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et to Future of Hong Kong

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10 DOWNING STREET

From the Private Secretary

24 September 1982

Dear John,

Prime Minister's Visit to Peking

I enclose a copy of the discussion between the Prime Minister and Chairman Deng Xiaoping in Peking on 24 September.

I am copying this letter and enclosure to Sir Percy Cradock and Sir Edward Youde.

I should be grateful if the contents of this letter could be very closely guarded. Copies should be circulated only to those who have a strict need to know the contents.

Yours ever

John Coles.

John Holmes Esq
Foreign and Commonwealth Office.

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SUBJECT

cc Mosler Set
& Future of Hong Kong
Part 2

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND VICE CHAIRMAN
DENG XIAOPING AT THE GREAT HALL OF THE PEOPLE ON FRIDAY 24 SEPTEMBER
AT 1030 A.M.

Present

Prime Minister

H.E. Ambassador

Governor of Hong Kong

Mr. F.E.R. Butler

Mr. A.E. Donald

Mr. A.J. Coles

Mr. A. Galsworthy

Mr. R. Peirce

Vice Chairman Deng Xiaoping

Mr. Huang Hua

Mr. Zhang Wenjin

Mr. Ke Hua

Mr. Wang Benzao

Mr. Cao Yuanxin

Mr. Lu Ping

Mr. Zheng Yaowen

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After an exchange of courtesies Mr. Deng Xiaoping said that he had read the minutes of the Prime Minister's discussions with Premier Zhao Ziyang. They had had good talks on international issues, and there were not big differences between Britain and China. Observing that Sir Edward Youde was a member of the Prime Minister's party, he suggested that the present talks should concentrate on Hong Kong, on which Premier Zhao Ziyang had expressed the basic viewpoint of the Chinese Government in the talks on the previous day. Mr. Deng Xiaoping said that he would like to hear the Prime Minister's comments on what Premier Zhao Ziyang had said. The Prime Minister said that she was grateful to Mr. Deng for raising this question. Its importance was evident from the presence in Peking of the Hong Kong press and journalists from all over the world. She believed that Mr. Deng had seen the record of the discussion on Hong Kong on the previous day and the carefully drafted press statement which had been issued afterwards. At present there were some differences between the positions of the two sides which she hoped that it would be possible to resolve through co-operation and consultation. She would start by emphasising one or two points and would then hope to get down to discussion and to agree what the two Governments would do and what they would say to the press.

/ The Prime Minister

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The Prime Minister said that the British and Chinese Governments had a common objective: they shared the aim of maintaining the prosperity and stability of Hong Kong in the interests of the people who lived there. She believed that if the two Government co-operated together they could achieve that objective. She noted that Premier Zhao Ziyang also said that the time was now ripe to settle the question of Hong Kong's future.

The Prime Minister said that she was conscious that the present talks were taking place with the eyes of the world upon them and that anything which was now said or done would have an immediate impact on confidence both in Hong Kong itself and internationally; and confidence was essential to the continued economic well-being of Hong Kong. As she had said to Premier Zhao Ziyang she understood how important the principle of sovereignty was to China; but sovereignty was also a difficult issue for her. She had read the records of the talks between Premier Zhao Ziyang and Mr. Humphrey Atkins and between Mr. Deng Xiaoping and Mr. Edward Heath, ^{which} had included a similar point about the Chinese position on sovereignty. On this issue she had to convince the British Parliament and Mr. Deng had to convince the Chinese people. So sovereignty was a difficult point for both sides.

The Prime Minister said that she wanted to repeat what she had said to Premier Zhao Ziyang, namely that if the two Governments could agree definite arrangements about the future administration and control of Hong Kong, and ^{if} the Prime Minister were satisfied that they would work and that they would command confidence, and if she could justify them to the British Parliament, and they were acceptable to the people of Hong Kong, there would be a new situation in which the Prime Minister could consider the question of sovereignty. But without agreement on concrete arrangements on administration and control, she would not be able to make any recommendations to the British Government on the question of sovereignty.

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Interjecting at this point Mr. Deng Xiaoping asked what the Prime Minister meant by control. The Prime Minister said that Hong Kong owed its prosperity to the system which it had had during 140 years of British administration. This system was compounded of several different elements - a political system which was different from that of China; an assured legal system; and an independent currency.

Mr. Deng Xiaoping asked whether "control" meant rule of a place by a country.

The Prime Minister said that she drew a distinction between sovereignty and administration. There had been examples of one country exercising administration in territory of which another country was sovereign. It could be said that this situation had existed in the New Territories, where Britain had had a lease from China. It was the firm belief of the British Government that unless people believed that the present arrangements for administering Hong Kong would continue for a long time, there would be a most damaging effect on confidence: and if changes in the administrative control of Hong Kong by the United Kingdom were introduced or announced now, the result would be disastrous for Hong Kong confidence.

The Prime Minister emphasised that as she had explained to Premier Zhao Ziyang the immediate issue was not what would happen by 1997 but what people now in 1982 believed would happen: it was that which would determine what they would do with their investments in the coming months and how far they would support the Hong Kong dollar. So the problem was an immediate one. Things would change in China as in the wider world, but people would make their present judgements against the background of recent Chinese history, of a difference / ^{between} the political systems of China and Hong Kong and of a modernisation programme which had only just begun in China. Against this background, if a change in Hong Kong's future status was announced now on the lines suggested by the Chinese Government, those with money and skill would immediately begin to leave the territory, and this would bring about an economic collapse which could be irreversible, if it went fast.

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The Prime Minister said that there was no time in the present short visit to reconcile the differences on this issue which existed between the British and the Chinese Governments, but she believed that those differences could be reconciled and that it was essential to maintain confidence while they were reconciled. That was why she proposed that it should be announced, while she was in Peking that further talks were to take place between the two Governments and that those talks would have a common objective to maintain prosperity and stability in Hong Kong. A Press Conference on the whole of her visit to Peking had been arranged for later that day and she would have to say something on this issue then. She would like to discuss before the end of the meeting what she proposed to say with the aim of maintaining confidence while talks went on. But she could not make any statement which misrepresented the genuine views of Mr. Deng Xiaoping and herself. She then invited Mr. Deng to raise any points or details in her statement which he wished to discuss.

Mr. Deng Xiaoping said that Premier Zhao Ziyang had enunciated the Chinese basic position on Hong Kong frankly on the previous day. There were three questions - sovereignty; the continued prosperity of Hong Kong; and discussions between the Chinese and British Governments on how to ^{avoid} turbulence in Hong Kong between now and 1997 and how to maintain prosperity in Hong Kong thereafter. He said that the Prime Minister had talked about prosperity after 1997 but not in the intervening period. As Premier Zhao Ziyang had said, on sovereignty there was no leeway for China: sovereignty was not a matter which could be discussed. In Premier Zhao Ziyang's words, the time was ripe for settlement of the Hong Kong issue. It should be clear today that in 1997 China would certainly recover sovereignty over Hong Kong. It was under this pre-condition that China and the United Kingdom would hold talks between the two sides on formulae for the future of Hong Kong and on policies for maintaining Hong Kong's prosperity.

Mr. Deng Xiaoping said that if in 1997 the People's Republic of China had not recovered Hong Kong the Chinese leaders and the Chinese Government would not be able to account for it to the Chinese people or to the people of the world. If sovereignty

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were not recovered, it would mean that the new China was like the China of the Ching dynasty and the present leaders were like Li Hongzhang. The Chinese People's Republic had waited for 33 years for the recovery of Hong Kong, and they would have to wait another 15: it was only because the Chinese Government enjoyed the full trust and faith of its people that it could wait such a long time. But if in 15 years they had not recovered Hong Kong, the people would have every reason no longer to put faith in their leaders and the Chinese Government ought to retire voluntarily from the political arena.

Mr. Deng Xiaoping said that this decision need not be announced now; but that in no more than one or two years time the Chinese Government would formally announce their decision to recover Hong Kong. The only reason why they were postponing this decision for a year or two was so that the Chinese and British Governments could conduct friendly consultations so that major disturbances should be prevented and so that the prosperity of Hong Kong would be maintained. Time was needed to settle the future of Hong Kong: during that period the Government would also listen to certain circles in Hong Kong and have discussions with them on the policies and principles to be followed after the 15 year period. The Chinese Government recognised that the policies would need to be acceptable not only to the people of Hong Kong but also to investors including investors from Britain. Time was needed. But an announcement could not be put off for more than one or two years.

Mr. Deng Xiaoping said that he noted from Mrs. Thatcher's statement that there were difficulties on the British side over sovereignty. In his view an announcement of the Chinese resumption of sovereignty over Hong Kong would bring a much bigger benefit because it meant that the period of colonialism would have ended in Britain. In the past Britain had been known as the empire where the sun never set, but Britain had ended her colonial role in very many former colonies e.g. India, Singapore, Malaysia and many others. The Prime Minister interjecting said that there were 45 members of the United Nations which were former colonies brought to independence by Britain. That was Britain's normal policy: the reason why it could not be done in the case of Hong Kong was because of the complications of the lease from China. She wanted to emphasise that the British Government derived

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no revenue from Hong Kong, and Hong Kong received no aid. Her duty, which she felt deeply, was to reach a result acceptable to the people of Hong Kong. Britain was not a colonialist country : we had moved beyond that. Britain simply wanted to carry out her moral duty to Hong Kong. The British Government knew that in 1997 sovereignty over 92% of the territory would pass to China when the lease ended. The British Government kept to its treaties and was not contesting the termination of the lease.

/ Mr. Deng Xiaoping

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Mr. Deng Xiaoping said that previous Governments had already solved bigger and more difficult issues. If the Hong Kong problem were to be solved during the Prime Minister's period in office, it would mean that Britain's colonial era had been brought to an end. This would redound to British credit. The British Government should therefore support China's policy and decisions on this issue. He hoped that both sides would co-operate and handle the issue in such a way as to maintain the prosperity of Hong Kong.

The Prime Minister said that there was still a certain amount of misunderstanding between the two sides. She wished to clarify the position so that comprehension was complete.

As regards sovereignty we understood China's position. She had explained to Mr Zhao Ziyang that it was for that reason that for the last ten years we had not reported to the United Nations on Hong Kong as a colonial territory. Under existing treaty arrangements 92 per cent of the total area i.e. the New Scheduled Territories would return to China in 1997. She was not asking for an extension of the lease. That left the treaty arrangements covering Hong Kong and Kowloon. China did not recognise these treaties but she believed that they were valid in international law. Her aim was that, if those treaties were to be changed, they should be changed by agreement and not abrogated by one side or another. She was striving to come to an agreement that was acceptable to China and the people of Hong Kong and would maintain prosperity and would be accepted by the British Parliament.

Mr. Deng Xiaoping had referred to the maintenance of prosperity between now and 1997. It was not only British investors who were involved but investors from the United States, Japan, Australia and from other parts of the world who invested in the territory. Many had put their whole savings and their whole future in Hong Kong. An investment

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was normally placed for at least 20-25 years. Any investor who saw 1997 approaching would question whether he should put his money in Hong Kong and in reaching his decision would take into account the fact that the situation would change in 1997 and that China would acquire sovereignty over a large part of the area at that time. So he would have to consider how to assess China. He would take into account the recent turbulent past, the very different political system and the fact that the modernisation programme was only just beginning. Those factors would lead him to conclude further investment was too risky. There were already signs that investments were moving out. The process might continue in the coming months and years. At the moment, the investor was bound to see, at best, uncertainty. The atmosphere for investment was very bad. The likelihood was that a good deal more people would move money to other financial centres which offered a more certain prospect of return. This was why she was proposing talks based on a certain formula. She wanted to provide enough assurances for investors to keep their money in Hong Kong so that prosperity could be maintained. To this end, we should agree, in further talks, that after 1997 British administration would continue with the same certain system of law, the same certain political system and the same certain independent currency. She believed that this would provide the certainty after 1997 that investment would continue and prosperity be maintained. This would not only benefit the people of Hong Kong but would continue to benefit China which profited greatly from a prosperous Hong Kong. If we could through talks at a later stage arrive at such an agreement there would be a tremendous upsurge in confidence. She could then go to the British Parliament and say that because there was agreement on the continuation of British administration for a considerable time and because prosperity would thereby be maintained we could consider the whole question of sovereignty, including sovereignty over Hong Kong and Kowloon. China would get what she wanted. Prosperity would be maintained both before and after 1997. The solution would be acceptable to Hong Kong because every survey showed that the people of Hong Kong wished the British system of administration to be maintained.

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Her attitude was not that of a colonial power. She was trying to carry out her duty to the people of Hong Kong just as Mr. Deng did in performance of his duty to the people of China. Her suggestion was, therefore, that we should begin talks immediately in order to obtain an agreement which was acceptable to China, Hong Kong and the British Parliament and would preserve prosperity. For if we destroyed prosperity it would never return. Meanwhile it was necessary to issue a very careful statement today. The aim was to maintain confidence. We wished to be able to say publicly that the two sides had entered into talks with the purpose of maintaining prosperity. She recognised that China had its own position on sovereignty. We too had our own position. But these positions were reconcilable and in that spirit we could enter into talks.

Mr Deng Xiaoping said that he was very sorry. He hoped we would understand that sovereignty over the entire area, including Hong Kong Island and Kowloon, would be recovered by 1997. That was certain. China had no other choice. On the question of maintaining prosperity, China hoped to enjoy the co-operation of Britain. But that did not mean that the prosperity of Hong Kong could be maintained only under British administration. The maintenance of prosperity when sovereignty had been recovered by China, and Hong Kong was administered by China, depended fundamentally on the policy pursued by China towards Hong Kong, including the political, economic and administrative systems which were used. The laws enacted in Hong Kong would also be relevant. Of course, some changes would be made. But Hong Kong would remain a capitalist society. Many systems which were favourable to the maintenance of prosperity would remain in the future. He wished to cite, as an example, Singapore. After the end of colonial rule in Singapore it had managed its own affairs and had done so quite well.

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He thought it unavoidable that some fluctuations would take place after China had announced that it would recover sovereignty. But China would try to avoid major fluctuations and, with co-operation, this could be done. But he could tell the Prime Minister that when the Chinese Government had formulated its policy decisions it had taken various factors and possibilities into consideration. Many people said that if the prosperity of Hong Kong could not be maintained, this would affect China's modernisation drive. There would be some effect but it was incorrect to believe that it would affect this policy to a large extent. If the modernisation programme was based on the maintenance or decline of prosperity of Hong Kong, then the modernisation decision was not a sound one. As regards the flight of foreign investment, provided China pursued appropriate policies the foreign investment which had left would come back.

When China announced its intention to resume sovereignty, it would at the same time announce the policies to be pursued and the measures ^{with regard to Hong Kong systems.} to be taken. In the next year or two, China would solicit widespread views from various circles in Hong Kong about this issue. The Chinese side was pleased that on this matter the British Government had put forward many suggestions. He meant by this the proposals relating to 1997. China hoped that in the intervening period no big fluctuations would take place and that, after the recovery of sovereignty, China would benefit from British suggestions in the spirit of co-operation.

There was one point upon which he did not want to dwell but which he wished to make. If there were very large and serious disturbances in the next fifteen years, the Chinese Government would be forced to consider the time and formula relating to the recovery of its sovereignty over Hong Kong. The Prime Minister had said there might be a disastrous effect. China would have to make its decisions in the face of such a situation. / he hoped that after the current visit the two Governments would hold consultations and discussions. There had been no decision on the level of such talks but they could be conducted through diplomatic channels and the issue discussed with a view to avoiding major

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disturbances. He was sure that, as a result of full consultation, the defined policies to be pursued after 1997 would be acceptable to the people of Hong Kong and to investors from various countries. These would not be adversely affected nor would their interests be affected. That was not the point which worried him. What China worried about was how to ensure a good transitional period in the coming fifteen years so that major disturbances did not occur. If they did occur they would be man-made (artificial), not natural.

The Prime Minister said that all disturbances were created by man. Mr. Deng Xiaoping said that he meant that the disturbances would be created, not by Governments, but by individuals, some Chinese, some British. Take for instance the Hong Kong and Shanghai Bank. No-one knew how many banknotes it had issued. Sir Edward Youde said that we knew. Mr. Deng Xiaoping agreed that we knew but said that the Hong Kong people he talked to did not. In any event, it would be easy for some people to create disturbances. The consultations would be aimed at solving these problems. Not only should the two Governments not do anything which was detrimental to the maintenance of prosperity. They should also prevent some businessmen from doing things which were detrimental to the prosperity and stability of Hong Kong.

Mr. Deng Xiaoping then suggested that the two sides should reach agreement to the effect that the two Governments would start discussions through diplomatic channels. The pre-condition was that in 1997 China would recover sovereignty over Hong Kong. Under this pre-condition, they would discuss how to ensure a good transitional period of fifteen years and what would be done after fifteen years.

/ Mr. Deng Xiaoping

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Mr Deng Xiaoping was at this point handed a piece of paper by his advisers. He read the following text:

"Today leaders of the two countries have had deep ranging discussions on the question of Hong Kong in a friendly atmosphere. Although there existed differences, both sides believe that discussions were useful in order to seek an appropriate settlement of the Hong Kong question. Both sides agreed to maintain contact on the question of Hong Kong through diplomatic channels, following this visit."

The Prime Minister said that she wished to make a number of points. As regards Mr. Deng's reference to Singapore, she had great admiration for that country and for Mr. Lee Kuan Yew but it was a sovereign, independent country, whose position did not equate to that of Hong Kong. Under normal circumstances we would bring Hong Kong similarly to sovereign independence but we could not because China would not accept this and the people of Hong Kong knew that.

What really worried her was Mr. Deng's attitude to disturbances. She was not contemplating disturbances. She would do everything to prevent them. She was however contemplating the possibility of a financial collapse and she also wished to prevent that. The fact was that Hong Kong had been financially prosperous and very well run under British administration. If disturbances occurred, they would not have been caused by British administration in any way. So she urged him not to make the kind of statement that he had suggested. Instead, we might take the first sentence and then record the agreement of the two sides to enter into talks about the future of Hong Kong. We should not disturb the prosperity of the Chinese people of Hong Kong, most of whom had worked extremely hard for it. Reverting to the proposed statement, she suggested that the two sides should say that they had talks, these were a first exchange, all problems

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could not be solved in this session, but there was agreement to enter into further talks through diplomatic channels with a common aim of maintaining prosperity and stability. Mr. Deng had made his position on sovereignty known. But she was not free to abrogate treaties without reference to her Cabinet and Parliament.

Mr. Deng Xiaoping suggested that we should add to the proposed formula a statement to the effect that the leaders of both countries had clearly expressed their respective positions on the future of Hong Kong.

After some further discussion, it was agreed to issue the following statement:-

"Today the leaders of both countries held far reaching talks in a friendly atmosphere on the future of Hong Kong. Both leaders made clear their respective positions on this subject. They agreed to enter talks through diplomatic channels following the visit with the common aim of maintaining the stability and prosperity of Hong Kong."

The Prime Minister commented to the effect that diplomatic channels might be used to agree upon a framework for the talks. If either side wanted to conduct talks through special emissaries these can be brought in. Mr. Deng Xiaoping agreed.

The discussion ended at 1245.

A.S.C.

24 September 1982

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