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PS
PS/PUS
PS/MR LUCE
MR WILSON
HD/HKD
HD/FED

COPIES TO:
MR COLES, NO.10 DOWNING ST
MR ROBERTS, NEWS DEPT
SIR PERCY CRADOCK

SECRET

DESKBY 291200Z

FM HONG KONG 291055Z MAR 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 859 OF 29 MARCH

INFO IMMEDIATE PEKING

IMMEDIATE

ADVANCE COPY

FUTURE OF HONG KONG: CONSULTATION WITH EXCO.

1. I REPORTED TO EXCO TODAY ON DEVELOPMENTS DURING THE 11TH ROUND. THERE WAS A STRONG REACTION, PARTICULARLY TO WHAT THE CHINESE HAD SAID ON NATIONALITY, AND TO ZHOU NAN'S INFORMAL INDICATION TO THE AMBASSADOR OF THE KIND OF AGREEMENT THE CHINESE ENVISAGED (PARA 5 OF PEKING TELNO 588).

2. SIR S.Y. CHUNG'S IMMEDIATE COMMENT WAS THAT THE CHINESE POSITION AS NOW REVEALED WAS THE LAST NAIL IN THE COFFIN. WE HAD GAINED NOTHING FROM THE PROCESS OF NEGOTIATION AND HAD BEEN FORCED INTO CONSTANT RETREAT. OTHER MEMBERS REACTED SIMILARLY. IT WAS RECALLED THAT IT HAD BEEN AGREED IN LONDON IN JANUARY THAT WE SHOULD TRY TO INSERT AT APPROPRIATE POINTS IN THE NEGOTIATIONS AS MANY ASSURANCES AGAINST CHINESE INTERFERENCE AS WE COULD FOR INCLUSION IN AN AGREEMENT. NO WORTHWHILE ASSURANCES HAD BEEN OBTAINED AND THE CHINESE CONCEPT OF AN AGREEMENT WAS WORTHLESS. A NUMBER OF MEMBERS NOTED THAT THE CHINESE WERE UNWILLING TO RECOGNISE THE BRITISH NATIONALITY OF BDTC'S AFTER 1997 AND WERE EVEN SEEKING TO STOP THE ISSUE OF BDTC PASSPORTS BEFORE 1997. THEY WISHED TO KNOW HOW HMG PROPOSED TO RESPOND.

3. I SAID THAT I WAS NOT SURPRISED BY THE STRENGTH OF MEMBERS' REACTION TO WHAT THE CHINESE HAD SAID. BUT WE HAD NOT REACHED THE END OF THE ROAD. WE HAD PREPARED A DRAFT AGREEMENT WHICH WAS VERY DIFFERENT IN FORM AND CONTENT FROM THE KIND OF COMMUNIQUE WHICH ZHOU NAN HAD OUTLINED TO THE AMBASSADOR. THE RIGHT THING WAS SURELY TO PUT FORWARD THIS AGREEMENT AND ARGUE VERY STRONGLY WITH THE

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TO PUT FORWARD THIS AGREEMENT AND ARGUE VERY STRONGLY WITH THE
CHINESE THAT THIS WOULD BE THE KIND OF AGREEMENT NEEDED TO MAINTAIN
CONFIDENCE IN HONG KONG. THE SECRETARY OF STATE'S VISIT TO PEKING
SHOULD BE SEEN IN THAT CONTEXT.

4. THE FOLLOWING WERE THE MAIN POINTS MADE BY MEMBERS IN FURTHER
DISCUSSION:-

- (A) WE SHOULD LOOK AT THE CHINESE TRACK RECORD SINCE THE TALKS
BEGAN. WE HAD NOT IN FACT SUCCEEDED IN PINNING THE CHINESE
DOWN ON ANYTHING OF IMPORTANCE: THEY HAD EVEN GONE BACK ON
THINGS SAID INFORMALLY.
- (B) MEMBERS WERE NOT ARGUING THAT WE SHOULD NOT TRY TO GET A
SATISFACTORY AGREEMENT. BUT WE SHOULD RECOGNISE THAT THE
CHANCES OF DOING SO WERE VERY SMALL UNLESS HMG WERE PREPARED
TO RISK A 'STAND-OFF': WE SHOULD BEGIN NOW TO PREPARE FOR
THAT EVENTUALITY.
- (C) HMG'S OBJECTIVES HAD BEEN PROGRESSIVELY WHITTLED DOWN OVER THE
MONTHS SINCE THE TALKS BEGAN. AS SIR S.Y. CHUNG PUT IT, THE
HOUSE WE WERE NOW BUILDING WAS NOT ONLY ROOFLESS BUT HAD NO
FOUNDATIONS.
- (D) SOME MEMBERS THOUGHT THAT EVEN THE PRESENT MAXIMALIST DRAFT
AGREEMENT WAS NOT SUFFICIENTLY HIGH FOR AN OPENING BID. WE
SHOULD CONSIDER INCLUDING ADDITIONAL ELEMENTS SO THAT THERE
WOULD BE ROOM FOR BARGAINING.
- (E) MEMBERS SAW THE QUESTION OF NATIONALITY AS CRUCIAL. IF THOSE
WHO NOW HELD BDM CITIZENSHIP COULD NOT RETAIN THEIR STATUS
AND RIGHTS AND TRAVEL FREELY ON BRITISH PASSPORTS THEY WOULD
VENT THEIR ANGER AND FRUSTRATION ON HMG. IF THIS HAPPENED THE
GOVERNABILITY OF THE TERRITORY OVER THE NEXT 13 YEARS WOULD BE
PUT SERIOUSLY IN QUESTION.

5. I WILL SEND FURTHER COMMENT TOMORROW.

YOUDE