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(6)  
PS/PUS  
PS/MR LUCE  
MR WILSON  
HD/HKD *passed*  
HD/FED  
PS/LADY YOUNG  
SIR W HARDING  
RESIDENT CLERK

COPIES TO:  
MR COLES, NO.10 DOWNING ST  
MR ROBERTS, NEWS DEPT  
SIR PERCY CRADOCK

*pa  
ms  
24/4*

SECRET

DESKBY 201300Z  
FM HONG KONG 201108Z APR 84  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1091 OF 20 APRIL  
INFO IMMEDIATE PEKING

FOLLOWING FROM PRIVATE SECRETARY: SECRETARY OF STATE'S VISIT TO CHINA AND FUTURE OF HONG KONG

1. YOU WILL HAVE SEEN FROM HONG KONG TELEGRAMS NOS 1078 AND 1079 THE SECRETARY OF STATE'S ASSESSMENT OF HIS VISIT TO PEKING AND HIS VIEWS ON THE IMPLICATIONS FOR OUR STRATEGY AS EXPLAINED TO EXCO.

2. IN THE LIGHT OF HIS VISIT TO PEKING, THE SECRETARY OF STATE BELIEVES WE ARE NOW ENTERING A NEW PHASE IN THE NEGOTIATIONS. THE CHINESE SHIFT OF POSITION ON THEIR DEADLINE, AND OUR AGREEMENT TO WORK FOR A DRAFT TO BE PUBLISHED BY SEPTMBER, IMPOSES CONSTRAINTS ON BOTH SIDES. IN ORDER TO SEIZE WHATEVER OPPORTUNITY THIS PROVIDES FOR US, WE SHOULD NOW ADOPT A STRATEGY OF GREATER TACTICAL MOBILITY. IT IS CLEAR THAT THE DRAFT AGREEMENT WE TABLED CANNOT SURVIVE IN ITS PRESENT FORM (AS WE KNEW ALL ALONG). BUT THE CHINESE HAVE ACCEPTED BOTH THE CONCEPT OF AN AGREEMENT BINDING ON BOTH SIDES AND THAT AN ANNEX (OR, LESS LIKELY, ANNEXES), WHICH WOULD CONTAIN AT LEAST THE BULK OF POINTS AGREED ON THE BASIS OF OUR WORKING PAPERS, WOULD BE EQUALLY BINDING. OUR DRAFT REMAINS ON THE TABLE TO BE CONSIDERED WITH THAT OF THE CHINESE. INITIALLY WE SHALL NEED TO ARGUE FOR OUR DRAFT, BUILDING UP IN THE PROCESS THE CASE FOR AN AGREEMENT WHICH IS BINDING, HAS MATCHING OBLIGATIONS AND SUFFICIENT DETAIL. BUT WE SHOULD START WORK NOW ON ALTERNATIVE FORMS AND WORDING WHICH, WHILE MEETING OUR ESSENTIAL REQUIREMENTS, WOULD BE MORE LIKELY TO BE ACCEPTABLE TO THE CHINESE. IT MAY BE USEFUL TO START PREPARING THIS WORK IN

TO THE CHINESE. IT MAY BE USEFUL TO START PREPARING THIS WORK IN THE FORM OF MODULES WHICH COULD BE INCORPORATED INTO VARIOUS FORMS OF AGREEMENT.

3. IN THE NEW PHASE OF NEGOTIATIONS, WE SHALL CONTINUE TO WORK WITHIN THE STRATEGIC FRAMEWORK AGREED WITH MINISTERS AND EXCO. WHILE, HOWEVER, KEEPING EXCO FULLY INFORMED OF ALL OUR EXCHANGES WITH THE CHINESE, TACTICAL MANOEUVRABILITY AND THE NEED FOR SPEED MEAN THAT IT WILL NOT BE POSSIBLE TO AGREE IN ADVANCE WITH EXCO ALL THE DETAILED MOVES WE SHALL WANT TO MAKE. THE SECRETARY OF STATE PUT THESE CONSIDERATIONS TO EXCO THIS MORNING. ALTHOUGH, AS THE SEPARATE REPORTING TELEGRAMS SHOW, CONCERN WAS EXPRESSED BY SOME MEMBERS ABOUT ANY MOVE AWAY FROM THE PRESENT DRAFT, HE BELIEVES THAT EXCO, WHILE PRESERVING THEIR POSITION ON THE FINAL OUTCOME, WILL NOT OBJECT TO THE APPROACH HE OUTLINED.

4. ITEM 2 (ARRANGEMENTS IN THE PERIOD BEFORE 1997) WILL CLEARLY NEED TO BE HANDLED WITH GREAT CARE. THE CHINESE IDEA OF A JOINT GROUP HAS OBVIOUS DANGERS, PARTICULARLY IF, AS IN THE ORIGINAL CHINESE SUGGESTION, IT IS ESTABLISHED IN HONG KONG. BUT THERE MAY ALSO BE ADVANTAGES IN SETTING UP SOME FORM OF LIAISON ARRANGEMENT. THIS COULD PROVIDE OPPORTUNITIES FOR EDUCATING THE CHINESE ABOUT THE WAY IN WHICH HONG KONG FUNCTIONS AND, IN PARTICULAR, THE WAY IN WHICH NEARLY ALL DECISIONS ARE TAKEN LOCALLY RATHER THAN IN LONDON. FURTHERMORE, BY ENSURING THAT THE CHINESE ARE KEPT INFORMED ABOUT THE DEVELOPMENT OF INSTITUTIONS IN HONG KONG PRIOR TO 1997, WE MIGHT BE ABLE TO SOME EXTENT TO CONDITION CHINESE THINKING ABOUT THE BASIC LAW. THERE WILL IN ANY CASE BE A NEED FOR CLOSE CONSULTATIONS WITH THE CHINESE IN THE YEARS IMMEDIATELY BEFORE 1997, AND THERE IS A CASE FOR STARTING NOW TO THINK OF WAYS IN WHICH WE CAN START A PROCESS WHICH WILL LATER HAVE TO BECOME A MUCH MORE SIGNIFICANT PART OF OUR EXCHANGES. A PERIPATETIC, GROUP AS SUGGESTED BY DENG, WOULD BE BETTER THAN A STATIC ONE IN HONG KONG. BUT THE IMPLICATIONS OF THAT ALSO NEED TO BE EXAMINED WITH THE GREATEST CARE BEFORE WE MAKE ANY RESPONSE TO THE CHINESE. HONG KONG WILL WORK ON A PAPER COVERING ALL ASPECTS OF THE SUBJECT. MEANWHILE, OUR IMMEDIATE REACTION TO THE CHINESE SHOULD BE TO PROBE FOR A MORE PRECISE DEFINITION OF THE EXACT FUNCTIONS THE CHINESE HAVE IN MIND FOR A JOINT GROUP AND HOW THEY WOULD SEE IT OPERATING.

5. THE SECRETARY OF STATE WILL WISH TO CONSULT MINISTERIAL COLLEAGUES ON HIS CHINA VISIT AND ITS IMPLICATIONS FOR OUR STRATEGY SOON AFTER HE RETURNS FROM KOREA AND JAPAN.

6. A SEPARATE TELEGRAM OF INSTRUCTIONS WILL FOLLOW ON THE HANDLING OF THE NEXT ROUND OF TALKS.

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YOUDE

FUTURE OF HONG KONG

LIMITED

ED/EDD

ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD

RSS.B. (MR WALKER)

LEGAL ADVISER (MR FREELAND)

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PS/MR LUCE

PS/PUS

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SIR W HARDING

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PS/HOME SECRETARY

PS/CHANCELLOR OF THE EXCHEQUER

PS/LORD PRIVY SEAL

PS/SECRETARY FOR TRADE & INDUSTRY

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