

Hong Kong



Foreign and Commonwealth Office

London SW1A 2AH

15 July 1981

Dear Michael,

Sir Y K Pao

I enclose briefing for Sir Y K Pao's call on the
/ Prime Minister on 17 July. The sections on UNCTAD, Shipbuilding
/ and the bulk market were supplied by the Departments of Trade
and Industry. I attach also a biographical note on Sir Y K Pao.

Sir Y K Pao wrote to the Prime Minister on 18 May enclosing
/ a copy of a speech he made to the Foreign Correspondents' Club
in Hong Kong. I attach a copy of this and a copy of the
Prime Minister's reply.

Sir Y K Pao has recently visited Washington, where he met
President Reagan, and Peking, where he met Chinese leaders.
The latter discussions touched on shipping and shipbuilding
matters but did not this time include the question of Hong
Kong's future.

yours ever

Roderic Lyne

(R Lyne)
Private Secretary

M O'D B Alexander
Private Secretary
No 10 Downing Street

COVERING SECRET

PRIME MINISTER'S MEETING WITH SIR Y K PAO :
10.30 AM ON FRIDAY, 17 JULY 1981

POINTS TO MAKE

FUTURE OF HONG KONG

1. Read your speech with interest. Share your belief in continued prosperity of Hong Kong. Important to maintain confidence.

UNCTAD COMMITTEE ON SHIPPING (Defensive)

2. Outcome of recent Special Session disappointing but not unexpected. Remains to be seen what will become of Group of 77's proposals.

SEPARATE HONG KONG REGISTER

3. Separate Hong Kong register not in our or Hong Kong's interest. Would only draw further unjustified accusations from UNCTAD that Hong Kong is itself a 'flag of convenience'.

SHIPBUILDING

4. Recent order for DS14s most welcome. Hope it will be first of many.

5. (If asked) In principle, Her Majesty's Government is prepared to make Intervention Fund grants available to help yards quote more competitively.

BULK MARKET

6. Share concern at depression in bulk market. Grateful for views on future developments.

COVERING SECRET


SECRET

ESSENTIAL FACTS

Future of Hong Kong

1. Sir Y K Pao addressed Foreign Correspondents' Club in Hong Kong on 12 May. He expressed satisfaction with the assurances given by Chinese leaders that investors in Hong Kong need not fear for the future. Saw this as proof of China's intention to preserve the status quo in Hong Kong. Played down question of the New Territories lease.
2. Sir Y K's statement is helpful. Chinese Government are clearly not yet ready to discuss problem in substance. Confidence must be maintained meanwhile. Lord Carrington explained in Peking in April need eventually to meet the legal problem that British powers of administration in New Territories expire in 1997.

UNCTAD Committee on Shipping

3. Sir Y K Pao is Chairman of INTERTANKO (International Association of Independent Tanker Owners) and head of World-Wide shipping group, with large fleet mainly registered in Liberia. Thus supports open registries. This matches UK interest as a cross-trader in keeping shipping markets open, and in freedom to register ships on own terms. We believe that maritime safety should be pursued in its own right, not by attacking open registries.
4. At recent Special Session of the UNCTAD Committee on Shipping, developing countries ('Group of 77') and communist bloc voted through a resolution aimed at international agreement requiring an 'economic genuine link' between vessel and state of registry. UK voted against, as did all but three OECD countries.

/Separate

SECRET

SECRET

- 2 -

Separate Hong Kong Register

5. In context of UNCTAD attacks on open registries, Sir Y K Pao has publicly suggested separate Hong Kong register. At present Hong Kong is a port of registry under the British flag on same lines as London or Liverpool. His aim is to make it possible to employ either non-British certificated officers on Hong Kong registered ships. Would allow some flag of convenience ships to move to Hong Kong register. Hong Kong's marine administration do not have resources to cope with any major expansion of register. [Not for use] Moreover under present law, impossible to set up separate Hong Kong register under British flag.

Shipbuilding

6. Since 1960's Sir Y K's company has obtained majority of new vessels from Japanese yards. Two reasons. First, Japanese yards offer prices and deliveries which are difficult to match. Second, World-Wide's normal policy has been to order ships only against specific long-term charter commitments by third parties. Japanese companies more prepared than most to accept this. Sir Y K has suggested similar charter deals with the UK but British Shipbuilders were unable to attract sufficient interest from companies like BP or the BSC.

7. However, in January 1981 Sir Y K placed a £23 million order for 4 general cargo vessels with British Shipbuilders' subsidiary Austin and Pickersgill. His first order in UK for some time. Intervention Fund grants enabled Austin and Pickersgill to quote competitive price. Vessels due for delivery in 1982.

Bulk Market

8. Bulk market depressed due to recession and resultant decline in seaborne trade. Little hope of short term recovery, especially in oil-tanker market. Problems in small tanker market could be met by scrapping

/elderly

SECRET



SECRET

- 3 -

elderly ships. Decline in dry bulk carrier and combined carrier markets, where new ordering is high, would only be arrested by recovery of industrial production. Meanwhile, special factors such as USSR's grain requirements could help.

15 July 1981

Hong Kong and General Department

Foreign and Commonwealth Office

SECRET

SIR YUE-KONG PAO CBE LLD JP

Born 1918 Zhejian Province, China. Educated Shanghai and went into banking. Took refuge in Hong Kong in 1949, entering import/export business. Purchased first ship in 1955 and formed World-Wide Shipping Group, now the world's largest independent, of which he is Chairman and President.

Banker by origin and instinct, remains a Director of Hongkong and Shanghai Banking Corporation. Takes keen interest in Intertanko (representing 80% of world's independent tanker tonnage) of which he is Chairman. Rumoured to be trying to bring dry bulk tonnage under the wing of Intertanko which would give it even greater influence. Recently joined Hong Kong Shipowners Association but stands aloof from Liberian Shipowners Association although most of his fleet flies Liberian flag.

Guest of President and Mrs Marcos at UNCTAD V. Invited to President Reagan's Inauguration. On visiting terms with Chinese leadership where a cousin is Minister of Tourism. (Has \$50 million shipping joint venture with China). Frequent contacts with British Ministers and called on Prime Minister in June 1979 and November 1980.

CBE 1976. Knighted 1978.

Married, four daughters.



13

10 DOWNING STREET

THE PRIME MINISTER

29 May 1981

Dear Sir Yue,

Thank you for your letter of 18 May and for the enclosed copy of your talk to the Foreign Correspondents' Club. I have read your speech with great interest.

Particularly enjoyed your full-hearted support of the free enterprise system and your great sense of optimism and faith in the future of Hong Kong.

Warm regards,

Sir Yue-Kong Pao, C.B.E.

Yours sincerely

Margaret Thatcher

A

Sir Ye-Kong Pao CBE, LL.D., JP.

WORLDWIDE SHIPPING GROUP
20/21ST FLOORS, PRINCE'S BLDG.
HONG KONG
TEL: H-242111

18th May, 1981.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London S.W. 1
ENGLAND

Dear Prime Minister,

I have pleasure in sending you for your possible interest a copy of my recent talk at the Foreign Correspondents' Club here, giving a few personal viewpoints on the future of Hong Kong.

With kindest regards,

*Yours sincerely,
Y. K. Pao*

Encl.

Speech given by Sir Yue-Kong Pao, C.B.E., LL.D., J.P., Chairman of
World-Wide Shipping Group at the Foreign Correspondents' Club on 12th May, 1981.

I must first of all thank Mr. Donald Wise, your President, for his introduction. It is always a pleasure to be with you all. Since I spoke to you last I know you have not been idle and I have also done a few more things — enlarged the tonnage of my group, entered into a joint venture with China and involved myself a little bit in the real estate business. However I must disappoint those of you who expected me to talk specifically about the Hong Kong property market. Let's just say that I am too fresh in the game to feel confident enough to give you any advice !

This is not to say that I am not interested in the subject. Next to shipping, the property business is the most exciting game, and I am certainly not exaggerating when I say that it is an essential ingredient in the spectacular economic development of Hong Kong. As our population grows, and more industrial and commercial expansion takes place, so land becomes more precious, and clearly not only local investors are aware of that fact.

Questions concerning investment in Hong Kong are being more and more often discussed in the shadow of the approaching year 1997. Despite the very explicit statements by the Chinese leadership on this point — the latest verbal assurance being made by Vice Chairman Deng Xiaoping to British Foreign Secretary Lord Carrington during his recent visit to Beijing, there is still much concern and pressure for formal guarantees about the future. Personally, I tend to believe that the Chinese Government has already done much by stressing repeatedly, in words and in actions, that while there is disagreement over the treaty position in strict legal terms, this need not interfere with the practical side of Hong Kong's status both now and after 1997.

However, given the anxiety in some quarters to see a formal settlement of the territorial questions, I believe it may be likely that some ways can be found to overcome the seemingly intractable, if, in my view, peripheral differences and to give legal recognition or expression to the intentions on both sides. If that can be done, so much the better, though personally I am satisfied with the concern and interest expressed recently by both governments in preserving Hong Kong's status quo far into the future, and believe that there is no apparent reason for the almost obsessive preoccupation with a date which is, let us face it, still 16 years away.

Simply put, much shorter time spans would personally worry me more in other countries where investment interest may currently be buoyant and seemingly not worried about factors that could still potentially put investors seriously at risk.

Let me just mention recent experiences in Iran and ask how many among you skilled observers is able to forecast with any degree of confidence that there will be no fundamental changes in countries which do not now seem to suffer from any afflictions, economic or calendarwise ? I would therefore suggest that we re-orient our thinking into an acceptance of the position as it is today and no longer worry unnecessarily about 1997. By so doing we can ensure that we maintain an environment in Hong Kong which inspires the kind of confidence traditionally placed in the territory. This in turn can provide the basis for the benefits Hong Kong can offer to China, and thus better guarantee its future.

I am reminded here of the poem entitled "Hong Kong" written by the "poet laureate" Ai Qing and published in "Ren Min Ribao" on 28th March, 1981. It may be of significance that while the poem was written back in August 1980 and revised on 21st February, 1981 it was only published on the eve of Lord Carrington's visit to China. The poem concludes with these lines which read (in free translation) :-

You're the main artery of entry and exit for the motherland;
You're the marketplace where goods are freely exchanged;
You're the conveyor belt, bringing goodwill and friendship;
You're the bridge that reaches towards the four seas and
the five continents;
For many years you have served the motherland,
creating for her
Sources of inestimable wealth.

Frankly, I wish we could have similar sentiments expressed for other places especially in poetry to depict an understanding of the advantages available in maintaining the status quo. I would feel relatively more assured by such poems than by a large volume of statistics, professional analyses or diplomatic exchanges labouring the point. On 8th April a local newspaper published an editorial on this subject under the title "A Comfortable Seat

on a Razor's Edge" in which it was pointed out that part of our success may be attributable to the very fact of Hong Kong's unsettled existence - providing a risk and a gamble and therefore a faster pace and a more desirable place to invest in. I do not agree because, cautious as I am, I think I might prefer an uncomfortable seat in an armchair - uncomfortable enough so as not to sit all the time becoming complacent, but at least broad enough so as not to get hurt every time I have to sit down, and warm enough to make me feel at home.

We have come a very long way in Hong Kong from being first a somewhat romantic if harsh outpost of the empire and then a railway station for many people whose arrival was not always voluntary and who contemplated an only transitory existence in the territory on the way to more attractive pastures. Hong Kong is different today : it has become a true home and a base also for the millions of immigrants who have arrived in the last three decades and whose children are willingly staying here or are happily returning after studies abroad to make a living. Hong Kong today offers business opportunities not easily matched elsewhere and while we all like to bemoan the worsening quality of life, we must also admit that more affordable opportunities have been created as a compensation.

One reflection of the general feeling that despite all the talk about 1997 Hong Kong is going to survive beyond that date is the ongoing expansion of investment in Hong Kong. In this connection, I suppose some of you may be curious about my taking an interest in a certain local property company. Let me tell you that the acquisition did not happen because I wanted to do battle with the traditional old "Hongks", as matters were dramatised at the time, but simply because, like so many others in Hong Kong, I am committed to the territory's future. That there is a shift in control from one sector or from one group to another signifies nothing more than that commercial success needs to find outlets. In that respect, the acquisition by say Hong Kong textile, shipping, or banking firms of assets or of whole enterprises in other countries also only reflects the extent of the economic power that has been built up in Hong Kong and with which we are now entering the league of some of the largest multi-national businesses.

I hesitate to say too much before this audience about the reasons for Hong Kong's success. You all know the environment well enough yourselves. Let me then just say that we owe much to the excellent leadership provided in the past difficult decade by our Governor who, sadly, will be leaving us in about a year, and by other senior officials who all well understand the importance of both the political and the economic factors which provide Hong Kong with its great opportunities and with its restraints. The open market economy has served us well and we probably have gained more admirers than critics over the years. On the other hand, we must not rest on our laurels but need to keep the momentum going both in business and in government to insure that social stability is maintained and that we remain fully responsive to the demands imposed on our facilities by the rapid population growth, the increased trade, the greater sophistication of the next generation and also by the fact that Hong Kong is so frequently caught in the crossfire of other people's battles.

While success feeds on itself it also attracts attention. You no doubt all know about the problems caused by the MFA (Multi-fibre agreement) and you may have heard how Unctad, a United Nations agency based in Geneva, is promoting a "New International Economic Order". Well, two of their recent proposals on cargo sharing in the bulk trades and on the phasing out of the so-called open registries, (sometimes also known as "Flags of Convenience") - particularly affect Hong Kong shipowners and also have become one of my pet concerns as Chairman of INTERTANKO, the International Association of Independent Tanker Owners. Coming from Hong Kong having been brought up in a free enterprise system and being engaged in an international business, it is particularly difficult for me to understand the logic which seems to believe that the best way to utilise scarce resources is by the elimination of competition and the establishment of barriers to entry and to trade in an industry.

Protectionist measures are an admission of failure at the best of times, but when they are applied to an industry which has proven its efficiency, economy, and resilience many times over and which is one of the few left exhibiting a high degree of competitive behaviour, one must really ask whether political slogans have completely clouded economic reality. The phasing out of open registries betrays a parallel desire to close outlets which through their operation have demonstrably produced lower transportation costs for world trade and provided job opportunities for many seafarers especially from developing countries. The open registries

are suspect simply because they are encumbered with relatively fewer regulations than the more traditional flags. It is interesting to note that the reaction to the phasing out ideas is not only coming from the people who now use Flags-of-Convenience (and therefore naturally have a vested interest) but also from shipping interests in traditional maritime countries who have found that flagging out is sometimes the only viable alternative to going out of business !

Unctad's efforts are ostensibly directed toward helping the developing world. In shipping, the developing world has, surprisingly, done very well and INTERTANKO studies have shown that the annual growth rates for tanker fleets in the 10 largest third world maritime nations have been 17.6 per cent on average for the period 1970-80. This compares with annual growth rate of 12.3 per cent for Liberia and Panama and of 7.5 per cent for the 10 largest developed countries. Of course these figures must be seen in the context of the relatively small starting base for the developing countries, but the record is nevertheless impressive and defeats the Unctad argument that the third world is prevented from expansion in the maritime industries by the economic power in the hands of the shipowners and cargo interests in the developed countries, and that rectification can only come via a cumbersome and artificial market-sharing programme which would destroy the flexibility of the spot market, and which through the creation of idle capacity, will result in much higher transportation costs for everybody.

I hope I have given you some food for thought on a number of not necessarily fully related subjects. Let me just summarise by again stating my principal beliefs :-

- 1) I think Hong Kong has a role to play for much longer than the next 16 years provided we are all aware of our responsibilities to try and maintain a progressive, socially stable and economically prosperous environment in the territory;
- 2) I believe not only in the excellence but in the wisdom of the Hong Kong Government, albeit non-elected, to pursue a course of pragmatic and liberal economic policies and to continue to recognise the needs of a more sophisticated urban population;
- 3) I believe that as time goes on there will be more effort in other countries to imitate the example of Hong Kong, and while I am conscious that one cannot easily transplant the totality of factors which augur success, a good case can be made for the possibility of exporting some of the ingredients of Hong Kong's achievements. As a result, I believe that Hong Kong interests must and will expand further internationally by direct acquisitions and participations, in both developed and developing countries, and that they will fight for the right to do so whenever obstacles are put in the way;
- 4) And finally, I also believe in the logic of freedom for shipping, as well as in ultimate acceptance thereof by its present-day critics.

With these statements of personal belief let me end my talk and thank your President once more for this opportunity of speaking here.

Thank you very much.

It appears that the officials in Unctad and in some of the countries supporting its aims on the shipping front have lost a bit of steam lately. This is partially due to the strong stand taken by the industry itself. We have in our turn proposed positive and well publicised alternatives to encourage shipping in the developing countries on a private industry basis which we believe will work better and cope without the cost of subsidies and unnecessary market constraints. While the battle is not yet over, I think we have generated more of an awareness in official circles that there is so much complexity in international shipping that it might really be smarter to let supply and demand in a free market do the regulating for optimum effect. Speaking in Hong Kong, all this may sound like good common sense to you, but I can assure you that while Hong Kong's style of doing business is being admired in some quarters, it does not yet seem to be generally known that on top of an encouraging political environment it also takes hard work and skill to make some thing out of nothing!

MFJ

BF 16-7-87

23 June 1981

The Prime Minister has agreed to see Sir Y.K. Pao on Friday 17 July at 1030 at No.10.

Could you please prepared a short brief to reach this office by close of play on Thursday 16 July.

CS

Christopher Jebb Esq
Foreign and Commonwealth Office

GR

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

Redc 23/6
R 19/6

CF PRS

WORLD-WIDE SHIPPING GROUP
20/21ST FLOORS, PRINCE'S BLDG.
HONG KONG
TEL: H-242111

Miss Stephens:
Will you please?

Am

16th June, 1981.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London S.W. 1
ENGLAND

①

Bonnie Munter
There should be no difficulty about
getting him in. Agree?

Dear Prime Minister,

Yes not

Am

Thank you very much for your kind letter of 29th May, 1981
and for your favourable remarks on my talk at the Foreign
Correspondents' Club.

I just returned from Washington, D.C. where it was my
pleasure to visit President Reagan on 12th June at his
office. In our 20-minute conversation, free enterprise
was the predominating topic and I was impressed by the
way he strongly supported the principles which are also
so prominent in your thinking. He mentioned what a great
admirer he is of you personally and how much he supported
all that you stand for on the political front.

I am scheduled to be in London between 15th and 17th July
(immediately following another business trip to Beijing)
and do hope that you may find it possible to again spare
me a few minutes, as I know you take an interest in the
Chinese situation and what transpires there. If there is
such a possibility, I would be grateful if your office
could contact my London company, Marine Navigation Co. Ltd.,
Tel. 01-583 1510 (Mr. H. Sohmen).

Once again my thanks and warmest regards,

yours sincerely
Y. K. Pao

19 May 67

1957