

SECRET

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37

MR POWELL

24 July 1984

HONG KONG: FOREIGN SECRETARY'S VISIT

1. Having looked at the briefs, I am concerned that we may be sending the Foreign Secretary to Peking with too little ammunition and with consequent high risk of failure.

2. The message from the Prime Minister which he will be carrying suggests that we put aside the question of the location of the Joint Liaison Group in Hong Kong for the present and discuss other aspects of the Group and other aspects of the negotiations, ie the main agreement and the Annexes. We should then return to the location issue at the end of the day. It may be that the Chinese will see enough flexibility in the message to encourage them to operate on these terms and conduct a discussion of other aspects of the Joint Group with the Secretary of State while he is in Peking or with the Ambassador immediately thereafter. But there seems to me considerable risk that the Chinese will not take this line and will say they are ready to discuss other aspects of the Joint Group, its functions, tasks and so forth, only when the principle of location in Hong Kong has been agreed.

3. If that situation arises there are broadly two possible responses the Secretary of State could make:

SECRET - 1 -

SECRET

- (a) He could say this is a new situation. We shall have to withdraw and reflect, or
- (b) He could use the formula we have employed to finesse other apparently insuperable obstacles we have encountered in the past: "we would be prepared without prejudice to examine together with the Chinese other aspects of the Joint Group on the premise that it was to be located in Hong Kong." We should then be in a position to explore how tightly we could draw the other terms of reference before deciding whether the package was tolerable or not.

4. Unless we are prepared to see the negotiations founder on the location of the Joint Group, which we agreed in our recent discussions with the Governor we were not, we shall eventually have to fall back on a formula like that in paragraph 3 (b) above. The short point therefore is whether we do this after the Secretary of State returns or whether he should be given contingent authority to deploy this kind of formula in the last resort in Peking. As I see it, the arguments point strongly to him being given the authority before he goes. If we wait until his return the visit will have failed and we must expect the news of that and the consequent deadlock to leak fairly rapidly. The Chinese attitude in other discussions ie in the main negotiations and in the Working Group, would be immediately affected and

- 2 -
SECRET

SECRET

there would be a risk of some harsh public Chinese reaction making it even more difficult for us eventually to pick up the threads. Moreover, given Ministerial absences in August, new instructions would probably take some time to be issued and since they would be employed only by the Ambassador we should have missed the chance to open up the issues face to face with Chinese leaders. We should also have lost a lot of time.

4. I hope therefore that it can be agreed that, if all else fails, the Secretary of State may use the finesse outlined in paragraph 3 (b) above. He will, I believe, want to raise this with the Prime Minister at his meeting at 6.45 this evening.



PERCY CRADOCK

SECRET - 3 -