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IMMEDIATE



SECRET
DESKBY 181200Z
FROM PEKING 181040Z JULY 84
TO IMMEDIATE FCO
TELNO 1488 OF 18/7/84
INFO IMMEDIATE HONG KONG

FUTURE OF HONG KONG: YOUR VISIT TO PEKING

1. YOU MAY FIND IT HELPFUL TO HAVE MY VIEWS ABOUT WHERE WE NOW STAND IN THE NEGOTIATION AND ABOUT WHAT YOU MIGHT SEEK TO ACHIEVE DURING YOUR FORTHCOMING VISIT TO PEKING.

STATE OF PLAY IN THE NEGOTIATION

2. EXCEPT ON THE LANGUAGE OF THE ANNEXES (WHERE PROGRESS HAS BEEN STEADY, IF BY NO MEANS RAPID), WE HAVE NOT MADE A GREAT DEAL OF PROGRESS SINCE YOUR VISIT IN APRIL. THE ARGUMENT ABOUT THE LOCATION, CHARACTERISTICS AND TASKS OF A JOINT GROUP DURING THE PERIOD BEFORE 1997 HAD BEGUN BY THEN AND REMAINS UNRESOLVED NOW. WE HAVE GONE BACKWARDS RATHER THAN FORWARDS ABOUT THE STATIONING OF TROOPS SEMICOLON AND THERE HAS BEEN NO SUBSTANTIAL PROGRESS ON OTHER OUTSTANDING ISSUES TO DO WITH ARRANGEMENTS AFTER JUNE 1997 (NATIONALITY, CONSTITUTIONAL ARRANGEMENTS, THE PUBLIC SERVICE, LAND LEASES AND CIVIL AVIATION). WE HAVE BEEN TOLD QUITE OFTEN BY ZHOU NAN DURING RECENT WEEKS THAT THE CHINESE LEADERS ARE DISCONTENTED AND EVEN ANGRY.

3. A GREAT DEAL REMAINS TO BE DONE IF AN AGREEMENT IS TO BE READY FOR INITIALLING BY (SAY) 25 SEPTEMBER. WE MUST REACH AGREEMENT WITH THE CHINESE ON ALL THE OUTSTANDING ISSUES TO DO WITH ARRANGEMENTS AFTER JUNE 1997, ALL THE THE OUTSTANDING ISSUES TO DO WITH ARRANGEMENTS BEFORE JUNE 1997 (WHICH GO CONSIDERABLY WIDER THAN THE LOCATION, CHARACTERISTICS AND TASKS OF A JOINT GROUP), AND THE DOCUMENTARY EXPRESSION OF ALL THE ISSUES TO BE COVERED EXCEPT THOSE ON WHICH THE WORKING GROUP HAS SETTLED TEXTS ALREADY.

4. I WONDER HOW ALL THIS IS GOING TO BE ACHIEVED, GIVEN THAT THERE WILL ONLY BE TIME AFTER YOUR VISIT FOR FOUR OR SO FURTHER ROUNDS OF TALKS. I THINK THAT WE SHALL NEED TO SUBSTITUTE SOMETHING LESS FORMAL AND MORE FREQUENT FOR FORTNIGHTLY ROUNDS. THIS COULD PERHAPS TAKE THE FORM OF HALF-DAY MEETINGS BETWEEN ZHOU NAN AND ME TWICE A WEEK, WITH EACH PRINCIPAL SUPPORTED BY A TEAM OF THREE OR FOUR. IT WOULD NOT BE POSSIBLE, I IMAGINE, FOR THE GOVERNOR TO PARTICIPATE ALL THE TIME. BUT I WONDER WHETHER IT WOULD BE POSSIBLE FOR MCLAREN TO REPRESENT HIM AT LEAST SOMETIMES.

CHINESE ATTITUDES

5. I STILL BELIEVE THAT THE CHINESE WANT AN AGREEMENT. AN AGREEMENT WOULD GIVE THEM SEVERAL THINGS FROM US WHICH THEY

5. I STILL BELIEVE THAT THE CHINESE WANT AN AGREEMENT. AN AGREEMENT WOULD GIVE THEM SEVERAL THINGS FROM US WHICH THEY WOULD NOT OTHERWISE OBTAIN, NOTABLY UNDERTAKINGS FROM US IN RELATION TO SOVEREIGNTY AND ADMINISTRATION AND (TO USE THE WORDS OF ARTICLE 7 IN THE CHINESE DRAFT PROTOCOL) "FACILITIES AND COOPERATION IN THE PREPARATION FOR THE ESTABLISHMENT OF THE HONG KONG SAR GOVERNMENT". ON TOP OF THIS, AN AGREEMENT WOULD REDUCE THE RISK OF HONG KONG'S GOING DOWNHILL, WITH ALL THAT THIS WOULD IMPLY FOR CHINA'S ECONOMIC DEVELOPMENT SEMICOLON WOULD MAKE IT EASIER FOR CHINA TO WARP TAIWAN GRADUALLY ALONGSIDE SEMICOLON AND WOULD BE QUITE A FEATHER IN CHINA'S DIPLOMATIC CAP.

6. BUT I BELIEVE, TOO, THAT THE CHINESE HAVE THEIR BOTTOM LINE. FIRM COMMITMENTS BY US IN RELATION TO "SOVEREIGNTY" AND ADMINISTRATION ARE CERTAINLY PART OF IT. SO IS AGREEMENT ON OUR PART TO ENTER INTO ARRANGEMENTS FOR CLOSE COOPERATION BEFORE 1997. HERE THE KEY ISSUES ARE THE LOCATION OF A JOINT GROUP IN HONG KONG AND (PERHAPS A LITTLE BEHIND THIS) THE ESTABLISHMENT OF STANDING MACHINERY FOR SUCH A GROUP.

7. I DESCRIBED DENG XIAOPING DURING THE CONSULTATIONS IN LONDON AS A CANTANKEROUS AND OPINIONATED OLD MAN. I STICK BY THIS DESCRIPTION. HE IS OFTEN UNSCRUPULOUS ABOUT HOW HE GETS HIS WAY AND HAS NO QUALMS ABOUT HUMILIATING SOME OF HIS SENIOR ASSOCIATES IN PUBLIC. NOR, IN MY JUDGEMENT, IS HE VERY KNOWLEDGEABLE ABOUT HONG KONG. SECRET REPORTS HAVE MADE IT CLEAR THAT HE STILL HAS AN IDEE FIXE ABOUT OUR SIPHONING MONEY OUT OF HONG KONG AND THAT.

IN HIS JUDGEMENT, WE ATTACH GREAT IMPORTANCE TO THE PRESERVATION OF OUR "INTERESTS" IN HONG KONG. WE ARE ALWAYS IN DANGER OF A HASTY AND ILL-JUDGED DECISION BY DENG.

8. ZHOU NAN HAS LATELY BEEN AT PAINS TO EMPHASISE THAT ZHAI ZIYANG ALSO MATTERS A GREAT DEAL. I HAVE HAD CORROBORATION FROM THE BELGIAN AMBASSADOR THAT ZHAO CLOSELY CROSSEXAMINED ZHOU ABOUT THE PROGRESS OF THE TALKS AT PEKING AIRPORT ON HIS RETURN FROM HIS RECENT TOUR OF WESTERN EUROPE. JI PENGFEI IS KNOWLEDGEABLE, BUT HE IS NOT VERY SENIOR IN THE HIERARCHY (HE IS NOT EVEN ONE OF THE 22 MEMBERS OF THE POLITBURO). I DO NOT THINK THAT ZHOU NAN'S REPORTING LINE RUNS TO THE OTHER LEADERS THROUGH WU XUEQIAN. LIKE JI, HE IS NOT A MEMBER OF THE POLITBURO.

9. I TAKE SERIOUSLY WHAT ZHOU NAN HAS SAID TO ME ABOUT INTERNAL OPPOSITION. BUT I DO NOT THINK THAT THE OPPOSITION WHICH MATTERS IS TO BE FOUND IN THE STANDING COMMITTEE OF THE NATIONAL PEOPLE'S CONGRESS, WHERE HE HAS LOCATED IT. I THINK IT IS MORE IN THE CENTRAL COMMITTEE OF THE PARTY, WHICH WOULD ALMOST CERTAINLY HAVE TO APPROVE AN AGREEMENT AND WHICH (LIKE THE STANDING COMMITTEE) IS FULL OF ELDERLY CHAUVINISTS. IT IS ALSO IN THE ARMED FORCES. THERE IS EVIDENCE THAT SOME SENIOR PEOPLE IN THE ARMED FORCES OBJECT TO THE WHOLE THRUST OF CHINA'S CURRENT ECONOMIC POLICY, AND, AS PART OF THIS, OBJECT TO HONG KONG REMAINING A CAPITALIST ENCLAVE FOR 63 MORE YEARS.

YOUR AIMS

10. AGAINST THIS BACKGROUND, I SUGGEST THAT YOUR AIMS SHOULD BE:

(A) TO GET THE CHINESE TO AGREE TO THE PROPOSAL IN THE PRIME MINISTER'S MESSAGE TO ZHAO ZIYANG ABOUT THE HANDLING OF ISSUES IN RELATION TO A JOINT GROUP,

(B) TO GET THE CHINESE TO ACCEPT THAT AN AGREEMENT MUST BE BINDING, BALANCED AND DETAILED, AS WE DEFINE THESE REQUIREMENTS OURSELVES,

(B) TO GET THE CHINESE TO ACCEPT THAT AN AGREEMENT MUST BE BINDING, BALANCED AND DETAILED, AS WE DEFINE THESE REQUIREMENTS OURSELVES,

(C) TO GET THE CHINESE TO AGREE TO SELECTED KEY POINTS IN OUR REVISED PROPOSALS ON NATIONALITY, CONSTITUTIONAL ARRANGEMENTS AND LAND LEASES, AND

(D) TO MAKE IT CLEAR THAT WE DO HAVE A BOTTOM LINE.

CHINESE REACTIONS

11. THE CHINESE WILL NOT LIKE THE PROPOSAL ABOUT THE JOINT GROUP IN THE PRIME MINISTER'S MESSAGE TO ZHAO ZIYANG. BUT THEY MAY WELL BE EXPECTING SOMETHING WORSE SEMICOLON EG THAT YOU WILL INSIST ON CHINESE ACCEPTANCE OF OUR PROPOSALS ABOUT A JOINT LIAISON GROUP. DURING THE PAST WEEK, I HAVE DELIBERATELY TRIED TO PUT A LID ON CHINESE EXPECTATIONS WHEN SPEAKING TO ZHOU NAN. SO MUCH SAID, I SHALL OF COURSE TELL ZHOU NAN THAT YOU ARE NOT SEEKING CONFRONTATION (YOUR TELNO 787). I SHALL DO THIS, AND ACT ON YOUR OTHER RECENT INSTRUCTIONS, WHEN HE HAS LUNCH WITH ME AT MY HOUSE TOMORROW.

12. THERE WILL BE A DEVELOPING SITUATION THROUGHOUT YOUR TIME IN PEKING. YOU MAY NOT GET A DEFINITIVE CHINESE RESPONSE TO THE PROPOSAL ABOUT THE JOINT GROUP UNTIL YOU SEE ZHAO OR EVEN DENG. BEFORE THAT, YOU CAN EXPECT VERY CONSIDERABLE CHINESE PRESSURE TO ACCEPT THEIR PROPOSALS IN RELATION TO A JOINT GROUP, ESPECIALLY ON LOCATION AND MACHINERY. YOU CAN ALSO EXPECT PERSISTENT QUESTIONING ABOUT THE IMPLICATIONS OF THE SUGGESTION THAT THE TWO SIDES SHOULD FOR THE PRESENT PUT ASIDE THE QUESTION OF THE LOCATION OF THE GROUP.

13. WHEN THE CHINESE RESPONSE DOES COME, IT COULD BE A COUNTER-PROPOSAL. IN THAT CASE, YOU WOULD HAVE TO DECIDE HOW TO REACT TO IT ON THE SPOT (THIS COULD BE VERY DIFFICULT IF IT WERE MADE BY DENG TOWARDS THE END OF THE LAST MEETING OF THE VISIT). IF IT AMOUNTS TO A STRAIGHTFORWARD REJECTION, YOU WILL PRESUMABLY WISH TO SUGGEST THAT THE TWO SIDES SHOULD PAUSE AND REFLECT. I TAKE IT THAT YOUR OPERATIONAL OBJECTIVES IN SUCH A SITUATION WOULD BE TO GET THE CHINESE TO AGREE THAT THE NEGOTIATION SHOULD CONTINUE AND THAT NOTHING SHOULD BE SAID IN PUBLIC WHICH COULD PROMPT SPECULATION ABOUT DEADLOCK OR BREAKDOWN.

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