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FM HONG KONG Ø6Ø135Z NOV 82
TO PRIORITY FCO
TELEGRAM NUMBER 128Ø OF 6 NOVEMBER

TELEGRAM NUMBER 1280 OF 6 NOVEMBER
INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

MIPT: FUTURE OF HONG KONG: EDUCATION OF CHINESE LEADERSHIP.

1. FOLLOWING IS DRAFT:

FROM THE ACCOUNTS WHICH HAVE APPEARED IN THE PRESS, AND FROM WHAT THEY HAVE BEEN TELLING PEOPLE PRIVATELY, THE CHINESE APPEAR TO BE THINKING OF A SOLUTION TO THE PROBLEM OF THE FUTURE ALONG THE FOLLOWING LINES:

- CHINA WOULD RECOVER SOVEREIGNTY OVER THE WHOLE OF HONG KONG
 IN 1997:
- HONG KONG WOULD THEN BECOME A SPECIAL ADMINISTRATIVE REGION OF CHINA:
- BRITISH ADMINISTRATION WOULD END:
- BUT VIRTUALLY EVERYTHING ELSE WOULD REMAIN UNCHANGED,
 IN PARTICULAR HONG KONG WOULD REMAIN A FREE PORT AND A
 COMMERCIAL AND FINANCIAL CENTRE.
- 2. THE CHINESE DERIVE GREAT ADVANTAGE FROM HONG KONG AS IT IS AND THERE IS NO REASON TO QUESTION THE GENUINENESS OF THEIR WISH TO MAINTAIN THE PROSPERITY AND STABILITY OF HONG KONG: THIS IS THE COMMON AIM OF BOTH GOVERNMENTS IN THE DIPLOMATIC TALKS WHICH HAVE BEGUN IN PEKING.
- 3. THE QUESTION IS WHETHER PROSPERITY AND STABILITY WOULD IN FACT BE MAINTAINED UNDER THE KIND OF ARRANGEMENTS THE CHINESE APPEAR TO HAVE IN MIND.
- 4. PEOPLE IN HONG KONG EVIDENTLY DO NOT THINK SO. THE REPORTS AND RUMOURS CIRCULATING IN HONG KONG HAVE ALREADY AFFECTED THE STOCK AND PROPERTY MARKETS AND THE STRENGTH OF THE HONG KONG DOLLAR: AND HAVE LED TO A SURGE OF ENQUIRIES ABOUT EMIGRATION POSSIBILITIES.
- 5. THE TROUBLE IS THAT THE CHINESE DO NOT REALLY UNDERSTAND HOW HONG KONG WORKS AND WHY IT IS SUCCESSFUL. THEY DO NOT APPRECIATE THE COMPLEXITY OF A MARKET ECONOMY, PARTICULARLY ONE WHICH IS HIGHLY DEPENDENT ON ITS INTERNATIONAL TRADING AND FINANCIAL CONNECTIONS. NOR DO THEY APPRECIATE THAT TO BE FREELY CONVERTIBLE, THE HONG KONG DOLLAR MUST BE ACCEPTABLE. ABOVE ALL THEY DO NOT APPRECIATE THE LINK BETWEEN BRITISH ADMINISTRATION AND DOMESTIC AND INTERNATIONAL CONFIDENCE.
- 6. THE BRITISH LINK HAS PROVIDED A STABLE ENVIRONMENT, SOUND ADMINISTRATION, AND CONSISTENT POLICIES ALL WITHIN A FRAMEWORK OF LAW WHICH IS IMPARTIALLY ADMINISTERED AND INTERNATIONALLY UNDERSTOOD AND ACCEPTED. IT IS THE BRITISH LINK WHICH PROVIDES A GUARANTEE AGAINST EXTERNAL INTERFERENCE. IN THE LAST RESORT IT IS THIS GUARANTEE WHICH SUSTAINS CONFIDENCE.

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7. NOBODY DOUBTS THAT HONG KONG PEOPLE WOULD BE FULLY CAPABLE OF RUNNING THEIR OWN AFFAIRS IF LEFT TO THEIR OWN DEVICES: AND IF INDEPENDENCE WERE AN OPTION HONG KONG WOULD NO DOUBT BE AT LEAST AS SUCCESSFUL AS SINGAPORE. BUT INDEPENDENCE IS NOT AN OPTION. IF THE LINK WITH BRITAIN WERE BROKEN HONG KONG WOULD BE AUTONOMOUS ONLY TO THE EXTENT PERMITTED BY CHINA.

8. APART FROM THE IDEOLOGICAL INCOMPATIBILITY OF COMMUNISM (STATE MANAGEMENT OF THE ECONOMY) AND CAPITALISM (MARKET DETERMINED ECONOMY), THE LESSONS OF CHINESE HISTORY OVER THE PAST 30 YEARS ARE SUCH THAT NO ONE WOULD BELIEVE THAT HONG KONG WOULD BE ALLOWED COMPLETE FREEDOM TO MANAGE ITS AFFAIRS IN THE WAY THEY ARE MANAGED AT PRESENT. THERE WOULD BE NO CONFIDENCE THAT CHINA COULD RUN SUCCESSFULLY A LIBERAL CAPITALIST SYSTEM IN PARALLEL WITH CHINA'S SOCIALIST SYSTEM. THE TEMPTATION AND THE PRESSURES TO INTERFERE WOULD BE OVERWHELMING, AND PEOPLE WOULD NOT BELIEVE THAT THEY WOULD BE RESISTED. THE POSITION MIGHT WELL BE DIFFERENT IN 20 YEARS TIME. BUT CONFIDENCE IN CHINESE POLICIES CAN ONLY BE BUILT UP OVER TIME, IN THE LIGHT OF A DEVELOPING TRACK RECORD. AND WHAT MATTERS IS WHAT PEOPLE WILL BELIEVE NOW.

- 9. AGAINST THIS BACKGROUND THE POINTS TO BRING HOME TO THE CHINESE ARE:
- (A) HONG KONG IS A MUCH MORE COMPLICATED PLACE THAT THEY SEEM TO THINK. THEY NEED TO FIND OUT MUCH MORE ABOUT HOW IT WORKS.
- (B) PROSPERITY AND STABILITY CANNOT BE MAINTAINED UNLESS CONFIDENCE (DOMESTIC AND INTERNATIONAL) IS PRESERVED.
- (C) IF CONFIDENCE IS TO BE PRESERVED THERE MUST BE SOME (NEXT WORD UNDERLINED) GUARANTEE THAT THE PRESENT SYSTEM AND POLICIES WILL CONTINUE UNCHANGED.
- (D) AT PRESENT THAT GUARANTEE IS PROVIDED BY THE CONSTITUTIONAL LINK WITH BRITAIN WHERE A SIMILAR SYSTEM AND POLICIES ARE IN FORCE.
- (E) IT IS DIFFICULT TO SEE WHAT GUARANTEE THERE COULD BE IF THE LINK WERE WITH CHINA, WHERE A TOTALLY DIFFERENT SYSTEM AND POLICIES ARE IN FORCE.
- (F) IF MONEY, SKILLS AND MANUFACTURING CAPACITY LEAVE HONG KONG,
 THE CHINESE SHOULD NOT COUNT ON THEM RETURNING: SINGAPORE,
 TAIWAN, THE PHILIPPINES ANDTHAILAND ARE ALREADY SEEKING
 TO ATTRACT INVESTMENT AND INDUSTRY AWAY FROM HONG KONG. THEIR
 EFFORTS WILL INTENSIFY IF CONFIDENCE IN HONG KONG FALTERS.
- (G) MAINTAINING CONFIDENCE IN HONG KONG WHILE SINO-BRITISH TALKS
 ARE GOING ON WILL BE VERY IMPORTANT. IT WILL ALSO BE DIFFICULT.
 PEKING-INSPIRED RUMOURS AND SPECULATIONS ABOUT CHINA'S
 INTENTIONS ARE NOT HELPFUL.

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TELEGRAM NUMBER 1279 OF 6 NOVEMBER

INFO PRIORITY PEKING (PERSONAL FOR AMBASSADOR)

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FUTURE OF HONG KONG: EDUCATION OF CHINESE LEADERSHIP

1. WE HAVE BEEN GIVING THOUGHT TO THE LINE TO TAKE WITH SELECTED VISITORS TO CHINA WHO ARE LIKELY TO COME INTO CONTACT WITH THE CHINESE LEADERSHIP AND COULD HAVE SOME INFLUENCE WITH THEM (MY TELNO 1193 AND YOUR TELNO 512 TO PEKING REFER). THE OUTCOME IS THE DRAFT IN MIFT. THIS HAS BEEN DESIGNED PRIMARILY WITH PROMINENT FOREIGN POLITICIANS AND SENIOR INTERNATIONAL BUSINESSMEN IN MIND (CATEGORIES A AND B IN PARA 2 OF MY TUR). I SHOULD BE GRATEFUL FOR COMMENTS.

2. AS REGARDS LOCAL CHINESE (PARAS 3 AND 4 OF CLIFT'S TELELETTER OF 29 OCTOBER) I SEE LITTLE VALUE IN ATTEMPTING TO DRAW UP A LIST OF THOSE WHO MIGHT BE ABLE TO HELP. THE IMPORTANT THING IS TO MAKE WHAT USE WE CAN OF THOSE WHO ARE INVITED TO CHINA, OR ARE GOING THERE ON BUSINESS, AND THOSE WITH GOOD CONTACTS WITH THE LOCAL COMMUNIST HIERARCHY OR THE BANK OF CHINA. IN PRACTICE WE MAY LEARN ABOUT VISITS TO CHINA ONLY AT SHORT NOTICE, AND WILL NEED TO DECIDE WHETHER BRIEFING SHOULD BE GIVEN ON A CASE BY CASE BASIS. MUCH WILL DEPEND ON WHETHER OUR ADVICE IS SOUGHT. THE LINE IN MIFT WILL OF COURSE REQUIRE SOME ADAPTATION FOR USE BY LOCAL HONG KONG CHINESE HAVING REGARD TO THE MAINTENANCE OF CONFIDENCE AS WELL AS TO THE NEED TO GET THE RIGHT MESSAGE ACROSS IN PEKING.

3. SEE MIFT.

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FUTURE OF HONG KONG

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