

SUBJECT

cc Mr. Lee
2 Kwang Kong Policy in P.M.'s Check Sept 1962

cc Mr. Victor Fung

RECORD OF THE PRIME MINISTER'S MEETING WITH BUSINESSMEN AT
1445 ON 27 SEPTEMBER

(The Prime Minister was accompanied by the Governor, the Financial Secretary, Mr. Gray, Mr Butler and Mr. Ingham. A list of the businessmen attending is attached.)

The Prime Minister said that she wished to take the opportunity to hear the views of those present on the future of Hong Kong; on what was needed to retain business confidence; and on the outcome which they would wish to seek. She also wished to discuss how the Chinese might be brought to understand what made Hong Kong successful, and the nature of confidence in Hong Kong. The Government in Peking was isolated and did not understand things which were second nature to all present. They had no idea of the subtleties of administration in a free society or of the structure of liberty.

Mr. Duncan Black said that business confidence was fragile, and keeping the talks confidential would be a real problem. News would leak out; the important thing would be to ensure that what became known was fact. The Prime Minister said that negotiation in a mass meeting and / through the media was impossible. She accepted that it would be necessary to say something about the negotiations from time to time: the press abhorred a vacuum. But it would be impossible to give full details. Dr. Andrew Chuang said that the problem was that the Chinese might not maintain confidentiality. The Prime Minister remarked that Premier Zhao had spoken to the press before her meeting with him about Hong Kong.

/Mr. Victor Fung

Mr. Victor Fung said that his personal opinion was that the ideal solution would be the continuation of the status quo indefinitely, with 25 or 50 years notice of termination. He realised that might be hard to achieve. A key element in Hong Kong's success was a system which allowed full scope to business enterprise. He hoped that could be preserved even if there should be joint administration. Without the free market system, Hong Kong would not work. As for what Hong Kong businessmen might do to help, most of those present had business contacts with China. They could use those contacts to get across the message of how much Hong Kong depended on the free enterprise system. He added that he was not sure that China and Britain meant the same thing when they talked about maintaining the stability and prosperity of Hong Kong. The Prime Minister said that the Chinese would say that they wished to preserve the capitalist system in Hong Kong but they did not know what it meant. As for the second point, she hoped that those speaking to the Chinese would not stop at the need to preserve the free enterprise system. Other things, including the law, were equally important. Dr. Fung had mentioned joint administration. Britain had had experience of that with the French in the New Hebrides. It had been far from satisfactory. Mr. Philip Kwok asked how the Chinese could be brought to understand what made Hong Kong tick. The Prime Minister said that the Chinese would look to Singapore and see that there a successful community had been built on a combination of Chinese people and the free enterprise system. They would think that they could do the same with Hong Kong, forgetting that Singapore was a sovereign and independent state. They would not be able to achieve their objective if they sought to substitute Chinese for British rule.

/ Mr. Fung King Hey

Mr. Fung King Hey said he accepted that the talks must be confidential. But in order to stabilise the market it would be important to issue a statement making clear the principles which had been agreed as soon as possible.

Mr. Gordon Wu said that confidence was the key point. Chinese leaders might say that they wanted to maintain the status quo in Hong Kong but how good was their word? Their track record was terrible. The Prime Minister thought the Chinese genuinely wished to retain stability and prosperity in Hong Kong. But they did not understand what these things meant. So it would be necessary to stick firmly to the declared objective of maintaining stability and prosperity, and then try to persuade the Chinese about what was required to meet it. Mr. Gordon Wu said that British administration would be essential even after 1997. Laws could change overnight in China. The Prime Minister had referred to Singapore. Even there Mr Lee Kuan Yew had still kept the Privy Council as the final Court of Appeal. Stability required good laws and English law worked. The Prime Minister hoped that Mr Wu would ^{get} some of these points across to his Chinese contacts.

Mr. Trevor Bedford thought the negotiations were likely to last a long time. Businessmen could demonstrate their confidence by being positive, continuing to invest, trading successfully, and continuing to enter into joint ventures with the Chinese. The Prime Minister's various statements had been very helpful. It was useful to remind people of the British view of the treaties; many had thought the British Government had conceded that they were

/unequal

unequal. The Prime Minister said that her visit to Peking was only the beginning. The diplomatic talks had yet to begin. The handling of those would be extremely important.

Another questioner asked whether, in the Prime Minister's view, the Chinese authorities regarded Hong Kong people as overseas Chinese or as mainland Chinese.

Mr. Paul Myners said that stability and prosperity meant different things to the Chinese than they meant in Hong Kong. It was important to make it clear that they could not be preserved if there was any Chinese involvement in the administration of Hong Kong. The Prime Minister thought that Deng Xiaoping knew what stability meant; he had still been imprisoned when she had last visited China in 1977.

Mr. Philip Kwok said that at the moment Hong Kong was insulated from political trouble. Things would be different if the Chinese were in control. The Prime Minister said that the Chinese would have to be persuaded that Hong Kong had developed into the success it was because of British administration, and that without it it would not continue to be prosperous. When the British said this the Chinese assumed that they had a financial interest. They did not understand the moral responsibility of the British Government. So the help of those present would be necessary to persuade them.

Mr. Newbigging said that in his view considerable progress had been made over the past week. The joint statement had been a far cry from the earlier "hearts at ease" statement by Deng. Future progress was likely to be made step by step. But it would be important to keep investors, outside as well as inside Hong Kong, well informed.

Mr. Sam Osmund thought that people in Hong Kong might lose patience if the statements made about the

talks lacked substance. It would reassure them if the Chinese made substantial investments. Another local Chinese businessman hoped that the Hong Kong Government had a plan to maintain the value of the Hong Kong dollar and stressed the importance of keeping in touch with the thinking of younger people. The Prime Minister said that there would be need for regular consultation throughout the talks.

Mr. Bluck said that the press had speculated that Hong Kong might be a special economic zone of China. So far the Chinese SEZs had not been successful.

Mr. Roger King thought it would be helpful if the Prime Minister could say what she and the British Government intended to do to maintain confidence in Hong Kong. There was a feeling in Hong Kong that the man-in-the-street had little knowledge or understanding of Hong Kong, and that this might be reflected in the government. The Prime Minister said she was in regular contact with the Governor and saw many visitors from Hong Kong. The important thing was to get the crucial message about how Hong Kong worked across to the Chinese. There was a need to find ways of doing this which would save China's face. Mr. King need not worry about lack of British interest. The main reason why the British were engaging in the talks was because of their responsibility for the people of Hong Kong, though British prestige was also involved, and for many other countries the British presence in Hong Kong was very important.

Another local businessman suggested that while the negotiations were proceeding the British Government and the Hong Kong Government should show their confidence by making substantial public works investments e.g. in a replacement airport. The Prime Minister said she would think about that.

The press notice was then agreed.

The meeting ended at 3.30 p.m.



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10 DOWNING STREET

From the Private Secretary

28 September 1982

Visit of the Prime Minister to Hong Kong

I enclose a copy of the record of the Prime Minister's meeting with businessmen in Hong Kong on 27 September.

I am copying this letter and enclosure to Sir Edward Youde.

JC

John Holmes, Esq.,
Foreign and Commonwealth Office.