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Record of a Discussion between the Prime Minister and Mr. Keswick, Mr. Newbigging and Mr. Swire at 1815 on Tuesday, 14 September, 1982, at 10 Downing Street

The Prime Minister opened the discussion by inviting views on the problem of the future of Hong Kong which she would be discussing on her forthcoming visit to the Far East.

Mr. Newbigging said that it might be helpful to use a commercial analogy with Deng Xiaoping. The Prime Minister could point out that when a firm was doing good business, it did not make changes just for the sake of change. The Prime Minister thought that it would be essential to end her visit to Peking by stating publicly that she and the Chinese were of one mind that the stability and prosperity of Hong Kong must be maintained. But if she was unable to make any such statement, what would the effect be? Mr. Newbigging thought that the absence of a statement would have a very serious effect.

Mr. Keswick said that the Prime Minister might encounter a certain naivety in China. Deng might not believe that continuing British administration in Hong Kong was essential. The Prime Minister asked what the best way was to get the message across. Mr. Newbigging suggested that the Prime Minister should first seek agreement that there was a common objective of maintaining the economic prosperity of Hong Kong, and that that required the maintenance of confidence and stability. A joint communique covering those points would maintain confidence in Hong Kong for the time being.

The Prime Minister said that the Chinese did not negotiate quickly. The most she would be able to achieve would be a holding statement. An agreement would take much longer. Mr. Keswick expressed the view that provided Britain retained jurisdiction, we could be flexible later about sovereignty.

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The Prime Minister said that British control would need to remain in practically every field. The question was whether titular sovereignty would be sufficient for the Chinese. Mr. Keswick said that it could be argued that the Chinese stood to benefit more than Britain or Hong Kong from the continued prosperity of the colony. 40% of foreign exchange was very substantial. Mr. Swire pointed out that this represented only 1% of GNP.

The Prime Minister said that she did not know how far the message about the need to maintain confidence had penetrated Chinese thinking. Were they aware of the recent dents in confidence? Mr. Newbigging thought that Chinese awareness of the problem had indeed increased, especially among those in Hong Kong who owed allegiance to China. They were much more conscious than previously of the fragility of the Hong Kong market. If one of the short term objectives was to boost confidence, he thought the kind of statement he had suggested would achieve that. No thinking person expected the Prime Minister to settle the matter during this visit.

The Prime Minister said that Deng was pursuing the misguided idea of Hong Kong becoming an administratively separate part of China. Mr. Swire said that it was almost impossible for Hong Kong Chinese to go to Peking and say that British administration must be maintained in Hong Kong. Indeed, quite a number of Chinese in the colony did not accept that they themselves, as distinct from the British, could not administer Hong Kong.

Mr. Newbigging warned that Deng, like most elderly Chinese, would tend to become very reticent if an unknown factor were injected into the discussions. A possible formula for a future agreement was that Hong Kong would be maintained as a single entity, that 1997 would have no significance, and that the principle of

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sovereignty would be conceded provided Britain retained full jurisdiction and authority. Mr. Keswick said that if Deng insisted that any solution must be based on special administrative status for Hong Kong within China, he might be hard to convince. It would be necessary to emphasise that China would not get its foreign exchange if Hong Kong were treated in that way.

Mr. Newbigging asked whether there had been any indication from the Chinese side that they would not be prepared to accept the kind of statement that had been talked about in the Hong Kong Press. If there had been no such indication, that might be encouraging. Mr. Swire said that it would be important that in the future Hong Kong was still able to negotiate textile agreements and civil aviation rights. Mr. Newbigging believed that China would be firm on principle, but flexible on substance.

Mr. Keswick thought that the Chinese were at present probing our position. Since they wished Hong Kong to be prosperous, our position was in fact strong.

The Prime Minister enquired how the special economic zones were working. Mr. Newbigging said that they were making little progress. Such industry as there was was small and very unsophisticated. Mr. Swire said that if they adopted the right methods, they could be more productive. His own company had a cassette factory in Canton whose productivity, once piece work had been introduced, matched that of Hong Kong factories.

The Prime Minister enquired how business was in Hong Kong at present. Mr. Swire said that the world recession was now affecting the area, so business was not as good as in the past. But one was still talking in terms of real growth. Mr. Newbigging said that the latest forecast of growth in Hong Kong ^{next year} was 5-6%, and inflation, at 9%, was well down on last year. The property and stock markets were not strong at present, but the tertiary sector and construction

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and civil engineering flourished. Mr. Newbigging pointed out that remittances from overseas Chinese were one of the strengths of the Hong Kong dollar. These remittances would not go to Hong Kong if it became Chinese. Mr. Newbigging said there was more money in the Hong Kong banking system than ever before. Mr. Swire said, however, that the mean income was about £20 a week. People had been pulling in their belts to deal with inflation. Hong Kong was not a rich place for the ordinary person.

Mr. Swire said that even if the first reaction to the Prime Minister's visit was not favourable, Hong Kong would recover. Mr. Newbigging said that his firm had been consistently confident about the future, and had made significant capital commitments. The Prime Minister asked whether the people of Hong Kong were apprehensive. Mr. Swire said that he had felt apprehension amongst, in particular, young Chinese executives. This was partly because of the constant Press comment which fed on itself.

Mr. Newbigging said that it would be useful to involve Zhao Ziyang in the results of the visit. Xiyang, at the age of 63, represented the next generation of Chinese. His support would therefore be an additional guarantee. It should be remembered that it was Ziyang who introduced capitalism into Szechuan Province.

A.S.C.

14 September, 1982.

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pm 2 to

10 DOWNING STREET

From the Private Secretary

14 September, 1982.

The Prime Minister invited Mr. Henry Keswick, Mr. Newbigging and Mr. Swire to call on her this evening to discuss the future of Hong Kong. I enclose a copy of the record of discussion. I should be grateful if you would restrict circulation within the FCO strictly to those who need to know.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

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in
[unclear]*

3 Lombard Street
London EC3N 9AQ

7th September 1982

ed.
Dear Miss Stephens

Many thanks for your letters of 31st August and 1st September and I very much look forward to meeting the Prime Minister with David Newbigging, John Swire and Jack Cater at 6.15 p.m. on Tuesday, 14th September at No.10.

John Swire
Henry Keswick
Henry Keswick

Ms. Caroline Stephens,
10 Downing Street,
LONDON, S.W.1.



PM

10 DOWNING STREET

Caroline

Have told her
~~they~~ ~~are~~ ~~all~~
happy. cf. 9/19.

The P.R. will see Nass. Newbigging,
Swire and Keswick alone i.e. without
the others so far invited.

She is reluctantly prepared to see the next
the next day (if you have any opportunity
of going for the second engagement without
causing offence, you could take it).

Let me know if you want me to speak to

Sir Paul later.

J.C. speaks to

A.S.C. 9/19

for Jack & he is happy

At Lyde
with
Cater etc



File JF

10 DOWNING STREET

From the Private Secretary

7 September 1982

Further to my conversation with your secretary this morning, I am writing to confirm that the Prime Minister would like to invite Mr. Q.W. Lee (General Manager of the Hang Seng Bank); Miss Christine Loh (Chairman of the Hong Kong Observers); and Mrs. Helen Yu (Assistant Commissioner in the Hong Kong Government Office in London) to the meeting on Tuesday 14 September at Downing Street at 1815 hours. The Prime Minister is anxious that the invitation comes from her, and I would be grateful if you could notify the people concerned.

CS

Sir J. Cater, KBE.

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10 DOWNING STREET

From the Private Secretary

MR. KESWICK

MR. SWIRE

ADDITIONS TO MEETING ON TUESDAY
14 SEPTEMBER 1982 AT DOWNING ST
AT 1815 HOURS

Mr. Q. W. Lee - General Manager of
Hang Seng Bank

Miss Christine Loh - Chairman of
Hong Kong Observers

Mrs. Helen Yu - Assistant Commissioner
in Hong Kong Govern-
ment Office

CAROLINE STEPHENS

7 September 1982



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Further to my conversation with your secretary this morning, I am writing to confirm that the Prime Minister would like to invite Mr. Q. W. Lee (General Manager of the Hang Seng Bank); Miss Christine Loh (Chairman of the Hong Kong Observers) and Mrs. Helen Yu (Assistant Commissioner in the Hong Kong Government Office in London) to the meeting on Tuesday 14 September at Downing Street at 1815 hours. I gather you will kindly be inviting them and the Prime Minister is anxious that the invitation comes from her.

CAROLINE STEPHENS

Sir J. Cater, K.B.E.
Hong Kong Government Liaison Office,
6 Grafton Street,
London W1X 3LB

Prime Minister

Agree that Rose at X
should be invited?

MISS STEPHENS

A.J.C. 6/7.

Sw e KBE
OK

I had a meeting with Jack Cator and Alfred Sherman this morning.

Their joint recommendation is that the following three Chinese should be invited to the meeting with the Prime Minister on Tuesday 14 September at 6.15 pm, at which Sir Jack Cator, Mr. Swire, Mr. Newbigging and Mr. Keswick are to be present:-

- (a) Mr. Q.W. Lee (General Manager of the Hang Seng Bank).
- (b) Miss Christine Loh (Chairman of the Hong Kong Observers).
- (c) Mrs. Helen Yu (Assistant Commissioner in the Hong Kong Government office in London).

Alfred was not certain whether he had the Prime Minister's authority to invite these three people to the meeting or not. I stress that the three are recommended jointly by Alfred and Sir Jack. In view of Alfred's uncertainty, we must ask the Prime Minister.

Alfred is about to leave for Brighton. If the Prime Minister would like these people invited, would you be kind enough, please, to let Sir Jack Cator know. His office number is 499-9821. His home number is 222-0635.

Rang Sir Jack
- confirmed.
ef. 2/9

ef. I.G.

3 September 1982

I should like them to be invited - invitation must come from me. Perhaps John would let the F.O. know and they can just ask Tedds if he has any objection not