

PART II

Strengths and Weaknesses in the British and Chinese Positions

14. In practical terms the existing colony is indivisible and is so regarded by the PRC. The New Territories comprise more than half the population and 92% of the land area of the territory; they include the airport, the container port, all major reservoirs, new towns, most of industry and most of the generating capacity. If the New Territories alone reverted to Chinese rule in 1997, the two ceded areas over which the UK has sovereignty would be unviable as a separate UK dependency since their economic life depends on free movement between the island of Hong Kong and the mainland part of the territory and free access to the commercial and economic resources of that part. It is very doubtful whether the UK could govern the ceded areas as a separate entity at all after 1997. We would certainly do so only on Chinese sufferance and then only with a remote prospect of economic success: if the PRC withheld their cooperation and applied hostile pressure, the position of the UK in the ceded areas would be completely untenable.

15. We could expect no significant international support if we sought, now or in the future, to maintain our sovereignty over the ceded areas against Chinese opposition. Nevertheless, our legal title gives some leverage with the Chinese in securing continued British administration over the whole territory: if we are not prepared to relinquish our title in international law voluntarily, we could only be deprived

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of it unlawfully. A much stronger card is the crucial rôle which the British connection plays in the stability and prosperity of the territory. Without the continuity and predictability of administration, law and tax structures and the independent convertible currency guaranteed by British control Hong Kong would not have developed as a major trading force and the world's third largest financial centre. Against the background of recent Chinese history it is very difficult to see how domestic and international confidence could be maintained if British administration ceased, however extensive the autonomy given to Hong Kong within the PRC. Moreover, the fact that Hong Kong is a British dependency also enables Hong Kong to benefit from a number of treaties and commercial agreements made by the United Kingdom.

16. The PRC have a very strong position. They could seize Hong Kong by force at any time. They provide most of the territory's food and much of its water. 98% of the population are Chinese. There are substantial groups in the colony that owe allegiance to the People's Republic of China; with support from Peking they could create serious problems for the administration of the territory and the maintenance of law and order should they wish to do so. The disturbances in 1967 gave plenty of evidence of the damage that can be done from hostile mobs manipulated from over the border. Even a hint of a shift in Chinese policy in this direction could be sufficient to bring about a slide in confidence.

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17. That the PRC have so far refrained from taking over Hong Kong, despite their material strength and nationalist principles, is largely because of the economic benefits they derive from the territory. They obtain 35% to 40% of their foreign exchange from Hong Kong, largely from their exports to Hong Kong and the activities and investments of PRC banks and trading organisations there. They also derive substantial economic advantage from investments by Hong Kong businessmen in China, from the managerial, financial and technological expertise and example readily available in the territory, and from the port and airport. For these reasons they clearly want Hong Kong to be maintained as a prosperous, stable economic entity serving Chinese purposes. They accept that it should remain capitalist in character but it is not clear how far they can admit that the confidence of investors and entrepreneurs, which is the essential determinant of prosperity and stability, depends on continued British administration.

Time Factor

18. Confidence in and outside Hong Kong is already beginning to be affected. There is a degree of nervousness reflected in the Hong Kong Stock Market which is partly due to uncertainty over the future. Without an announcement of positive progress in the near future, local and international investment (most is generated internally) will almost certainly cease and move elsewhere. No-one can forecast
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with any certainty when, but it could happen as soon as 1983 if the results of the Prime Minister's visit are not seen as encouraging. In particular, sustained confidence is vital in the planning of large-scale capital projects such as power stations, a replacement airport and other facilities which require a long lead time and an amortization period of between 12 and 20 years.

19. An agreement should therefore be sought as soon as possible, but it does not necessarily follow that whatever is agreed in principle must be put into practice forthwith.

Impracticable Options

20. Against this background some of the more obvious solutions are unlikely to be practicable.

They are:

- a) sitting tight for as long as possible and refusing to contemplate any concession on Chinese claims to sovereignty until we were obliged to do so. This is a high risk policy and is likely to end in a collapse of confidence very soon;
- b) the classic solution - independence. The Chinese would not accept this, as they believe that Hong Kong is part of China and does not have a right to self-determination and independence;

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- c) persuading the PRC to renew the 1898 lease on the New Territories with or without a time limit. This is legally the simplest solution for HMG. But there is no prospect that it would be acceptable to the PRC;
- d) unilateral action by HMG to extend their powers of administration over the New Territories beyond 1997. In international law our position could only be tenable so long as the PRC acquiesced. They would not do so. A similar suggestion proposed by HMG in 1979 was turned down. We believe that the Chinese attitude would be the same now;
- e) allowing the Chinese to take back the New Territories at the end of the lease period, and continuing to govern the ceded territories. These would, however, without the New Territories, not form a viable industrial and economic entity (see paragraph 14). Nor would the Chinese agree to this solution. Principle for them requires Hong Kong to be dealt with as a whole;
- f) acquiescing in unilateral action by China to declare Hong Kong a Special Administrative Region under the Constitution of the PRC. The PRC would assume responsibility for the Territory including external affairs although considerable autonomy would be given to the inhabitants. There would be no rôle for Britain though there could be some for UK civil servants on contract.

These options are considered in more detail in Annex F.

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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

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- 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

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