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B.06754

PRIME MINISTER

c: Sir Robert Armstrong

OD(K): Agenda Item Two

BACKGROUND

Flag A

The Foreign and Commonwealth Secretary's minute of 18 May covers a paper setting out the options for consultation with the Chinese Government during the period up to 1997. The paper summarises the Chinese proposals for handling this transition period which have at their heart the setting up of a Sino-British Joint Group formally located in Hong Kong. There is then an analysis of the Chinese and British objectives in relation to such a Joint Group which recognises that on the British side a balance has to be struck between the need to consult with the Chinese on a wide range of subjects before 1997, both to achieve necessary developments in Hong Kong and to educate the Chinese on the meaning of autonomy, and the need to avoid any encroachment by the Chinese on the United Kingdom's responsibility for the territory up to 1997, and thereby on Hong Kong's autonomy, before that date.

2. The paper identifies three options for consultation with the Chinese during the transition period:-

- (a) permanent machinery based in Hong Kong but with rotation of meetings between Hong Kong, London and Peking (the compromise proposal put forward by the Chinese during the Foreign and Commonwealth Secretary's visit to Peking in April).
- (b) a peripatetic group without a base, meeting as necessary in Hong Kong, London and Peking.
- (c) consultation through existing diplomatic channels.

It is recognised that these options could be varied on a time basis by dividing the transitional period into two parts using existing diplomatic contacts up to 1993, with more formal

machinery being established after that. Although Executive Council (EXCO) Unofficial members would probably favour this, the paper does not recommend it.

3. The Foreign and Commonwealth Secretary would prefer to see a carefully circumscribed joint group set up at the outset, not established in Hong Kong, but meeting as necessary in Peking, London and Hong Kong. He believes that, provided its terms of reference were carefully drawn, it might well provide a means of controlling Chinese interference in Hong Kong. Outline terms of reference are suggested in paragraph 19 of the paper, reflecting the baseline requirements set out in paragraph 15.

4. The Chancellor of the Exchequer and the Secretary of State for Trade and Industry are unable to attend the meeting and will be represented by the Economic Secretary, Treasury (Mr Stewart) and the Minister of State, Department of Trade and Industry (Mr Baker). Sir Antony Acland has also been invited to attend.

HANDLING

5. You should invite the Foreign and Commonwealth Secretary to introduce the discussion. Points to be established include:-
- (a) Does the Sub-Committee endorse the view that existing diplomatic contacts would not provide a satisfactory basis for negotiations with the Chinese up to 1997? Would the institutionalised consultation proposed by the Foreign and Commonwealth Secretary maximise the opportunities which may be open to us to influence the drafting of the Basic Law?
 - (b) Are the dangers of setting up the joint group (Chinese interference, fears in Hong Kong that it is the first step towards a Chinese takeover) containable/acceptable?
 - (c) Would a peripatetic joint group on the lines proposed help to educate the Chinese about Hong Kong systems and the concept of autonomy?
 - (d) Is Hong Kong Government representation within the UK membership of the joint group an essential UK requirement?
 - (e) Are the terms of reference for the proposed joint group, set out in paragraph 19 of the paper, acceptable?

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CONCLUSION

6. Subject to the points made in discussion, you could guide the Sub-Committee to approve the conclusions in paragraph 20 of the paper attached to the Foreign and Commonwealth Secretary's minute as a basis for discussion with EXCO and for responding to the Chinese proposals at the fifteenth round on 30/31 May.

David Goodall

A D S GOODALL

22 May 1984