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From the Private Secretary

23 July 1982

CALL ON THE PRIME MINISTER BY LORD MACLEHOSE

The above called on the Prime Minister this morning. The main subject of discussion was the future of Hong Kong.

The Prime Minister recalled her recent conversation with the Chinese Ambassador and said that she remained seriously disturbed by the Chinese insistence on securing sovereignty over Hong Kong in 1997. She had since had a brief discussion of the problem with the Prime Minister of Singapore who had advised her not to give way to Chinese demands. Lord Maclehorse said that he knew Lee Kuan Yew well; he was rather simplistic. It would be folly to think that the Chinese would abandon their claim to sovereignty for economic reasons. Their history showed that they frequently cut off their noses to spite their faces. The encouraging thing was that China had accepted that confidence in Hong Kong would fail unless satisfactory arrangements for its future were made without too much delay. The Chinese were now engaged in trying to establish what the Prime Minister's position would be when she arrived in Peking. This was the significance of the recent remarks by the Chinese Ambassador. It was quite clear that for the Chinese, any change in the status of Hong Kong must involve the abrogation of treaties and the passage of sovereignty. But they were prepared to negotiate about future arrangements. It was conceivable that the cession of sovereignty might be of a purely symbolic character.

The Prime Minister said that she doubted whether it could be merely symbolic. The trouble was that as soon as sovereignty was conceded, control was lost. Communist governments could not be relied upon to respect agreements. Lord Maclehorse advised that our initial position should be that we would not contemplate any transfer of sovereignty unless we had cast-iron guarantees about future arrangements. The Prime Minister said that she found it difficult to envisage cast-iron guarantees without sovereignty.

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SECRET

- 2 -

Lord Macle hose explained that the subject of Hong Kong was now a very emotive one in China. The Chinese Government could not possibly abandon its aim of recovering sovereignty. But there was scope for the discussion of formulae. The Prime Minister expressed the view that we would have to do most of the preparatory work. We could not rely on the Chinese to produce original ideas. Lord Macle hose observed that the Chinese situation provided for the creation of special administrative regions which could be administered very flexibly. He agreed that it would be extremely difficult to secure reliable guarantees for the future but we had to recognise that we should lose sovereignty over a large part of the area anyway. He did not believe that the Chinese would consider a further lease of the new territories. Leasing was a discredited notion and was regarded as the kind of thing that could happen in the 19th century but not nowadays. He believed that the Chinese envisaged a completely new device which would leave the character of Hong Kong as British as possible but which would allow China to say that it had recovered sovereignty. The Prime Minister said that this might involve a kind of management contract. Lord Macle hose thought this a rather good term. It might be what was required to maintain confidence. The important thing was that Hong Kong should remain insulated from the developments which periodically disturbed China.

In response to a question from the Prime Minister, Lord Macle hose explained that, while we were not certain, it seemed possible that Portugal had confidentially informed China that it recognised Chinese sovereignty over Macao. The former administration of Macao remained unchanged.

Lord Macle hose then expressed the view that Deng Xiaoping would have a sensible approach to the problem. The question was whether he could be used in time, given his advanced years. If we were able to find a formula for the future, there would be great opportunities for British involvement in the commercial development of South West China. Hong Kong could provide much of the necessary investment capital. Thus, Y K Pao's earlier idea of a soft loan should not be totally disregarded. It could come from Hong Kong rather than the United Kingdom and could serve as a sweetener towards the end of the negotiations.

The Prime Minister said that she was still unable to envisage what kind of document could provide for the satisfactory future administration of Hong Kong. A change of sovereignty could only be considered against the background of absolutely cast-iron arrangements. But she did not like abrogating treaties. Lord Macle hose pointed out that one of the treaties would lapse whatever we did. The new territories were essential to the future of Hong Kong. They contained the airport, the new container port, a large part of the work force and important supplies of electricity and water. The people of Hong Kong were concerned not so much about sovereignty as about the conditions under which they would be governed in future. If we could ensure the prolongation of present conditions, they would be perfectly satisfied. The Prime Minister questioned whether this was possible. It was not so much a matter of legal documents but of customs and conventions which had been built up over the years and which could not be incorporated in documents. Lord Macle hose said that the important aspect of any document was the definition of the controlling authority. He thought it would be reasonable to say to the Chinese,

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SECRET

- 3 -

during the Prime Minister's visit, that the first step was to discuss the modalities of the future administration. Then, without prejudice, we might consider a transfer of sovereignty on condition that British administration continued for a considerable period. The aim should be an announcement that we and the Chinese had agreed to commence serious talks.

It was agreed that when Lord Macle hose saw the Chinese Ambassador next week he should convey the impression that the Prime Minister saw great difficulty in the idea of a transfer of sovereignty. Lord Macle hose could go on to say that he did not know whether it would be possible for that subject to be further discussed but that he was sure it could not be unless full agreement could be reached on the future administration of Hong Kong.

One further point. Lord Macle hose said that, subject to Sir Percy Cradock's views, he advised that the Prime Minister should try to see Deng Xiaoping twice during her visit, with the object of outlining her views on the problem at the first encounter and then allowing a pause for reflection before the second meeting. The Prime Minister was attracted by this idea and I should be grateful if it could be considered further.

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Brian Fall, Esq.,
Foreign and Commonwealth Office.

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