

Prime Minister

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RECORD OF CONVERSATION

1. The Chinese Ambassador invited Lord MacLehose and Sir E Youde to lunch on 29 July. Mr Liang Geng and an interpreter were also present.
2. The Ambassador referred to his discussion with the Prime Minister after dinner on 12 July about the future of Hong Kong when he had sought the Prime Minister's reactions to the ideas put to Mr Heath by Vice Premier Deng Xiaoping. He knew that both Lord MacLehose and Sir E Youde had seen the Prime Minister and believed it would be useful to have an exchange of views on this issue so that good advice could be offered to state leaders on each stage. It was on them that decisions would fall.
3. Lord MacLehose invited the Ambassador to elaborate on the comment he had made at a dinner for Sir E Youde before the latter's departure for Hong Kong to the effect that the principles for the solution of the Hong Kong question were clear. The Ambassador said that the first was the principle of Chinese sovereignty. The People's Republic of China had stated on the first day of its establishment in 1949 that it would not recognise the 'unequal' treaties. Chinese sovereignty over Hong Kong was an issue of principle as Mao Tse Tung himself had made clear to Field-Marshal Montgomery and Zhao Enlai had made clear to Lord Home in the 50s and 60s. He had added that it was nevertheless a question left over from history to be settled by discussion at the appropriate time. By the 1990s the People's Republic of China would have been in power for nearly half a century and the Chinese people would not understand it if sovereignty had not been recovered in that time. The second principle was that the prosperity and stability of Hong Kong should be preserved and in particular it should remain a free port and a commercial and international financial centre. This would be to the advantage of both the Chinese and the British.
4. Lord MacLehose said that speaking personally he thought that there would be great difficulty over the idea of a transfer of sovereignty. He did not know whether the subject could be further considered but he was sure that it could not be unless HMG could be fully satisfied on arrangements for the future administration of Hong Kong. He explained the parliamentary difficulties which would be involved in any abrogation in treaties. Sir E Youde endorsed what Lord MacLehose had said and ensured in Chinese that the Ambassador had understood the difficulty of the idea.
5. In speaking of future arrangements the Ambassador referred to the Chinese idea that, while socialism would be the policy in the main part of China, capitalism could continue in Hong Kong. Sir E Youde stressed the importance of confidence as a factor in the prosperity of Hong Kong and recalled what the Prime Minister had said to the Ambassador on the link between the survival of confidence and British administration.

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6. Lord MacLehose said that he had told Mr Liao Chengzhi that however sound the policies of the present Chinese Government, given the upheavals during the Cultural Revolution, a long time would have to elapse before there was confidence in the continuity of Chinese policy. The Ambassador referred to the Chinese proposal that Hong Kong should be run by a local administration in which British residents and civil servants could play a part. He believed that with the passage of time there would be confidence in continuity. Lord MacLehose emphasised that while that might be true, a track record over many years would be necessary. Lack of confidence in continuity was a factor which had to be faced. The Ambassador repeated that Chinese sovereignty was for Peking a question of principle. If this were clear, other issues could be considered.

7. The Ambassador referred to press reports in The Times and Financial Times about supposed Chinese attitudes. He said that something should be done about such unfounded reports which were unhelpful. In further discussion he said that the views attributed to Mr Huan-Hsiang were not authoritative expressions of the Chinese Government's view any more than the views of UK academics could be taken as the views of HMG.

8. Sir E Youde emphasised the need for great caution in official statements on the question of the future of Hong Kong. Such statements could have a powerful impact on confidence in the Territory. The Ambassador agreed and said that on the Chinese side policy was being handled by a small and select group of senior people.

9. In the discussion there was agreement on the objective of maintaining the prosperity and stability of Hong Kong; the problem was how to achieve it. The Ambassador said that he would be returning to Peking at the end of August and the discussion would be useful to him in advising Chinese leaders. Lord MacLehose and Sir E Youde said they hoped the exchange of views had been useful as they were concerned that the difficulty in the proposals being made on the Chinese side might not have been sufficiently frankly expressed by the Embassy's contacts to give the Chinese leaders an accurate impression.

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10 DOWNING STREET

From the Private Secretary

4 August 1982

HONG KONG

I showed the Prime Minister a copy of the record of conversation which took place when Lord MacLehose and Sir E. Youde lunched with the Chinese Ambassador on 29 July. The Prime Minister's comment on the line taken by Lord MacLehose and Sir E. Youde was "excellent".

A. J. COLES

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