

PRIME MINISTER

HONG KONG

You asked me to arrange:

(a) A brain storming session with officials on Hong Kong. This can be done on Friday morning. I suggest that it is attended by Lord Maclehorse, Sir Anthony Ackland, Mr. Donald and a Legal Adviser. Agree?

(b) A meeting with a small group of Ministers. This could be done next Monday. May I invite the Foreign Secretary, the Defence Secretary, the Home Secretary and perhaps the Chancellor and the Attorney General?

A. J. COLES

8 September 1982



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10 DOWNING STREET

*From the Private Secretary*

8 September 1982

The Prime Minister has asked me to thank you for your interesting letter of 7 September. It deals with a subject of great importance and your views are most useful to the Prime Minister as she approaches her visit to the Far East later this month. Mrs. Thatcher is grateful to you for writing.

A. J. COLES

Mr. Daniel Koo

FWO

# The Shui Hing Company Limited

(Established 1926)

Shui Hing House, 23-25 Nathan Road,  
Kowloon, Hong Kong.

7th September, 1982.

Mrs. Margaret Thatcher,  
Prime Minister of United Kingdom,  
No. 10 Downing Street,  
London,  
United Kingdom.

Prime Minister

To see. I have  
signed briefly - you  
believe. MR 5/9

mt  
Dear Mrs. Thatcher,

I am writing to you as a Hong Kong Chinese businessman born here whose family has been identified with economic progress in Hong Kong for several generations. I am also writing as a person deeply concerned with the future of Hong Kong and conscious of the fact that you will shortly visit China to discuss this important matter. My company is, I believe, one of the largest retail establishments in Hong Kong and I have tried over many years to contribute my experience to the operation of many local associations and organisations. I am presently a General Committee member of the Hong Kong General Chamber of Commerce and the Vice Chairman of the Chinese General Chamber of Commerce of Hong Kong.

I believe that my views are supported by a very large number of Hong Kong businessmen and citizens. I have no doubt that you will have received many other letters on this subject and direct representations from concerned Hong Kong people and organisations. I have no doubt also that you will have been well briefed and advised by the Foreign and Commonwealth Office and by His Excellency Sir Edward Youde and his Hong Kong advisers. It must be assumed therefore that the 1997 issue has been thoroughly examined and considered in the light of the possibilities open to Britain and the P.R.C. to work out an amicable and mutually beneficial arrangement which will prove acceptable to all three of the principal parties involved.

I should like to make a number of observations on important aspects of the discussions which will take place in Beijing and which I consider to be essential elements of any settlement of the 1997 issue. These are as follows :

- a) Chinese sovereignty over the entire area of Hong Kong should be conceded if, as we believe, the Chinese will not settle for less. The question of sovereignty for a large part of Hong Kong, i.e. the New Territories hardly arises since it is on lease from China.

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There is no possibility, in my view, that China will agree to any arrangement which treats the ceded and leased areas differently.

An agreement which re-establishes Chinese sovereignty over the territory must therefore require the present treaties of tenure to be invalidated.

- b) British administration in its full meaning and capacity must be retained. That will mean that the present British legal system and full British responsibility for the maintenance of law and order should be retained. I believe that any form of agreement which is predicated on joint responsibility for administration of Hong Kong cannot possibly succeed. Any indication that such a system may be under serious consideration would, I believe, have rapid adverse influence on the confidence of business and other investors in Hong Kong leading to an outflow of funds, assets and people.

Hong Kong's economic success is due, in part, to a very high level of national and international confidence in the stability of our free enterprise system which, in turn, is the result of enlightened Government policies and procedures. Such a system is completely incompatible with the severe restrictions inherent in a state-controlled economy.

- c) The Hong Kong currency should not be altered or linked in any way, other than at present, through the free play of financial market forces, with the Chinese Ren Min Bei currency. Hong Kong's financial services are presently among the best in the world with very large potential for further growth and development. Hong Kong can work side by side with the PRC and each can contribute to the other but neither has the capacity to adjust to the economic and social systems of the other.
- d) An agreement to replace the present treaties could be negotiated under Article 30 of the revised Chinese constitution which appears to have been worked with such a possibility in mind. An agreement, whether or not linked to Article 30, should be open ended with a clause ensuring that 20 years warning will be given by either side should major changes be required.

No doubt negotiations will be difficult and time consuming and neither side may gain all it wishes. I believe, however, that your Government, with the best interests of the people of Hong Kong at heart, will seek a just and acceptable solution, one which will recognise the realities of our peculiar and unique situation.

Hong Kong people will help you in any way they can. Once a successful outcome has been achieved, I have no doubt that British administration and Chinese business acumen will continue to meld together to provide Hong Kong with a future even more illustrious than our past.

The future of Hong Kong lies substantially in the hands of the British and Chinese Governments. The great undertaking represents the future livelihood of over five million people, the great majority of whom undoubtedly seek to maintain the economic status quo. May I wish you every success in your personal endeavours and those of your Government, to bring about a satisfactory and long lasting solution to Hong Kong's future. We shall all be happy to see you in Hong Kong later this month.

Sincerely,  
Daniel Ho

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From  
Sir Campbell Fraser  
President

**CBI**  
CONFEDERATION OF  
BRITISH INDUSTRY

*Original on Japan  
Policy*

6th September 1982

*Dear Prime Minister,*

In advance of your visit to Japan, China and Hong Kong in the second half of September, I thought you might like to know some of the main pre-occupations of CBI membership over trading relations with these countries, particularly with Japan.

The main concern is readily identifiable: the ever-widening trade gap between this country and Japan. The imbalance in Japan's favour in 1980 was £1.11bn, and that rose, for the first ten months of 1981, to £1.24bn, and for the first six months of 1982 to £990m. Despite the fact that full trade figures for 1981 are still not available, the worsening trend is clear, and it increases further in 1982, when the total gap might well reach £2bn. In the context of trade we consider that the Japanese market has a long way to go before it can genuinely be considered as open to foreign companies, despite the January 1982 measures to promote imports, followed by a second liberalisation package in May. Experience shows that the distribution channels for foreign goods in the Japanese market provide a more effective constraint than quotas or tariffs.

We are also concerned that, despite apparent legal freedoms, there are notable obstacles to be overcome in the acquisition by foreign companies of shareholding in Japanese firms. Allied to this are problems affecting the operations of foreign banks and insurance companies in Japan, which affect British interests among others.

We can and will continue to press the need for changes in the EEC industrial forum in Brussels; it is worth saying that the pressure on Japan for greater liberalisation should be mainly from European sources as opposed to a purely British source. Although you personally are highly regarded in Japan it is desirable to avoid specifically anti-British attitudes being generated in Tokyo. In that context, it was interesting to read in The Times of 18 August, a "vigorous criticism of British management, workers and unions" by Mr. Miyoshi, the Director-General of the Keidanren. The timing of these comments is clearly designed to coincide with your visit, but they are made in the context of a desire to promote measures to strengthen industrial co-operation between Japan and Britain, which will be central to your discussions in Japan. Our own discussions with the Keidanren over the past two years drew some acknowledgement that there was room for more even-handedness in Japanese commercial practices, but as time has passed we have seen little evidence of this. We would agree with the Keidanren, however, that at least some of the hope for improvement lies in the hands of British management.

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With regard to Japanese imports into the UK market, we are still concerned over the actual and potential threats from Japan's penetration in such sectors as cars and electronics. Not only do existing voluntary restraint agreements need official support from both the British and Japanese Governments, but we need Governmental help, in the shape of specific monitoring by our Embassy staff of developments in Japan which could threaten sectors of British industry. At the same time, we appreciate that British industry itself, via trade associations and companies already operating in Japan, can and must contribute to this process.

As to beneficial inward investment by Japanese companies in the UK, it would be unfortunate if the apparent shelving of the Nissan project discouraged further Japanese investment in Britain, although we of course appreciate that HMG as such can do little directly to influence such decisions by Japanese industry. Once again, the main thrust need be from British management.

I should add that we aired all these matters at a very useful meeting with Lord Cockfield and Mr. Rees on the 16 July, and reached a large measure of agreement on the nature of the problems, even if the solutions are not instantly discernible.

Turning to China, the pre-occupations are on a smaller scale, but nevertheless, they exist. Our exports to China in the first three months of this year have dropped to £21m from a figure of something like £50m in the comparative period in 1981, whereas, over the same period, our imports from China have risen sharply. It is appreciated that the solution to much of this problem lies in the hands of British business, but in spite of a proliferation of inward missions from China, the trading situation from the UK's point of view does not seem to improve.

Two of the complications are: the growing emphasis on counter trade and purchase (i.e. barter); an increasing difficulty in locating the Chinese decision makers, due to reallocation of responsibilities; and, as yet, the undecided roles of such central bodies as the industrial ministries and provincial authorities. Another reason for a diminishing British interest in the market may be a tendency to last minute alterations on the part of the Chinese in project and contract requirements.

But there are bright spots. Within the past few months, Dunlop has signed a contract worth £6.2 m with the Guangzhon Rubber Bureau for the modernisation of a tyre factory near Canton.

You may be interested to know that the Sino-British Trade Council, supported by the CBI, will be paying one of its regular visits to China in November of this year, but should you feel able to discuss in advance of this visit any of the difficulties which British businessmen find in China, this would be very useful.

Finally, no doubt one of your most important preoccupations will be the situation in 15 years' time, when the leased territory in Hong Kong reverts to China. While we realise that this is largely a political matter, British business interests in Hong Kong are so considerable that there cannot be any of them who are not concerned to know what intentions the Chinese authorities may now have in mind.

I have tried in this letter to avoid going into excessive detail in outlining our members' main concerns in this very important part of the world. However, to the extent that you might think it desirable, should your officials wish to go into some of these matters in greater depth, those members of our staff who are involved will be very ready to assist.

*Yours sincerely,  
Campbell Fraser*

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London, SW 1.