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Foreign and Commonwealth Office

London SW1A 2AH

5 July, 1984

PM has seen. CDD 6/7.

Dear Charles,

Hong Kong: Prime Minister's Meeting with Governor of Hong Kong  
and HM Ambassador Peking, 6 July 1984

In preparation for the Prime Minister's meeting with the Governor and the Ambassador, the Foreign and Commonwealth Secretary has discussed with them the main issues affecting our current strategy in the talks with the Chinese.

The key points for decision are:

- (a) HMG's attitude towards the Chinese demand for a joint group to be based in Hong Kong in the period up to 1997;
- (b) the tactics which we should adopt over the next 2½ months, in particular the timing of a possible visit or visits by the Foreign and Commonwealth Secretary to China.

I enclose a paper which discusses these closely related questions. As you will see, there are differing views between the Governor on the one hand and the Ambassador and FCO officials on the other on both points. It may be helpful if I summarise the issues below.

Following the Foreign and Commonwealth Secretary's visit to Peking in April, the Chinese strategy appears to be based upon the assumption that by holding to a tough line, they can manoeuvre us into a position in which, at the conclusion of the negotiations in September, we will be prepared to sign more or less whatever is then on offer. They have at the same time placed particular emphasis on their wish for a joint group in the period up to 1997, to be based in Hong Kong and they have given hints that their attitude on other matters is dependent upon our accepting this proposition.

Our aim remains to obtain a full and binding agreement on arrangements in Hong Kong after 1997 in terms which will stand the best chance of acceptance in the territory, including the endorsement of EXCO, and to avoid accepting arrangements in the pre-1997 period which would detract from the authority of the Hong Kong Government in a period which will in any case become politically more and more sensitive.

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Although we cannot be absolutely sure, it seems likely that the Chinese will maintain their view that a joint group based in Hong Kong is an absolute requirement for them and that they would make this a sticking point in deciding on whether or not to sign an agreement. The key strategic question therefore is whether at some stage we might contemplate signing an agreement which included this but which was satisfactory in other respects. The Governor starts from the position that a concession on the location of the joint group would be a major policy change which would detract from the authority of the Hong Kong Government and would in effect start a process of creeping condominium. He sees the idea as presentationally and substantially different from the proposition which we have already accepted, that a joint group with strict terms of reference should be established without a fixed base, meeting on a peripatetic basis in Hong Kong, London and Peking. He considers that it would provide an alternative focus for people in Hong Kong which would progressively make the exercise of British authority in the territory more difficult. He does not rule out the possibility that eventually Ministers might have to decide to accept a joint group based in Hong Kong as preferable to no agreement at all. But he regards it as not proven that the Chinese will adhere to this requirement and he would not accept that any move should be made on this point until the end of August.

The view broadly shared by the Ambassador and FCO officials is that a joint group of any sort would clearly detract from the Hong Kong Government's authority and that one based in Hong Kong would have greater disadvantages. But they argue that, having already accepted the concept of a joint group we should explore whether it would be possible to limit its terms of reference, in particular as regards its tasks and composition by exploring how much movement we could get from the Chinese in return for acceptance of their proposition on location. They point out that if the Chinese are inclined to interfere and apply pressure they could do so readily enough whether or not the Joint Group is based in Hong Kong. They also point out that there will already be other centres of Chinese communist activity in Hong Kong and that, provided that the powers of a joint group were sufficiently strictly defined, such a group need not be in practice more of a threat to the Hong Kong Government's authority.

This leads to the question of our negotiating tactics for the remainder of the period to the end of September. As mentioned above, the Governor believes that we should hold our position, with no movement on the question of a joint group until late August or early September. He believes that we should make the most of the Chinese need for an agreement with us and that to hold on for another 6 or 7 weeks would give us a better chance of assessing the real extent of Chinese obduracy on the joint group so that we could then assess whether or not some kind of concession on that point might be necessary. In his view this would allow time for our negotiators to complete work on the text of an agreement with a better



understanding of what could be achieved in practice and for Ministers and EXCO to take a decision on a package by the end of September.

The tactics favoured by the Ambassador and FCO officials are for HMG to put over to the Chinese a two-fold message at the end of July. They see dangers in allowing the Chinese to continue any longer under the illusion that we are a pushover and that we will be prepared to sign any sort of agreement. At the same time they argue that progress in the working group and in plenary is likely to continue at a very slow pace unless we are prepared to explore with the Chinese, without commitment, how much we might be able to obtain if we were prepared to accept a joint group based in Hong Kong. They believe that if we hold on until the end of August without a move on this point, the atmosphere of the talks, already deteriorating, is likely to become increasingly bad and that the chances of negotiating improvements on the content of the agreement and annexes will be greatly diminished. They accept that we do not know how much we might achieve on the basis of a bargain involving acceptance of a joint group in Hong Kong, but they point out that unless we float the idea, conditionally, we shall have no way of finding out. They also maintain that we should by this means be in a much better position to negotiate with the Chinese for a Hong Kong based joint group with strictly defined terms of reference.

They go on to propose that the Foreign and Commonwealth Secretary should visit Peking towards the end of July and that he should take the following line with the Chinese leaders. We are concerned at the lack of progress in the talks since April. We have made a number of proposals to which the Chinese have not significantly responded. We intend to negotiate sincerely for a satisfactory agreement but we have to point out that, consistent with the line taken in the Prime Minister's messages to Premier Zhao, it cannot be assumed that we shall be ready to sign any agreement. We have certain requirements which include a binding agreement which spells out in some detail how post-1997 arrangements will operate. We have of course been carefully considering the Chinese proposition that there should be a joint group in the period up to 1997 based in Hong Kong. We see great difficulties in this. We believe that a final decision on the location of such a group should be left until the overall package is considered. Only at that stage, if we were satisfied that the content and form of the agreement were satisfactory and that the terms of reference of the joint group were consistent with the effective exercise of British responsibility for Hong Kong up to 1997, would we be prepared to consider its location in Hong Kong.

The Prime Minister will wish to consider these alternative tactics. There are of course possible variations on them. One would be for the Foreign Secretary not to visit Peking in July but for a message to be sent directly by the Prime Minister to



Premier Zhao, although that might not allow an adequate opportunity to explore Chinese flexibility on the ground and of course there would be no chance to see Deng Xiaoping. A variation of a different sort would be to propose that there should be no joint group in Hong Kong for a number of years and to insist that it should not be established there until the early 90's, for instance after the publication of the Basic Law.

Whatever decisions are taken they will need to be discussed with EXCO. The Governor has pointed out the risk that any suggestion of a move on location of a joint group in Hong Kong at this stage could result in our losing them, although he believes that they might come to accept the idea at a later point, albeit with great reluctance. We also need to take into account the likely attitude of Parliament as to whether HMG had taken every available opportunity in order to explore the degree of flexibility in the Chinese position. For this purpose it might be necessary to contemplate two visits by the Foreign and Commonwealth Secretary to Peking.

In the time available it has not been possible to clear this letter with the Foreign Secretary.

*Yours ever,*

*Len Appleyard*

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FUTURE OF HONG KONG  
STRATEGIC DISCUSSION PAPER - JULY 1984  
CHINESE POSITION IN THE NEGOTIATIONS

1. Both in plenary and in discussion of the main agreement in the working group, the Chinese are adopting a rigid position. They are only a little more positive over the annexes. They evidently calculate that, having obtained an acknowledgement from us that continuing British administration after 1997 is unrealistic, their best tactics are to make no concession but force us back against a September deadline for announcement of an agreement, in the expectation that we will be ready to accept then more or less what is on offer.
2. While there are a number of unagreed points to which we shall have to revert, the Chinese place particular emphasis on two key issues. On the agreement they take the line that the main document should not show that their plans for arrangements after 1997 have emerged from negotiation between the British and Chinese Governments and that detail should be covered only in the annex. They say that the agreement and annex would be equally "binding" but they do not explain how this would be made clear in a legal sense. Thus they are likely to continue to question paragraph 6 of our revised main agreement, which would provide such a binding provision. Nor do they state how much detail would be included in the annex. Their flexibility on this has yet to be fully tested.
3. The second main issue is Item 2, in particular the Chinese proposal for a joint group based in Hong Kong. They have made clear that this is an extremely important issue for them: it has been described by Zhou Nan as a requirement of his leaders. It appears probable that they would not sign an overall agreement without this provision. They have said that our failure to agree on Item 2 (and by implication to the basing of a group in Hong Kong) would make conclusion of an overall agreement out of the question. They have also indicated that, provided that we accepted the idea of basing the group in Hong Kong, they would be flexible on its composition and terms of reference. But they have not been specific about this.

## BRITISH REQUIREMENTS

4. Our first aim remains a detailed and binding agreement, which ties the Chinese to respect the continuity of specific features of Hong Kong laws, systems and freedoms after 1997 and which commands the confidence of the people of Hong Kong both at the time of announcement and in the period up to 1997. A second aim is to maintain the maximum degree of authority to administer the territory up to 1997. Thus we must oppose any increase in Chinese interference in Hong Kong since this would diminish British authority and damage confidence. However, we have to accept that increasing consultation with the Chinese Government will be necessary as 1997 approaches and that in practice it would be very difficult to persist in policies in which they did not acquiesce.

## THE SCOPE FOR BARGAINING

5. In seeking to secure concessions from the Chinese there are two main levers we can employ. The first is their general wish to achieve an agreement (although we do not believe that they would pay absolutely any price to secure this). The second is their strong desire to secure satisfaction on certain key points, notably agenda item 2 (ie the basing of a joint group in Hong Kong).

6. We still do not know how much flexibility there is in the Chinese position. Official-level contacts may not reveal this. The Chinese may be unwilling to budge to any significant extent, in which case the sooner we know it the better. It is more likely, however, that they retain a measure of movement on the content and form of an agreement, some on the timing and detail of consultation in the pre-1997 period and none at all on the basic point about the basing of a joint group in Hong Kong. (In the Governor's view the last judgment represents an untested assumption, although he agrees it would indeed be extremely difficult to move the Chinese on that point). On other questions: we can expect no flexibility on the stationing of troops in Hong Kong; the Chinese may be ready to make some practical concessions on nationality, provided that their principles are not infringed in the form of an agreement; there may be some scope for discussion on the timing of ratification but

little on the way in which the basic law is produced.

7. Unless we are to decide now that any one of the above issues is in itself a sticking point for us, a decision on our part on the acceptability or otherwise of a package is likely to depend on whether we can obtain a sufficiently full and convincingly binding agreement on post-1997 arrangements to offset the uncertainties which will remain in the minds of people in Hong Kong because of the delay in producing the Basic Law and of the threat of Chinese interference before 1997. But in order to find that out, we need to decide whether in return for such an agreement we should be prepared to do a deal involving a concession on the point on which the Chinese are least likely to shift, ie a joint group based in Hong Kong.

#### THE JOINT GROUP

8. There is no doubt that the Chinese have the intention to interfere in Hong Kong before 1997 and would like to use a joint group to further this aim. They wish to find out more about Hong Kong and fear that HMG and the Hong Kong Government might run the territory down in the run-up to 1997. Despite Chinese assurances that the group would have no executive functions, some of the proposals which they have made, for instance on the joint selection of personnel and on the management of the exchange fund, show clearly that they would seek an appreciably greater role in Hong Kong up to 1997 than the assurances imply. Deng Xiaoping himself has indicated as much referring without clarification to the concept of Chinese participation in Hong Kong before 1997 and he clearly sets much store by the idea. This would risk prejudicing the concept of autonomy and would weaken confidence in Hong Kong that there would be genuine continuity of self administration for Hong Kong after 1997. But above all it is the Chinese demand that the group should be based in Hong Kong which would have the most serious effect on confidence. Combined with the Chinese insistence on administrative powers being returned by HMG to the Central People's Government and only then delegated to the SAR, this would be seen by many as formalising a condominium, in order to limit weak autonomy and to prepare Peking to exercise effective control thereafter.

9. It is the view of the Governor that a joint group located in Hong Kong would have, and would be seen to have, a role in the administration of the territory. He is confident that this view will be shared by all members of EXCO. It would be regularly visible to the public service and to the police. He believes that in effect HMG would be agreeing to "creeping condominium" from the beginning of next year: this would work in the directly contrary direction to our concept of increasing autonomy for Hong Kong. The Governor points out that the formal Chinese proposal would confine the joint group to representatives of HMG and China. The Hong Kong Government would be placed in a subordinate and unrecognised position. A group would provide an alternative focus of authority in Hong Kong. The Hong Kong Government would have no control over its staff. The fact that the Chinese delegate would be an official sent from Peking would confirm the impression of direct Peking intervention in Hong Kong affairs. He would have a quite different status from the present senior Chinese representative in Hong Kong, the Director of the New China News Agency. Whatever restrictions we tried to put on the terms of reference, once the group was in Hong Kong the Chinese would interpret them in their own way.

10. The Governor's conclusion is that the key is the local perception of a joint group based in Hong Kong. A joint liaison group based outside Hong Kong would erode the authority of the Hong Kong Government, but to a degree that could be tolerated. A joint group based in Hong Kong would in practice erode the authority of the Hong Kong Government to an intolerable degree, however tightly its terms of reference were circumscribed.

11. Officials in London and the Ambassador in Peking point out on the other hand that we have already accepted that there should be a joint group of some sort. We acknowledge that there will be an increasing need for consultation with the Chinese and have concluded that there would be some advantage for us in having an agreed forum in which we could continue to educate them and to some extent control their efforts to interfere in Hong Kong. The question therefore is whether we could in certain circumstances tolerate a joint group based in Hong Kong, given that without this there could



well be no agreement at all. That must depend on whether we could obtain an agreement on post-1997 arrangements which would inspire confidence that those arrangements would indeed be implemented and that a joint group would do as much to safeguard them as to whittle them down. With an inadequate understanding on post-1997 arrangements, a joint group in Hong Kong could be taken as evidence of a sell-out. With a good agreement however it need not be such a negative move provided that its terms of reference were tightly drawn. This could be done in such a way as to avoid the effect of "creeping condominium". HMG would retain a veto over the discussion of topics which we did not wish to see raised in the joint group. A Chinese head of delegation participating in meetings held infrequently in the territory need not acquire a perceived status radically different from that long enjoyed by the Director of the NCNA. Although the joint group might have certain rights to call for papers and other information from the Hong Kong Government this could only be done by agreement between HMG and the Chinese side. Chinese representations over developments in Hong Kong would no doubt be made to HMG through other channels, even if no joint group existed at all. As for the suggestion that it would provide an alternative focus of authority, there are already other left-wing organisations in the territory (notably the New China News Agency) to which the disaffected would inevitably be tempted to turn as 1997 approaches.

12. We have a number of authoritative (though informal) indications that the Chinese would be ready to look again at the composition and function of a group in Hong Kong. These indications have been given by the leader of the Chinese delegation to the negotiations, in circumstances where he was clearly acting on instructions. He and his colleagues have suggested that the joint group could be relatively unobtrusive without a permanent joint secretariat in the territory. They have floated, imprecisely, the idea that the "British Ambassador" to the joint group might be a Hong Kong Government official. This might be turned to our advantage if it led to the Chinese acknowledging the legitimacy of the Hong Kong Government as the predecessor of the SAR Government. There has also been a suggestion that the setting up of the group might be delayed for a few years. This needs further

exploration, but might be helpful for confidence. We assume that such hints remain on the table for negotiation, although the Chinese position in the formal talks is much more uncompromising.

13. The proposition that we should use acceptance of a joint group in Hong Kong as a bargaining counter has to be seen against the alternatives. A joint group is not of course inevitable. We can refuse to take part. It is just possible that the Chinese would still be ready to conclude an agreement. But in those circumstances it is most unlikely that it would be much of an improvement on what is at present on offer from the Chinese. We should probably have to reject it. More probably they would not agree to any package without such a joint group. It is the judgment of HM Ambassador in Peking that in spite of the very serious economic and political consequences for China of no agreement, the Chinese (and in particular Deng Xiaoping) might be irrational enough to prefer no agreement to one which did not give them the establishment of a group in Hong Kong. Whether by refusing to agree to a joint group, we ended up with no agreement or an inadequate agreement, we should face confrontation and a decline of confidence in Hong Kong. Moreover there would be a growth of Chinese influence in Hong Kong by other, overt and covert means.

14. If we tell the Chinese that we are prepared to explore the idea of a joint group in Hong Kong on a conditional basis, we may still end up without a package which we can accept. But we shall give ourselves a much better chance of exploring the Chinese position. (The Governor regards this as an untested assumption). Without such manoeuverability on our part we should reach the end of the negotiations uncertain as to whether we could have got a better deal or not. It is doubtful whether Parliament would approve such tactics.

#### TACTICS AND TIMING

15. We need to see a possible agreement as a whole, including post-1997 arrangements and the period up to that date. We must make clear to the Chinese that we will not necessarily be prepared to agree to whatever package emerges from negotiation. But with that

proviso we must have sufficient manoeuvrability to test fully the extent of flexibility on the Chinese side.

16. It is important that we do not delay in making our position clear to the Chinese. We have three broad options:

- (a) holding to our present bargaining position, without any new initiative or concessions, perhaps until the end of August;
- (b) a fairly early Ministerial visit, perhaps at the end of July;
- (c) a Prime Ministerial message at the same time.

Any of these courses of action would probably call for a (further) Ministerial visit in September.

17. The objective of (a) would be to demonstrate firmness over a period and to counter any Chinese impression that we will make concession after concession. The idea would be to leave the difficult issues for resolution in a major bargaining session at the end. This broad approach is the one advocated by the Governor. In the view of officials in London and the Ambassador in Peking this might be a useful tactic in a negotiation where there was one key problem to resolve. The difficulty in this case is that the issues are complex and interlocking and there is a mass of detail to be covered. If, as seems likely, we make little progress on the agreement and annex on the present basis, we could well find in September that there was insufficient time for a ministerial accord on key questions to lead to a satisfactory agreement. We are not interested simply in getting agreement on a few catch phrases. We need time to engage in detailed discussion of texts in order to establish whether a negotiable package is likely to command confidence in Hong Kong and in Parliament.

18. The advantage of (b) (a ministerial visit, with or without a Prime Ministerial message) would be that our position could be put across strongly at a high level. There would be an opportunity at that level to test Chinese responses and to assess the degree of Chinese flexibility. It might be possible to judge in informal conversation what reaction there might be to a possible trade-off across different areas of the negotiations. It would be clear to Hong Kong opinion that we were doing our best for the territory. The Ambassador favours a visit.

19. The disadvantages of (b) (and in consequence the advantage of (c)) lie in part in the timing. If the ministerial visit was undertaken too early, we may not have formed a sufficiently clear view of the Chinese texts and such alternatives as they might table. We would be less able to produce a critique of the Chinese approach to the negotiation of texts. A tough discussion with Chinese Ministers could lead to public expression of displeasure on their part and consequent presentational difficulties in Hong Kong. On the other hand a message without a visit would have less impact and less easily analysable results.

20. In the view of officials in London and the Ambassador in Peking the balance of argument points to a ministerial visit after work in the working group has clearly shown the Chinese attitude to the negotiation of texts. A suitable period would be the week beginning 29 July. It would be helpful for the Secretary of State to visit Hong Kong before and after Peking, in order to assess views there and to report afterwards. In a ministerial visit our main objective would be to ensure that the Chinese clearly understood that what was on offer at present was not acceptable; and that without genuine negotiation and a more forthcoming approach on the Chinese side HMG might be unable to sign an agreement. At the same time it would be our aim to explore how much room there was for bargaining, perhaps by indicating in a highly conditional way that we might be prepared to look further at our position on the basing of the joint group if we received satisfaction over the form and content of the agreement. (We should have to accept that once we had proposed a visit to the Chinese, they might well hold back on any significant moves in the negotiations until they saw what the Secretary of State had to offer.)

21. The Governor's view, however, is that acceptance of a joint group based in Hong Kong should not be a bargaining counter but a substantive policy decision, to be taken if necessary only at the end of the day and in full knowledge of the serious implications which he sees for the future administration of Hong Kong and the authority of both HMG and the Hong Kong Government. Furthermore, he does not take the view that a concession on Item 2 at the end of July would lead to a much better deal over detail in the agreement.

He would favour holding firm until the end of August before contemplating movement on this point, leaving a month for the concluding phase of negotiations.

#### CONCLUSIONS

22. It is agreed that our strategy should be based on the assessment that we may not be able to reach an agreement with the Chinese which can be recommended to the people of Hong Kong and Parliament. We need to make the maximum use in bargaining of the Chinese wish to conclude an agreement between us rather than to be forced to issue a unilateral statement.

23. The tactics favoured by the Ambassador and officials in London would be:

(a) To stand on our present position in plenary sessions and in the working group during July.

(b) To propose a visit to Peking by the Secretary of State in the week beginning 29 July, with short visits to Hong Kong before and after.

(c) During the Secretary of State's visit to put across formally the message that we could only recommend to Hong Kong and to Parliament an agreement which met our requirements. We should also explore whether conditional acceptance by us of a joint group based in Hong Kong would open the possibility of a more constructive negotiation on post-1997 arrangements.

(d) We should plan for a further visit by Sir G Howe in September.

24. In the Governor's view we should make no move until late August/early September. At that stage we should assess all the elements, as they then present themselves, in order to determine what package of measures might be achievable, and whether that package would be likely to achieve acceptance in Hong Kong. Depending on that assessment Ministers would decide whether or what concessions would need to be made to avoid breakdown, and what would

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be the minimum price which HMG would require for these concessions. There should be no illusion that to make such a concession in the location of the group in Hong Kong would at the least be seen in Hong Kong as the start of a process of creeping condominium up to 1997. It would be in the light of decisions then made that the Secretary of State would visit Peking to set the scene for the final stage.

Hong Kong Department  
July 1984

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