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M. W. 29

FROM PEKING 290610Z JUL 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 741 OF 29/7/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

MIPT: FUTURE OF HONG KONG: THIRD ROUND

1. TEXT OF DRAFT RESUME AS FOLLOWS:

HONG KONG TALKS: THIRD ROUND

CONCLUDING STATEMENT

1. BEFORE WE BRING THIS THIRD ROUND OF THE SECOND PHASE OF OUR TALKS TO A CONCLUSION AND GO AWAY FOR A RECESS OF SOME 'X' WEEKS, I SHOULD LIKE TO MAKE SOME CONCLUDING REMARKS ABOUT THE DISCUSSIONS WE HAVE HAD IN THESE THREE ROUNDS AND TO SUMMARISE BRIEFLY THE POSITION AS SEEN BY THE BRITISH SIDE.
2. DURING THESE THREE ROUNDS, THE VICE MINISTER HAS SAID ON A NUMBER OF OCCASIONS THAT TALKS WILL ONLY MAKE REAL PROGRESS ONCE THE BRITISH SIDE HAS ACCEPTED THAT ADMINISTRATION AS WELL AS SOVEREIGNTY SHOULD PASS TO CHINA IN 1997. I HAVE ALSO QUOTED TO THE VICE MINISTER ON A NUMBER OF OCCASIONS THE ASSURANCE GIVEN BY MRS THATCHER IN HER LETTER OF 10 MARCH 1983 TO PREMIER ZHAO ON THE QUESTION OF SOVEREIGNTY. IT WAS OF COURSE ON THE BASIS OF THE EXCHANGE OF LETTERS BETWEEN MRS THATCHER AND PREMIER QAO THAT WE ENTERED THIS PHASE OF TALKS. I SHALL QUOTE MRS THATCHER'S ASSURANCE ONCE AGAIN. SHE SAID: 'PROVIDED THAT AGREEMENT CAN BE REACHED BETWEEN THE BRITISH AND CHINESE GOVERNMENTS ON ADMINISTRATIVE ARRANGEMENTS FOR HONG KONG WHICH WOULD GUARANTEE THE FUTURE PROSPERITY AND STABILITY OF HONG KONG AND WHICH WOULD BE ACCEPTABLE TO THE BRITISH PARLIAMENT AND TO THE PEOPLE OF HONG KONG AS WELL AS TO THE CHINESE GOVERNMENT I WOULD BE PREPARED TO RECOMMEND TO PARLIAMENT THAT SOVEREIGNTY OVER THE WHOLE OF HONG KONG SHOULD REVERT TO CHINA'. THE BRITISH POSITION IS THEREFORE THAT THE TRANSFER OF SOVEREIGNTY CAN ONLY BE RECOMMENDED TO PARLIAMENT ONCE A SATISFACTORY AGREEMENT HAS BEEN REACHED ON THE ADMINISTRATIVE ARRANGEMENTS.
3. THE CHINESE SIDE HAS OUTLINED A NUMBER OF PROPOSALS FOR THE ADMINISTRATION OF HONG KONG AFTER 1997. THE VICE MINISTER HIMSELF READ OUT A LIST OF SPECIAL POLICIES, WHICH HE TOLD ME CHINA HAD DECIDED TO ADOPT TOWARDS HONG KONG AFTER 1997, AT OUR MEETING ON 25 JULY. WE HAVE LOOKED CAREFULLY AT THESE POLICIES AND WE REALISE THAT THEY ARE INDEED SPECIAL IN THE SENSE THAT THEY DIFFER VERY GREATLY FROM THE POLICIES IN FORCE IN MAINLAND CHINA.

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WE DO NOT DOUBT THE SINCERITY OF THE CHINESE SIDE IN PROPOSING THESE POLICIES. HOWEVER THE QUESTION IS WILL THEY WORK? I AM AFRAID THAT THE SINCERE AND FIRMWY HELD BELIEF OF THE BRITISH SIDE IS THAT THEY WILL NOT. THEY WILL NOT WORK BECAUSE THE CHINESE SIDE HAS NOT TAKEN INTO ACCOUNT THE ESSENTIAL QUESTION OF CONFIDENCE. YOU ARE PROPOSING MAJOR CHANGE TO HONG KONG, DOING AWAY WITH THE BRITISH LINK WHICH UNDERPINS THE SYSTEMS PRESENTLY IN FORCE THERE, AND OFFERING NO REAL GUARANTEE OF NON-INTERFERENCE BY PEKING IN THE ADMINISTRATIVE AFFAIRS OF HONG KONG

4. I HAVE SAID A GREAT DEAL ABOUT CONFIDENCE IN OUR LAST FEW MEETINGS AND I ASK THE VICE MINISTER TO STUDY CAREFULLY WHAT I HAVE SAID. THIS IS THE KEY TO THE QUESTION WE ARE STUDYING. THE FACT IS THAT PEOPLE IN HONG KONG ARE VERY CONCERNED AND ANXIOUS ABOUT THE FUTURE. IF YOU DOUBT THIS YOU HAVE ONLY TO LOOK AT THE HONG KONG NEWSPAPERS WHERE, FOR THE PAST TEN MONTHS, SOME 500 ARTICLES AND REPORTS PER WEEK HAVE APPEARED ON THE QUESTION OF 1997. YOU HAVE ONLY TO LISTEN TO THE VIEWS OF THE HONG KONG PEOPLE. YOU HAVE ONLY TO LOOK AT THE STATISTICS SHOWING THE DECLINE IN INVESTMENT IN THE TERRITORY, THE DECLINE IN THE VOLUME OF TRADING ON THE STOCK MARKETS AND THE FALL IN THE VALUE OF THE HONG-KONG DOLLAR. THESE STATISTICS REFLECT A PROGRESSIVE LOSS OF CONFIDENCE IN THE TERRITORY THAT HAS GAINED MOMENTUM SINCE CHINA'S PLAN TO CREATE A SPECIAL ADMINISTRATIVE REGION BEGAN TO BECOME KNOWN IN HONG KONG TOWARDS THE END OF LAST YEAR.

5. NO PLAN FOR THE FUTURE ADMINISTRATION OF HONG KONG CAN WORK IF IT DOES NOT COMMAND CONFIDENCE. IN THIS CONNECTION YOU MUST UNDERSTAND THAT CRUCIAL TO THE ECONOMIC SUCCESS OF HONG KONG IS A COMPARATIVELY SMALL NUMBER OF PEOPLE SKILLED ENTREPRENEURS, MANAGERS AND PROFESSIONALS, AS WELL AS FOREIGN BANKERS, INVESTORS AND BUSINESSMEN. THE PROFESSIONAL CLASSES OF HONG KONG AND THE FOREIGN BUSINESSMEN CAN ALL LEAVE HONG KONG AND WILL CERTAINLY DO SO IF THEY LOSE CONFIDENCE IN THE TERRITORY'S FUTURE. IF THEY WERE TO LEAVE, HONG KONG WOULD CEASE TO BE A COMMERCIAL AND FINANCIAL CENTRE: THE ECONOMY OF THE TERRITORY WOULD FAIL AND THE HONG KONG DOLLAR WOULD NO LONGER BE INTERNATIONALLY TRADABLE. A LOSS OF CONFIDENCE, IF IT WERE TO BECOME CRITICAL, WOULD DESTROY THE ECONOMY OF HONG KONG IN A VERY SHORT TIME. THE OVERWHELMING BODY OF EVIDENCE SHOWS THAT CONFIDENCE WOULD BE LOST IF IT SEEMED CERTAIN THAT HONG KONG WAS TO BECOME A SPECIAL ADMINISTRATIVE REGION, CHINA WITH THE ULTIMATE ADMINISTRATIVE AUTHORITY IN PEKING.

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6. DO NOT BRUSH THESE RISKS ASIDE. IF CONFIDENCE FAILS, AND AN EXODUS OF SKILLED PEOPLE AND CAPITAL RESULTS, DO NOT THINK THAT THOSE PEOPLE WILL RETURN OR THAT THE CAPITAL WILL RETURN. THEY WILL NOT. AND ONCE THEY HAVE GONE IT WILL BE TOO LATE TO TAKE CORRECTIVE ACTION

HONG KONG WILL HAVE COLLAPSED, AND CHINA AND BRITAIN WILL HAVE FAILED TO ACHIEVE THEIR COMMON AIM OF MAINTAINING ITS STABILITY AND PROSPERITY. MOREOVER IT WILL NOT SIMPLY BE A BILATERAL FAILURE. THE EYES OF THE WORLD WILL BE ON US, AS THEY ARE ON US NOW, THEY WILL JUDGE US BY OUR RESULTS. WHAT WE DO IN HONG KONG THEREFORE AFFECTS WIDER ISSUES.

7. HOW THERE CAN CONFIDENCE BE MAINTAINED? THERE SHOULD BE NO ILLUSION THAT GENERAL ASSURANCES OR EXPRESSIONS OF INTENT WILL BE SUFFICIENT. WHEN CHAIRMAN DENG XIAOPING TOLD THE FORMER GOVERNOR OF HONG KONG IN MARCH 1979 THAT INVESTORS SHOULD PUT THEIR HEARTS AT EASE, HIS WORDS WERE WELCOMED BY INVESTORS OF HONG KONG. BUT BUT TIME HAS MOVED ON AND SUCH ASSURANCES ARE NO LONGER ADEQUATE. THE VICE MINISTER HAS TOLD ME THAT HONG KONG WILL CONTINUE TO BE A COMMERCIAL AND FINANCIAL CENTRE AND THAT THE CURRENCY WILL CONTINUE TO BE INTERNATIONALLY TRADABLE. I DO NOT DOUBT FOR ONE MOMENT THAT THE VICE MINISTER SAYS THIS IN ALL SINCERITY BUT I AM AFRAID THAT IT IS NO MORE THAN A STATEMENT OF INTENT AND THAT IT IS THEREFORE NOT ENOUGH TO MAINTAIN CONFIDENCE. THE FACT IS THAT THESE THINGS WILL NOT CONTINUE SIMPLY BECAUSE CHINA SAYS SO. CHINA DOES NOT CONTROL THE DECISIONS OF FOREIGN INVESTORS IN HONG KONG, NOR INDEED CAN IT CONTROL THE DECISIONS OF LOCAL INVESTORS TO MOVE THEIR MONEY OUT OF HONG KONG OR THE DECISIONS OF THE VITAL AND HIGHLY MOBILE CLASS OF PROFESSIONALS TO EMIGRATE. THESE PEOPLE WILL NOT BE PERSUADED TO REMAIN IN HONG KONG BY WORDS ALONE. THEY REQUIRE A REAL GUARANTEE THAT THE ADMINISTRATION OF HONG KONG AFTER 1997 WILL NOT BE SUBJECT TO CONTROL FROM PEKING.

8. THE BRITISH VIEW, WHICH I HAVE PUT TO THE VICE MINISTER DURING OUR MEETINGS, IS THAT THE ONLY EFFECTIVE GUARANTEE, THAT WILL COMMAND THE CONFIDENCE OF THE PEOPLE OF HONG KONG AND MAINTAIN INTERNATIONAL CONFIDENCE IN THE TERRITORY, IS CONTINUED BRITISH ADMINISTRATION. THIS IS OUR FIRM BELIEF. I HAVE LISTENED CAREFULLY TO WHAT THE VICE MINISTER HAS SAID ABOUT THE CHINESE PRINCIPLE THAT ADMINISTRATIVE CONTROL IS INSEPARABLE FROM SOVEREIGNTY AND THAT CHINA SHOULD THEREFORE RESUME BOTH SOVEREIGNTY AND ADMINISTRATION OVER HONG KONG IN 1997. LET ME STRESS THAT THE BRITISH POSITION DOES NOT STEM FROM CONSIDERATIONS OF PRINCIPLE BUT ONLY FROM CONSIDERATIONS OF PRACTICE. WE DO NOT ARGUE FOR BRITISH ADMINISTRATION BECAUSE IT IS BRITISH. WE ARE NOT ARGUING FOR BRITISH ADMINISTRATION BECAUSE WE DERIVE PROFIT FROM IT. THE GOVERNOR AND I HAVE CAREFULLY EXPLAINED THAT THE BRITISH GOVERNMENT DERIVES NO REVENUE WHATSOEVER FROM HONG KONG (AND IF YOU BELIEVE NOTHING ELSE THAT I HAVE SAID IN THE PAST FEW WEEKS I URGE YOU TO BELIEVE THIS, OTHERWISE YOU WILL TOTALLY MISUNDERSTAND

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THE BRITISH POSITION). WE ARE ARGUING FOR BRITISH ADMINISTRATION BECAUSE WE HAVE IN HONG KONG A VERY SUCCESSFUL AND PROSPEROUS SOCIETY, A PLACE WHICH WORKS WELL AND WHICH WE WISH TO CONTINUE IN THE FUTURE TO WORK AS WELL AS IT WORKS TODAY. WE HAVE LOOKED CAREFULLY AT THE FACTORS MAINTAINING THE PRESENT STABILITY AND PROSPERITY OF HONG KONG AND OUR HONEST CONCLUSION AFTER A FULL EXAMINATION OF THE FACTS IS THAT THE REMOVAL OF BRITISH ADMINISTRATION WOULD BRING THE EDIFICE CRASHING DOWN. A RADICAL CHANGE FOR HONG KONG, AS PROPOSED IN THE CHINESE PLAN, WOULD RESULT IN A LOSS OF CONFIDENCE AND THE HONG KONG ECONOMY WOULD COLLAPSE. WE ARE THEREFORE CONCERNED WITH MATTERS OF PRACTICE NOT PRINCIPLE. WE ARE NOT SEEKING A DEBATE ABOUT PRINCIPLE.

9. I DO NOT EXPECT THE VICE MINISTER TO ACCEPT OUR CONCLUSION THAT BRITISH ADMINISTRATION IS THE KEY TO CONTINUED PROSPERITY IN HONG KONG SIMPLY BECAUSE WE SAY SO. AS I HAVE TOLD THE VICE MINISTER, IT IS A CONCLUSION THAT WE OURSELVES HAVE REACHED AFTER A FULL EXAMINATION OF THE FACTS. I WOULD ONLY ASK NOW THAT DURING THE SUMMER RECESS THE CHINESE SIDE SHOULD ALSO CONDUCT A FULL EXAMINATION OF THE FACTS. I ASK YOU TO STUDY CAREFULLY WHAT I HAVE SAID DURING OUR MEETINGS AND WHAT THE GOVERNOR HAS SAID AND I ASK YOU TO STUDY THE FOUR PAPERS WE PRESENTED TO YOU YESTERDAY. I BELIEVE THAT IF YOU STUDY THIS MATERIAL THE CHINESE SIDE WILL BE STURUCK BY THE COMPLEXITY OF HONG KONG, BY THE VERY GREAT DIFFERENCE BETWEEN THE SYSTEMS IN HONG KONG AND THE SYSTEMS IN CHINA AND ABOVE ALL BY THE CENTRALITY OF THIS ISSUE OF CONFIDENCE. I URGE YOU TO THINK CAREFULLY ABOUT THESE QUESTIONS AND TO THINK AGAIN ABOUT THE PROPOSALS YOU HAVE MADE FOR THE ADMINISTRATION OF HONG KONG AFTER 1997.

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FUTURE OF HONG KONG

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PS/MR LUCE
PS/PUS
SIR J BULLARD
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