

SUBJECT

*cc Mother Sir
of Hong Kong's Policy on P.M.'s visit*

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND OFFICIALS OF
OF THE EXECUTIVE COUNCIL OF HONG KONG ON 26 SEPTEMBER 1982 AT
GOVERNMENT HOUSE IN HONG KONG

Present:

Prime Minister

Mr. Alan Donald

Mr. F.E.R. Butler

H.E. the Governor

Sir Philip Haddon-Cave, Chief
Secretary

Major General J.L. Chapple,
Commander British Forces

Mr. J.H. Bremridge, Financial
Secretary

Mr. John Griffiths, Q.C., Attorney
General

Mr. D.C. Bray, Secretary for Home
Affairs

Mr. David Akers-Jones, Secretary
for City and New Territories
Administration

Mr. Robin McLaren, Political
Adviser

Mr. G.A. Higginson, Private Secretary
to the Governor

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The Prime Minister said she wanted to give the officials of
the Executive Council an outline of her talks in China about the
future of Hong Kong.

The Prime Minister said that she had had two hours of talks on
this subject with Zhao Ziyang and two and a half hours of talks
with Deng Xiaoping. Given the need for interpretation, talks of
this length gave no opportunity for settling detail and only allowed
the main thrust of policy to be covered. The Chinese had taken
their familiar position on sovereignty. The British response had
been that we stood by the Treaties and, if the Chinese had difficulties
about the position under the Treaties, these difficulties should be
dealt with by negotiation not unilateral abrogation. We had wanted
to stress the aim of maintaining prosperity and stability in Hong
Kong: these words had the advantage that they were familiar to the
Chinese. The objective had been to persuade the Chinese to include

in the Communiqué a reference to a common aim of maintaining prosperity and stability, without anything more on sovereignty than that the two sides stated their respective views. The British side therefore came away from the talks with what we wanted.

The Prime Minister said that the main difficulty with the Chinese was in persuading them that the maintenance of prosperity and stability, and of the confidence which was a necessary condition for them, depended on British administration. But she had put this view more frankly to the Chinese than they had ever heard it before, and she had warned Zhao Ziyang that the Chinese people from Hong Kong whom he consulted were too frightened to tell him this. The reaction of the Chinese leaders had to be judged in the light of the fact that they were hearing this plain talk for the first time. There was a world of difference between saying that capitalism would continue and knowing what that term involved. The Chinese had no understanding of international finance and the concept of freedom under an ascertainable system of law. The problem in the talks would be to get across that these things were essential for maintaining confidence in Hong Kong and every possible form of help from Hong Kong would be needed in this.

Summing up, the Prime Minister said that she wanted to convey two main points. The first was that the British side had done well on achieving the Communiqué at the end of the talks and had put the position clearly to the Chinese for the first time. The respective positions of the two Governments had been set out, and it was now a question of going into talks to carry matters forward. The second point was that the talks would be tough, and take time. The British side would have to be steady, patient and persistent. The talks would need to start quickly, but they would take time to complete. Much advice and supporting evidence for the British position would be needed from Hong Kong.

In reply to the Governor's invitation to officials of the Executive Council to comment or raise questions, Mr. Bray said that some elements of the Left Wing press in Hong Kong were suggesting

that it would be easy for the Chinese in Hong Kong to continue to run the Hong Kong system without British administration. It was necessary for this to be countered: otherwise there was a risk that opinion could move in this direction among the Hong Kong people. Sir Philip Haddon-Cave commented that it was, in his view, unlikely that such an opinion would become accepted.

Mr. Akers-Jones said that there was strong support among the people of Hong Kong for the idea that the rule of law, the current economic system and British administration all hung together and rested on the arrangements under the current Treaty. Mr. Bray added that Hong Kong represented a unique combination of juridical government and civil liberties.

Mr. Bemridge said that the key to Hong Kong's success as a financial centre was the strength of the Hong Kong dollar. It was not possible to say that no financial centre could be run without British administration, because this could be countered by pointing to Singapore and Taiwan. But it could be said that confidence would not attach to a financial centre under the Chinese Government, in view of their recent history. If there was not external confidence in the Hong Kong dollar, it would fall and the value of Hong Kong to China would fall with it. The Prime Minister commented that Singapore had been mentioned by the Chinese leaders: she had pointed out that Singapore was a sovereign independent state and Taiwan was separated physically from the Chinese mainland.

Mr. Griffiths said that attention had been paid in the Hong Kong press to the Prime Minister's remark at the Press Conference that the talks would take a matter of months, and this was likely to be raised on the following day. The Prime Minister said that, as she reflected on the talks, she was reaching the conclusion that they would take many months, perhaps as long as two years.

General Chapple said that an important aspect of stability was security. This was at present wholly underwritten by the presence of H.M. Forces and was indivisible with the allegiance to the British Governor. It was difficult to see what alternative arrangements could be effective in the absence of British administration.

In further discussion, the following points were made:

- (i) The extreme Left Wing groups could agitate opinion against the British position in Hong Kong, but would be unlikely to do it unless organised from China. At present their instructions were not to cause such agitation, and indeed prominent Chinese businessmen had been told by the Chinese authorities that they should not remove their investment from Hong Kong. Such people tended to obey because of their ethnic feeling for the Chinese and they also made donations to China, but they never invested in China and, if it came to the point of an economic collapse beginning in Hong Kong, they would take their money out even at the cost of heavy losses to themselves.

- (ii) The Chinese Ambassador to London had been retained in Peking for a month, and this suggested that the Chinese would be considering how to approach the talks during that period. The Governor commented that it was likely that the Ambassador would be sent back to London with instructions to find out from people close to the Prime Minister how her thinking was moving. It was also suggested that the present Ambassador might be replaced before long.

- (iii) In reply to a question from the Prime Minister about the reaction of Hong Kong markets, Mr. Bremridge said that it would be easier to form an assessment in two months or so. The statement that talks were to be undertaken with the common objective of maintaining the stability and prosperity of Hong Kong, was likely to hold the position for the time being, and people would wait to judge how the discussions were going. Confidence could probably be sustained if the talks took as long as two years, although the shortening period of leases would be an unsettling factor: once it was accepted that leases below 15 years had to be accepted, the next point at which people would be likely to be unsettled about the terms of leases was if the period became less than 12 years.

It was suggested that an important influence on Hong Kong opinion would be the extent of Hong Kong input to the talks: the Prime Minister agreed that a strong input from Hong Kong was necessary, and it had to be considered what form that input should take. Mr. Akers-Jones commented that Hong Kong Chinese people were still being invited to Peking, but mainly confined themselves to listening to the Chinese position.

- (iv) In reply to a question from the Prime Minister about the likely reaction to a referendum on reverting to Chinese rule, the point was made that the question came close to being asked in 1967 when opinion rallied behind the Hong Kong Government, although it was recognised that the present situation was a different one. It was suggested that the greatest support for the continuing support of British administration would come from the middle classes, particularly the younger ones whose career depended on the continuance of the British system. But there was some evidence of increased applications of Hong Kong people to move to the United States and Australia.
- (v) In reply to a question from Mr. Bremridge about the time-scale on British administration, the Prime Minister said that this would be a matter for the talks. It would not be possible to reach a new agreement ceding British administration for ever, but one possibility was a rolling period of notice.
- (vi) Mr. Griffiths commented that if the talks were going to take as long as two years, it would be very helpful if at an early stage the lease position could be cleared up. If a single lease could be negotiated going beyond 1997 in the New Territories, this would be a precedent which would do much to restore confidence. People were already asking about premiums on remaining short-term leases, and there was a rule of the United States Accountants Association that accounts had to be qualified in some circumstances if assets had a life of less than

15 years, although this rule had not been enforced. In reply to a question from the Prime Minister whether it would be sufficient for such a lease to be granted with the acquiescence of the Chinese leaders, rather than their positive agreement, Mr. Akers-Jones said that he thought that it would.

Summing up the discussion, the Prime Minister said that careful thought was now needed about the talks with the Chinese Government and the various ways of conveying to them what was needed to maintain prosperity and confidence in Hong Kong. She invited the Executive Council to give further thought to this.

F.R.B.

27 September 1982

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10 DOWNING STREET

From the Principal Private Secretary

29 September, 1982.

Dear John,

I enclose a record of a meeting between the Prime Minister and officials of the Executive Council of Hong Kong on 26 September at Government House.

I am sending copies of this letter and its enclosure to the Governor of Hong Kong and HM Ambassador, Peking.

Yours ever,

Robin Butler

John Holmes, Esq.,
Foreign and Commonwealth Office.

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*all copies
despatched
30/9*

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