

HONG KONG OPENING STATEMENT

(to ZHAO)

p. a.

10/25/9

1. I should like to begin by saying how pleased I was with our full and fruitful discussions yesterday on international matters.

2. As I indicated to you yesterday, I should like with

your permission to speak to you today about

Hong Kong because I have been struck in my

conversations so far by the wide identity of

view over a broad field of international political and economic issues which already exists.

Moreover, I understand that you have taken

a close personal interest in the problem of

Hong Kong.

This is a unique example of successful Sino-

British co-operation. Against this background

we should be able to solve the problem of

Future of  
H-K

Similar views  
on other matters.

Close personal  
interest

Unique  
Sino-British  
Co-operation.

In this spirit  
hope we can  
solve this matter

how to agree about its future while maintaining  
its prosperity.

3. I have studied carefully what you told the former

Premier Tso  
to H. Atkins in  
January  
Mr. Deng's - Heath  
April

Lord Privy Seal Mr. Humphrey Atkins in January  
and Mr. Deng Ziaoping's private remarks to  
Mr. Heath in April.

If my understanding is correct the two  
main elements of the Chinese view concern

China will  
concern sovereignty  
prosperity

sovereignty and the continued prosperity of  
Hong Kong.

The first of these elements is likely to be

a delicate matter for both sides and I should  
like to return to this point later.

Sovereignty  
delicate  
return later

4. First I should like to discuss the second element -

*Prosperity*

prosperity.

I note that you think that to maintain Hong

Kong's prosperity it should continue as a free

port and an international centre of commerce

and finance and also that there should be

a continuity of systems.

I agree, but general assurances that the present

local systems will be preserved and that Hong

Kong must be maintained as an international

centre will not any longer be enough by

themselves to maintain confidence.

*Free port  
Int- centre of  
commerce  
and finance  
Continuity of systems*

*General  
assurances  
not enough.*

5. The prosperity of Hong Kong depends on confidence.

Prosperity  
- confidence

Of course this cannot exist without good  
relations between Britain and China bilaterally  
and directly over Hong Kong.

Good relations  
China - HK &  
over HK.

But confidence also depends on other things

such as:

Stable currency

- a stable and international respected currency

Financial base  
favouring business  
enterprises

- a financial and tax regime favouring business  
enterprise and which is not liable to sudden  
change

Law

- a familiar and international respected system  
of law,

Public order

- the maintenance of public order

Freedom of  
political &  
economic systems

- the freedom of its political and economic  
systems.

/ British

Br admin  
consistent -  
efficient  
policies

British administration has provided efficient  
and consistent government policies and without  
them Hong Kong would not have developed the  
way it has.

6. Mr. Deng went on to make several points to Mr. Heath.

Sov - China

First he said that sovereignty over Hong Kong  
would have to belong to China.

Special  
admin zone

He raised the possibility of Hong Kong becoming

Gov. by  
inhabitants

a special administrative zone of China with

the name "Hong Kong: China" and with a local

government formed by the inhabitants (whether

Chinese, British or other nationality).  
//

Second He said that Hong Kong could remain a free

Free port  
Int Centre  
- investment  
not better effects?

port and an international financial centre

and expressed the view that foreign investment

/ would not

would not be affected under these new arrangements.

And he said that the local government in Hong Kong could manage its own non-governmental trade and commercial relations with other countries.

local govt.  
free to manage  
trade & commercial  
relations

7. I am bound to tell you that the changes envisaged

in Mr. Deng's remarks to Mr. Heath are such that we are convinced that if this plan were to be introduced or even announced as a decision of your government, the effect on confidence in Hong Kong would be disastrous.

*such drastic*  
If changes in the administrative control of Hong Kong by the UK were to be introduced or announced now there would certainly be a wholesale flight of capital from Hong Kong.

Convinced that  
if the plan were  
to be announced

- erosion  
confidence  
- disastrous

If announced  
wholesale flight  
of capital

We would not prompt - this but - us to prevent it

This is not something which Britain would prompt: indeed we should do everything we could to prevent it because the difficulties which it would cause us are nearly as great as those it would cause you.

But the simple truth is that we could do nothing to control it.

8. I am referring not simply to British money, but also

Not only British money but U.S. Japanese - Australian

to very large investments by local Hong Kong residents and to American, Japanese, Australian and many other foreign investments, the great majority of which are controlled by private companies and individuals.

If it goes - will return

This money, having left Hong Kong, would not return.

/ It would

It would be impossible to revive the Hong Kong economy, should it collapse.

The announcement of your plan would have the effect that what has been built up over years would be destroyed as the inevitable consequences of a single act.

H.K. - destroyed

9. I should add that there would also be very considerable

financial hardship for many people, and deep alarm among large sections of the population.

Financial hardship

Many would seek to leave, creating a haemorrhage of the skills and expertise which have made Hong Kong what it is today.

A collapse of Hong Kong would be to the discredit of both Britain and China.

Discredit us both.

It would have repercussions throughout the Far East and South East Asian region, as well as

/ wider



wider international implications.

Our two governments would be cast in a very bad light if we had failed to reach a workable agreement.

10. I would have failed to honour a moral obligation

to the people of Hong Kong which British Governments have sustained for more than a century.

*Britain's moral obligation*

11. I am aware that it is a stark picture that I am

painting, but I am afraid that it is no more than the simple truth.

Confidence in Hong Kong and thus the continued prosperity of Hong Kong depends on British administration.

*Confidence = British admin*

Any drastic change away from that would  
destroy confidence.

We all admire the way in which the Chinese  
leaders and people have tackled the huge  
problems of modernisation: and much will  
no doubt change in the years to come.

*Advance  
China's  
modernisation  
which will change*

12. But the problem is not what will happen by 1997

but what people now, in 1982, believe will  
happen.

*Not 1997  
what 1982  
believe will  
happen*

If confidence cannot be sustained now Hong  
Kong will not be prosperous in 1983, let  
alone 1997.

Against the background of recent Chinese  
history, and given <sup>that</sup> China's political system

which is so different from that in Hong Kong,  
time would be needed for people in Hong Kong / and

and abroad to have sufficient faith in new  
and untried arrangements to keep their money  
 and skills in the territory and make new invest-  
 ments.

*wait*

But we cannot ~~wait~~ for this.

13. The plain fact is that our common objective of

maintaining the prosperity of Hong Kong  
 can only be achieved if people believe that  
 the present arrangements for administering  
 Hong Kong will continue for a long time.

There would be a most damaging effect on  
 confidence if changes in the administrative  
 control of Hong Kong by the UK were introduced  
or announced now.

*Objective of  
 Prosperity  
 = present  
 admin arrangements  
 continue for long  
 time.*

14. So we have to do something very soon and agree what it will be.

15. Let me now return to sovereignty.

The Chinese position on sovereignty is well-known, and I understand it, but it is politically difficult for me just as assertion of your sovereignty is important to you.

Acceptance of this would involve Britain abrogating by Act of Parliament the treaties under which the British administer Hong Kong.

/ 16. To settle

16. To settle the future of Hong Kong by abrogation alone  
would be unthinkable.

It would produce immediate panic in Hong Kong.

It would be a dereliction of UK responsibility

and would be rejected by the British Government and  
 Parliament and by the people of Hong Kong.

// 17. But if our two governments could agree defined  
 arrangements about the future administration and  
control of Hong Kong, // and I was satisfied that they  
 would work, // that they would command confidence //

and if I could justify them to the British  
*and they were acceptable to the people of H-K //*  
 Parliament, // there would then be a new situation

in which I could consider the question of  
 sovereignty.

/ But

But without agreement on concrete arrangements on administration and control, I could not make any recommendations to my government on the question of sovereignty.

Summary

18. I propose that we should start official talks to reach an agreement on arrangements for the administration and control of Hong Kong after 1997 which would meet the wishes of China, Britain and the people of Hong Kong and preserve its prosperity.

These discussions could cover whatever proposals you may wish to make about how present arrangements might be varied.

/ The issues

The issues are complex and need to be explored thoroughly by officials as soon as possible.

19. There is a further point we must consider.

Since I am going to be pressed hard on this issue in Hong Kong and London I hope that we can reach agreement during our talks both on the next steps in handling the problem, and on what we should say in public.

This last point is very important.

Confidence in Hong Kong will be affected by what I say at my press conference here in Peking and later, and by any statement made on the Chinese side.

/ I

20. I therefore propose:

- (a) That we should make it clear that our common objective is to strengthen and maintain the prosperity and stability of Hong Kong.
- (b) That we should agree on a very early date for the start of official talks on how that objective can be maintained.
- (c) That we should make a public announcement to this effect.



PRIME MINISTER

Your meeting with Deng

Your objectives are:

- (a) to reinforce the main points you made to Zhao;
- (b) to see whether there is any reaction to your offer to him;
- (c) to obtain Deng's agreement to the statement you will make to the press.

You will recall that in the time available it will not be possible to agree a joint press statement.

We have produced various versions of your press statement. We shall have Chinese versions available but the advice is that you should not hand over a text unless it is absolutely necessary for sensible discussion. You should simply describe the elements of the statement you propose to make and ascertain that Deng has no objections.

You will want to avoid giving the impression that we have a series of formulae in our pockets. If Deng objects to your first effort, you might therefore ask him to suggest a wording of his own.

You may want to use the device of sending officials off to draft. But this will only be profitable if you and Deng have agreed broad guidelines. We need his authority if a drafting exercise is to be of any use.

I attach:

- A A possible opening statement;
- B Several versions of a Press Statement, in descending order of acceptability;

- C The draft aide memoire
- D The chronology of major events and statements
- E Further defensive points
- F A short speaking note on the linkage between Hong Kong and Taiwan (which was taken out of the opening statement)
- G Possible Chinese objections and suggested responses.
- H The statement you made to Zhao today

A.J.C.

NB

23 September 1982