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MR COLES

A.J.C. 23/3

HONG KONG

1. The Prime Minister may find it helpful to have a note on Hong Kong in advance of OD(K) on Monday.

Timetable

2. As she knows, we have run into difficulties with the Chinese over the timetable. Three main problems have emerged:

(a) we have offered a draft agreed text by September and, following debate in Parliament, a signed agreement by the end of the year. The Chinese insist on a signed agreement by September.

(b) they object to our delaying ratification until we have seen the Basic Law.

(c) they do not like our plan to "lift the veil" by a statement in Hong Kong in April.

3. On the other hand at the last round of talks the Chinese were less violent in their reaction to the recent Hong Kong Legco debate than we feared and they have avoided taking up absolutely final positions on the timetable before talking to the Foreign Secretary in Peking in April. He will therefore have an opportunity to put our case on timing to the Chinese leaders; to assure them of our wish to conclude an agreement as rapidly as possible; to explain that certain processes have to be gone through on our side if the agreement is to be accepted; and to point out that it is in both our interests to understand each others constraints and to cooperate closely in the final phase of negotiations. But he is likely to meet considerable resistance. We may be able to win



Chinese agreement to 2(a) (signature after September); on 2(c) we may get by without undue Chinese hostility if we make a judicious unveiling statement in April; but the indications are that 2(b), ie ratification, is likely to be the key to all this. We shall therefore have to consider possible methods whereby ratification on our side might be expedited and the Foreign Secretary will need to have fall-back positions prepared before he leaves.

Draft Agreement

4. The second main issue is the draft agreement. The plan is to give the Chinese a text by 3 April so that they can see it in advance of the Foreign Secretary's visit. A draft has already been circulated to OD(K). It is a maximalist agreement, a very fat text, from which a great deal would probably have to be pruned in the best of circumstances. But there remain sections that are essential to us, eg Article 2(2) on the link between the agreement and the Basic Law, and the Annexes, reflecting the points of agreement reached with the Chinese over the last four months. The agreement in any form we think tolerable is going to be extremely difficult to sell to the Chinese. They almost certainly envisage a generalised agreement and will need much persuasion to allow inclusion of the detail we regard as essential. Again the Foreign Secretary will need to have considerable discretion.

Exco Unofficials' Visit

5. The Governor and the Unofficials will be visiting London from 4 to 6 April and calling on the Prime Minister and Foreign Secretary in advance of the latter's visit to Peking. Their concern will naturally be to press for firmness on both timetable and draft agreement. There are clearly points we all regard as crucial, but, for the reasons given above, if the Foreign Secretary's visit is to



have any chance of success we cannot afford to be too rigid in other areas and we shall need to indicate to the Unofficials the sort of fall-back positions that we have in mind.

Conclusion

6. We are now in a very delicate phase and I am only moderately hopeful. I am sure that the Chinese still want an agreement; but they will not make it easy for us and may miscalculate how far we can be pressed. In any event they will need careful and flexible handling if the negotiations are not to founder over the timetable and the nature of the agreement. Exco on the other hand may well need further persuasion that we are seeking their best interests; that we shall stand on essentials but we must have flexibility to negotiate; and that confrontation will be the worst of all possible worlds. But there is a narrow passage between these two rocks and if the Foreign Secretary's visit to Peking goes well we might, repeat might, be into the final stretch.

h.

PERCY CRADOCK

23 March 1984