



PM/84/107

PRIME MINISTER

Future of Hong Kong: Agenda Item 2 (Arrangements before 1997)

1. I have been giving further thought with my officials to our position on Agenda Item 2 (arrangements before 1997) and in particular on the establishment of a Sino-British Joint Group as a liaison body during that period.
2. The formal position in the negotiations, as you will recall, is that the Chinese continue to reject our proposal that the Joint Group should be a peripatetic body without any standing machinery, meeting as necessary in Hong Kong, Peking or London. In the margins of the talks, however, there have been a number of hints from the Chinese side that if we can agree at least on the notional basing of the Joint Group in Hong Kong they will be able to show considerable flexibility over the precise attributes of the group and its presence in the territory.
3. It is clearly a matter of great importance to the Chinese side, and to Deng Xiaoping himself, that the Joint Group should be based in Hong Kong. I believe it is an issue on which the talks could fail. Both sides are agreed on the need for consultation and on the creation of a joint group as the appropriate forum: it is simply on the location of such a forum that views diverge. Moreover, the indications of possible Chinese flexibility on subsidiary aspects of the issue hold out the possibility that the present difference of view could be turned to our advantage. All these considerations make it appropriate that we should consider the implications of possible movement

/on this



on this point.

4. I have accordingly had prepared by my officials the attached paper which considers:

- (i) which of the apparent elements of Chinese flexibility might be used to our advantage to tighten the terms of reference of a Joint Group based in Hong Kong and to reduce its profile there to tolerable proportions;
- (ii) whether, on that basis, we might be able to secure advantage by agreeing that the Joint Group could be notionally based in Hong Kong;
- (iii) what quid pro quo we should seek to secure. In particular the paper addresses the possible link between the basing of the Joint Group in Hong Kong and our proposals for constitutional development in the territory up to 1997. I have set out my thinking on this subject in more detail in a separate minute;
- (iv) at what stage it might be most advantageous to make such a concession, and how in the meantime we might move forward in exploring the Chinese position.

5. I suggest that we might hold a preliminary discussion of this paper when OD(K) meets on 27 June. Thereafter, and in the light of discussion in the Sub-Committee on constitutional development and the role of the Governor it would be necessary to refine our views on this complex of issues in consultation with the Governor and the Ambassador in Peking. We have not as yet sought any detailed indication of their views: however

/I believe

S E C R E T



I believe that while the Ambassador would be generally in agreement with our approach the Governor might see considerable difficulties.

6. I am copying this minute of OD(K) colleagues and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

25 June 1984

S E C R E T

FUTURE OF HONG KONG: AGENDA ITEM 2: THE JOINT GROUP

1. The Chinese continue to push us hard to agree to the basing of the Joint Group in Hong Kong. In the formal talks, they have said that there cannot be any overall agreement if there is no satisfactory understanding on the Joint Group.

THE BRITISH POSITION

2. Our present position is that we are prepared to agree to the establishment of a Sino-British Joint Group with tightly defined terms of reference as a forum for consultation before 1997, on the condition that it has no standing secretariat and is peripatetic, meeting as necessary in Peking, London or Hong Kong. This represents a significant movement from our initial assertion that consultation through normal diplomatic channels would be adequate.

THE CHINESE POSITION

3. At the last round of negotiations Zhou Nan made no move from the original Chinese position. He argued that while the difference between the two sides on the nature and the tasks of the group was not great, our assertion that it needed neither a permanent base nor standing machinery divested the Chinese proposals of their core. His tone was moderate throughout, but he insisted repeatedly on the importance for the Chinese of the basing of the group in Hong Kong.

4. In the margins of the last round, Zhou Nan suggested informally to Sir Richard Evans that if we would agree to the Joint Group being based in Hong Kong we should find the Chinese very flexible on related questions. Zhou said that Chinese leaders did not regard our agreement to the setting up of a peripatetic joint group as constituting movement on the essential point of location. On more than one occasion he and his colleagues have explained more fully what the Chinese apparently have in mind. Both sides would appoint Ambassadors to be based in Hong Kong supported by small staffs. (A member of the Chinese team seemed to envisage that the Chinese Ambassador would not necessarily have to reside in Hong Kong). The British Ambassador might be a Hong Kong Government official. There would not necessarily be a joint secretariat. The group would meet when necessary, perhaps not more than once every

few months. It need not meet more often in Hong Kong than in London or Peking. According to a member of the Chinese delegation, the resident Chinese team would be small and would be made up of working level officials. They would not involve themselves in Hong Kong's internal affairs, nor need there be a brass plaque outside their office. The group would initially be concerned with gathering information, and only much later would it discuss joint selection of senior officials or the running of the Exchange Fund.

CHINESE AIMS

5. It is clear that the Chinese attach great importance to the basing of the Working Group in Hong Kong. We assume the reasons for this to be:

- (a) The wish of the leadership to have something concrete to show for the negotiations in the form of a formal Chinese presence in Hong Kong before 1997:
- (b) The desire to become fully conversant with, and increasingly involved in, the administration of the territory in advance of 1997, so as to make sure that the transition from British to Chinese rule is as smooth as possible:
- (c) The fear that Hong Kong could become ungovernable in this period, and/or that the departing British will leave the Hong Kong coffers empty.

To achieve these aims they regard it as essential that the Joint Group should be based in Hong Kong. Deng Xiaoping is personally committed to the proposition, and we see no prospect of their shifting on this point.

6. We believe that the Chinese have it in mind to create other bodies in Hong Kong during the transitional period. There have been newspaper reports of Chinese statements suggesting that the Chinese will establish a "consultative committee" in Hong Kong to sound out opinion on the Basic Law before it is drafted. We assume that the NCNA office will remain an important body representing the Chinese

Government. The Joint Group will be part of a pattern of a gradually increasing Chinese involvement in the territory in the period up to 1997.

BRITISH AIMS

7. From our point of view an important question is how the Joint Group will be seen when the agreement is published in September 1984. If the Joint Group is seen as evidence of Chinese participation in the government of Hong Kong in advance of 1997, it could cause a serious crisis of confidence. Its very existence would be thought by some to negate any assertion that the UK would nonetheless continue to be the sole administering power up to 1997. The more substantive the work of the Group, and the closer its geographical association with Hong Kong, the greater this risk. We could not agree to anything that would be seen fatally to undermine the authority of the Hong Kong Government. We have also to take into account the likelihood that EXCO would be strongly opposed to the basing of the Joint Group in Hong Kong and the risk that some of them might choose to resign over the issue.

8. On the other hand, we do not want to allow a failure to agree on Item 2 to lead to the total collapse of the talks. We think this could happen if we completely rejected any prospect of further movement. We must also anticipate that a continuing deadlock on Item 2 could adversely affect the atmosphere of work on the agreement both in plenary and in the working group, ultimately to a serious degree.

STRATEGIC CONSIDERATIONS

9. We assess that the Chinese will maintain their position on the establishment of the Joint Group in Hong Kong. It clearly reflects a commitment by the most senior Chinese leaders. We need therefore to consider whether there would be advantage to us in further movement on the issue. We judge that the risk of the talks eventually foundering over this issue is a real one. It is now common ground between the British and Chinese sides that there should be a Joint Group, and a measure of agreement over certain of

its functions. What is at issue is the location rather than the principle of a Group. It is recognised that there will be a need for Sino-British consultation as 1997 approaches, and some of that consultation might appropriately be conducted in Hong Kong.

10. The Chinese hints that a concession on our part over the location of the Group might be matched by compromise over its form and functions hold out the hope that we might be able to turn a deal on this issue to our advantage. If through Chinese concessions the profile of the Joint Group could be reduced to acceptable proportions, our agreement to its location in Hong Kong might become an important bargaining counter. It would then be necessary to consider most carefully how the bargaining counter could be used to secure the maximum in return.

(a) A "Minimalist" joint group

11. The Chinese hints of concession hold out the prospect of eventual agreement on terms of reference for a joint group which, while nominally based in Hong Kong, might not loom too large on the local scene. Possible areas of compromise include:

(i) Agreement (tacit or otherwise) that the chief representatives on the Joint Group would not be resident in Hong Kong, even though the Joint Group was based there:

(ii) The Chinese suggestion that a member of the Hong Kong Government could be the British representative. An advantage could be the down-playing of British representation on the Group, which would be usefully matched on the Chinese side by the designation of an official who occupied a concurrent position in Peking:

(iii) Patterns of travel and work for the Joint Group which would minimise its profile in Hong Kong and maximise its presence elsewhere.

(iv) The Chinese suggestion that there need be no joint secretariat or office.

(v) Chinese hints that the Chinese team on the Joint Group would play an unobtrusive role in Hong Kong.

(vi) The possibility of formalising the division between an initial period of information-gathering and a subsequent period ("much later", according to Zhou Nan) of closer consultation: in this context it might be considered whether we could be at all forthcoming over the provision of financial information (for example on note-issuing and the Exchange Fund) if it was clearly understood that such arrangements would come into effect only a few years before 1997. We might also explore the possibility of deferring the setting up of the Joint Group for a few years.

12. We have built on these hints to draw up illustrative terms of reference for a "minimalist" joint group based in Hong Kong : this is attached at annex.

b) A Quid pro quo

13. In considering what quid pro quo we might secure for the basing of a joint group in Hong Kong we have to bear in mind our separate consideration of constitutional development and the role of the Governor. There could be a relationship between these issues. The emergence between 1997 of an elected Governor, embodying the political will of the people of Hong Kong, could help to reassure them that his administration would be able to withstand interference from a Joint Group, even if it was notionally based in the territory. In practice too this more overtly autonomous form of administration might be more resistant to outside pressure. Conversely a Joint group would reassure the Chinese that an effective framework for Sino/British exchanges on Hong Kong did persist, and could arguably lead them to accept a higher degree of autonomy in Hong Kong's development up to 1997. If Ministers take the view that the constitutional development of the territory should follow a path that would lead to a locally elected Governor, we should consider linking our agreement to the establishment of a Joint Group in Hong Kong to Chinese acquiescence on that point. In this context we would need to reassure the Chinese that we were not planning to desert Hong Kong after 1997 in order to leave behind an

independent political entity on the lines of Singapore.

14. We should also look beyond the terms of reference of the joint group and a possible link with an elected Governship. If at all possible a concession on Item 2 should also be clearly linked with progress on the form and content of the draft agreement and associated documents.

c) Timing

15. In the short term, we see no reason to make further concessions on Item 2 to the Chinese. Although we are working within a limited time scale, our ability to give satisfaction on Item 2 is one of our most valuable cards and we should not give it away easily. Nor should we give EXCO the idea that we are too readily shifted. The Chinese will no doubt continue to press us hard in the talks, where Item 2 is now the focus, and to use a mixture of threats and blandishments in an attempt to move our position. We should sit firm until at least July.

16. In the longer term, however, we shall need to contemplate some movement. The risks of sourness and deadlock in other aspects of the negotiations will increase. We also need time to reap the benefits of our concession in terms of subsequent negotiation on texts well in advance of an end-September deadline. These considerations seem to point to a further visit to Peking by the Secretary of State, perhaps in late July, when it might be possible in high level discussion to trade our agreement to a Hong Kong-based joint group against the quid pro quo outlined above.

17. The objection could be raised that we should be using an important bargaining counter too far in advance of the end of negotiations. It is however hard to see how negotiation on other issues could be sustained if our concession was not made until, say, early September, or how thereafter we could exploit it in negotiation of texts without running into severe time constraints. Even if we had made our concession on item 2 in advance of the final phase of bargaining over texts we should still retain the ultimate sanction of refusing to initial an agreement which does not meet our

requirements. We should make it explicitly clear to the Chinese when discussing Item 2, that all bets would be off if the overall package was not acceptable to us.

OPTIONS

18. In the light of all the strategic considerations set out above, our main options seem to be the following:

(a) To sit firm indefinitely on our proposal of a pereipatetic joint group, meeting in Hong Kong, London and Peking. Given Deng Xiaoping's personal commitment to a Hong Kong based group, such a course might ultimately lead to the breakdown of the talks and a unilateral Chinese statement.

(b) To sit tight on our present position until a further visit by the Secretary of State, possibly in late July, when agreement to the establishment of a Joint Group in Hong Kong could be made conditional on Chinese acceptance of the quid pro quo outlined in paragraph 13-14 above.

(c) To agree soon to the basing of the Joint Group in Hong Kong. The object would be to keep the talks going smoothly and in particular to assist progress in the Working Group. This would, however, give an undesirable impression of weakness. It could reinforce any disposition on the Chinese side to believe that if they pushed hard enough on any particular issue they could modify our position. It would also mean that we had discarded an important bargaining card without gaining anything in return.

19. In all the circumstances option (b) seems the best means of drawing advantage from the present difficulties over Item 2. Unless the Chinese attitude in the Working Group makes it necessary to reconsider timing, we should sit tight probably until a visit by the Secretary of State in July. At that point we might agree to the establishment of a Joint Group in Hong Kong with a very tightly drawn terms of reference, if in return we could secure an adequate quid pro quo. The optimum would be Chinese acceptance of our proposals for the constitutional development of Hong Kong as well as

progress on the inclusion of detail in a legally binding agreement.

INFORMAL CONTACTS

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18. While we should hold firm on any concession, this should not inhibit us from seeking clarification from the Chinese about their hints of flexibility. There would be advantage in doing this in informal contacts. It would enable us to develop our own thinking on whether an acceptable fallback would be possible; and it might take the heat out of the plenary sessions, where further sterile exchanges on Item 2 could well inhibit progress in the Working Group.

SECRET

FUTURE OF HONG KONG: PROPOSAL FOR A LIMITED JOINT GROUP
BASED IN HONG KONG

1. The agreement would state that the Joint Group would be based in Hong Kong.
2. The Joint Group would however have no permanent physical presence in the form of a joint headquarters or office in Hong Kong. Its meetings would be in premises primarily used for other purposes (eg Hong Kong Government premises or neutral ground).
3. There would be no joint secretariat and no standing machinery.
4. Heads of delegation, whatever their precise title, would not be resident full-time in Hong Kong and would hold their post concurrently with other substantive functions.
5. The Chinese delegation would be headed by a Chinese MFA official of ambassadorial but not quasi-ministerial rank. He would be based in Peking, with an official position there (Head of the Western European Department etc). He would have a supporting staff of up to four junior officials who could be based in Hong Kong. These officials would have diplomatic status. They could not hold posts in other PRC bodies in Hong Kong, eg the NCNA or any consultative committee.
6. It would be understood between the British and Chinese Governments that the office of the Chinese representative on the Joint Group would be a low-profile institution. It would have no formal diplomatic or representational function beyond participation in group meetings. Present informal arrangements for quasi-official Chinese representation in Hong Kong and for day to day contact with the Hong Kong Government would not be affected.
7. The British delegation would be headed by an FCO Assistant Under Secretary based in London. His deputy, and alternate leader of the British delegation, would be an official of the Hong Kong Government (of secretary rank). They would be supported by junior officials drawn as appropriate from the British and Hong Kong Governments.
8. The group would not be in ~~a~~ permanent session. Its work would be so structured that most of its substantive activity in specialised fields would be relegated to sub-groups. It would be understood between the British and Chinese sides:
 - (i) that during an initial period (up to 1993) the group would not meet more frequently than once every 3 months.

SECRET

- (ii) that meetings of the group would take place by rotation between Hong Kong, London and Peking; or that meetings would not take place more frequently in Hong Kong than in either of the over venues.

9. Work of the sub-groups would be arranged on a pattern which ensured that they met no more frequently in Hong Kong than either in London or Peking.

10. The agreement would state that the Joint Group was for consultative purposes and that it would not have an executive function. It would have the following terms of reference:

- (a) The Joint Group would exchange information in order to facilitate implementation of the agreement. The British side would provide appropriate information about the running of the Hong Kong Government and the Chinese side would provide appropriate information on the drafting of the Basic Law.
- (b) The two sides in the Joint Group would consult on Hong Kong's continued participation in GATT, MFA and the continued application of international treaty obligations affecting Hong Kong.
- (c) If the two sides agreed, the Joint Group could create sub-groups to discuss particular issues. If either side refused to discuss a particular issue as inappropriate the Joint Group would have no standing in the matter.

11. The two sides would undertake to review the work of the Joint Group in 1993, to consider any change in its procedures which might be appropriate for the last years before transfer of sovereignty.

12. If it is necessary to make any concessions on the discussion of sensitive subjects in the Group, this would be on a basis;

- (i) which circumscribed the scope of discussion as much as possible,
- (ii) which explicitly relegated the topics to the post-1993 phase of the Group's work.