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10 DOWNING STREET

From the Private Secretary

6 July 1984

Dear Sir,

Hong Kong

The Prime Minister met the Foreign and Commonwealth Secretary today to discuss the progress of the Hong Kong negotiations. The Governor of Hong Kong, Mr. Luce, Sir Antony Acland, Sir Percy Cradock and Sir Richard Evans were also present.

The discussion centred on the Chinese demand for a Joint Group to be based in Hong Kong in the period up to 1997; and on the timing of a further visit by the Foreign and Commonwealth Secretary to Peking.

It was agreed that locating the Group in Hong Kong was open to most serious objections. It would be seen in Hong Kong as the instrument of joint supervision of the Government of Hong Kong and a fundamental change in the way Hong Kong was administered. It was highly questionable whether opinion in Hong Kong could be brought to accept it. On the other hand it was clear that the Chinese attached great importance to securing this point in the negotiations, although some reports suggested that they might consider deferring introduction of the Group for a period.

The Foreign and Commonwealth Secretary said that the question had to be faced whether the point was of such fundamental importance that we would be prepared to see the negotiations founder upon it if necessary. A disagreeable choice had to be made and it was a question of which would be the least damaging outcome for the people of Hong Kong. There could be little doubt that failure to reach agreement would be catastrophic for them. The Governor agreed.

In response it was argued, on the one hand, that there was scope to explore Chinese thinking further to see whether there was some flexibility in their position both on the functions and location of the Joint Group. Another possibility would be to see whether the Chinese would agree to postpone introduction of the Group for a long period, say ten years. Only then would we be able to

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determine the possible shape of an overall agreement. Against this it was argued that the consequences of locating the Joint Group in Hong Kong were so serious that it would be a mistake to suggest to the Chinese at this stage that we were in any way ready to consider it. A decision should be postponed until we were better able to judge the nature of a total package.

On tactics it was argued on the one hand that the Foreign and Commonwealth Secretary ought to visit Peking in July. It was necessary to be seen to be making every effort to make progress. Otherwise the Government might subsequently be criticised for having frittered away opportunities. Postponing the visit until September would be a high risk policy and could put us under severe time pressure in the final stages of negotiations.

On the other hand it was suggested that if the Foreign and Commonwealth Secretary were to go in July he would inevitably be drawn into discussion of location of the Joint Group. The Chinese would get the impression that they would in due course obtain satisfaction on the point and would certainly leak the fact that we were negotiating on it. There would then be a serious risk of losing the confidence of EXCO. In reply it was suggested that the risks might be reduced if the Foreign and Commonwealth Secretary were to take with him a message from the Prime Minister to Deng. This might say that, given the grave difficulties which location of the Joint Group in Hong Kong would cause, the issue should be put aside until September. Meanwhile negotiations should continue on other issues. The Governor commented that it would be important to avoid giving any impression that we would necessarily, at the end of the day, accept location of the Group in Hong Kong.

Concluding, the Prime Minister said that the mounting evidence of Chinese intentions to obtain through the negotiations an ever greater influence over Hong Kong's affairs before 1997 was worrying and was evidently affecting confidence in Hong Kong. It was important to do everything possible to provide reassurance. Mr. Luce should pay an early visit to Hong Kong for discussions with EXCO for this purpose. Thereafter the Foreign and Commonwealth Secretary should aim to visit Peking at the end of July, calling in on Hong Kong on the way there and back. A message should be drafted from her to Deng which the Foreign and Commonwealth Secretary could take. This should make clear the very great difficulties for us in discussing location of the Joint Group in Hong Kong. It should repeat that we required an agreement that was binding, balanced and had adequate detail. It could hold out the prospect of reintroducing the question of location of the Joint Group into the discussions in September in the light of progress on the other issues

but should avoid giving the Chinese grounds for believing that we should necessarily agree to it then. It would be a difficult message to draft.

The Governor said that in the light of concern in Hong Kong about today's meeting and the fall which had occurred in the value of the Hong Kong Dollar he intended to issue a brief statement to the effect that liaison arrangements had been discussed but no decisions had been reached, that negotiations with the Chinese would continue and that British administration would remain until 1997.

I am sending copies of this letter to Hayden Warren-Gash (Mr. Luce's Office, FCO), Michael Jay (Sir Antony Acland's Office, FCO) and to Richard Hatfield (Cabinet Office).

*yours sincerely,  
Charles Powell*

Charles Powell

Len Appleyard, Esq.,  
Foreign and Commonwealth Office.