

Sir P Caddock  
✓ CDP 6/P.

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James  
Tate 11.14.8

Prime Minister (2)  
CDP  
3/8

Thanks on - many

PRIME MINISTER

3 August 1984

HONG KONG

Congratulations to you  
both - it was an excellent result -  
- progress beyond all expectations  
me.

1. You have already had a report on the talks from the Foreign Secretary. But you may find it helpful to have some personal comments.

2. First, there was no question that for the Chinese this was a make or break occasion. Zhou Nan made this very plain to me at lunch on the first day when he outlined the Chinese offer: if we left Peking without settling the issue of the Joint Liaison Group, Chinese offers of concessions would be withdrawn and the talks as a whole would fail. As you readily accepted in your telegram to the Foreign Secretary, the question had therefore to be settled on the spot. We were all very grateful for your understanding and support.

3. The next point is that we got as much out of the Chinese as was possible. We went to the brink and even slightly beyond it. Once we had your telegram, the bargaining on the date of location of the Joint Group in Hong Kong was carried on through the Sunday morning with Wu, the Chinese Foreign Minister, through the Sunday evening during dinner at the Residence, again with Wu, and finally on Monday morning with Premier Zhao. The matter had to be finalised with him. The Chinese said several times to me that Zhao would make the final decision. What they meant by this was that it would

SECRET

SECRET

be fatal to go to Deng with the issue unresolved. Deng is now getting more irascible and unpredictable and the Chinese are getting increasingly nervous about his interventions. Even so I was getting distinctly uneasy as the bargaining went on with Zhao, moving him finally from 1 January 1988 to 1 July 1988.

4. During the two days in Peking when we indicated that we were interested in the Chinese offer but the precise date of the Joint Group's location in Hong Kong was still being debated we enjoyed maximum leverage and were able to exploit it. In that time we pinned the Chinese down on issues that we had expected to take weeks, ie making the agreement legally binding, undertaking that its provisions and those of the Annexes would be in the Basic Law, calling the Annexes Annexes rather than exchanges of notes, and removing offensive Chinese language on sovereignty. The use of the word "agree" governing all the provisions was particularly critical. As late as the Foreign Secretary's last visit in April, Premier Zhao said that China would never accept that its future policies regarding Chinese territory could be made the subject of agreement with another power (ie unilateral declaration was as far as they were prepared to go).

5. During the same period, we also secured Chinese agreement with only minor changes to our draft on the terms

SECRET

SECRET

of reference of the Joint Liaison Group, though on this they first tried to resile.

6. Deng, who looked very fit, made the five hour train journey from the holiday resort of Beidaihao specially to see the Foreign Secretary and give his benediction to the deal. He sent you his thanks and good wishes and I think meant it. He is still very ignorant of Hong Kong and suspicious of what may happen there during the period before 1997. But he made the important admission that the Chinese have now concluded we are playing straight and can be trusted. This will make it easier for us to conduct the necessary education of how capitalist Hong Kong works. Deng is also inordinately proud of the concept of "one country, two systems". It is not his own, I suspect, but he should be given undue credit for it, because it carries with it the valuable implication that he will want Hong Kong to work in something like the way we would want it to work.

7. We also now have Exco with us. At our first meeting with them there was stunned silence; at the second S Y Cheung and Lydia Dunn gave generous approval and said they expected the agreement emerging would be acceptable to Hong Kong. At another meeting unofficial members of Legco and Exco broke into applause after the Foreign Secretary's exposition. This solidarity will be important in the presentation and acceptance phase we are now approaching.

- 3 -  
SECRET

SECRET

8. There is hard negotiating ahead, and much detailed work to be done on the remaining Annexes, some, eg on the legal system, very important indeed. The Chinese will be more accommodating, but we must not expect miracles or over-estimate our leverage. We shall also continue to have internal arguments with Hong Kong over the ideal length of the Annexes. There are limits to what the Chinese will take. During this visit Zhao was still difficult about what he called 'excessive detail'. A balance therefore has to be achieved between clarity and brevity. We should trust David Wilson's judgement. As leader of the working group he will be in direct contact with the Chinese. So far he has got virtually all of the points we regard as essential into the Annexes, but in wording which the Chinese can understand and accept. He will know how much traffic the bridge can take.

9. We shall need to keep a close eye on the timetable. If all goes well we shall reach a point about the first or second week of September when the last remaining hard issues, eg nationality, have to be settled. Somewhere about mid-September we should have Exco back here to make the final decision whether or not to accept the deal. This will be a much easier exercise than we originally thought. Nevertheless, the trip to London is something they will expect. You may be away on your South East Asian tour. In that case the best solution would probably be for them to

- 4 -  
SECRET

SECRET

come to London to see the Foreign Secretary and you may wish to leave them a message.

10. We should also be turning our thoughts to presentation. The negotiators can provide language but the Hong Kong response will be decisive. If they treat the draft agreement as the end of the world it will be so. If they recognise it as a challenge but one they can meet, it will be a triumph. It is essential that we encourage the right response. Fortunately, the Foreign Secretary has given them a lot of detail and they have taken it well. As publication of the draft agreement approaches we should plan to give confidential previews to certain Hong Kong business houses, banks etc who can make favourable comments in the first critical 48 hours after publication. We should also brief foreign governments in advance eg the United States, Japan and the Community, so they can make early positive comments. These in turn will encourage confidence inside Hong Kong.

11. As regards signature, the Chinese made it clear they expect a Minister to sign. Exco made the same point independently. This will mean a trip to Peking in December and some thought will have to be given to this aspect. We shall also need to think about methods of speeding up ratification.

SECRET - 5 -

SECRET

12. The Foreign Secretary in his press conference spoke about progress to an historic agreement. He is right. There is still a lot of work to be done before we get there but we shall be inept if we cannot manage it now. When it comes it will be a big event and a great success for your foreign policy.

14.  
PERCY CRADOCK

SECRET - 6 -

E. R.

NOTE FOR THE RECORD

HONG KONG

When the Prime Minister discussed the outcome of Sir Geoffrey Howe's visit to Peking with him this afternoon, they agreed that it would be an excellent idea to hold a party for those most closely concerned with the Hong Kong negotiations when they were complete. The idea would be to invite members of EXCO to come over for it.

Please bring this up to remind me in early October.

C.D.P.

2 August 1984

cc: Mr. Robin Butler

NOTE FOR THE RECORD

SIR PHILIP HADDON-CAVE

When the Prime Minister discussed Hong Kong matters with Sir Geoffrey Howe this afternoon, Sir Geoffrey recalled that Sir Philip Haddon-Cave would shortly be retiring and moving to the United Kingdom.

The Prime Minister said that he would be an excellent candidate for the Court of the Bank of England.

C.D.P.

2 August 1984

cc: Mr. Robin Butler  
Mr. Andrew Turnbull  
Court of Bank of England File