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cc to Henry King:
Future of Henry King
& Henry King: Policy
on PH's Treaty
Henry King
Original in
China: China
Policy

The Rt Hon Margaret Thatcher MP
Prime Minister
House of Commons
London SW1A 0AA

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Margaret Thatcher

I feel duty-bound since I have just returned from Hongkong, to write this letter to you regarding your coming visit to China. I am sure you are adequately briefed by Ministers and Officials in the Foreign & Commonwealth Office in preparation for the visit, however, the following paragraphs may give you additional information and insight into the Hongkong lease question which, by all accounts, will be a subject raised by the Chinese at some point during your visit.

In my capacity as adviser to one of the leading Banking/Real Estate/Trading/Broking groups in Hongkong, I have been in constant contact, through frequent visits to the colony, with a dozen or so leading Chinese businessmen each of them in control of companies with assets in excess of 500 million pounds. Typically, these people are publicity shy and therefore largely unrepresented in the formal government consultative machinery.

The question of the lease (of the New Territories expiring in 1997) has always been in the back of people's minds in Hongkong, but came to the fore earlier as a result of the British Nationality Amendment Act which inter-alia, changed the status of Hongkong citizens from British Subjects to citizens of British Dependent Territories. Many in Hongkong saw this as a step taken by HMG to disclaim responsibility for the two million plus who were born or naturalised as British Subjects in the colony. The economic barometers in Hongkong, i.e. the stock market and the strength of the Hongkong Dollar, both fell dramatically last October when the Nationality issue was hotly debated. Admittedly world economic situation also had a bearing. There has been noticeable increase in outflow of capital from Hongkong

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House of Lords · Westminster

-2-

mainly to North America, (one estimate by the Americans puts it at around \$25 billion US over the next five years). Both the governments of Taiwan and Singapore are making overtures to Hongkong investors to take shelter in their respective countries. The fact that confidence was largely maintained is due to the trust people of Hongkong have in the good sense and well intention of both Beijing and London in seeing that the prosperity of Hongkong should continue. This confidence is fragile, it was shaken again in recent weeks when Mr Peng Zhen, Vice Chairman of the Standing Committee of the National People's Congress, when commenting on the draft constitutional amendments, asked people of Taiwan, Hongkong and Macau to study Clause 30, which refers to the setting up of special administration regions. These regions can have a non-socialist economic system but would nonetheless be under Chinese sovereignty. The stock market and the Hongkong dollar again reacted strongly during the past few weeks since that statement was made.

In the meantime, expectation is being built up that discussion during your coming visit will result in a positive statement on the future of Hongkong. Public opinion, as expressed in the local press and various seminars conducted on the subject recently, showed a definite preference for status quo (ie British rule) to continue. A drastic decline of the economy is predicted if the system is to change in any material way.

Much has been said about Hongkong's economic value to China, so much so that it has put up with colonialism at its doorstep for so long. The Chinese official pronouncement on the fate of Hongkong has evolved from "to settle when the time is ripe" (Zhou En-lai 1952) to "investors should put their heart at ease" (Deng Xiaoping 1980). In the past four months, however, according to my Chinese friends who were invited to meet with Vice Chairman Deng Xiaoping and Premier Zhao Ziyang and were given a message, it is quite clear that (a) the Chinese hosts intend to raise the topic of their own volition, (b) the issue of sovereignty was not negotiable. There is therefore no possibility for the lease to be extended and Hongkong island which is ceded territory

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House of Lords · Westminster

-3-

according to the former treaty will not be exempt from the sovereignty reversion, (c) the Chinese officials have apparently given thought to the possible format of government to replace the current system. The term self-administered special zone or autonomous region has been consistently mentioned to all those invited to receive the message which found its way to the Financial Times, (d) within the limits of sovereignty, there was due concern for the prosperity of Hongkong to continue, the same people were assured that to the extent possible British civil service and legal system will be retained, the Hongkong dollar will continue to be an independent currency fully backed by the exchange fund. But apparently whether all these are compatible with the formula of sovereignty that China will eventually come up with is not clear.

With only 15 years before the expiry of the New Territories Lease, it is natural that not only Hongkong people but investors from abroad will be increasingly anxious to know what the future holds. The recent events have caused anxiety to rise to the pitch that a solution is expected within this year. The view expressed is that though none could challenge China on the question of sovereignty over Hongkong and, in fact, if sovereignty is in name only while everything remains practically unchanged this will not jeopardise investments or Hongkong's economic well-being, Britain does have some bargaining power in that China realises some form of British presence is essential for Hongkong's continued stability and prosperity in the foreseeable future.

The people of Hongkong and, indeed, the world will watch closely your China visit in the context of any progress on the Hongkong lease question. It is appreciated that a perfect solution to such a complex problem may take longer to finalise but the urgency of the situation calls for a joint statement between you and the Chinese Premier. In the opinion of my Chinese friends, the assurance given will have to go beyond generalities to maintain public confidence in the future of Hongkong.

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House of Lords · Westminster

-4-

If there is any further information that I could obtain on the developing Chinese thoughts I will send them to you. Needless to say these senior business people in Hongkong would fly immediately if you wished to see them.

L. P.
Louis Luce
T. P. S. Herbert