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cc. Mantel sek.

SUBJECT

## 10 DOWNING STREET

From the Private Secretary

18 December 1981

Prime Minister's Meeting with Sir Y.K. Pao:  
17 December

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Thank you for your letters of 16 and 17 December.

On his arrival Sir Y.K. Pao requested that his meeting with the Prime Minister should be private. After the meeting the Prime Minister gave me an account of what had transpired but she is most anxious that the conversation should be fully protected. I should therefore be grateful if this letter is shown only to those who really need to know its contents.

Sir Y.K. said that he had had a long talk with Mr. Gu Mu, Deputy Premier of China, and also with Deng Xiaoping. He had also seen Huang Hua.

Gu Mu said that he had never been to the United Kingdom. Sir Y.K. wondered whether it would be possible to invite him here, perhaps in February. He had said that the Chinese were very concerned about their relationship with the United States. They had implied that if the Americans moved closer to Taiwan and in particular developed a significant relationship in the arms field, this would be too much for the Chinese to digest. The latter therefore wished to get nearer to the United Kingdom. But Deng Xiaoping had questioned the desirability of this on the grounds that the UK was too poor to help. Sir Y.K. argued that British economic policy was working and there were ways in which Britain could be helpful to China.

The subject of Hong Kong had arisen in these conversations. Sir Y.K. thought it desirable that there should be early high level discussions with the Chinese about the matter. In this connection the Chinese had drawn attention to the ways in which Japan was helping China at present. They had apparently produced both substantial export credits and an untied loan equivalent to \$1 billion in value. He had been asked by the Chinese whether Britain would consider providing a similar kind of assistance. The Chinese would then be happy to discuss Hong Kong. They were not making a

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conditional link between the two but thought the two matters could usefully be discussed at the same time. Sir Y.K. told the Prime Minister that he thought people in Hong Kong might be able to help with such a loan.

Huang Hua had said that when the existing arrangement lapsed it would not be possible to envisage any formula implying any degree of sovereignty for Hong Kong. On the other hand the Chinese recognised that there were special problems. They had not been able to think of a formula which was satisfactory from all points of view and wondered whether the United Kingdom had been able to do so.

In telling me of the above conversation, the Prime Minister said that it had not always been possible to grasp fully what Sir Y.K. was saying.

As I told you on the telephone, the Prime Minister thinks it would be useful to have a talk soon with a senior FCO official about this conversation and its implications for our policy. May we be in touch about this separately as soon as possible?

The Prime Minister also wondered whether it would be helpful if at some time in the near future she invited the Chinese Ambassador to Chequers for a working lunch or dinner. I should be grateful for advice on this matter and, if you think it a good idea, a suggested guest list. (The Prime Minister thought possible guests were Sir Edward Youde, Sir John Addis and Sir John and Lady Keswick.

A.L. COLES

Roderic Lyne, Esq.,  
Foreign and Commonwealth Office

5 January 1982

Prime Minister's Meeting  
with Sir Y.K. Pao

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Thank you for your letter of 4 January.  
The Prime Minister has noted its contents.

A. J. COLES

R.M.J. Lyne, Esq.,  
Foreign and Commonwealth Office.





Foreign and Commonwealth Office

London SW1A 2AH

4 January 1982

Prime Minister

To note.

A.S.C. 4/1

Dear John,

Prime Minister's Meeting with Sir Y K Pao: 17 December 1981

Thank you for your letter of 18 December.

Sir Y K Pao quotes Vice Premier Gu Mu as saying that he had never been to the United Kingdom, and Sir Y K enquires whether it would be possible to invite him here, possibly in February. As Sir E Youde told the Prime Minister on 23 December, we would not recommend going firm on a specific invitation until we are clearer about what we would be able to say to him if he were to raise the question of a large-scale loan. There is already an open invitation to him on the table, first extended in July 1980. As far as we are aware Gu Mu did not mention this when Mr Rees saw him before Christmas in Peking. When the Lord Privy Seal is in China he proposes to renew in general terms the invitations extended over the last year or two to a number of Chinese leaders. But he is not due to meet Gu Mu and will not wish at this stage to make any specific proposals about dates.

Lord Carrington welcomes the Prime Minister's idea of a working meal with the Chinese Ambassador. He thinks that it would be best to hold this in the run-up to the Prime Minister's visit to China, when there will be specific matters to discuss. To see Mr Ke Hua cold at an earlier stage is unlikely to be productive; his instructions would allow him little leeway and an invitation from the Prime Minister would lead the Chinese to expect that she had proposals to make. He would come prepared to listen but not to discuss.

Yours ever

(R M J Lyne)  
 Private Secretary

A J Coles Esq  
 10 Downing Street

- 4 JAN 1982





FILE

Hong Kong

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PRIME MINISTER

Sir Edward Youde

The above is coming to see you tomorrow.

You asked to see him following your talk with Y.K. Pao the other day. I think you wished to give Sir E. Youde an account of that conversation and discuss its implications for your visit to China, Hong Kong and Japan next year.

We also need to settle before Christmas what the Lord Privy Seal can say, when he visits Peking and Tokyo next month, about your own plans for a visit. You will recall the Foreign Secretary's minute (attached) in which he recommends that we should tell the Chinese and Japanese that you hope in principle to visit in the second half of September.

We discussed the alternative, namely that you should go in the Easter Recess. I explained that:-

- a) President Mitterrand was expected to be in Japan (and possibly China as well) in mid April;
- b) The FCO judge that it will be a difficult and lengthy process to bring the Chinese to the point of readiness to discuss the future of Hong Kong. It is unlikely that they can be brought to this point by April. One or more discussions in OD are likely to be necessary.

A point I should have mentioned, but did not, the other day is that Sir Edward Youde, whose appointment to Hong Kong has just been announced, will have only just arrived in the Colony by the Easter Recess.

A. J. COLES

22 December 1981