MISQUOTED THE PRIME MINISTER AS SAYING THAT IF CHINA RECOVERED SOVEREIGNTY, CONFIDENCE AND PROSPERITY IN HONG KONG WOULD BE DESTROYED. THE PRIME MINISTER CORRECTED THIS, REITERATING THAT THE PRESENT FLOURISHING SYSTEM IN HONG KONG DEPENDED UPON BRITISH ADMINISTRATION. SHE STRESSED AGAIN THAT THE URGENT NEED WAS TO RETAIN CONFIDENCE NOW. IF WHEN SHE REACHED HONG KONG AFTER LEAVING CHINA SHE HAD TO SAY THAT THERE HAD BEEN NO MEETING OF MINDS ABOUT THE FUTURE OF BRITISH ADMINISTRATION, CONFIDENCE WOULD FAIL NOW.

8. ZHAO REPEATED THAT THE CHINESE PUT THE RECOVERY OF SOVEREIGNTY BEFORE THE MAINTENANCE OF PROSPERITY. NO SOVEREIGN STATE COULD DO OTHERWISE. HE COULD NOT AGREE WITH WHAT THE PRIME MINISTER HAD SAID ABOUT THE PROSPERITY OF HONG KONG BEING DESTROYED IF CHINA RECOVERED SOVEREIGNTY. HE THOUGHT THAT AS LONG AS THE TWO SIDES SHOWED FULL COOPERATION, IT WOULD BE POSSIBLE TO AVOID CONFUSION IN HONG KONG DURING THE TRANSITIONAL PERIOD. HE THOUGHT THAT 'RECENT DEVELOPMENTS' IN HONG KONG DERIVED FROM MANY REASONS, BUT THE MAIN REASON WAS NOT (UNDERLINED) THE SPREAD OF THE NEWS THAT CHINA WOULD RECOVER SOVEREIGNTY. HE DID NOT BELIEVE THAT CHINESE INVESTORS WOULD FIND BETTER

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9. ZHAO SAID THAT THE PRIME MINISTER HAD PROPOSED THAT AFTER HER VISIT THE TWO SIDES SHOULD MAINTAIN CONTACT ON HONG KONG. CHINA HELD THE SAME VIEW. BOTH SIDES SHOULD CONTINUE TO DISCUSS THE RECOVERY OF SOVEREIGNTY OVER HONG KONG AND, ON THIS PREMISE, HOW TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG.

10. THE PRIME MINISTER REITERATED THE DIFFICULTIES OF THE SOVEREIGNTY ISSUE FOR BRITAIN. THE TWO SIDES NEEDED TO CONSULT AND AGREE ABOUT HOW TO ACHIEVE A CONTINUATION OF BRITISH ADMINISTRATION IN HONG KONG. SUCH AN AGREEMENT WOULD ENABLE HER TO CONSIDER THE QUESTION OF SOVEREIGNTY. SHE THOUGHT THAT THERE WAS MUCH IN COMMON BETWEEN THE TWO SIDES. SHE HAD NOTED CHINA'S NINE POINT PROPOSALS ON TAIWAN. IF BRITAIN AND CHINA COULD REACH A SATISFACTORY AGREEMENT ON HONG KONG THIS COULD BE AN EXAMPLE. THE PRIME MINISTER SUGGESTED THAT BOTH SIDES SHOULD NOW REFLECT ON WHAT HAD BEEN SAID AND THAT DISCUSSIONS ON HONG KONG SHOULD BE RESUMED WITH DENG XIAOPING ON 24 SEPTEMBER. ZHAO AGREED.

11. THE PRIME MINISTER AND ZHAO AGREED TO ISSUE THE FOLLOWING STATEMENT TO THE PRESS. "THE TWO SIDES BEGAN DISCUSSION OF HONG KONG TODAY IN A FRIENDLY ATMOSPHERE. THE TALKS WERE USEFUL. THEY WILL BE CONTINUED TOMORROW."

12. THE PRIME MINISTER WISHES THE CONTENT OF THIS REPORT TO BE VERY CLOSELY GUARDED. IT SHOULD THEREFORE BE GIVEN EXTREMELY RESTRICTED CIRCULATION.

13. PLEASE COPY TO NO. 10 DOWNING STREET.

CRADOCK