

THE FUTURE OF HONG KONG

PART I

The Problem

1. Although Hong Kong is a British colony, the United Kingdom has sovereignty without limitation of time only over the island of Hong Kong, one other small island and the tip of the Kowloon peninsula, which were ceded to the UK under the Treaties of 1842 and 1860 (copies attached at Annex A). 92% of the land area of the colony consists of the New Territories, which are held under an international lease from China, the Convention of 1898 (copy attached at Annex B) which is due to expire on 30 June 1997 (map attached at Annex C).
2. Unless other arrangements are made with the People's Republic of China (PRC), the UK will be obliged to relinquish the New Territories when the international lease expires in 1997.
3. Furthermore, unless some accommodation with the PRC about the future of the territory as a whole after 1997 is reached fairly soon, and made known, the Governor's advice is that the colony as it now exists will collapse economically and then politically through lack of confidence and uncertainty. Early action is therefore desirable and may prove essential.
4. The approach of 1997 also poses a difficult problem for China. Whatever the Chinese view of the status of the 1898 Convention, the termination of the lease is a fact which cannot simply be ignored and the recovery of Chinese sovereignty in or before 1997 is a political imperative for the Chinese leaders. But the Chinese are acutely aware of the economic benefits

which they derive from Hong Kong, and of the need to preserve it as a capitalist entity if its prosperity, and hence its usefulness to China, are to be maintained. The problem for them is how to reconcile their political objective of recovering sovereignty and the economic reasons for keeping Hong Kong prosperous.

5. No solution will in any case be possible without Chinese cooperation. The territory is indefensible against military or economic pressure from the PRC. Given current expectations, an unhelpful statement from Peking, or lack of visible progress in discussions with the Chinese on the future, would damage confidence severely. Moreover, the PRC are entitled under international law to the return of the New Territories in 1997.

British Interests

6. Contrary to the apparent belief of the Chinese Government, the UK receives no direct governmental revenues from Hong Kong. The visible trade balance favours Hong Kong; invisibles give the advantage in the current account to the UK. Because of Hong Kong's lack of exchange and other controls it is not possible to make precise calculations of flows of capital, dividends etc. The best estimate is that the overall economic balance between the UK and the Territory is about even. Hong Kong is, however, important to the UK:-

- (a) as a commercial and financial centre for the UK, and the West, in the Far East;
- (b) as a market for British exports, particularly of capital goods;

- (c) as a factor giving substance to the UK's good relations with China (at present, though not always in the past);
- (d) as a help in our relations with the United States (mainly because of the intelligence aspects of (e) below);
- (e) as a communications, intelligence and air services centre.

7. A decision by HMG unilaterally to withdraw from Hong Kong or failure to agree with the PRC on arrangements which would be satisfactory to the inhabitants of Hong Kong would be likely to create very serious problems for HMG, in particular:-

- (a) the extreme difficulty and expense of governing the territory during an interim period of rapid decline;
- (b) the abandonment of five million people after 140 years of responsibility and HMG's repeated statements of commitment;
- (c) demands for admission to the UK by a large number (possibly several hundred thousand) of the 2.6 million future British Dependent Territories' Citizens (BDTCs);
- (d) residual liability for pensions and compensation for some public servants of the territory;
- (e) consequences of the collapse of Hong Kong as a major financial centre, and the loss of British and other Western investment, including e.g. US, FRG, Australian and Japanese;
- (f) possible difficulties in relations with the PRC, which would oppose British withdrawal at a time not of China's choosing.

The Chinese Position

8. Both the Nationalist Government of Chiang Kai-shek and the Communist Government have consistently maintained that Hong Kong is part of China, forcibly occupied by the British. The PRC have always held that the three Nineteenth century treaties under which Hong Kong was ceded and leased are among the 'unequal treaties' imposed by foreigners as a result of China's weakness. Up to now, the Chinese view has been that Hong Kong, which provides considerable economic benefit to China, is a legacy from history to be tackled at the appropriate time. But the continued existence of Hong Kong is an affront to Chinese nationalism. Chinese feelings on this issue go very deep.

9. In Chinese thinking, Hong Kong's future is closely linked with that of Taiwan and Macao. The Chinese regard all three as Chinese territory removed from their jurisdiction as a result of foreign interference. The reunification of Taiwan with the mainland has always been a leading objective of the PRC. Hong Kong is not of the same importance for them. But Taipei's predictably negative response to recent overtures from Peking may mean that the Chinese leadership now envisage the problems of Hong Kong and Macao being settled first. What is clear is that the PRC would not agree to any arrangement for Hong Kong which might prejudice their position on Taiwan, and that they regard their nine-point proposals on Taiwan set out in September 1981 (see Annex D) as relevant to both Hong Kong and Macao.

10. Until recently the Chinese gave the impression that they were in no hurry over Hong Kong. They appeared to think that the problem of the future could wait until they were ready to deal with it and that in the meantime general assurances of Chinese benevolence were sufficient to maintain confidence. British explanations of the problem combined with reports from their own sources in Hong Kong seem to have convinced them that early action is required. Much thought is clearly being given to the problem and a stream of prominent Hong Kong Chinese have been invited to Peking to be sounded as to their views on future arrangements. It is almost certain that these visitors from Hong Kong have not warned the Chinese leaders explicitly that future confidence in Hong Kong relies upon the continuation of the British connexion.

11. The conclusions the Chinese had apparently reached were put by Deng Xiaoping to Mr Edward Heath in April. They involve the designation of Hong Kong as a Special Administrative Region within China, but with a large measure of autonomy. Its position as a free port and as a commercial and financial centre would be preserved by retaining its 'systems' (of administration, law and currency etc.) largely intact. British civil servants and other foreign experts might be employed on contract. But there would be no British administration as such. In short, the Chinese appear to believe that they can oversee the local running of Hong Kong without losing the economic and other benefits which they now derive from the territory. The Chinese position is discussed in more detail in a JIC paper that is being submitted separately.

/Interests

Interests of the People of Hong Kong

12. Any resolution of the whole question will have to take account of the interests and well-being of the population of the territory, as well as the interests of the United Kingdom. Given the choice the people of Hong Kong would no doubt wish the status quo to be maintained. But they accept that the expiry of the lease on the New Territories will make new arrangements necessary. Moreover they do not necessarily consider British sovereignty as essential to their future prosperity and security. They still regard themselves as Chinese but do not wish to live under a communist system. A majority of them are either immigrants from China, many of them recently arrived, or the children of immigrants. Most have no emotional ties with the UK. There are signs of the emergence of a local Hong Kong identity. But all value the freedom of life under British administration and the standard of living that they have secured under it. The British connection is important as an insurance against control by Peking. The great majority would thus almost certainly welcome an assurance by which continuing British administration would be guaranteed in return for a concession on sovereignty.

13. Hong Kong opinion will of course need to be consulted. Suggestions on ways in which this might be done are in Hong Kong telegram number 881, and the Governor's assessment of current views is in Hong Kong telegram number 944 (Annex E).

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THE FUTURE OF HONG KONG

A SPECIAL STUDY

BY THE FOREIGN & COMMONWEALTH OFFICE

AUGUST 1982

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FUTURE OF HONG KONG

SPECIAL STUDY

Contents

Paragraph No.

MAIN PAPER

PART I

The Problem	1
British Interests	6
The Chinese Position	8
Interests of the People of Hong Kong	12

PART II

Strengths and weaknesses in the British and Chinese Positions	14
Time Factor	18
Impracticable Options	20

PART III

British Aim	21
Possible approaches to the problem of sovereignty	22
A possible solution	26
Detailed Studies	31
Conclusions	33

PART IV

Recommendations for the Prime Minister's visit to Peking	34
Public Presentation	44

Contents (continued)

ANNEXES

- A. Treaties of 1842 and 1860
- B. Convention of 1898
- C. Map showing the New Territories
- D. Chinese Proposals on Taiwan
- E. Consultation in Hong Kong
- F. Options for Solution and Legislative Requirements
- G. Constitutional Position of Hong Kong
- H. External Relations
- I. Currency and Finance
- J. Defence and Internal Security
- K. Citizenship, Nationality and Immigration
- L. Legal System
- M. External Trade
- N. Civil Aviation and Shipping
- O. Crown Land Leases in the New Territories
- P. Illustrative Questions and Answers following the Prime Minister's Visit to China



PRIME MINISTER
FIRST LORD OF THE TREASURY

FUTURE OF HONG KONG

SPECIAL BRIEFING

To Be Retained
Do Not Destroy

FUTURE OF HONG KONG

LIST OF BRIEFS

1. Introduction. Tactics
2. Labour Government Statements on HMG Commitment
3. Draft Press Statement on Hong Kong
4. Draft Aide Memoire
5. Chronology of Major Events and Statement
6. Draft Opening Statement
7. Form and Structure of Negotiation
8. Further Defensive Points
9. Possible Acceptable Package
10. Possible Concession which might be made during negotiation
11. Possible Chinese objections and suggested responses
- 11a. Answers to Criticisms Chinese Leaders may make
12. FCO Special Study
 - (a) Treaty of Nanking 1842
 - (b) Text of Second Convention of 1898
 - (c) Map of New Territories
 - (d) Chinese Proposals on Taiwan
 - (e) Consultation on Hong Kong
 - (f) Options and Solution and Legislative Requirements
 - (g) Constitutional Position of Hong Kong
 - (h) External Relations
 - (i) Currency and Finance
 - (j) Defence and Internal Security
 - (k) Citizenship, Nationality, Immigration
 - (l) Legal System on Hong Kong
 - (m) External Trade
 - (n) Civil Aviation and Shipping
 - (o) Crown Land Leases in New Territories
 - (p) Illustrative Questions and Answers Following Prime Minister's Visit to China.