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DRAFT AIDE MEMOIRE

FUTURE OF HONG KONG

1. The Chinese and British Governments agree on the need to maintain stability and prosperity in Hong Kong. This will ensure that the economy of the Territory continues to operate not only for the benefit of its inhabitants but as an important contribution to the development of the People's Republic of China, especially the Four Modernisations Programme. Hong Kong's economy, given the lack of raw materials, depends on the industry of its people, its natural advantage as a port and communications centre and investment both from within and outside the Territory. These have enabled it to develop as an industrial, commercial and financial centre of key importance in the region and in the world.

2. To maintain this position it must:

- (a) remain prosperous enough to purchase raw materials with a stable convertible currency in which to pay for them;

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- (b) sustain its export outlets and access to foreign markets through most favoured nation rights and commodity restraint agreements under GATT;
- (c) maintain the international acceptability of its convertible currency in order to attract deposits to its financial institutions;
- (d) operate a consistent and well tried system of law and justice, whose practice is internationally understood and accepted.

3. All these requirements are essential to the maintenance of confidence within and outside the Territory. If confidence is damaged:

- i) existing and prospective investors will withdraw their money from Hong Kong or avoid fresh investment there;
- ii) people in Hong Kong will seek to leave, depriving the Territory of labour and skills;
- iii) the attraction of the Territory as an international financial centre will rapidly decline;
- iv) these processes will be aided and accelerated by the readiness of other rival centres in Asia to take advantage of Hong Kong's decline, both as a manufacturing and financial centre;

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- v) Hong Kong's purchasing power from the People's Republic of China will be sharply diminished as will the value of the Hong Kong dollar in which such purchases are made.

4. The essential common requirement for maintaining confidence is a predictable, well tried and trusted system of administration for Hong Kong. Through historical circumstances the Territory has, under British administration, evolved different styles and systems from that in the PRC. Investors and inhabitants regard the administrative link with the UK as a guarantee that the present economic structure, lifestyle and opportunities in the Territory will continue. An arrangement which simply involved local autonomy within the PRC would not command the necessary confidence. Many years of continuing stability and sound management in the PRC would be required before uncertainty about the viability of such a method would be removed. While there is much scope for increased local initiative and while even closer co-operation with the PRC would be necessary, it would still be essential for many years to retain ultimate British authority in the domestic and external fields over the whole Territory although account would be taken of the position of the Chinese Government.

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The main elements of such administration would have to include the following:

Overall control and local executive powers

5. The British Government would retain the power to appoint the chief executive in Hong Kong. As at present important executive powers would be delegated to the chief executive and his local advisers. However, in the event of dispute, petition, appeal or emergency, the British Government would retain the right to issue over-riding instructions. In this way the existing system of Executive Council, Advisory Boards, local Civil Service and public services would be retained. The policy of greater localisation of personnel would be continued and accelerated.

Legislation

6. Legislative powers would be entrusted to the Legislative Council subject to the approval of the chief executive whose powers to disallow legislation would be clearly defined and limited. The rights of the British Government and Parliament to disallow, overrule or impose legislation would also be clearly defined and would normally be restricted to matters of external affairs, defence, and in an emergency, law and order.

/External

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External Relations

7. The continuation of ultimate responsibility by the British Government for the conduct of external relations would be essential for confidence. In practice it would not need to be exercised frequently and the main purpose from Hong Kong's point of view would be to ensure continuity of its participation in international trading and other agreements.

Law, Order and Security

8. The chief executive, through the Police and other disciplined services would have responsibility for the maintenance of law and order. He would also be normally responsible for internal security. The British Government would have the power to take decisions on defence and, if necessary, for internal security including the right to station armed forces. ~~if necessary~~

Citizenship and Immigration

9. In order to ensure the effective protection of the interests of Hong Kong's inhabitants vis à vis third countries, the British Government would have the right to make provision for the continuation of British Dependent Territories Citizenship for those eligible in Hong Kong.

/Currency

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Currency, Finance and Trade

10. Confidence and particularly the preservation of the value of the Hong Kong dollar would require two elements. On the one hand the well tried system of local autonomy in financial policy, with its stress on business opportunity, open access and minimum of government control, should continue. On the other, ultimate responsibility should rest with the outside authority having control over administration in general, ie the British Government. Any other arrangement would lead to misunderstanding and to concern about possible intervention in financial affairs from elsewhere.

Shipping and Civil Aviation

11. In this area as well the maximum possible local autonomy would be permitted consistent with ultimate control resting with the British Government. Local civil aviation matters would be the responsibility of the Hong Kong administration but the right to negotiate on international civil aviation matters for Hong Kong would belong to the British Government.

/Relations

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Relations with the PRC

12. As at present there would need to be close co-operation with the central and local Guangdong Provincial authorities of the PRC on economic and other questions of mutual concern. Any new arrangement for Hong Kong should define procedure for friendly consultation on such questions.

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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

We can discuss in detail
(a) at lunch on Wednesday
(b) with Sir Percy Cradock in Tokyo

13 September, 1982

A. J. C. $\frac{13}{9}$

Dear Sir,

Future of Hong Kong

Your letter of 10 September requested additional material for the Prime Minister. I enclose drafts of items (a), (c), (d), (e) and (f). Item (b), the list of nominal concessions, has been telegraphed to Hong Kong and Peking for their comments and will be submitted before close of play tomorrow. The other items have been completed within the FCO without outside consultation, but based essentially on material from the special study and its annexes. I also enclose a draft press release which the Prime Minister may wish to consider discussing with the Chinese leaders if agreement on the main aims of the visit is reached.

The Prime Minister may wish to consider carefully the use of the draft aide memoire. Experience has shown that the Chinese can react to written communications of this sort by committing their own view to paper in a manner which leads to a hardening of their position and often to outright rejection of ours. This occurred in 1979 when a proposal on Crown land leases in the New Territories was put to them by diplomatic note and rejected formally in writing.

I know that the Prime Minister is concerned that we have adequate Chinese translations prepared for the opening statement, the possible press release and, if used, the aide memoire on the British position. Our Embassy in Peking are well aware of the need to get translations made in good time. When the Prime Minister has agreed on final versions of the documents in question, we shall telegraph them to Peking for immediate translation; Sir Percy Cradock will be able to report progress when he visits Tokyo.

Mr Pym, who is at Chevening talking to M. Thorn, has not seen these papers. I will let you have any comments he may have as soon as possible on 14 September.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET



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.