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FM HONG KONG 060135Z NOV 82
TO PRIORITY FCO
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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