

PS (6)  
 PS/PUS  
 PS/MR LUCE  
~~MR WILSON~~  
 ED/EDD  
 ED/FED  
 PS | LADY YOUNG  
 SIR W HARDING  
 RESIDENT CLERK

COPIES TO:  
~~MR COLES~~ <sup>POWELL</sup>, NO. 10 DOWNING ST  
 MR ROBERTS, NEWS DEPT  
 SIR PERCY CRADOCK

GRS 500

SECRET

FM HONG KONG 1205Z JUL 84  
 TO IMMEDIATE F C O  
 TELEGRAM NUMBER 1949 OF 14 JULY  
 INFO IMMEDIATE PEKING

ADVANCE COPY

FOLLOWING FROM MR LUCE

IMMEDIATE

FUTURE OF HONG KONG : JOINT GROUP.

1. IN ALL MY DISCUSSIONS IN HONG KONG I WAS STRUCK BY THE STRENGTH AND NEAR-UNANIMITY OF CONCERN ABOUT THE ESTABLISHMENT OF A JOINT GROUP, AND IN PARTICULAR ITS BASING IN HONG KONG. THIS EMERGED WITH EQUAL FORCE FROM MY TALKS WITH UMEICO MEMBERS, WITH COMMUNITY REPRESENTATIVES AND WITH REPRESENTATIVES OF BUSINESS INTERESTS. WHILE IT WAS RECOGNISED THAT THERE WOULD BE A NEED FOR CONSULTATION BETWEEN BRITAIN AND CHINA IN THE PERIOD LEADING UP TO 1997, THERE WAS ALSO A STRONG FEELING THAT THERE WERE DANGERS IN ANY INSTITUTIONALISATION AT ALL AND IN PARTICULAR THAT ANY STANDING MACHINERY LOCATED IN HONG KONG WOULD UNDERMINE THE AUTHORITY OF THE HONG KONG GOVERNMENT. THE CHINESE WOULD HAVE AN OPPORTUNITY TO BEGIN INTERFERING IN THE ADMINISTRATION OF HONG KONG FROM NEXT YEAR.

2. MY DISCUSSION WITH EXCO WAS ON A SOMEWHAT DIFFERENT BASIS. MEMBERS NOTED THAT HMG HAD AGREED IN PRINCIPLE TO THE ESTABLISHMENT OF A JOINT GROUP AND SAID THAT THEY CONTINUED TO DISASSOCIATE THEMSELVES FROM THAT DECISION. ON LOCATION THEY WERE NOT INCLINED TO ADVOCATE ANY IMMEDIATE BREAK OR CONFRONTATION IN THE NEGOTIATIONS. BUT THEY FELT THAT A DECISION TO CONCEDE LOCATION IN HONG KONG SHOULD IF AT ALL POSSIBLE BE AVOIDED AT THE END OF THE DAY. IF THERE COULD BE ANY MITIGATION OF THE CONCEPT OF THE ESTABLISHMENT OF A HONG KONG-BASED JOINT GROUP, EXCO MEMBERS SUGGESTED THAT IT MIGHT BE FOUND IN THE FOLLOWING AREAS:

(A) THE TIMING OF ITS ESTABLISHMENT IN HONG KONG (THEY SUGGESTED THAT IT NEED NOT BEGIN OPERATING BEFORE 1993):

(B) A VERY TIGHT DEFINITION OF ITS FUNCTIONS:

(C) A "MIRROR" EFFECT, WITH THE JOINT GROUP CONTINUING IN BEING FOR A PERIOD AFTER 1997.

3. I WAS CLOSELY QUESTIONED ABOUT THE COURSE OF ACTION WE WOULD ADOPT IF THE PROPOSAL IN THE PM'S LETTER WAS TURNED DOWN. I TOOK THE LINE THAT WE WOULD THEN BE IN A NEW SITUATION, WHICH WE SHOULD ALL HAVE TO CONSIDER TOGETHER IN THE LIGHT OF THE EXACT CHINESE RESPONSE DURING THE S OF S' DISCUSSIONS IN PEKING.

4. I HOPE THAT ALL THE AREAS OF POSSIBLE MITIGATION OUTLINED IN (A) TO (C) ABOVE CAN BE THOROUGHLY INVESTIGATED IN PREPARATION FOR THE S OF S' VISIT. WE SHALL ALSO NEED TO GIVE FURTHER THOUGHT TO HOW WE WOULD DEAL WITH A CHINESE REJECTION OF THE PROPOSAL IN THE PM'S LETTER.