

SECRET

FILE

Hong Kong file

21



10 DOWNING STREET

*From the Private Secretary*

13 July 1982

Call by Sir Y.K. Pao

The above called on the Prime Minister this morning. He said that when the Chinese Prime Minister had recently visited Japan, he had been invited to call on him there. At a reception given during the visit, Huang Hua had taken him aside and said that the Chinese Government had worked out its terms in relation to the Hong Kong problem. These were that (a) sovereignty must pass to China; (b) Article 30 or 31 (Pao was not sure which) of the new constitution, giving the Government discretion to establish special administrative zones, would be relevant; (c) it would also be possible to apply the principles of China's policy towards Taiwan.

Huang Hua had said that he hoped that the future administration of Hong Kong could include friends of China who were there at present. In this connection, he mentioned Mr. Dick Lee. Sir Y.K. Pao thought it no coincidence that a week later an article by Lee had appeared in the Financial Times. He had referred to the possibility of alternating Chinese and British chairmanship of a future administration and also to the need for the present provision for recourse to English courts to be abandoned.

The Prime Minister said that after her dinner with the Chinese Ambassador the previous evening, the latter had said to her privately that sovereignty over Hong Kong must pass to China. The Prime Minister had enquired whether the Ambassador was referring to Hong Kong and Kowloon or to the New Territories. The reply had been that sovereignty over the whole area must be transferred. Mr. Ke Hua had then said that China did not wish to disturb the present arrangements. The Prime Minister replied that a statement of that kind would not be sufficient to give the people of Hong Kong confidence in the future. Something more precise would be needed. The Ambassador's last point was that Hong Kong could be administered as a special region. There could be a role for Britons or Hong Kong citizens in the administration alongside Chinese. The Prime Minister said that the well-being of Hong Kong rested on a unique co-operation between the United Kingdom and China. But unless British administration continued, confidence would not survive. Mrs. Thatcher told Sir Y.K. Pao that she had been rather alarmed by this conversation.

SECRET

/ Sir Y.K. Pao

SECRET.

Sir Y.K. Pao then said he had mentioned to Deng the idea of extending the lease of the New Territories. The reply had been that one billion people would refuse to agree to such a move. It was an emotional matter. Asked whether the existing position could be frozen, Deng had replied that it was very important that such a solution was not discussed. Sir Y.K. Pao said that the Chinese Government clearly wanted to retain the existing economic advantages of Hong Kong but it was not clear how they could achieve this unless the Administration was left in British hands. The Prime Minister agreed. Continued British administration was essential. She was worried by the attitude adopted by the Chinese Ambassador. She had said to him that she understood the sensitivity of the problem for the Chinese Government. It might be necessary to find a suitable form of words to help them but there must be no doubt as to the meaning of any formula. She had tentatively suggested to the Ambassador that there should be some further discussion between us and the Chinese about the problem before her visit to China. But we were not yet clear as to the solution we should go for. Our sovereignty over Hong Kong and Kowloon was clear. The question was whether we should retain the New Territories. She had been inclined to think in terms of extending the lease. Sir Y.K. Pao said that the Chinese Government could not accept that solution. But they must see the advantages of continued British administration. His advice was that we should be patient. The problem had to be settled but we could take two or three years to settle it.

Sir Y.K. Pao then described a recent talk he had had with Mr. Ku Mu, a former Vice-Premier. He was now in charge of a special economic zone abutting on to Hong Kong. He had apologised because he had not been able to take up the invitation to him to visit the United Kingdom. He was now not very popular with the Chinese leadership who questioned the need for special economic zones. Sir Y.K. Pao described in some detail the arrangements which now applied inside the zones. He said that, without Hong Kong's prosperity, the zones would become meaningless.

Reverting to the problem of Hong Kong, the Prime Minister said that she found this very worrying, given the Chinese attitude. She did not see how we could concede sovereignty over Hong Kong and Kowloon. Clearly, the problem was not going to be solved by the device of a soft loan which Sir Y.K. Pao had referred to on an earlier visit. Nor could a solution be worked out during the course of her visit to the Far East. It might be important to dampen down expectations, especially in Hong Kong.

AJC

John Holmes, Esq.,  
Foreign and Commonwealth Office

SECRET.