

Box

PRIVATE AND CONFIDENTIAL

19th August 1982

The Future of Hong Kong - the British Interest

I am writing, on the Prime Minister's behalf, to thank you very much for your letter of 17th August, with which you enclosed a paper of the same date, which you had prepared in view of the Prime Minister's forthcoming visit to China and Hong Kong.

I will show your letter and its enclosures to the Prime Minister on her return to London on Sunday.

She will, I know, be most grateful to you for having taken the trouble to prepare this most helpful paper.

With best wishes.

IAN GOW

Henry Keswick Esq

bcc. John Coker.

*I am. I read this
after Paul Byrnie's letter.
In addition to the previous
I am sure. I should
try to see Henry Keswick
and someone from Standard
Chartered (I don't think it
can be Tony White's
franchise company is on).
We will take it up with
John Coker as well
as he returns
not*

*Copied to J.C. 25/8/82
with PM's notes*

PRIVATE & CONFIDENTIAL

THE FUTURE OF HONG KONG
THE BRITISH INTEREST

BACKGROUND ON CHINA

China is a subsistence agricultural economy which can most unlikely ever make any real economic progress per capita; the rest of the world is too small and China's population too large for her to get any foreign trade leverage going. A complex egalitarian régime is not helpful to economic progress. China's dilemma on Hong Kong is highlighted when China considers the "luxury" of her foreign exchange earnings (40% US\$6.5 billion but only 1.5% of GDP) which are not practically replaceable (without an independent Hong Kong dollar supported by large remittances from South East Asia). The Four Modernizations and the Soviet threat, not Hong Kong, are China's day to day principal priorities. There is possibly some naivety among Chinese politicians (and Hong Kong Belongers) about Hong Kong's worth to Britain.

HONG KONG'S WORTH TO BRITAIN

Hong Kong's wealth is over 95% (particularly the Hong Kong Bank) owned by Hong Kong Belongers. The Swire and Keswick families, Cable & Wireless, The Standard Chartered Bank and Inchcape shareholders have significant (to them

only and not to the British public) direct investments but these are not vital to the U.K. economy. The U.K. export trade is a useful 1% (£580 million) but not fundamental and the British Financial Service business there is opportunist and mobile as is direct portfolio investment. Hong Kong's success is a good advertisement for British governed administration.

PITFALLS TO WATCH FOR

1. The "wisdom" of potentates who want to get involved as middlemen for natural self interest reasons (Y.K. Pao/Lord Kadoorie/Hong Kong LEGCO Members/The writer of this memorandum/etc.).
2. The "wisdom" of expatriate British managers of Hong Kong Belonger owned business institutions who can confuse the British interest with their own comfortable mercenary employment.
3. The "wisdom" of Foreign Office and Hong Kong Government Civil Servants who may tend to be "activists" in order for the "achievement" of a settlement.
4. "The Barbarian visiting the Middle Kingdom" scenario played by China on all foreign visitors.

THE STRENGTH OF BRITAIN'S POSITION

While I have minimized Hong Kong's worth to Britain, it nevertheless remains more than marginally positive.

Morally Britain has an obligation to the five million Hong Kong Belongers. In practice even if Britain's interests were to withdraw (ignoring morality) this would not be achieved free of political repercussions without a willing Chinese receiver. The negative wish for no trouble is one of the prime reasons for Britain aiming for a satisfactory Hong Kong settlement.

Of the three participants in the Hong Kong triangle, Britain's position is the strongest because her interest should be the least committed for the present situation to be extended. It should be important for the Chinese (Financial) and it certainly is for the Hong Kong Belongers (free way of life).

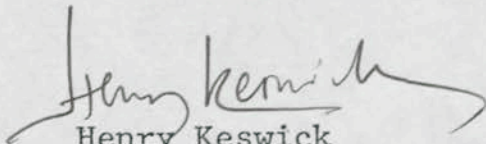
BRITAIN'S SUGGESTED ATTITUDE TO CHINA

1. It is a Chinese problem first and foremost and they must be encouraged to see it as such.
2. Britain should be prepared to co-operate by playing it long to help China with a cautious step by step solution to the Lease expiry date legal problem, in keeping with their domestic political position but this does not mean any unnecessary or unreasonable compromise on the British side (Sovereignty, Flags, Commissioners, etc.).
3. It would be helpful for the Chinese interest if the Prime Minister can make a reassuring long term mutual interest statement as this will help confidence in the short term.

4. Soviet hegemony is a good common subject for discussion when the Chinese become touchy on facing up to the realities of their weak position in Hong Kong.

Hong Kong is a child of uncertainty (Korean War, 1967 Red Guards, Refugees, Trade Quotas) it has a good record of surviving temporary down turns of confidence. Faint heart vacuums are soon filled. It tends to cry wolf too often, particularly in the MacLehose era (Nationality Bill, Student fees, Textile Quotas, Refugees). It should be able to prosper with occasional crises right up to the day it returns to China 2098?

China's civilization is so old and its confidence in its eventual sovereignty over Hong Kong so clear that it sees the time span of solving the Hong Kong and Taiwan problems as being far longer than a European would with our comparatively modern civilization.


Henry Keswick
London
17th August, 1982.