

ADVANCE COPIES

4213

HONG KONG AGREEMENT

PS  
PS/MR LUCE  
PS/PUS  
SIA W HARDING  
DR WILSON  
ED/ HKD  
ED/ FED  
RESIDENT CLERK

SIR P. CRADOCK, NO. 10 DOWNING ST  
MR FLEET  
MR BURNBOWS, LEGAL ADVISERS  
MR ROBERTS, NEWS DEPT

**IMMEDIATE**

CONFIDENTIAL

DD 060830Z FCO

DD 060700ZHONG KONG

FROM PEKING 060545Z MAY 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 673 OF 6/5/85

INFO IMMEDIATE HONG KONG

YOURTEL NO 393 AND MY TEL NO 55 TO HONG KONG:

HONG KONG AGREEMENT: JOINT LIASON GROUP

*It is not at all clear from this account whether the option of making Mr. Ho a full British citizen is still a runner or not. CDD*

1. ACCOMPANIED BY SMITH, I CALLED ON ZHOU AT 8 OC'CLOCK THIS MORNING (I WAS TOLD LAST NIGHT THAT HE WAS DUE TO MEET ZHAO ZIYANG SHORTLY AFTER 9 O'CLOCK). ON THE COMPOSITION OF THE JOINT LIAISON GROUP, I READ OUT THE SPEAKING NOTE IN YOUR TEL NO 602.

2. ZHOU SAID THAT, BEFORE COMMENTING, HE WOULD LIKE TO ASK WHAT OUR SUGGESTION MEANT IN TERMS OF THE ACTUAL MEMBERSHIP OF OUR SIDE OF THE GROUP. WOULD HO BE REPLACED BY SOMEONE ELSE OR WOULD HE REMAIN ONE OF THE FIVE DESIGNATED MEMBERS? HO HELD BDTG STATUS AND NATUALLY THEREFORE HELD A BDTG PASSPORT. WOULD THAT PASSPORT BE CHANGED FOR A "BRITISH" PASSPORT AND IF SO WOULD HIS ACTUAL STATUS BE CHANGED? THIS WAS A MATTER OF PRINCIPLE. I TOLD ZHOU THAT HO REMAINED ONE OF OUR FIVE DESIGNATED MEMBERS AND IN ANSWER TO HIS SECOND QUESTION SPOKE FROM PARAGRAPH 5 OF YOUR TEL NO 602.

3. ZHOU SAID HE WISHED TO COMMENT ON WHAT I HAD SAID (HE THEN SPOKE FROM APRINTED DOCUMENT). THE CHINESE SIDE WAS DISAPPOINTED BY OUR REPLY. THEY HAD NOT EXPECTED THAT WE WOULD STILL FAIL TO UNDERSTAND THE CHINESE POSITION THE COMPOSITION OF THE JOINT LIAISON GROUP AND THEREBY CREATE "INSURMOUNTABLE DIFFICULTIES". THEY DID NOT UNDERSTAND WHY WE INSISTED ON INCLUDING HO. THE CHINESE SIDE HAD STUDIED OUR ARGUMENTS VERY CAREFULLY, INCLUDING THE POINT I HAD JUST REPEATED THAT, UNDER THE AGREEMENT, EACH SIDE WAS FREE TO DESIGNATE ITS OWN TEAM FOR THE JOINT LIAISON GROUP. THE CHINESE POSITION HAD ALL ALONG BEEN MADE VERY CLEAR AND WE UNDERSTOOD IT WELL. THE JOINT LIAISON GROUP WAS AN ORGAN TO BE FORMED BY THE TWO GOVERNMENTS. IT FOLLOWED THAT MEMBERS OF THE BRITISH TEAM SHOULD BE BRITISH OFFICIALS DESIGNATED BY

IT WELL: THE JOINT LIAISON GROUP WAS AN ORGAN TO BE FORMED BY THE TWO GOVERNMENTS. IT FOLLOWED THAT MEMBERS OF THE BRITISH TEAM SHOULD BE BRITISH OFFICIALS DESIGNATED BY THE BRITISH GOVERNMENT AND SHOULD NOT BE HONG KONG CHINESE OR HOLDERS OF BDTG PASSPORTS. THIS IN TURN ENTAILED A NEED FOR CONSULTATION BETWEEN THE TWO SIDES ON THE COMPOSITION OF THEIR RESPECTIVE TEAMS. YOU HAD ACCORDINGLY INITIATED DISCUSSION OF THE SUBJECT WITH WU XUEQIAN IN DECEMBER LAST YEAR. DURING THAT DISCUSSION, THE CHINESE POSITION HAD BEEN MADE CLEAR AND WE HAD UNDERTAKEN TO STUDY IT CAREFULLY. THE POINT AT ISSUE THEREFORE WAS NOT WHETHER OR NOT CONSULTATION WAS NECESSARY. IT WAS NECESSARY AND INDEED WAS ALREADY IN PROGRESS.

4. ZHOU SAID THAT THE QUESTION WAS A MATTER OF PRINCIPLE FOR THE CHINESE SIDE. THE BRITISH SIDE HAD CLEARLY UNDERSTOOD THROUGHOUT THE ENTIRE COURSE OF THE NEGOTIATIONS THE CLEAR-CUT CHINESE POSITION THAT ALL HONG KONG CHINESE WITH BDTG STATUS WERE CHINESE NATIONALS. IF CHINA WAS NOW ASKED TO ABANDON THIS POSITION AND AGREE TO THE INCLUSION OF HO IN THE GROUP IT WOULD AMOUNT TO A DENIAL OF HER OWN POSITION. IT WOULD NOT BE SETTING DIFFICULTIES ASIDE. RATHER, IT WOULD BE TANTAMOUNT TO IMPOSING BRITISH WISHES, WHICH THE CHINESE SIDE ABSOLUTELY COULD NOT ACCEPT. AS I HAD SAID, THE TWO SIDES HAD A DIFFERENT VIEW OF THE NATIONALITY STATUS OF BDTGS. I HAD ALSO SAID THAT THIS DIFFERENCE SHOULD BE SET ASIDE. THE CHINESE VIEW WAS THAT IT SHOULD BE SET ASIDE COMPLETELY AND NOT IN NAME ONLY, WITH CHINA IN FACT FORCED TO ABANDON HER POSITION ON THE STATUS OF HER OWN NATIONALS. THIS WAS A PRINCIPLED POSITION OF THE CHINESE GOVERNMENT WITH REGARD TO INTERNATIONAL AFFAIRS. THE QUESTION OF DISCRIMINATION ON ETHNIC GROUNDS DID NOT EXIST.

5. ZHOU CONTINUED THAT ONE OF OUR MAJOR ARGUMENTS FOR INCLUDING HO WAS THAT HE HAD SPECIAL EXPERTISE IN ECONOMIC MATTERS. THIS ARGUMENT WAS UNTENABLE. AT MY LAST DISCUSSION WITH HIM, HE HAD SAID THAT THE CHINESE SIDE COULD CONSIDER THE POSSIBILITY OF MAKING HO AN ADVISER TO THE GROUP, IN WHICH CAPACITY HO COULD ATTEND AND OFFER HIS EXPERTISE, THOUGH NOT AS A FORMAL MEMBER. INDEED, BOTH SIDES COULD DO THE SAME: IN ADDITION TO THE FORMAL MEMBERS OF THE CHINESE SIDE, LEGAL ADVISERS OR OTHER EXPERTS MIGHT ATTEND MEETINGS OF THE GROUP AND SPEAK. THE PRACTICAL PROBLEM COULD BE SOLVED IN THIS WAY AND THEREFORE DID NOT EXIST.

6. THE CHINESE SIDE WAS DISAPPOINTED BECAUSE THEY HAD MADE TREMENDOUS EFFORTS IN TRYING TO SOLVE THIS PROBLEM. IF THE BRITISH SIDE DROPPED THEIR INSISTENCE THAT HO SHOULD BE A MEMBER OF THE GROUP, THEN THE CHINESE SIDE COULD "CONSIDER" CHAN, ANOTHER BDTG, AS A MEMBER OF THE LAND COMMISSION, BUT IT WAS CONDITIONAL ON HO NOT BEING A MEMBER OF THE GROUP. IF WE CONTINUED TO INSIST ON HO, THEN THE CHINESE SIDE WOULD BE FORCED TO RECONSIDER THEIR POSITION ON CHAN.

7. THROUGHOUT THE ENTIRE NEGOTIATIONS A SPIRIT OF MUTUAL UNDERSTANDING AND MUTUAL ACCOMMODATION HAD PREVAILED AND THERE HAD BEEN GOOD COOPERATION BETWEEN THE TWO SIDES. WITH THE SIGNATURE OF THE JOINT DECLARATION, THE CHINESE SIDE HAD EXPECTED EVEN CLOSER COOPERATION IN SOLVING MINOR ISSUES. THEY HAD NOT EXPECTED CONTINUED INSISTENCE ON OUR PART OVER POINTS THAT CAUSED THEM POLITICAL DIFFICULTIES. HE HOPED WE COULD CONSIDER THESE DIFFICULTIES AND RECONSIDER OUR OWN POSITION. IF THE TWO SIDES GOT BOGGED DOWN AND FAILED TO REACH AGREEMENT ON THE QUESTION OF THE GROUP'S COMPOSITION THE TIMING OF RATIFICATION WOULD BE AFFECTED AND THE JOINT DECLARATION WOULD NOT GO INTO FORCE.

ON THE QUESTION OF THE GROUP'S COMPOSITION THE TIMING OF RATIFICATION WOULD BE AFFECTED AND THE JOINT DECLARATION WOULD NOT GO INTO FORCE "AS SCHEDULED". FAILURE MIGHT ALSO HAVE ADVERSE EFFECTS ON ZHAO ZIYANG'S VISIT TO BRITAIN AND ON STABILITY AND PROSPERITY IN HONG KONG. HE BELIEVED THIS WAS NOT SOMETHING THE TWO SIDES WOULD LIKE TO SEE OCCUR; BUT, IF IT DID OCCUR, THE CHINESE SIDE WOULD BEAR NO RESPONSIBILITY.

8. IN REPLY I MADE THE FOLLOWING POINTS:

(A) WHAT ZHOU HAD SAID AT OUR MEETING ON 3 APRIL HAD BEEN MOST CAREFULLY CONSIDERED BY MINISTERS AND WHAT I HAD SAID TO HIM TODAY REPRESENTED THEIR CONSIDERED RESPONSE.

(B) WE WERE FIRM ON THE POINT OF PRINCIPLE THAT OUR SIDE HAD THE RIGHT TO DESIGNATE ITS OWN MEMBERS OF THE JOINT LIAISON GROUP IN ACCORDANCE WITH PARAGRAPH 7 OF ANNEX II.

(C) WE WERE FIRMLY OF THE BELIEF THAT THERE WOULD BE ADVERSE AND DAMAGING REACTIONS IN HONG KONG IF IT CAME TO BE BELIEVED THAT THERE WAS DISCRIMINATION AGAINST ETHNIC CHINESE OFFICIALS. THE CHINESE AND BRITISH GOVERNMENTS WOULD BOTH SUFFER AS A RESULT. ON THIS POINT THE CHINESE SIDE HAD TO RESPECT OUR JUDGEMENT.

(D) ZHOU HAD SAID HE WAS DISAPPOINTED AT WHAT I HAD SAID. BUT WHAT HE HAD SAID WOULD CERTAINLY CAUSE DISAPPOINTMENT IN LONDON: WE HAD MADE A BIG EFFORT TO ACCOMMODATE CHINESE DIFFICULTIES.

(E) WHAT ZHOU HAD SAID TO ME EARLIER HAD NOT SUGGESTED THAT CHINESE ACCEPTANCE OF CHAN WAS IN ANY WAY CONDITIONAL.

WHAT HE HAD SAID TODAY WOULD THEREFORE ALSO CAUSE SURPRISE AND DISMAY. (MY TEL NOS 466 AND 467 RECORD PREVIOUS DISCUSSION OF THIS POINT AND CONFIRM THAT ON 3 APRIL ZHOU MADE NO MENTION OF ANY CONDITIONS ATTACHING TO CHAN'S MEMBERSHIP OF THE LAND COMMISSION).

9. ZHOU SAID THAT THERE HAD BEEN AN UNDERSTANDING FROM THE VERY BEGINNING THAT CONSULTATION WAS NECESSARY ON THE MEMBERSHIP OF THE GROUP. IT HAD ALREADY TAKEN PLACE. WHEN SPEAKING ABOUT CHAN, HE HAD DONE SO AT THE SAME TIME AS SPEAKING ABOUT HO'S MEMBERSHIP OF THE GROUP AND IN CONNECTION WITH THE LATTER. HE HAD SAID THAT HO WAS UNACCEPTABLE, BUT THAT "THE CHINESE SIDE COULD ACCEPT CHAN IN THAT SITUATION". HIS REMARKS TODAY HAD BEEN MADE AGAINST THAT BACKGROUND.

10. HE WISHED TO MAKE ONE POINT CLEAR. THE CHINESE SIDE HAD A PARTICULAR OBJECTION TO THE INCLUSION OF A CHINESE NATIONAL IN THE BRITISH TEAM AS SOON AS THE GROUP WAS SET UP AND JUST AFTER THE ENTRY INTO FORCE OF THE JOINT DECLARATION. IT WOULD CAUSE POLITICAL PROBLEMS. BUT AS TIME WENT ON, THE SITUATION MIGHT CHANGE AND THE COMPOSITION OF THE TWO TEAMS MIGHT IN DUE COURSE BE RECONSIDERED. BUT IT WOULD CAUSE DIFFICULTIES TO AGREE TO THE INCLUSION OF CHINESE NATIONALS RIGHT AT THE OUTSET.

11. I TOLD ZHOU THAT I RECALLED YOUR SPEAKING DURING YOUR VISIT LAST JULY ABOUT THE RIGHT OF OUR SIDE TO DESIGNATE OUR OWN MEMBERS, BUT DID NOT RECALL ANY STATEMENT BY THE CHINESE SIDE THAT THIS SHOULD BE SUBJECT TO CONSULTATION. I UNDERTOOK TO REPORT WHAT ZHOU HAD SAID. I SAID I ASSUMED HE WOULD REPORT MY REMARKS TO HIS LEADERS. I WOULD BE AVAILABLE AT

REPORT WHAT ZHOU HAD SAID. I SAID I ASSUMED HE WOULD REPORT MY REMARKS TO HIS LEADERS. I WOULD BE AVAILABLE AT ANY TIME TO HEAR THE CHINESE SIDE'S MORE FORMAL RESPONSE.

12. ZHOU SAID HE WOULD CERTAINLY REPORT WHAT I HAD SAID. BUT HIS REMARKS REPRESENTED THE OFFICIAL CHINESE POSITION. ALTHOUGH NOTHING IN THE JOINT DECLARATION SAID THAT THERE WAS A NEED FOR CONSULTATION, THE CHINESE POSITION THAT MEMBERS OF THE GROUP SHOULD BE GOVERNMENT OFFICIALS OF THE TWO SIDES AND THAT BDTCS WERE UNACCEPTABLE AS MEMBERS HAD BEEN MADE VERY CLEAR. I SAID THAT WE HAD MADE A BIG STEP TOWARDS HELPING THE CHINESE SIDE OVERCOME THEIR DIFFICULTIES. ZHOU SAID WE HAD NOT. WE HAD "CHANGED THE MEDICINAL BROTH, BUT NOT THE MEDICINE ITSELF". HE WONDERED WHY THE TWO SIDES WERE GETTING ENTANGLED OVER A SMALL PROBLEM WHEN THERE WERE MUCH MORE IMPORTANT ONES TO DEAL WITH? HE REPEATED THAT THE PROBLEM SHOULD NOT BE ALLOWED TO AFFECT THE ENTRY INTO FORCE OF THE JOINT DECLARATION, ZHAO'S VISIT TO BRITAIN AND HONG KONG'S STABILITY AND PROSPERITY. THE CHINESE SIDE HAD MADE A SUGGESTION FOR A PRACTICAL SOLUTION TO THE PROBLEM AND COULD NOT UNDERSTAND WHY WE CONTINUED TO INSIST ON OUR OWN PROPOSAL. TIME WAS SHORT. HE HOPED WE WOULD CONSIDER OUR POSITION AND GIVE A SATISFACTORY REPLY AS SOON AS POSSIBLE. I REPLIED THAT I HAD MADE A FIRM PROPOSAL ON BEHALF OF THE BRITISH GOVERNMENT, WHO WOULD WISH IT TO BE STUDIED.

14.

I HAVE MEETINGS FOR THE WHOLE OF THE REST OF TO-DAY (INCLUDING ONE WITH ZHAO ZIYANG, IN COMPANY WITH SOME OF THE BRITISH PARTICIPANTS IN THE EUROMONEY CONFERENCE), BUT WILL COMMENT TOMORROW.

14. SEE MIFT FOR DISCUSSION OF OTHER POINTS.

EVANS

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