

S E C R E T

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND  
SIR S.Y. CHUNG AT 1700 HOURS ON 4 MAY 1983 AT 10 DOWNING ST.

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Present

Prime Minister  
Mr. Coles

Sir S.Y. Chung

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Sir S.Y. Chung said that since he had met the Prime Minister last December there had not been much movement on the problem of the future of Hong Kong but the direction of the movement had been right. In December, the Hang Seng Index had been around 700. It was now over 1,000. The panic of October/November was over. The Chinese had taken a few significant steps. In particular, they had made it very clear that they had no intention of regaining sovereignty before 1997. Chinese propaganda had not been as bad as he had feared. People in Hong Kong now expected that the negotiations would be long drawn out and last for anything up to four years. They were prepared to wait for two or three years and meanwhile carry on business as usual. If there was then no solution they would still have some ten years to make their plans. So the urgency had gone out of the situation.

The fact that the Hong Kong dollar had fallen in value while the Hang Seng Index had risen had several explanations. People who had earlier bought property in Hong Kong with their spare money now tended to buy abroad. Dollars deposited in Hong Kong were subject to tax which could be avoided by overseas investment. The inflow of money into the colony in the 1970s, largely for investment in property, had now become an outflow as investors took their profits or cut their losses. If Hong Kong's exports improved this outflow could be balanced. There were some signs of an

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improvement but not yet a steady trend. In any case, it was perhaps good that the Chinese should see the Hong Kong dollar weakening, provided this was not too pronounced.

There had been a perhaps significant change in Chinese language about the future of Hong Kong. Earlier they had talked of Hong Kong people ruling Hong Kong in the future. Now they talked about "Hong Kong systems" ruling Hong Kong.

Two months ago he had been approached by the new Deputy Director of the new Chinese News Agency. Another member of the unofficials had received a similar approach. Sir S.Y. Chung himself had been invited to advise the Chinese leadership on the affairs of Hong Kong and to join the Chinese People's Consultative Committee. He would have given a negative response but before he had been able to do so his interlocutor had said that he fully realised that neither HMG nor Sir S.Y. Chung himself would consider it appropriate to accept the invitation now. Nevertheless, the invitation was being extended so that acceptance could be considered when the time was ripe.

The Prime Minister said that the Chinese appeared to be implying that Sir S.Y. Chung was a citizen of China. How did he interpret this move?

Sir S.Y. Chung said that one possible interpretation was that the Chinese were laying the groundwork for the Hong Kong people to organise the local level of the Consultative Committee in Hong Kong. The Deputy Director had made further important points. He had totally denied the rumour that the Chinese would take action on Hong Kong in September (sic). He had stressed that the United Kingdom and China had a great deal to gain from continuing their present friendly relations to their mutual benefit. He had asked whether the forthcoming British Election would

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influence the Prime Minister's approach to negotiation. (Sir S.Y. Chung had replied that the Conservative Party was highly likely to win the Election but if the Chinese counted on the Labour Party getting in and adopting a different attitude to Hong Kong, they might be disappointed.)

The Prime Minister said that she felt that the Chinese had not honoured the outcome of her talks in Peking last September. They now knew from her letter to the Chinese Premier that she felt that way. Recent reports seemed to indicate a greater Chinese understanding of Hong Kong's position and the nature of its success.

Sir S.Y. Chung said that he believed that the Chinese reply to the Prime Minister's letter would come later rather than sooner. But in the last two months the signs had been better. The Governor interpreted the leakage of the Prime Minister's letter as a Chinese desire to test, by a circuitous route, the reactions of the Chinese people. If those reactions were good, the Chinese leadership would be inclined to respond positively.

On 16 May a group of thirteen or fourteen young Hong Kong professionals, including three unofficials, were going to Peking at Chinese invitation. He had discussed strategy with the group. They had agreed not to present a solution for the Hong Kong problem - for Peking would only attack any solution they presented. But they would make the point that if the Chinese took over Hong Kong, confidence would evaporate. There was therefore a need for a guarantee. If the Chinese accepted this need, then the way would be open for later discussion of British administration constituting that guarantee.

In conclusion, Sir S.Y. Chung thanked the Prime Minister for the stand she had taken in the negotiations and the trust she had placed in the unofficials. The Prime Minister said

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-4-

that she had no hesitation in keeping the unofficials fully informed and was most grateful for their helpful advice.

The conversation ended at 1740 hours.

A. J. C.

4 May 1983

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FILE

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Subject: Hong Kong

Mr. Master

10 DOWNING STREET

From the Private Secretary

4 May 1983

Dear John,

CALL ON PRIME MINISTER BY SIR S Y CHUNG

Thank you for your letter of 29 April. Sir S.Y. Chung called on the Prime Minister today. I enclose a record of the conversation. Our press section will brief the press on the call along the lines of paragraph 3 of your letter.

Your ever

John Wiles.

J.E. Holmes, Esq.,  
Foreign and Commonwealth Office.