

S. Yue-Kong Pao CHINA POLICY

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13th August, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

Prime Minister:
To be aware. We
will give you a draft
reply.

Dear Prime Minister,

JH.
24/8

For your possible interest and reference, I am pleased to have had translated and enclose copies of two articles published in the latest issue of the Chinese magazine "Zheng Ming". As you will no doubt have been informed, the question of the future of Hong Kong has during the past few weeks become one of the most serious public concerns locally and to a degree is also responsible for the dramatic fall of the Hong Kong stock market. Clearly a number of previous assumptions are now being examined more closely on this issue, and it appears that confidence among the community here is indeed waning. It would, in my personal opinion, be of considerable benefit if a serious representative of the Hong Kong Government, either H.E. The Governor or the Chief Secretary, be seen to be involved during your visit to China. I of course appreciate the complexities involved in your selection of the personnel who will accompany you but do believe that a presence from Hong Kong would be most opportune.

In light of the intense preoccupation of the people of Hong Kong now with the year 1997, and the importance attached to your visit to Beijing next month, it is very much hoped that the results of your discussions will at least allow an announcement that the United Kingdom and the People's Republic are both agreed on the importance Hong Kong has for both countries, and that they will cooperate in doing everything possible to preserve the economic stability of Hong Kong and to assure its potential for growth, while both Governments continue during the next few years to negotiate the detailed legal and technical questions involved in Hong Kong's future. This might help to alleviate some of the

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short-term fears now building up which could, if left unchecked, prejudice the ultimate solution that clearly needs more time for negotiation.

The good wishes of the people of Hong Kong will be with you for a successful trip to China, and I am of course very much looking forward to seeing you in Beijing and Shanghai in a few weeks' time.

With kind regards,

yours sincerely
J. K. Fung

Encl.

MFJ

17 August 1982

The Prime Minister who is on holiday at present has asked me to thank you for your letter of 13 August which I will ensure that she sees on her return. I know she will wish to write to you herself then.

TIM FLESHER

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

1. Ownership and Governorship

The future of Hong Kong is of course a complex subject, but I believe it can be boiled down to two central issues: ownership and governorship. An owner can be at the same time the governor. The converse is also true: an owner may not also necessarily be a governor.

It is one thing to have ownership claims; quite another to exercise ownership rights. It is often the case that the owner relinquish his rights to manage or take care of his property and asks that someone else stand in his place and assume management. This is the case when the owner of a house authorizes a caretaker to look after his rental affairs; or when the owner of a car hires a chauffeur to take care of his vehicle.

In my view, in the satisfactory solution to the problem of Hong Kong's future a clue may perhaps be found from recognising this all-important distinction.

2. Who shall assume the task of running Hong Kong?

The question of who will run Hong Kong of course depends on the decision of those who own Hong Kong. On the question of Hong Kong's ownership, there is already a consensus. China had formally or informally made claims to Hong Kong's ownership, a claim to which U.K. had given its tacit consent. In a way, the issue concerning ownership has already been satisfactorily resolved. It is perhaps the more remarkable in that the resolution is achieved without precipitating any overt military confrontation. The same characteristic response of tacit acknowledgement marks the British attitude towards the recent rumour about China's move to regain sovereignty over Hong Kong. One can therefore be confident that this time, like before, the issue will be settled peacefully and without much ado.

3. Regaining Hong Kong's sovereignty is a different issue from regaining Hong Kong.

Not a few of the Hong Kong people will of course be happy to see China making no claim over Hong Kong's sovereignty and letting it remain

the way it is. To them, any changeover will give them forebodings of a major disaster. Such feelings are entirely understandable, if a little naive and claustrophobic.

The root of such fears is to confuse the term ownership with governorship. Thus, on hearing the news that China will in time regain Hong Kong's sovereignty, they jump to the conclusion that China will eventually take over Hong Kong. To regain Hong Kong's sovereignty is far from the same thing as to take over Hong Kong. The latter of course involves more than just regaining sovereignty. Hence, Hong Kong people should have nothing to fear if China intends simply to lay claims on Hong Kong's sovereignty. It will be a different story if China's intention is to take back Hong Kong.

4. Keeping perspective and forgoing opportunity

Hong Kong people will have a lot to be thankful for if China merely lays claim over the place's sovereignty with no intention whatsoever of assuming the task of running Hong Kong's day-to-day affairs into her own hands. There are some who are not content with anything less than China doing nothing at all. These people are not being realistic and not keeping matters in perspective. On the one hand, are we ever happy to be citizens of a British colony in perpetuity? On the other, is it not simply good sense and pragmatism on China's part not to forgo the chance of resuming Hong Kong's ownership at a time when the lease over ^{the} New Territories is about to expire? To regain Hong Kong's sovereignty can thus be seen as a most sensible course of action and should give no cause for anxiety and worries.

5. China to assume ownership; U. K. Governorship

The focal point of the Hong Kong issue, one that is likely to have far-reaching consequences on lives of the average Hong Kong people, is the question of who will assume the task of governing and running Hong Kong after the sovereignty of the place is reverted back to China. In other words, when the question of ownership is settled, by whom will Hong Kong be governed?

Will China assume the task? To forge ahead with the unprecedented task of modernising the nation is already a gargantuan undertaking that taxes heavily on the resources of the Chinese leadership. Moreover, China may not be ideally suited to governing Hong Kong with a political and economic system so very different from the Mainland. Shall Hong Kong be governed

Circumstances do not seem to warrant its practicability. In my view, the ideal arrangement is for Hong Kong to be governed by its "old caretaker" who has proven to be so adept at the task through long years of constant practice. To put it straightforwardly, it would be best for the future of Hong Kong to have China as the "owners" and U.K. as the "governor", granted that the friendship between the two countries are as long-lasting as are the benefits to be derived from such arrangements for both parties.

6. Freedom and Equality

China has already made no secret about how Hong Kong should be run in the future by laying-down the principle of "one country; two systems". Hong Kong should do well to develop to the fullest extent the potentials and capabilities of a capitalist system, while at the same time avoid its many pitfalls. It should also learn to adopt some of the merits of a socialist system and sidestep some of its shortcomings.

A major virtue about a capitalist system is the "freedom" it provides for the people and one of its blemishes is the danger of "exploitation"; the greatest merit of a socialist government is the principle of "equality", while its most regrettable fault is "autocracy". The future management of Hong Kong should be based on the principles of "Freedom" and "Equality", and a minimum of "exploitation" and autocracy".

To look ahead, the future new Hong Kong should make its reputation not just as a "free port" but also as a place where the principles of "freedom" and "equality" are vindicated and upheld. From there, it may set a shining example to the world about what a new political system Hong Kong is able to create out of the blending of socialist and capitalist regimes.

If the eventual resolution of the problem about Hong Kong's future usher in such a grand vista, should we not stop fidgetting and set our own hearts at ease instead?

THE RENTAL SYSTEM - A PROPOSED SOLUTION TO HONGKONG'S FUTURE

In the last issue of Zheng Ming, Lo Bing reports on the guidelines the Chinese leadership has laid down for a satisfactory solution of the Hong Kong issue. These guidelines may perhaps be summarised as follow:-

- 1) Hong Kong is part of China and there is no way China will recognise the unequal treaties concerning Hong Kong;
- 2) China will in the not-too-distant future regain its sovereignty over the territory;
- 3) This may take the form of "one-country; two-systems" which means that Hong Kong will still retain its present status as a free port and continue its existence as a capitalist city.

There is a high credibility to Lo Bing's report, for it confirms the views divulged by the industry and business leaders as well as left-wing elements who have been invited to Beijing in June for an audience with Premier Deng to discuss the Hong Kong issue.

Regain Hong Kong's sovereignty - no laughing matter

It is no news to hear about China's refusal to recognise the unequal treaties. The Beijing government has already made claims about her sovereignty over HK some time ago, a claim which has been ratified by the United Nations. While no one may perhaps dispute China's territorial rights, the fact is that Hong Kong has remained a British colony administered by the U.K. government ever since the days of Communist takeover in China. Hong Kong is governed by the Governor appointed by U.K.; it hoists the British flag, and is run on the basis of ordinances modelled after U.K. laws. The British government in Hong Kong is virtually the landlord of the Hong Kong island, Kowloon and the New Territories and exercises absolute discretion with regard to the allocation of the Reserve Fund. All these show that the Beijing government's claim of sovereignty is purely nominal, and not de facto. However, the present expressed intention by the Chinese leadership to regain the sovereignty of Hong Kong may have far-reaching consequences. It may affect the present as well as the future prosperity of Hong Kong, as well as the way of life for its 5 million population. The subject should engage the serious attention of all concerned.

Factors that have gone into the making of China's recent move

The first question to ask is, why is the Chinese government taking up again the question of sovereignty over a piece of land (over which it has so far exercised no political authority) only after a period of more than thirty years, and after turning down the Portuguese government's suggestion a few years ago to return Macao to China?

As everyone may be well aware, the past reticence of the Chinese government is due mainly to the fears about the economic repercussions any claims of sovereignty may cause on Hong Kong's economy. China fully appreciates the economic value of a prosperous Hong Kong towards China, and is far from being tempted to frighten the goose that lays golden eggs. The same considerations must be behind China's refusal to take back Macao. These basic worries have not disappeared even now, but the Chinese move may be accounted for by the emergence of the following factors in recent years.

One of them is the fast approach of expiry date of the unequal treaties. Despite the traditional refusal by China to recognise them as legally binding, it is incumbent upon the U.K. government to do something, thus obliging the Chinese government to place the Hong Kong /Macao issue on its agenda.

Secondly, China's recent efforts to induce foreign investment may have created the illusion that since capitalists are willing to make investments in a communist economy, by the same token, they may also continue to invest in Hong Kong, provided that the Chinese government gives appropriate guarantee about its interest in the perpetuation of capitalist conditions in Hong Kong.

In a recent rally for unification, Ye Jiangying made a nine-point proposal in which it was suggested that after the unification, Taiwan may still retain its present military, political and economic systems, and be treated as a "Special Administrative Region" of China. The Chinese government may feel that the same principle may also be applied to the Hong Kong situation.

The first point is the crucial factor behind the taking up on the sovereignty issue, while the other two factors may have been instrumental in helping the Chinese government to map out a blue-print for the return of Hong Kong to the Mainland.

A conflict between nationalism and economic interests

The Hong Kong issue is a complex problem full of inherent contradictions.

From the nationalist viewpoint, Hong Kong's existence as a remnant of the British empire is an eyesore to China. On the other hand, the territory is a colony with a difference. Under the British government, Hong Kong has developed into an international financial and commercial centre. The maintenance of such a status hinges very much on investors' confidence in the British rule. The importance of Hong Kong to China hardly needs emphasising - in difficult times, Hong Kong has been the main source support; it is also invaluable to China in helping it to accomplish its modernisation goals. Trade with Hong Kong constitutes forty percent of China foreign earnings. Thus, from the economic point of view, China should do nothing to endanger Hong Kong's prosperity, nor the British government that makes this possible.

Reality is so often a pretty kettle of fish, but essentially, the issue before us is this: should national interests come before economic benefits, or vice versa? The ideal solution is of course that we can keep both considerations in harmony. But reality does not always favour a utopian settlement, and a decision needs to be made in setting up priorities.

The inherent contradictions between achieving the goal of regaining sovereignty while at the same time protecting Hong Kong's continued prosperity have already been observed by Deng Xiaoping in his recent audience with representatives from Hong Kong and Macao, and that is why he invites more public discussions on the issue in the hope that a satisfactory solution to all the concerned parties may finally materialise.

Regaining sovereignty - what form shall it take ?

Let us assume that a decision is made to regain China's sovereignty over Hong Kong and that nationalist sentiments have the upper hand. The question then remains: what form should this take without jeopardising Hong Kong's prosperity ?

From my understanding of international law, sovereignty means that complete autonomy of a nation in exercising its full authority in the conduct of affairs within its national boundaries. Sovereignty is not a term empty of substantive meaning. It can mean perfect autonomy in the allocation and use of land, and the power to rule over its citizens according to its code of law.

Seen from this angle, regaining sovereignty will mean the termination of British rule and an actual political changeover. Regrettably, such move will inevitably prove disastrous to Hong Kong's prosperity.

Another way to accomplish political changeover is for Hong Kong not to revert directly into China, but to be governed, as an interim measure, by the Chinese people in Hong Kong. Should such a new government possess complete autonomy in the conduct of its affairs (i.e. without interferences from Beijing) - the extent of damage may conceivably be less severe. Hong Kong may become "Singapore II"; and may shake off the infamy of its existence under its "colony" status. But conceivably, such an independent government is not likely to be tolerated by the Chinese government who would rather prefer placing Hong Kong under U.K. rule.

In summary, Hong Kong is destined to become either a part of China or a part of the British Commonwealth. There is no middle way. Recently, there has been suggestions for Hong Kong to become a Free City under the administration of United Nations, in the same manner as Gdansk was before the First World War. This may be a viable alternative except that China will unlikely give it consent.

China's blueprint for regaining sovereignty

Basically, the Chinese blueprint is for Hong Kong to revert back to China without causing a massive outflow or drainage of local capital. Two methods are devised to forestall such a possibility :-

- 1) to maintain its present capitalist form of economic system without introducing any drastic changes for a period of time. This is the "One country; two systems" proposal.
- 2) to practise a form of government different from the existing governmental system in China, or what is called "Special Administrative region".

But until now, no specific details have been revealed for a meaningful assessment to be made.

In a way, all the foregoing steps or methods are evidence of a large measure of open-mindedness and tolerance on part of communist China as well as its eagerness to protect Hong Kong's prosperity. However, they are based on the erroneous assumption that Hong Kong's status quo may be preserved when the territory is not ostensibly run by communists from China. Investor confidence is a fragile, and extremely delicate affair, and hinges very much on whether political power still resides in the hands of the British government.

At this point, it may be necessary to draw a line of demarcation between capitalism under the British flag and under the Chinese flag.

On the surface, capitalism may be just a way of economic life, involving no major differences whatever the flag it happens to be under.

This supposition is a fallacy. Communism in theory or in practice, or communism in its revised version for that matter, is an antinomy to capitalism. The communist insistence for decision-making to rest with a "class society" makes capitalism under a communist government miles apart from the same system under a capitalist society. The natural extension of the communist ideology is for the nationalisation of the economy. If some form of capitalist economy is allowed to exist under a communist regime, they would be permitted only as a stop-gap measure, as an exception rather than the rule, and above all on sufferance.

Will the system of "Special Administrative Region" boost public confidence?

By the same token, the proposal to set up "Special Administrative Region" is also based on the principle of toleration, for communists are experts in the understanding of the psychology of the average entrepreneur and the public in Hong Kong. They are well aware of the harmful effects a straightforward transplant of the communist system into the Hong Kong soil may cause, and therefore they design in advance a system which in their view is able to set the hearts of Hong Kong people at ease.

The nine-point proposal of Ye Jianying for the unification of China stipulates that Taiwan retains its present political system and army. It is however not expected that Hong Kong will be given the same tolerant treatment. Or else, the suggestion to regain sovereignty simply does not make sense.

Conceivably, the suggestion of a "Special Administrative Region" is for Hong Kong to be governed initially by politically neutral elements such as foreign capitalists who will be accepted by the majority of the public after a political changeover.

Whatever the case, the "Special Administrative Region" should not be taken as anything but another propagandistic device by communist China designed to ward off any fears about a totalitarian government. For after this curtain-lifting act, who knows what reality will unveil itself?

We can perhaps ask a fundamental question which may help to clarify the whole complex issue : Does a "Special Administrative Region" fall within the jurisdiction of Communist China ? If the answer is positive, then one may ask whether the Hong Kong public may be required to abide by the four principles (in fact should be five - translator) in the Draft Constitution which Chinese people are obliged to abide. What will be the limits of communist tolerance ? Will it not be wearing thin if Hong Kong people refuse to believe in Leninism or Maoism ? Or, communist leadership ?

In the last analysis, the doubts felt by the public towards "Special Administrative Regions" are not without ground. While they understand that Article 30 of the Draft Constitution stipulates that "The rules and regulations in force in "Special Administrative Regions shall be stipulated by law according to specific conditions," they certainly appreciate that the Preamble of the Draft Constitution * has an even greater legal prowess.

Hence, it can be seen that there is limited usefulness in allaying the fears of Hong Kong public by means of setting up "Special Administrative Regions". Even less effective will this device be in boosting investor confidence. While the general public may have no other country to flee to in case of a communist takeover, there will definitely be a massive outflow of capital. A communist takeover will mean inheriting an economic wasteland and taking on the burden of feeding Hong Kong's 5 million population.

A Rental System that benefits all parties

In the author's personal opinion, the top echelon in the Chinese leadership may not be too wise and may perhaps be a little hasty in divulging its plans about regaining sovereignty, setting up "Special Administrative Regions", and practising the principle of "one country; two systems". The Hong Kong issue is a complex problem, and the best way to tackle it is not to construct any models which offer themselves as satisfactory solutions, but to sound out the opinions of the Hong Kong public as well as the British

* The relevant paragraph states "China abides by the five principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful coexistence, and develops diplomatic relations and economic and cultural exchange with other countries; China consistently opposes imperialism, hegemonism and colonialism, strengthens unity with people of the other countries in their just struggle for the preservation of their national independence and for national economic development, and strives to safeguard world peace and

government, and prominent figures in Hong Kong's industrial and commercial communities. Any preconceived models cannot avoid being subjective and therefore impracticable, and when the ill effects are realised only after a model is seen to operate in actual circumstances, any remedies may be too late.

There have already been a welter of opinions concerning how the 1997 issue should be dealt with.

There are some who suggest that a friendly treaty be signed between the Chinese and the British government expressing their mutual interest in the maintenance of Hong Kong's status quo for another fifty or thirty years. Others advocate a formal agreement to allow British presence in Hong Kong with the stipulation that notice needs to be given at least fifteen years in advance should China wish to regain sovereignty. Some suggest that China regain her sovereignty over Hong Kong, but entrust the place to U.K. for government. In summary, all these views are built on one common assumption: Hong Kong can only maintain its status quo under British rule.

Another suggestion is for Hong Kong to be run by the United Nations with a view to avoiding a communist takeover on the one hand and shrugging off the infamy of its existence as a colony on the other.

Still others suggest joint Sino-British rule. Perhaps, those who advocate this idea intend this as a measure to fall back on in case China refuses to accept continued British rule in the colony.

Amidst this multitude of opinions, the author would like to venture yet another suggestion which may be termed the Rental System. (Please take care to distinguish this proposal from the Lease System advocated by Lenin). The Rental System may be worked out as follows:

- 1) China to regain sovereignty over Hong Kong
- 2) China is to lease Hong Kong out to U.K. for periods of thirty or fifty years
- 3) U.K. is to pay China rent mutually agreed upon (should the rent amount be denominated in foreign currencies, the conversion rate should be based on the value of gold)
- 4) Notice of termination of lease should be given fifteen years in advance.

The merit of this system is that it achieves the dual purpose of maintaining Hong Kong's status quo while at the same time realising China's intention to regain sovereignty. As for the rental payments, I believe both the

British government and the Hong Kong people will be perfectly willing to fulfil their obligations. Moreover, this rental payment will also give the much-needed foreign earnings necessary for China to forge ahead with her modernisation programmes, and appears to be a much more reasonable arrangement than is the present position where Hong Kong is on lease to the U.K. without any monetary compensations at all.

I wonder what the Chinese government and the Hong Kong public may feel towards this proposal.