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Prime Minister 4

MR POWELL

HONG KONG

This summarizes very  
clearly the issues for your  
meeting with the Governor  
& the Ambassador to Peking.  
C D P 5/7.

1. Discussions with the Governor and Ambassador this week have shown that there are two main points at issue between the Governor on the one hand and the Ambassador and London officials on the other.

(a) The effect of agreeing to the location of the Joint Group in Hong Kong.

(b) General strategy. The Governor wants us to withhold any movement until September and argues against a visit by the Foreign Secretary to Peking in July. The Ambassador and London officials on the one hand argue for a July visit, probably to be followed by one in September. This would be in line with the preliminary conclusions of OD(K) on 28 June.

2. On (a), the demerits of having the Group located in Hong Kong are undoubted, but I think they may be overstated. There could well be Chinese attempts to interfere in the period up to 1997, eg representations by them about action by the Hong Kong government; but, if they were so minded, these attempts could be made by a Joint Group based outside Hong Kong or even through diplomatic channels if there were

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3. The essential question on the location of the Joint Group is whether this is an issue of such fundamental importance that we would be prepared to see an agreement founder on it. I myself do not put it in that category. To be fair, nor does the Governor: he contemplates a possible concession on this before the end of the day, but considers that if we have to make such a move we should defer it to the 11th hour ie September.

4. The issue therefore boils down to (b), ie timing and strategy, in particular the timing of the Secretary of State's visit or visits to Peking. I can see certain attractions in sitting tight until early September in the hope of staring the Chinese down. But I see over-riding disadvantages.

(a) It would be a policy of very high risk which could well mean that we would be unable to achieve an agreement because of shortage of time. There is an immense amount of work to be done on the main agreement and the Annex quite apart from item 2, and ex hypothesi no progress could be made on these for the next two months under a condition of stand-off. It would be impossible to complete all this work within the three weeks that would be available to us after a visit delayed until early September.

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(b) As set out in the Prime Minister's message last October, we are still engaged in exploring what can be built on the basis of the Chinese proposals. We must complete this exploration before we decide whether the package as a whole is tolerable. It would be difficult to explain our position to Parliament if we were to reach the end of the day uncertain because of a shortage of time what the possibilities were and whether we might have got a better deal.

(c) Presentationally, it is important that HMG should be seen to be making a maximum effort to attain agreement. The proposal that we do not move throughout July and August could be seen as a show of strength, but it could also be seen as inertia and a failure to exploit the short time remaining to us.

4. All this points strongly to a visit by the Foreign Secretary at the end of July with the possibility of another in September. But I suggest he should not go then in order to concede on Item 2. He should go carrying a firm message from the Prime Minister which would make it plain we were not prepared to commend <sup>old</sup> any agreement to Parliament and that we required one that was binding and balanced and had adequate detail. The message could go on to say that if we

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obtained that sort of agreement we would be prepared to consider the location of the Joint Group in Hong Kong, always under suitable terms of reference. Our negotiators should explore the possibilities further in August. This would allow us an opportunity to determine whether suitable terms of reference for a Joint Group could be worked out and at the same time explore what improvements could be made over the main agreement and the annex. We should then need time to stand back from the picture and in conjunction with Exco make the big decision whether it was one we could buy.

5. These are not easy decisions but they are critical. The advantage of this plan I think gives us the best change of using our remaining time to advantage and seeing whether a tolerable agreement is obtainable. The alternative course I am afraid would not do this. In particular I consider a deliberate freeze until early September would be a major error putting in jeopardy what we have achieved so far.

6. None of this is going to be palatable to Exco in Hong Kong but if, as the Governor concedes, we shall probably have to accept location of a Joint Group in Hong Kong before the end of the day, the package as far as Exco is concerned is not going to differ very much. We shall have to mount a major campaign to explain to them the reasons for our policy and why we are convinced that it is the only way to achieve the best result for Hong Kong.

5 July 1984

  
PERCY CRADOCK

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