

SUBJECT

RECORD OF DISCUSSION AT A WORKING LUNCH AT NO. 10 DOWNING STREET  
AT 1300 ON WEDNESDAY, 8 SEPTEMBER, 1982

Present:

Prime Minister	Sir Edward Youde
Foreign and Commonwealth Secretary	Sir S. Y. Chung
Mr. Donald	Mr. Roger Lobo
Mr. Butler	Mr. Li Fook-wo
Mr. Coles	Miss Lydia Dunn
	Mr. Chan Kam-chuen

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The Prime Minister invited the Governor and the five unofficial members of the Executive and Legislative Councils to express their views on the problem of the future of Hong Kong. Sir S. Y. Chung read out the prepared statement, which is annexed to this record.

The Prime Minister enquired whether, if independence were a genuine option for Hong Kong, those present would welcome it. Miss Dunn replied that if the option indeed existed, it would be preferable to absorption in China. But the wish of the people of Hong Kong was that the British system should be maintained. Under British rule they had developed a lifestyle which they wished to continue.

Mr. Li Fook-wo pointed out that the holding of elections would inevitably lead to absorption in China. Most of the population of Hong Kong came from China. Sir S. Y. Chung said that all present recognised that China would not allow Hong Kong to become independent. He had himself incurred strong Chinese displeasure in the 1960s when, returning from China, he had referred to Hong Kong at a press conference as a "member state" of a particular organisation. Sir Edward Youde said

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that the practical point was that Hong Kong could not sustain independence, given the proximity and size of China.

The Prime Minister said that her principal concern was that the Chinese desire for sovereignty and the need to maintain confidence in Hong Kong were irreconcilable. Some thought that it would be possible to concede purely titular sovereignty to China. But the concession of any sovereignty would open up the possibility of Hong Kong having to live under a different system. It was clear to us that the maintenance of confidence required the continuation of British administration and law and of the free enterprise system. The question was whether all that could be obtained in exchange for a sovereignty which was merely titular. It could clearly not be more than titular. Miss Dunn said that at first blush the Chinese might regard titular sovereignty as inadequate. But they were pragmatic. Once they had been educated to see that prosperity flowed from British administration, the objectives of the two sides could be reconciled.

The Prime Minister questioned whether the Chinese were pragmatic. They were Marxist and their system was centralist. Having been born and bred under a Marxist / Leninist system, they did not understand what was necessary to maintain confidence. Our duty was to the people of Hong Kong, who wished to live under our administration. Her instinct was to concede nothing until it was clear that we could obtain precisely what we wanted.

Mr. Li Fook-wo said that, if the Chinese Government consulted their own people in Hong Kong, he was sure they would be beginning to perceive what was necessary to maintain confidence. The Prime Minister commented that it was not certain that the Hong Kong Chinese stated their views clearly to the Chinese Government.

Sir S. Y. Chung agreed that the mentality of the Chinese presented a problem. They probably believed that they could run

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Hong Kong themselves. Nevertheless, they were modifying their policies in a number of respects in order to achieve certain economic ends. They might do so also in order to maintain the prosperity of Hong Kong. China was already engaged in a learning process. The Chinese Government had invited ten Hong Kong businessmen to Peking in June. The party had been lectured on the Chinese approach to the problem and had made it clear that British rule was excluded. The Hong Kong delegation did not argue that the Chinese approach would not work. But the pessimism they had expressed when they returned to Hong Kong had caused a considerable fall in share prices. The Chinese probably knew why this happened. The process of education was in progress.

Mr. Chan Kam-chuen pointed out that the Chinese Government was quite capable of separating politics from economics. When Sino/British relations had been at their worst in the 1960s, they had refrained from damaging actions in Hong Kong.

The Prime Minister said that it was uncertain with whom we should be negotiating. When she had last visited China Deng Xiaoping had been in prison. Who would his successors be? The present Government said that it did not recognise unequal treaties. Could we depend on future Governments not to regard any treaty negotiated now as unequal? Sir S. Y. Chung reiterated his view that if the economic benefits of a treaty of Hong Kong were overriding, they would dictate the Chinese attitude. What was needed was a formula which would save Chinese face. The Prime Minister commented that we had to ensure that any solution did not dilute our real needs in Hong Kong. Sir Edward Youde pointed out that if we did nothing, the situation would get worse because China regained sovereignty over the new territories in 1997.

The Prime Minister said that if China appreciated the danger of a collapse of confidence in Hong Kong, it ought to see the need for negotiating the kind of solution we had in mind.

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Mr. Donald observed that we were up against a strong Chinese conviction that they could manage Hong Kong as well as we could. The Foreign and Commonwealth Secretary said that, once confidence started to ebb, the Chinese might see the need to reach a sensible solution. The Prime Minister commented that the problem was that once confidence started to disappear, it was difficult to arrest the process.

Sir Edward Youde said that almost all Chinese, wherever they lived, believed that Hong Kong was part of China. It was necessary to devise a solution that took account of that feeling. Sir S. Y. Chung and Miss Dunn repeated their view that the present Chinese Government was pragmatic in its approach. Sir Edward Youde said that it was encouraging that, despite the political philosophy of the Chinese and despite the many opportunities they had had to do otherwise, they had allowed Hong Kong to exist.

The Prime Minister pointed out that international law was on our side. She was reluctant to contemplate abandoning sovereignty. Confidence in Hong Kong had recently weakened, partly because we were now within 15 years of the lease expiring, partly because of recent land deals and partly because the Hong Kong financial markets were volatile. The question was - what sort of outcome to her visit to China was necessary to maintain confidence?

Miss Dunn thought that an adequate outcome would be an explicit agreement between the two sides to discuss the resolution of the problem, preferably with an announced date for the first talk. There was a common interest in reaching such an outcome. The Prime Minister contended that on the Chinese side there was a basic misunderstanding - they considered that they themselves were capable of maintaining confidence in Hong Kong. Were the Special Economic Zones relevant to the problem? Mr. Li Fook-wo said that the Zones were not successful. Mr. Lobo said that conditions in the Zones were chaotic. Sir Edward Youde

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thought it would be unwise to suggest that the failure of the SEZs to make more progress was relevant to the Hong Kong problem. The Chinese would reply that the Zones had existed for only three years. Mr. Chan Kam-chuen said that the problem was that the Chinese believed that the SEZs provided an answer. By the time they found out they did not, Hong Kong could be finished.

The Prime Minister repeated that the Chinese objective of continuing prosperity in Hong Kong and their method of seeking to secure this were contradictory. To tell them so would itself be a blow to their self-esteem.

Reverting to the question of the outcome to her visit, the Prime Minister asked whether what had been suggested was really sufficient to maintain confidence. The Foreign and Commonwealth Secretary thought that, short of a miracle occurring, the formula suggested by the Unofficials was on the right lines. The process had to be gradual. We should try to restrain expectations. The Prime Minister commented that this was difficult, given that a crisis of confidence already existed. Sir Edward Youde believed that a forward step would maintain confidence for a period. Then, when the negotiations process began, the problem would be to hold confidence at the right level. It must not weaken to a point where it could not be restored. On the other hand, if confidence remained at too high a level, the Chinese would say there was no problem. The Prime Minister observed that we were under considerable pressure to reach a solution. Sir S. Y. Chung said that that is why he had suggested a formula involving the completion of talks within a year. He believed that China now realised that the formula (it had been putting forward (Chinese sovereignty, plus the application of the principles of the SEZs, plus the continuance of Hong Kong's economic system under Chinese administration) would not work. There had been strong public comment in Hong Kong to this effect. Following this, China had appeared to modify its position.

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/The Prime Minister

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The Prime Minister asked who in China negotiated treaties and who signed them. Sir Edward Youde described the various border treaties which had been negotiated, by representatives of the central government, since 1949. These had been fairly successful but had mostly related just to border adjustments. Hong Kong was a different issue.

The Prime Minister recalled that in his opening statement Sir S. Y. Chung had implied that the time of her visit to Peking was <sup>in</sup> appropriate for a negotiation of the sovereignty issue. Sir S. Y. Chung said that he had merely wished to suggest that the Prime Minister should not attempt to resolve the issue during her visit. Sir Edward Youde suggested that, if the Chinese insisted that sovereignty was theirs, the Prime Minister should take the line that if China wished Hong Kong to continue to provide the benefits of the past, then it must be recognised that the basis of confidence was British administration and this must continue.

Mr. Lobo said that the statement which the Prime Minister would make on arrival in Hong Kong would be important. The Prime Minister commented that it would have to be honest. Sir Edward Youde said that there would clearly have to be a statement, since the absence of one would itself cause a diminution of confidence. In his statement, Sir S. Y. Chung had described the kind of statement which the Unofficials thought was both adequate and realistic. Sir S. Y. Chung emphasised that people in Hong Kong did not ~~expect~~ a quick solution. They accepted the Governor's "step by step" approach.

Sir S. Y. Chung concluded by expressing his thanks to the Prime Minister for the occasion and promising the support of the Unofficials for her in her task. The Prime Minister commented that our duty lay with the five and a half million people of Hong Kong.

A.S.C.

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PRESS STATEMENT FOR ISSUE AFTER THE PRIME MINISTER'S  
LUNCH WITH THE GOVERNOR OF HONG KONG AND 5 UNOFFICIAL  
MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS ON  
WEDNESDAY 8 SEPTEMBER

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The Prime Minister today received a group of Unofficial Members of the Executive and Legislative Councils of Hong Kong, accompanied by the Governor, and entertained them to lunch. Her object was to hear at first hand their views on the climate of opinion in Hong Kong and of the wishes of the people there on the question of the future of the territory before her visit to Peking and Hong Kong at the end of September. The Prime Minister assured the Unofficial Members that in her discussions in Peking she would fully represent the views and interests of the people of Hong Kong.

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10 DOWNING STREET

*From the Private Secretary*

8 September, 1982

*Dear John,*

Call on the Prime Minister by the Governor of Hong Kong  
and Five Unofficial Members of the Executive  
and Legislative Councils

Thank you for your letter of 6 September. The Governor and the Unofficials had a working lunch with the Prime Minister today. I enclose a record of the discussion.

I also enclose the final version of the press statement which was issued after the departure of the Governor and his party. Sir Edward Youde and Alan Donald already have copies.

I see no objection to the press line which you recommend that the Governor should take on his return to Hong Kong and have so informed him.

*Yours ever*

*John Coler*

John Holmes, Esq.,  
Foreign and Commonwealth Office

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非官守議員辦事處

香港遮打道九至二十五號  
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Executive and Legislative Councils

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Hong Kong

電話：

Tel:

來函檔號 Your Ref:

Date: 11 September 1982

本函檔號 Our Ref: SYC/N7/LH

The Rt. Hon. Margaret Thatcher, MP  
The Prime Minister  
10 Downing Street  
Whitehall  
London, England

*Dear Prime Minister,*

On behalf of my Unofficial Colleagues I would like to thank you most sincerely once again for your very kind and generous hospitality and your time and courtesy in receiving us on 8 September. We are most grateful to you for your patience and interest in hearing our presentation of the views and wishes of the Hong Kong people with regard to the "1997 lease" issue.

We wish you every success in your negotiation during the forthcoming official visit to China and look forward to welcoming you and your party to Hong Kong on 26 September.

Yours sincerely,

S.Y. Chung

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PERSONAL FOR ACTING GOVERNOR  
VISIT BY UNOFFICIALS TO LONDON

1. THE FOLLOWING STATEMENT WAS ISSUED TODAY BY NO 10:  
BEGINS:

THE PRIME MINISTER TODAY RECEIVED A GROUP OF UNOFFICIAL MEMBERS OF THE EXECUTIVE AND LEGISLATIVE COUNCILS OF HONG KONG, ACCOMPANIED BY THE GOVERNOR, AND ENTERTAINED THEM TO LUNCH. HER OBJECT WAS TO HEAR AT FIRST HAND THEIR VIEWS ON THE CLIMATE OF OPINION IN HONGKONG AND OF THE WISHES OF THE PEOPLE THERE ON THE QUESTION OF THE FUTURE OF THE TERRITORY BEFORE HER VISIT TO PEKING AND HONG KONG AT THE END OF SEPTEMBER. THE PRIME MINISTER ASSURED THE UNOFFICIAL MEMBERS THAT IN HER DISCUSSIONS IN PEKING SHE WOULD FULLY REPRESENT THE VIEWS AND INTERESTS OF THE PEOPLE OF HONG KONG. ENDS.

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SPEAKING NOTES FOR SIR S Y CHUNG AT A MEETING WITH THE  
BRITISH PRIME MINISTER ON 8 SEPTEMBER 1982 AT  
10 DOWNING STREET, LONDON

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Prime Minister

1. On behalf of my Unofficial Colleagues, may I first say how appreciative we are to have this opportunity to meet with you, Prime Minister, on matters relating to your forthcoming official visit to China and in particular on the question of the long term future of Hong Kong.
2. I know that you, Prime Minister, would be very busy as you will be leaving for the Far East in a few days time and therefore I do not wish to waste any time on peripheral matters and come straight to the points of relevance and importance.
3. As you know, Hong Kong consists of a ceded part and a leased part - the lease for the latter will expire in 1997. It is extremely difficult, if not totally impossible, to make the ceded part economically viable without the leased part. Furthermore, it is simply not possible to separate these two parts politically. In consequence, the two parts must be treated as an integral entity.

4. As the year 1997 is drawing near, increasing number of Hong Kong people will become alert of the uncertainty of Hong Kong's future. Most of us came from China or were born in Hong Kong after 1949 when the present Government gained control of China. These Hong Kong people do not wish to live in China under the current conditions there, otherwise they would have remained in or gone to China. On the other hand, for the very great majority of us, Hong Kong is the end of the road.

5. Prime Minister, if you ask us what are the wishes of the Hong Kong people? I dare say, and it has recently been proved by two major independent surveys, that over 90% of the Hong Kong people would like Hong Kong to remain status quo beyond 1997 for as long as possible.

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6. Nonetheless, it is generally recognised and accepted, again by over 90% of the Hong Kong people, that the People's Republic of China would never allow Hong Kong to become independent and detached from China, as in the case of Singapore from Malaysia.

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7. It is also generally recognised and accepted by a great majority of the Hong Kong people that Hong Kong is part of China. But in the light of extreme differences in many areas, it could be a long time from now before Hong Kong would eventually return to China. Whether it be 30, 50 or /even

even another 100 years depends on the future economic and political development in China itself. I don't think we need to speculate at this stage.

8. There have been many reports saying that the Chinese Government would claim sovereignty over the ceded part as well as the leased part of Hong Kong. A great deal of public views have been expressed in Hong Kong and elsewhere on the question of sovereignty. The concept of sovereignty, we are fully aware, Prime Minister, is of utmost importance to you and Mr Deng Xiaoping. However, in our view, it would not be an appropriate time to negotiate this important issue during your imminent visit to China. If the question of sovereignty is raised by the Chinese, the British, perhaps from a tactical point of view, should not react one way or the other in order to avoid the possibility of a deadlock during this early stage of talks on this vital issue.

9. The people of Hong Kong value their British connection. Whilst they naturally prefer that HMG not to have to concede British sovereignty, they would be willing for this to be conceded if that is the only way to secure continuing British administration without interference internally or externally.

10. It is our strong belief that now is the opportune time for both the British Government and the Hong Kong people to exert pressure on the Chinese Government for a  
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satisfactory solution on the long term future of Hong Kong. We form this opinion because the present Chinese leadership is committed to the 'four modernisations' programme and to significantly raising the living standards of the 1,000 million people in China. China in the next decade or two will greatly need foreign technology and hence foreign exchange. It is estimated that China at present earns about one-third of its foreign exchange through Hong Kong and that China for some years to come could not afford to lose the share of contribution from Hong Kong. This is our economic and negotiating strength.

11. Time and again, the Russians and the Japanese have shown their territorial ambition on China. As people of Chinese race, we know that the Chinese Government would never trust both the Russians and the Japanese. The Vietnamese have taught the Chinese a bitter lesson by allying themselves with the Russians and turning their backs against China. Hong Kong under British rule could be, to some extent, useful to China both politically and military-wise.

12. We therefore very much believe that the Chinese Government shares a common interest with us in maintaining stability and prosperity in Hong Kong for many years to come. It can therefore reasonably be assumed that the Chinese Government has a genuine desire to find a solution

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which would maintain Hong Kong's stability and prosperity, and hence Hong Kong's usefulness to them. However, we doubt that the Chinese authorities fully comprehend the complex mechanism of confidence and in particular the importance of continuing British administration in the maintenance of that confidence in Hong Kong.

13. On the other hand, we do believe that the Chinese Government has a genuine difficulty in seeking a solution which would be politically acceptable at home and abroad. Therefore, the Chinese need time to innovate ideas and test acceptance.

14. Meanwhile, confidence in Hong Kong must not be allowed to slide. We suggest, therefore, that it would be extremely useful if in your visit to China, an agreement could be reached between the two Governments to commence official negotiations with a view to concluding a satisfactory solution to Britain, China and the people of Hong Kong as early as possible and hopefully within one year. During the talks it will be essential to demonstrate that progress is being made, to use the Governor's terminology 'step by step'.