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FM HONG KONG 290930Z JUL 83
TO IMMEDIATE PEKING
TELEGRAM NUMBER 416 OF 29 JULY 1983
INFO IMMEDIATE FCO

FUTURE OF HONG KONG: NEXT ROUND OF TALKS

1. A DRAFT SPEAKING NOTE FOR REBUTTING POINTS MADE BY LI JUSHENG ON 26 JULY IS AS FOLLOWS:

BEGINS:

1. THE ANSWER TO MANY OF THE ASSERTIONS MADE BY MR. LI JUSHENG ON 26 JULY WILL BE FOUND IN THE PAPERS WHICH ARE BEING GIVEN TO THE CHINESE SIDE. BUT THERE ARE A NUMBER OF POINTS MADE BY MR. LI JUSHENG TO WHICH I WOULD LIKE TO RESPOND.

A) LAND PRICES

2. MR. LI JUSHENG STATED THAT UP TO 35 PER CENT OF THE HONG KONG GOVERNMENT'S TOTAL REVENUES COME FROM THE SALE OF LAND. THIS IS NOT SO. THERE WAS ONLY ONE EXCEPTIONAL YEAR (1980-81) IN WHICH REVENUE FROM LAND SALES ACCOUNTED FOR 35 PER CENT TOTAL REVENUE. IN THE CURRENT YEAR IT WILL BE UNDER 10 PER CENT. THE AVERAGE FIGURE FOR THE 10 YEARS 1973-83 WAS 14.3 PER CENT.

3. THE GOVERNMENT DOES NOT HAVE A HIGH LAND PRICE POLICY. THE PRICES PAID FOR LAND HAVE BEEN PAID ON THE BASIS OF COMMERCIAL DECISIONS TAKEN BY DEVELOPERS. IT IS NOT TRUE THAT 70 PER CENT OF BANK LOANS ARE USED TO FINANCE REAL ESTATE TRANSACTIONS. 40 PER CENT OF ALL BANK LOANS ARE USED TO FINANCE TRADE. OF THE REMAINING 60 PER CENT, ONLY 25 PER CENT IS USED TO FINANCE PROPERTY DEVELOPMENT. PRC-OWNED BANKS HAVE BEEN AS ACTIVE AS ANYONE ELSE IN THE REAL ESTATE MARKET. MR. LI JUSHENG WILL RECALL THAT CHINA RESOURCES COMPANY OVERSTRETCHED ITSELF IN A DEVELOPMENT PROJECT AT TIN SUI WAI AND HAD TO SEEK GOVERNMENT ASSISTANCE TO OVERCOME THEIR DIFFICULTIES.

4. GOVERNMENT REVENUES FROM SALES OF LAND ARE IN ANY CASE USED FOR THE PUBLIC GOOD IN THAT THEY ARE USED FOR THE PURPOSE OF FINANCING PUBLIC WORKS.

B) THE HONG KONG GOVERNMENT'S FISCAL AND ECONOMIC POLICIES

5. MR. LI JUSHENG SAID THAT THE DEFICIT FOR THIS FINANCIAL YEAR WILL BE HK DOLLARS 7.2 BILLION. A MORE ACCURATE FIGURE WOULD BE HK DOLLARS 6 BILLION. HALF THE DEFICIT WILL BE COVERED FROM THE RESERVES. INCREASES IN INDIRECT TAXATION WHICH WILL COVER THE OTHER HALF HAVE RESULTED IN AN INCREASE BY ONLY 1 PER CENT IN THE COST OF LIVING.

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C) THE HONG KONG DOLLAR

6. IN SPEAKING ABOUT THE HONG KONG DOLLAR, MR. LI JUSHENG HAS COMPRESSED THE ARGUMENTS. IN ORDER TO MAINTAIN THE VALUE OF THE HONG KONG DOLLAR YOU MUST HAVE CONFIDENCE. THE ESTIMATION WHICH THE HONG KONG BUSINESS COMMUNITY AND HONG KONG'S TRADING PARTNERS PUT ON HONG KONG'S LONG TERM PROSPECTS IS ONE OF THE FACTORS WHICH DETERMINES THE EXCHANGE RATE OF THE DOLLAR. SINCE MR. LI PAYS SUCH CLOSE ATTENTION TO THE REPORT ISSUED BY THE HONG KONG AND SHANGHAI BANK, I WOULD REFER HIM TO THE JULY 1983 EDITION OF THEIR REPORT, IN PARTICULAR THE PASSAGE WHICH READS:

QUOTE BUT WITH SPECULATION ABOUT HONG KONG'S POLITICAL FUTURE PROVIDING AN ADDITIONAL NEGATIVE FACTOR, THE HONG KONG DOLLAR SUFFERED MORE THAN OTHER CURRENCIES. UNQUOTE

D) THE RELATIONSHIP WITH BRITAIN OVER TEXTILE AGREEMENTS

7. IT IS NOT TRUE TO SAY THAT BRITAIN HAS LED THE WAY IN RESTRICTING IMPORTS OF HONG KONG TEXTILES TO THE EEC. THE UNITED KINGDOM IS A SUBSTANTIAL IMPORTER OF TEXTILES FROM HONG HONG. THE UNITED KINGDOM HAS TO BALANCE ITS OWN INTERESTS AND THOSE OF ITS EEC PARTNERS WITH ITS RESPONSIBILITY FOR NEGOTIATING MULTILATERAL TRADE AGREEMENTS ON BEHALF OF HONG KONG. THE UNITED KINGDOM HAS ALWAYS SOUGHT TO OBTAIN A REASONABLE DEAL FOR HONG KONG.

E) BRITISH INTERESTS IN HONG KONG

8. I HAVE MAINTAINED AND CONTINUE TO MAINTAIN THAT THE BRITISH GOVERNMENT DOES NOT BENEFIT FINANCIALLY FROM HONG KONG. I HAVE NEVER SAID THAT THERE ARE NO BRITISH COMMERCIAL INTERESTS IN HONG KONG. WHAT I HAVE SAID IS THAT THESE ARE MUTUALLY BENEFICIAL: HONG KONG WOULD NOT BE WHAT IT IS TODAY WITHOUT THEM AND WITHOUT THE TRADING PARTNERSHIP WITH AND INVESTMENT FROM THE UK AND OTHER OVERSEAS COUNTRIES. FOR EXAMPLE, TO TAKE ONE EXAMPLE HONG KONG IS NOW A LEADING CONTAINER PORT. BRITISH COMPANIES HAVE INVESTED IN THE KWAI CHUNG CONTAINER TERMINAL ON WHICH THIS POSITION DEPENDS. WITHOUT MODERN CARGO HANDLING FACILITIES, HONG KONG WOULD NOT HAVE DEVELOPED AS SUCCESSFULLY AS IT HAS. BUT THERE IS ALSO VERY SUBSTANTIAL CHINESE INVESTMENT IN HONG KONG AND A HIGH VOLUME OF TRADE FROM WHICH CHINA DERIVES BENEFIT. PERHAPS MR. LI JUSHENG COULD GIVE US THE FIGURES FOR CHINESE INVESTMENT AND THE RETURN WHICH CHINA GETS FROM THEM.

9. THE HONG KONG GOVERNMENT DOES NOT USE ITS INFLUENCE TO SECURE CONTRACTS FOR BRITISH FIRMS. MR. LI JUSHENG ALSO SAID THAT THE PUBLIC UTILITIES IN HONG KONG WERE MONOPOLISED BY BRITISH FIRMS. THIS IS NOT TRUE. THE TWO ELECTRICITY COMPANIES, THE GAS COMPANY, THE TELEPHONE COMPANY, THE BUS AND FERRY COMPANIES ARE ALL INCORPORATED IN HONG KONG. THEIR SHARES ARE QUOTED ON THE HONG KONG

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STOCK EXCHANGES WHERE ANYONE MAY BUY THEM. THERE ARE INDEED PETITIONS WHEN ELECTRICITY CHARGES ARE RAISED: THAT IS ONE OF THE MARKS OF FREEDOM OF EXPRESSION IN HONG KONG TO WHICH THE PEOPLE HERE ATTACH SUCH IMPORTANCE. BUT IT IS ALSO TRUE THAT HONG KONG'S ELECTRICITY CHARGES ARE AMONGST THE LOWEST IN THE SOUTH EAST ASIAN REGION.

10. FOR THE REST MR. LI WILL FIND MOST OF HIS POINTS COVERED IN THE PAPERS WE HAVE PRESENTED.

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FUTURE OF HONG KONG

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HD/FED
HD/PLANNING STAFF
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