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Mr. C. Pale

FROM PEKING 281250Z JUL 84

No 10. D St.

TO F L A S H FCO

SECRET

TELEGRAM NUMBER 1653 OF 28/7/84

FROM FOREIGN SECRETARY FOR PRIME MINISTER

FUTURE OF HONG KONG:

1. AT A LUNCH HE GAVE FOR SIR PERCY CRADOCK ON 28 JULY, ZHOU MAN MADE THE FOLLOWING OFFER. THE CHINESE WERE PREPARED TO DEFER ESTABLISHING THE JOINT LIAISON GROUP IN HONG KONG FOR TWO YEARS AFTER THE SIGNING (COMING INTO FORCE- THE POINT NOT BEING ENTIRELY CLEAR) OF THE AGREEMENT. THEY WERE PREPARED TO ALLOW THE GROUP TO CONTINUE UNTIL THE YEAR 2000. THEY WERE PREPARED TO ADOPT, WITH MINOR MODIFICATIONS, THE PROPOSALS WE HAD MADE ON THE JOINT GROUP AND ABANDON THEIR PROTOCOL.
2. CRADOCK TOOK ZHOU AGAIN THROUGH OUR MAIN REMAINING DIFFICULTIES WITH THE CHINESE DRAFT AGREEMENT WHICH I HAD OUTLINED THAT MORNING. ZHOU INDICATED THAT THE CHINESE WERE PREPARED TO SEEK LANGUAGE TO RESOLVE THEM.

3. ON THE POSSIBILITY OF DEFERMENT, AN IDEA THEY READILY APPREHENDED FROM THE CHANGED PASSAGES IN YOUR LETTER, ZHOU MADE CLEAR THAT THEY COULD IN NO CIRCUMSTANCES ACCEPT DEFERMENT OF LOCATION IN HONG KONG UNTIL 1993 (THE POINT WE HAD IDENTIFIED IN OUR PROPOSALS TO THE CHINESE ON THE JOINT GROUP WHEN CLOSER COOPERATION WOULD BE NECESSARY). NOR WOULD THIS BE AFFECTED IF THERE WERE NO EXTENSION BEYOND 1997, IE LOCATION COULD NOT BE POSTPONED BEYOND TWO YEARS. MOREOVER, CHINESE LEADERS COULD NOT WAIT BEYOND THIS VISIT TO ACHIEVE A SOLUTION OF THIS ISSUE, NOR WERE THEY WILLING TO BARGAIN FURTHER. IF WE COULD NOT ACCEPT THIS OFFER DURING THE VISIT THE CHINESE WOULD WITHDRAW THE OFFERS THEY HAD MADE, AND THE NEGOTIATIONS AS A WHOLE WOULD FAIL.

3. ZHOU EMPHASISED REPEATEDLY THAT THIS WAS THE CHINESE BOTTOM LINE. HE PROMISED THAT HE WOULD LATER EXPLAIN TO CRADOCK WHY HE WAS IN IN NO POSITION TO MOVE ANY FURTHER. HE PRESSED FOR AN IMMEDIATE ANSWER SO THAT HIS LEADERS COULD BE BRIEFED. CRADOCK OFFERED NO ENCOURAGEMENT THAT WE COULD MOVE BEYOND THE POSITION TAKEN BY ME IN THE MORNING TALKS.

4. IN THE AFTERNOON SESSION WU MADE A SIMILAR THOUGH VAGUER AND SOMEWHAT MORE RESTRICTIVE OFFER, ON THE FOLLOWING LINES. THE JOINT LIAISON GROUP WOULD BE ESTABLISHED AFTER CONCLUSION OF THE AGREEMENT (SEMI-COLN) IT WOULD BE LOCATED IN HONG KONG FROM 1986, AND COULD REMAIN IN BEING UP TO , BUT NO LATER THAN, THE YEAR 2000. HE OFFERED, IN RETURN FOR OUR AGREEMENT TO THIS

PROPOSAL SUBSTANTIAL CONCESSIONS ON THE CHINESE DRAFT PROTOCOL AND SAID THAT OTHER ISSUES WOULD BECOME EASIER TO SOLVE. HE WAS PREPARED TO STATE EXPLICITLY THAT THE JOINT GROUP WOULD NOT BE AN ORGAN OF POWER: WOULD NOT INTERFERE WITH THE DAY TO DAY WORK OF THE HONG KONG GOVERNMENT: WOULD NOT HAVE A SUPERVISORY ROLE: AND WOULD NOT BE THE PREDECESSOR OF THE FUTURE GOVERNMENT OF THE SAR.

5. THE CHINESE OFFER WOULD APPARENTLY GIVE US THE FOLLOWING GAINS:

(A) CONTINUATION OF THE JOINT GROUP BEYOND 1997

SIR S Y CHUNG STRESSED TO ME IN HONG KONG THAT AN EXTENSION OF THE EXISTENCE OF THE GROUP BEYOND 1997 WOULD, AS EVIDENCE OF CONTINUING BRITISH INVOLVEMENT, BE A VERY VALUABLE AID TO CONFIDENCE IN HONG KONG.

(B) POSTPONEMENT FOR ABOUT TWO YEARS OF THE LOCATION OF THE GROUP IN HONG KONG:

(C) ACCEPTANCE WITH MINOR VARIATIONS OF OUR PROPOSALS ON COMPOSITION AND FUNCTIONS OF THE GROUP;

(D) CONCESSIONS ON SOME OF THE MORE DIFFICULT PARTS OF THE PROTOCOL AND A MORE FORTHCOMING ATTITUDE ON CERTAIN ASPECTS OF THE MAIN AGREEMENT, E.G. (I) LANGUAGE TO INDICATE THE BINDING NATURE OF THE WHOLE AGREEMENT INCLUDING ANNEXES; AND (II) A STATEMENT THAT THE WHOLE AGREEMENT INCLUDING THE ANNEXES WOULD BE REFLECTED IN THE BASIC LAW.

6. THE IMPORTANT SHORTCOMING IN THE PROPOSAL IS THAT THE DELAY IN LOCATING THE GROUP IN HONG KONG IS MUCH SHORTER THAN WE SET OUT TO OBTAIN.

7. MATERIAL WHICH WILL NOW BE AVAILABLE TO THE FORECASTS:

(A) AN EARLY MEETING OF THE CHINESE PARTY SECRETARIATE IN WHICH THE HONG KONG QUESTION WILL BE REVIEWED AND DECISIONS TAKEN;

(B) A LIKELY CENTRAL COMMITTEE PLENUM IN SEPTEMBER. THERE IS SOME CORROBORATION OF THE FIRST FROM CONTACTS HERE. IF TRUE, THIS COULD WELL BE THE REASON WHY THE CHINESE ARE INSISTING THAT A SOLUTION MUST BE FOUND NOW.

8. THE KEY QUESTION IS CLEARLY WHETHER WE THINK THE CHINESE PROPOSALS ARE THEIR BOTTOM LINE, OR SOMEWHERE PRETTY NEAR. THE ASSESSMENT OF THE AMBASSADOR, THE GOVERNOR AND SIR PERCY CRADOCK, WITH WHICH I AGREE, IS THAT THE CHINESE WILL NOT ACCEPT LOCATION OF THE GROUP IN HONG KONG ANYTHING LIKE AS LATE AS 1993 AND THAT, THOUGH THERE MAY BE SOME MARGIN FOR MANOEUVRE ON THE TIMINGS AFTER 1994 AND AFTER 1997, THIS IS THE CHINESE BOTTOM LINE. IN SOME WAYS, PARTICULARLY THE EXTENSION OF THE GROUP AFTER 1997, IT GOES FURTHER THAN WE HAD EXPECTED. WU SAID AT THE TALKS THIS AFTERNOON THAT THE CHINESE COULD NEVER ACCEPT ANY ARRANGEMENTS WHEREBY THE LOCATION OF THE JOINT GROUP IN HONG KONG WOULD BE DEFERRED FOR A LONG TIME (EG UNTIL 1993).

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9. WE ARE THEREFORE FACING A DIFFICULT CHOICE. WE HAVE ALWAYS TAKEN THE VIEW THAT WE SHOULD FIGHT AS HARD AS WE CAN TO RESIST CHINESE PRESSURE ON LOCATION OF THE JOINT GROUP UNTIL WE WERE CONFIDENT THAT WE HAD ESTABLISHED THEIR BOTTOM LINE, BUT THAT THIS IS NOT AN ISSUE ON WHICH WE SHOULD ALLOW THE TALKS TO BREAK DOWN. THIS POINT WAS PUT TO ME EXPLICITLY BY SOME PEOPLE IN HONG KONG. ONE COURSE WOULD BE SIMPLY TO NOTE THE NEW CHINESE POSITION SO AS TO PERMIT REFLECTION AND CONSULTATION IN LONDON AND HONG KONG. SO FAR I HAVE EMPHASISED THE EXTREME DIFFICULTY OF LOCATION IN HONG KONG AT ANY TIME (SEMI-COLN) ADVOCATED THE PROPOSAL IN YOUR MESSAGE (SEMI-COLN) AND ACCEPT THE IMPLICATION THERE AND IN OUR PROPOSALS ON THE JOINT GROUP THAT FROM 1993 THERE WOULD BE A WEAKER CASE AGAINST LOCATION IN HONG KONG. IF I ADOPT THAT COURSE THERE WILL BE DEADLOCK IN THE TALKS WITH WU.

I AM LIKELY TO SEE PREMIER ZHAO BUT WITHOUT AN ENCOURAGING MESSAGE AM UNLIKELY TO SEE OTHERS. ANY MEETING WITH LEADERS WOULD OF COURSE BE DIFFICULT IN SUCH CIRCUMSTANCES.

WE MUST EXPECT NEWS OF THIS SITUATION TO LEAK. TIME WOULD INEVITABLY PASS BEFORE INSTRUCTIONS COULD BE ISSUED AND I SHOULD NOT OF COURSE BE IN A POSITION TO TABLE THEM PERSONALLY WITH CHINESE LEADERS. NO PROGRESS COULD BE MADE IN THE TALKS UNTIL THESE NEW INSTRUCTIONS WERE ISSUED AND THERE WOULD BE A SERIOUS RISK OF THE WITHDRAWAL OF THE CHINESE OFFER WHICH COULD LEAD TO BREAKDOWN, OR TO A HARSH PUBLIC OUTBURST FROM THE CHINESE SIDE IN THE MEANWHILE. THIS WOULD DO GREAT DAMAGE AND WE ARE MOST UNLIKELY TO GAIN ANYTHING FROM THE DELAY. IT IS THE JUDGEMENT OF ALL AT THIS END THAT IF IN THE CIRCUMSTANCES WITH WHICH WE ARE NOW FACED I CANNOT GET THEM TO DEMONSTRATE FURTHER FLEXIBILITY DURING MY VISIT, THE CHANCES OF THEIR DOING SO AFTERWARDS ARE REMOTE. THE CHINESE ARE SAYING THAT THE BACK OF THE NEGOTIATION MUST BE BROKEN DURING MY CURRENT VISIT AND (INFORMALLY) THAT IT WOULD BE HARD FOR THEM TO RECEIVE ME AGAIN IN SEPTEMBER.

10. THE GOVERNOR'S ASSESSMENT IS THAT IF I RETURN FROM PEKING WITH THE TALKS IN DEADLOCK AND THIS LEAKS, THE EFFECT ON CONFIDENCE IN HONG KONG WOULD BE VERY SERIOUS. IF IN THE END WE HAD TO COME TO TERMS WITH THE CHINESE IN ORDER TO STEM A COLLAPSE IN HONG KONG, WHICH IS VERY POSSIBLE, WE MIGHT BE FACED WITH HARDENING CHINESE TERMS AND THE PROSPECT OF BEING SEEN PUBLICLY TO COMPLY WITH THEM

11. THE ALTERNATIVE IS TO SEE WHAT IMPROVEMENTS WE CAN MAKE TO THE CHINESE OFFER. I AM SURE THAT MY FIRST RESPONSE SHOULD NOT (NOT) BE TO ACCEPT THEIR PROPOSALS AS THEY STAND.

I THINK THAT THE BETTER COURSE WOULD BE FOR ME TO EXPLORE WHETHER THERE COULD BE ANY ADVANCE, EG BY FURTHER DELAYING LOCATION OF THE JOINT GROUP IN HONG KONG AND/OR BY EXTENDING THE JOINT GROUP FOR A LONGER PERIOD AFTER 1997. MEANWHILE WE SHOULD SEEK IN THE MARGINS TO CONFIRM AS FAR AS POSSIBLE THAT CHINESE PROMISES TO SEEK ACCEPTABLE LANGUAGE IN THE MAIN AGREEMENT TEXT WILL BE HONoured. IF IT PROVE S IMPOSSIBLE TO MAKE ANY FURTHER PROGRESS ON THE TIMING /LOCATION OF THE JOINT GROUP I SUGGEST THAT I SHOULD SAY THAT I WOULD HAVE TO REFER TO MY COLLEAGUES BUT THAT IF THE REST OF THE AGREEMENT PROVED SATOSFACTORY, WE MIGHT BE ABLE TO LIVE WITH A SOLUTION ON THE LINES ZHOU NAN HAS INDICATED. WE SHALL IN ANY EVENT HAVE TO LOOK AT THE PACKAGE AS A WHOLE. I WOULD CONSULT YOU AGAIN BEFORE TAKING A FINAL POSITION.

12. THIS IS NOT AN AGREEABLE DECISION TO HAVE TO TAKE BUT I SEE IT AS THE PREFEREABLE COURSE. ESSENTIALLY THE CHOICE WE FACE IS WHETHER TO MAKE THIS MOVE NOW OR AFTER A DAMAGING INTERVAL.

13. THE GOVERNOR AGREES WITH ABOVE RECOMMENDATIONS.

14. I SHOULD BE GRATEFUL FOR INSTRUCTIONS BY 202200Z

I AM EXPECTING TO SEE PREMIER ZHAO ZIYANG ON THE AFTERNOON OF 29 JULY.

EVANS

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